

**DETERMINANTS OF ALTERNATIVE DISPUTE RESOLUTION MECHANISM  
AMONG MEDIUM TAXPAYERS: A CASE STUDY OF MEDIUM TAXPAYERS IN  
NAKURU COUNTY, KENYA.**

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS,  
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TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE  
AND TECHNOLOGY**

**2020**

**DECLARATION**

**DECLARATION**

This is my original work and has not been presented for a degree in any other university:

Sign..... Date.....

**SUPERVISORS' DECLARATION**

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Name: Dr. Marion Nekesa PhD

Sign..... Date.....

## **DEDICATION**

To my family especially my husband and children

## **ACKNOWLEDGEMENTS**

First, I wish to acknowledge the almighty God for this far he has brought me and enable me to accomplish this task. Secondly; I wish to acknowledge my supervisor Dr. Marion Nekesa, PhD for her guidance in this research project report work.

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## **ACRONYMS**

|              |  |
|--------------|--|
| <b>ADR</b>   | Alternative Dispute Resolution                     |
| <b>CEDR</b>  | Centre for Effective Dispute Resolution            |
| <b>CTDR</b>  | Corporate Tax Dispute Resolution                   |
| <b>ICPAK</b> | Institute of Certified Public Accountants of Kenya |
| <b>KRA</b>   | Kenya Revenue Authority                            |
| <b>LTO</b>   | Large Taxpayers Office                             |
| <b>OECD</b>  | Organization for Economic Development              |
| <b>SARS</b>  | South Africa Revenue Services                      |
| <b>SME</b>   | Small and Medium sized Enterprises                 |
| <b>SPSS</b>  | Statistical Packages for Social Sciences           |
| <b>TAA</b>   | Tax Administration Act                             |
| <b>TAT</b>   | Tax Appeals Tribunal                               |
| <b>TDR</b>   | Traditional Dispute Resolution                     |
| <b>TPA</b>   | Tax Procedures Act                                 |
| <b>UK</b>    | United Kingdom                                     |
| <b>VAT</b>   | Value Added Tax                                    |

## DEFINITION OF TERMS

**Cost** - is the extent to which an individual perceive the usage of particular application will lead to achievement of certain objectives (Davis, 1989)

**Speed** - is defined as the degree to which an innovation is perceived to be better than the idea it supersedes (Karayanni, 2003).

**Alternative dispute resolution** - use of methods other than going to court to solve disputes. The methods include mediation, litigation and arbitration (Garner, 2009).

**Tax** - is a mandatory financial charge or some other type of levy imposed upon a taxpayer by a governmental organization (Galanter, 2004).

**Arbitration** - Is the push for efficiency and cost saving by companies to comply and minimize the taxes paid (Muigua 2014).

**Mediation** - is a prominent ADR method used in the Melbourne construction industry and is now firmly established preferred dispute resolution tool for construction claims (Megens, 2005).

**Litigation** - is a legal proceeding in a court or a judicial context to determine and enforce legal rights (Hill, 2008).

**Tax disputes** - any contention by a Tax authority (including by way of the issuance of any assessment or correspondence) that a liability to Tax may arise or that a Tax Relief may not be available (Galanter, 2004)

## ABSTRACT

The study aims to investigate the Determinants of ADR mechanisms among medium taxpayers in Kenya. The specific objectives of the study included: to assess the influence of perceived benefits on the adoption of ADR mechanisms in tax administration in Kenya; to examine the influence of perceived ease of use on the adoption of ADR mechanism in tax management in Kenya and; to examine the influence of ADR knowledge and awareness on the adoption of ADR mechanism in tax management in Kenya. The study variables included perceived benefits, perceived ease of use and knowledge and awareness which are the independent variable of the study. The dependent variable is ADR mechanisms. The study employed descriptive research design and the target group was 1200 medium taxpayers registered by KRA, Nakuru County. Stratified sampling technique used to sample the population and the sample size comprised of 120 medium taxpayers. The study adopted primary data and research instruments were closed structured questionnaire Data analysis conducted using Statistical Packages for Social Sciences (SPSS) version 2017. The study analyzed data through descriptive and inferential statistic. The study found out that The coefficient for perceived benefits is -0.148, so we expect a -0.148 unit decrease in the adoption of ADR holding all other variables constant. The coefficient for perceived ease of use is 0.341 so for every unit increase in perceived ease of use, we expect 0.34 point increase in adoption of ADR. For knowledge and awareness, is represented by a coefficient of 0.298, meaning for every increase in perceived ease of use a 0.29-unit increase in adoption of ADR is predicted holding all other variables constant. The study recommended that The regulation on ADR in tax disputes given by KRA should be aimed at making ADR process less costly to ensure all the taxpayers and the KRA can benefit from it. The KRA should carry out intensive creation of awareness and sensitization so as to encourage the use of ADR to citizenry at large.

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the study**

Alternative Dispute Resolution (ADR) refers to procedures of settling disputes by means other than litigation, such as arbitration or mediation (Garner, 2009). In every society, there exists an array of mechanisms both legal and non-legal to resolve disputes. Litigation is the most popular among the many available dispute resolution alternatives. However, (Muigua, 2015), argues that social, economic, legal, procedural, and institutional challenges have become a major impediment to access of justice.

Alternative dispute resolution (ADR) is generally classified into at least four types: negotiation, mediation, collaborative law, and arbitration. Sometimes, conciliation is included as a fifth category, but for simplicity may be regarded as a form of mediation. ADR can be used alongside existing legal systems such as Sharia courts within common law jurisdictions, such as the UK.

Dispute arises in a situation when a claim or assertion made by one party is rejected by another party and this rejection is not accepted (Kumaraswamy, 1998). A claim is an assertion of a right to money, and property, or a remedy and can be made under the contract itself, for breach of the contract, or for breach of a duty in common law (Powell-Smith and Stephenson, 1989). Construction claims can be in the form of money and time claims by the main contractor against the project owner for extension of contract time and additional payment arising from a specified event in the contract (Aibinu et al 2008).

The claim can be any application to the project management team pursuant to any relevant clause of the contract including any variation to payments, extension of time and or damages for any alleged breach of duty by the employer or employer's management team (Kumaraswamy, 1998). ADR traditions vary somewhat by country and culture. There are significant common elements which justify a main topic, and each country or region's difference should be delegated to sub-pages. ADR is of two historic types. First, methods for resolving disputes outside of the official judicial mechanisms.

Second, informal methods attached to or pendant to official judicial mechanisms. There are in addition free-standing and or independent methods, such as mediation programs and ombuds offices within organizations. The methods are similar, whether or not they are pendant, and generally use similar tool or skill sets, which are basically sub-sets of the skills of negotiation.

ADR includes informal tribunals, informal mediative processes, formal tribunals and formal mediative processes. The classic formal tribunal forms of ADR are arbitration (both binding and advisory or non-binding) and private judges (either sitting alone, on panels or over summary jury trials). The classic formal mediative process is referral for mediation before a court-appointed mediator or mediation panel. Structured transformative mediation as used by the U.S. Postal Service is a formal process. Classic informal methods include social processes, referrals to non-formal authorities (such as a respected member of a trade or social group) and intercession. The major differences between formal and informal processes are (a) pendency to a court procedure and (b) the possession or lack of a formal structure for the application of the procedure.

For example, freeform negotiation is merely the use of the tools without any process. Negotiation within a labor arbitration setting is the use of the tools within a highly formalized and controlled setting. Calling upon an organizational ombudsman's office is never, by itself, a formal procedure. (Calling upon an organizational ombudsman is always voluntary; by the International Ombudsman Association Standards of Practice, no one can be compelled to use an ombuds office.) Organizational ombuds offices refer people to all conflict management options in the organization: formal and informal, rights-based and interest-based. But, in addition, in part because they have no decision-making authority, ombuds offices can, themselves, offer a wide spectrum of informal options.

This spectrum is often overlooked in contemporary discussions of "ADR". "ADR" often refers to external conflict management options that are important, but used only occasionally. An organizational ombuds office typically offers many internal options that are used in hundreds of cases a year. These options include Conceptualizing ADR in this way makes it easy to avoid confusing tools and methods (does negotiation once a lawsuit is filed cease to be ADR? If it is a tool, then the question is the wrong question) (is mediation ADR unless a court orders it? If you look at court orders and similar things as formalism, then the answer is clear: court-annexed mediation is merely a formal ADR process).

Dividing lines in ADR processes are often provider-driven rather than consumer-driven. Educated consumers will often choose to use many different options depending on the needs and circumstances that they face. Finally, it is important to realize that conflict resolution is one major goal of all the ADR processes.

If a process leads to resolution, it is a dispute resolution process. The salient features of each type are as follows: In negotiation, participation is voluntary and there is no third party who facilitates the resolution process or imposes a resolution. (NB – a third party like a chaplain or organizational ombudsperson or social worker or a skilled friend may be coaching one or both of the parties behind the scene, a process called "Helping People Help Themselves" – see Helping People Help Themselves, in Negotiation Journal July 1990, pp. 239–248, which includes a section on helping someone draft a letter to someone who is perceived to have wronged them.

In mediation, there is a third party, a mediator, who facilitates the resolution process (and may even suggest a resolution, typically known as a "mediator's proposal"), but does *not* impose a resolution on the parties. In some countries (for example, the United Kingdom), ADR is synonymous with what is generally referred to as mediation in other countries. In collaborative law or collaborative divorce, each party has an attorney who facilitates the resolution process within specifically contracted terms. The parties reach an agreement with the support of the attorneys (who are trained in the process) and mutually agreed experts. No one imposes a resolution on the parties. In arbitration, participation is typically voluntary, and there is a third party who, as a private judge, imposes a resolution. Arbitrations often occur because parties to contracts agree that any future dispute concerning the agreement will be resolved by arbitration.

This is known as a 'Scott Avery Clause'. In recent years, the enforceability of arbitration clauses, particularly in the context of consumer agreements (e.g., credit card agreements), has drawn scrutiny from courts. Although parties may appeal arbitration outcomes to courts, such appeals face an exacting standard of review.

The process of arbitration can start only if there exists a valid Arbitration Agreement between the parties prior to the emergence of the dispute. As per Section 7, such an agreement must be in writing. The contract regarding which the dispute exists, must either contain an arbitration clause or must refer to a separate document signed by the parties containing the arbitration agreement. The existence of an arbitration agreement can also be inferred by written correspondence such as letters, telex, or telegrams which provide a record of the agreement. An exchange of statement of claim and defense in which the existence of an arbitration agreement is alleged by one party and not denied by other is also considered as a valid written arbitration agreement.

Any party to the dispute can start the process of appointing an arbitrator and if the other party does not cooperate, the party can approach the office of Chief Justice for the appointment of an arbitrator. There are only two grounds upon which a party can challenge the appointment of an arbitrator – reasonable doubt in the impartiality of the arbitrator and the lack of proper qualification of the arbitrator as required by the arbitration agreement. A sole arbitrator or a panel of arbitrators so appointed constitutes the Arbitration Tribunal. Except for some interim measures, there is very little scope for judicial intervention in the arbitration process. The arbitration tribunal has jurisdiction over its own jurisdiction.

Thus, if a party wants to challenge the jurisdiction of the arbitration tribunal, it can do so only before the tribunal itself. If the tribunal rejects the request, there is little the party can do except to approach a court after the tribunal makes an award. Section 34 provides certain grounds upon which a party can appeal to the principal civil court of original jurisdiction for setting aside the award. The period for filing an appeal for setting aside an award is over, or if such an appeal is rejected, the award is binding on the parties and is considered as a decree of the court.

### **1.1.1 Global Perspectives**

The common dispute resolution methods operating in Melbourne are litigation, arbitration, mediation, conciliation, adjudication, mini-trials, facilitated negotiation, partnering and expert determination. Litigation is a legal proceeding in a court or a judicial context to determine and enforce legal rights (Hill, 2008). This is the least preferred method in the construction industry as the courts act on the adversary system (Bailey, 1998) and damage business relationships (Sprague, 2006). Besides the slow, expensive, time consuming, risky and stressful procedure which litigation brings, there is no real certainty of results other than a certainty of at least one loser (Merritt, 2006)

Arbitration is a mini-trial for a law suit ready to go to trial, held in an attempt to avoid a trial and is conducted by an independent person, usually with some relevant skill or knowledge, to determine the dispute (Bailey, 1998). During the arbitration process, parties make submission to an arbitrator and are bound by the arbitrator's decision (ACDC, 2005).

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Facilitated Negotiation Facilitated negotiation involves an independent and objective person which enters the negotiation session to assist the parties in reaching agreement (Berman, 1995). The purpose is to facilitate a mutual understanding of both parties rather than settlement (Sprague, 2006). Mediation is a prominent ADR method used in the Melbourne construction industry and is now a firmly established preferred dispute resolution tool for construction claims (Megens, 2005). Mediation is an attempt to settle a legal dispute through an active participation of a third party, a mediator, who works to find points of agreements and make those in conflict agree on a fair result (Hill, 2008). Resolution is attempted but settlement is not always achieved (Hill, 2008).

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What had gone wrong? Was ADR really just an empty promise? We believed it was not, but lack of success with ADR at so many companies prompted us to take a closer look at how managers were implementing the ADR process. We found bad news and good. The bad news is that ADR as currently practiced too often mutates into a private judicial system that looks and costs like the litigation it's supposed to prevent. At many companies, ADR procedures now typically include a lot of excess baggage in the form of motions, briefs, discovery, depositions, judges, lawyers, court reporters, expert witnesses, publicity, and damage awards beyond reason (and beyond contractual limits).

The good news is that a number of companies have learned to use ADR effectively, and those companies are in fact reaping ADR's predicted benefits: lower costs, quicker dispute resolutions, and outcomes that preserve and sometimes even improve relationships. At Chevron, for instance, ADR-based mediation of one dispute cost \$25,000, whereas mediation through outside counsel would have cost an estimated \$700,000 and going to court as much as \$2.5 million over a period of three to five years. At Toyota's U.S. subsidiary, a Reversal Arbitration Board, set up to ease contention between the company and its dealers concerning allocation of cars and sales credits, has brought about a steady decline in the number of these cases, from 178 cases in 1985 to 3 in 1992.

What are Chevron and Toyota doing that other companies are not? The difference between success and failure lies chiefly in the level of commitment. Companies that give ADR top priority—even in cases where they're *sure* they're right—are realizing immense savings of time, money, and relationships. In contrast, companies that let old litigious habits worm their way into the process might as well go back to court.

Few companies have made the commitment to ADR more effectively than NCR (recently renamed AT&T Global Information Solutions). NCR executives made a firm commitment to alternative dispute resolution a decade ago, and the results have been dramatic: the number of the company's filed lawsuits (excluding insured risks) pending in the United States dropped from 263 in March 1984 to 28 in November 1993. Last year, only nine disputes incurred outside attorneys' fees exceeding \$20,000, and total outside legal fees—not quite \$1 million—were less than half what they were in 1984.

Moreover, the reduction in outside fees has not increased the costs of in-house counsel. NCR manages its filed cases with only four in-house lawyers and four paralegals. Several years ago, in a case in which it did not have an arbitration clause, NCR spent hundreds of thousands of dollars defending itself in a conventional lawsuit and nevertheless lost a multimillion-dollar jury verdict. In the past five years, NCR has paid out less in awards and settlements—and in outside and in-house counsel fees for all of its ADR matters—than the outlays for that single case. ADR methods allow parties to negotiate the process of dispute resolution and the neutral facilitator assists both parties to always focus on the issue of the dispute and to try to achieve a win-win situation which is crucial to the Melbourne construction industry as it is heavily reliant on relationships (Sprague, 2006).

The court mechanism has and still is inaccessible by majority of people owing to its adversarial nature, which involves complex procedures and processes making it expensive and time consuming (Muigua, 2014). In addition, the court system due to its adversarial nature attracts additional costs in terms of fees levied by the court as well as the fees for the legal representatives of the parties in dispute. The huge amount of paper work involved in the litigation process further aggravates the costly nature of the court system. Due to these challenges, ADR forms a better alternative to the court system as it provides an avenue to settle disputes in a much more inexpensive manner (Hensler, 2003).

Deployment or availability of any particular ADR method depends on specific factors. First, the clause relating to ADR in agreements between the parties. Second, availability of knowledgeable individuals in the process of ADR.

Third, support provided by the legal system in a country to ADR methods while the fourth is availability of necessary infrastructure facilities which are important in selection of any ADR method. Thuronyi and Espejo (2013) advanced that existence of backlog of tax cases in any revenue administration agency arising from tax disputes may hinder efficiency and effectiveness in revenue collection. Consequently, there has been gradual increase in adoption of ADR in resolution of tax disputes, which has been influenced by the need to reduce the increase in caseload of tax disputes on appeal. This is with a view to simplify the dispute resolution process for the taxpayers as well as to minimize collection and compliance costs on the part of the revenue administration agency.

Globally, there has been a shift towards the adoption of ADR as a primary means of dispute resolution (McGregor, 2015). Shome, et al., (2014) postulates that majority of advanced tax administrations have established fully functional organizations for dispute settlement that act independent of the tax administration. This serves to boost taxpayer confidence in the objectivity of the process which then has the ripple effect of minimizing compliance costs on the part of the taxpayer and as a result enhance revenue collection.

From a regional perspective, Theron (2016) observes that increase in tax disputes in South Africa Revenue Services (SARS) led to the adoption of measures geared towards collection of more revenue. One of these measures was adoption of ADR as stipulated under the Tax Administration Act (2011) to ensure a quicker, less formal and less costly approach to solve tax disputes. The South African Tax Administration Act (TAA) provides a comprehensive legislative framework for resolution of tax disputes through ADR.

However, notwithstanding the aim of enhancing efficiency and effectiveness, SARS cannot forfeit taxes that are legally due under the TAA. As such, the adoption of ADR seeks to ensure that revenue performance is not affected negatively as no taxes are forfeited.

### **1.1.2 Kenya Perspective**

With the promulgation of the Constitution in 2010 in Kenya, the need to embrace ADR as a guiding principle by the judicial authorities in Kenya under Article 159(2) was introduced. This was further underscored by the inclusion of Article 201 which requires that the burden of taxation is shared fairly in line with the principle of equity in taxation.

Consequently, in line with the spirit of the constitution, the Tax Appeals Tribunal (TAT) was established in 2013 to simplify the resolution of tax disputes through efficient management and administration of tax appeals. However, since the tribunal has quasi-judicial powers, its effectiveness in resolving tax disputes is subject to similar challenges faced by the court systems. Therefore, this necessitated the adoption of other mechanisms to aid in faster resolution of tax disputes, which would then aid in releasing revenue held up in cases. In 2015, the Tax Procedures Act (TPA) was enacted with Section 55 of the Act making provision for parties appearing before a court or tribunal to opt to settle the matter out of court. This gave momentum to the establishment of the Corporate Tax Dispute Resolution Department in KRA to spearhead the ADR functions. Despite the inclusion of ADR in legislation, adoption of the same is not mandatory and parties in a dispute have the discretion to choose their most preferred mode of dispute resolution based on each party's circumstances.

The Tax Procedures Act, No 29 of 2015 (TPA), provides for an elaborate Internal Dispute Resolution Mechanism (IDRM). A tax dispute commences with an objection by the Taxpayer to a tax decision made by the Commissioner or to an appealable decision as stipulated under the TPA, 2015. The dispute culminates to an Appeal to the Tax Appeals Tribunal or Courts of Law.

This Framework seeks to improve on the IDRM by introducing ADR as an additional and/or alternative means of resolving tax disputes outside the judicial and quasi-judicial process.

ADR is a voluntary, participatory and facilitated discussion over a tax dispute between a taxpayer and the Commissioner. It is in the form of facilitated mediation and not arbitration as envisaged in the Arbitration Act, (Chapter 49 Laws of Kenya), as the facilitator has no power to impose any decisions regarding the outcome of the tax dispute. Instead, the parties are facilitated to find a solution to the dispute.

Overall, ADR seeks to enrich the entire dispute resolution process by providing flexibility and timely/early dispute management without the limitations imposed by judicial and quasi-judicial processes as regards technical procedures, untimely decisions and the rising costs of litigation.

Today, ADR is widely favoured over litigation and applied in a number of Tax Revenue Administrations globally with great success. This Framework has been benchmarked against the experiences of these Tax Revenue Administrations.

.According to Parsons (2008), an organization is a planned social unit geared towards attainment of a specific purpose that is defined in terms of goals and objectives. In particular, organization factors are key determinants of how organizations compete, respond and progress to achieve their set objectives.

In addition, internal factors determine how an organization adopt new process and progress as a self-contained organizational entity and respond to external environment. Therefore, organization factors such as firm size, financial performance and tax compliance costs act as hindrances or facilitators of adoption and utilization of ADR mechanism in tax dispute resolution in Kenya.

With the need for faster resolution of tax disputes to release tax revenues held up in disputes, as one of its revenue enhancement initiatives, KRA introduced the Corporate Tax Dispute Resolution Division (CTDR)-now known as the Tax Disputes Resolution Division (TDR) in the year 2015. However, to date there has been low adoption of the mechanism limiting revenue collection attributable to organizational factors which influence adoption of ADR by taxpayers.

### **1.1.3 Concept of ADR Adoption**

Adoption in the context of ADR means acceptance, being able to accept the new way of doing things as it is introduced and by accepting the strategy means a customer's willingness to use the service (Makongoro, 2014). Development is not feasible in a conflict situation. Conflicts and disputes must be managed effectively and expeditiously for development to take place (Muigua 2014). This is done through existing formal and informal mechanisms (ADR). Over the last thirty years, the use of ADR has remarkably grown in different jurisdictions, such as the US, England, Canada, Australia, Wales, and New Zealand. As a result, the rate of civil trials has equally decreased during the same period.

An observation by Galanter, (2004) indicated a decline in the number of disputes in the jurisdictions under study discontinued by a court from 11.5% in 1962 to 1.8% in 2002. Spence (1994) and Houseman (1993) observe that the poor in society are the most marginalized in terms of access to justice. This is due to the high cost of hiring lawyers in litigation. ADR is a reprieve to such groups.

ADR techniques have not been created to undercut the traditional U.S. court system. [Certainly, ADR options can be used in cases where litigation is not the most appropriate route. However, they can also be used in conjunction with litigation when the parties want to explore other options but also want to remain free to return to the traditional court process at any point. The objectives of the ADR are Suitability for multi-party dispute, Flexibility of procedure – the process is determined and controlled by the parties the dispute, Lower costs, Less complexity, Parties choice of neutral third party (and therefore expertise in area of dispute) to direct negotiations/adjudicate, Likelihood and speed of settlements, Practical solutions tailored to parties' interests and needs, Durability of agreements, Confidentiality and The preservation of relationships and the preservation of reputations.

In Kenya, ADR mechanisms are anchored in the law. Article 159 of the Constitution stipulates that in exercise of judicial authority, courts and tribunals are to promote alternative forms of dispute resolution including reconciliation, mediation, arbitration and traditional dispute resolution mechanisms. There has been a low up take of ADR in dispute resolution in Kenya, with companies and other parties seeking litigation instead of resolving the tax disputes under the umbrella of ADR.

On the other hand, a high percentage of disputes in Kenya are resolved outside courts or even before they reach courts by use of TDR or ADR mechanisms. TDR and other community justice mechanisms are widely used by communities to resolve conflicts owing to their legitimacy and accessibility. The main disputes that are widely resolved by way of TDR mechanisms in the communities include land disputes, marriage, gender violence, family cases including inheritance, clan disputes, cattle rustling, debt recovery, overall community conflicts and resolution of political disputes in the community, and welfare issues such as nuisance, child welfare and neglect of elderly in a community amongst others.

Generally, many cases are resolvable through TDR except for serious criminal offences that require the intervention of the courts. The low uptake of ADR mechanism in tax dispute resolution is a cause of concern which calls for investigation on what is contributing to the low utilization of ADR mechanism in tax dispute resolutions.

#### **1.1.4 Determinants of Adoption of ADR**

Many researchers and practitioners have investigated the attributes of ADR methods. York (1996) was concerned with the practical issues and identified time, cost and preservation of relationships, enforceability, degree of control by parties, flexibility in procedure and confidentiality as factors which had an impact upon the selection of dispute resolution methods (Cheung *et al* 2002). David (1988) focused on social and human issues such as impartiality, consensus, and continuing business relationships (Cheung *et al* 2002). Cheung *et al* (2002) has identified ten criteria as the most common factors which affect the performance and selection of dispute resolution methods. These are:

The costs associated with dispute resolution involve reaching settlement agreements including expenses relating to revenue, the neutral third party fee, documentation, and settlement costs.

Cost is the one of the most critical criteria for organization when assessing which dispute resolution method to use for dispute resolution as it affects the profit share of the project outcome. In assessing the suitability of a case for ADR, a cost-benefit analysis of the costs and value of the case must be undertaken. This involves trading off the various criteria and also helps the parties to better understand the issues involved and the expense likely to be incurred if the dispute continues.(Cheung *et al* 2002).

Neutrality and fairness depend heavily on the competence, training, and integrity of the neutral third parties. During the resolution process, a neutral third party owes a duty of care to his or her clients to remain impartial. He or she facilitates the parties' reaching a settlement but must make a conscientious effort to avoid personal biases.

The neutral third must not have any professional or financial relationship with any party otherwise the information must be disclosed to the other party. Finally the neutral third party must be agreed by both sides. Since the choice of the neutral third party is of paramount importance there must be a code of conduct to monitor the standard of professional mediators, conciliators and arbitrators. This will enhance the trust and comfort level between parties to voluntarily reach a settlement.

Time is money in the world of business and project management. Lengthy delay of dispute resolution will delay the progress of works resulting in extra costs and incur potential penalty points. The outcome of a construction dispute is usually related to the costs liability.

The party which initiates the dispute feels that the other party owe costs for reasons such as variation of payments, quality of workmanship, and final payments or owes compensation costs due to factors such as delay of works, payment for extension of time and liquidated damages. Confidentiality is an implied and inherent feature of ADR processes that parties to a dispute are not allowed to disclose any information or materials to the public unless by mutual consent of the parties.

A continuing relationship is one of the key elements for any organization to strive for. A good relationship is always based on trust, common interests, and respect and requires the effort and commitment of the parties to make it last. The importance of ADR in the modern civil justice system is generally accepted. Much of the current discussion focuses on what sort of ADR processes should be developed and on what role traditional dispute resolution mechanisms should play (Onyema, 2016).

The KRA view is that the appropriate role of the courts is more than simply providing an adjudication service based on the traditional adversarial process. Courts should (and do) accommodate various means of resolving civil disputes.

Major issues at present are the perceived benefits, perceived ease of use, awareness and complexity of the ADR process, the desirability of judicial facilitation of ADR processes and the appropriateness of, and resources required for, direct judicial participation in ADR. Another controversial issue revolving around the ADR adoption is whether parties should be compulsorily referred to ADR (Muigua, 2018). This study will focus on how the perceived benefits, perceived ease of use, and knowledge and awareness of ADR mechanism and process influence the adoption of ADR by medium taxpayers in Nakuru county.

Perceived ease of use as elaborated by Davis (1989) is the extent to which an individual perceives the usage of particular application will lead to achievement of certain objectives. This can be assessed through frequency of the service usage and the benefits gained by the individual depending on the service. Perceived relative advantage (benefit) is defined as the degree to which an innovation is perceived to be better than the idea it supersedes (Karayanni, 2003). For a long time, litigation has been the primary mode of resolution of civil disputes. However ADR is gaining popularity which serves to provide an alternative to litigation in disputes settlement due to its perceived benefits compared to litigation. The choice of these factors is based on the fact that ADR has only been introduced in Kenya as a mechanism of tax dispute resolution and these factors could play a big role in building the acceptability and momentum of ADR use.

## **1.2 Statement of the Problem**

The adversarial court system is not efficient and effective in promoting access to justice due to its expense, time spent and complex nature. The court system is also unfriendly due to use of legal technical terms and its inaccessibility further hindering access to justice. Therefore, need for ADR in the resolution of tax disputes cannot be underscored. Over time, awareness of taxpayer's constitutional rights has increased. Consequently, more tax disputes have been taken to Courts in the recent past. Due to the complexity and technicality of tax matters, resolution of tax disputes through the adversarial Court system creates the impression that tax systems are biased against taxpayers in general and genuine investments are vilified if tax benefits are involved, hence, ADR is more relevant since it facilitates release of sizeable amounts of tax revenue held in disputes while at the same time enhancing better relationships between the tax payer and the tax administration (Govind & Varanasi, 2013).

Adoption of ADR framework in KRA in the resolution of tax disputes was aimed at enhancing revenue collection by seamlessly navigating the hurdles associated with litigation thereby ensuring faster release of revenue held up in tax disputes. However, despite the benefits associated with ADR, adoption of ADR tax disputes resolutions is still low. According to ICPAK (2017), there is slow adoption of ADR in regions outside Nairobi and Mombasa. Additionally, even in Nairobi and Mombasa, ICPAK reported that the parties have been adopting hardline approach instead of a win-win approach. Shamir (2003) argues that mediators only help the disputants to reach an amicable solution to their dispute, which is reduced into writing in the form of a settlement agreement.

If the parties do not come to a consensus on how to settle the dispute, then each party is at liberty to explore other avenues of dispute settlement such as litigation. Accordingly, due to the non-binding nature of facilitated mediation, the possibility of resulting in litigation, in the end, may discourage the use of ADR in tax disputes settlement (Shamir, 2003).

There are a number of factors which hinder ADR mechanisms. One is the expenses related to revenue, openness, neutrality and fairness and outcome from the process. In Kenya, currently, there has been no study conducted addressing determinants of adoption of ADR mechanisms. In that regard, this study aim is to fill that information gap and help accelerate the determinants of adoption of ADR. Therefore, the study question is: What are the factors influencing adoption of alternative dispute resolution in tax management?

## **1.6 General Objective of the Study**

The general objective of the study was to investigate the determinants of ADR mechanisms among medium taxpayers:

### **1.6.1 Specific Objectives of the study**

The study was guided by the following specific objectives:

- i. To examine the influence of perceived benefits on ADR mechanisms among medium taxpayers in Nakuru County.
- ii. To determine the influence of perceived ease of use on ADR mechanisms among medium taxpayers in Nakuru County.
- iii. To find out the influence of knowledge and awareness on ADR mechanisms among medium taxpayers in Nakuru County.

### **1.6.2 Research questions**

- i. Does perceived benefits influence ADR mechanisms among medium taxpayers in Nakuru County?
- ii. Does perceived ease of use influence ADR mechanisms among medium taxpayers in Nakuru County?
- iii. Does knowledge and awareness influence ADR mechanisms among medium taxpayers in Nakuru County?

## **1.7 Significance of the study**

### **1.7.1 Alternative Dispute Resolution, Kenya**

The study will contribute significantly to the research regarding the effectiveness and use of alternative dispute mechanism. By answering the research questions, it is pertinent to the development and implementation of ADR methods. Additionally, it will be important for other scholars since it will build and contribute to the existing literature in ADR. Since there exists scanty literature on ADR in Kenya, in particular there is no study which has been documented regarding the influence of organization factors on adoption of ADR mechanism.

### **1.7.2 Researchers**

The study will also be crucial in formation of new theories. The test of hypothesis will aid the development of new theories of alternative tax dispute resolutions in relation to applicability and use by different organizations. The study will criticize or affirm the existing theories to bring up new views in relation to the matter. In practice, the study will be important to organizations and KRA on understanding how different aspects of adoption influence the acceptability and use of ADR and whether the process should be made mandatory or not.

### **1.7.3 KRA management**

As such, it will be helpful to the KRA Management as it will give insight on the need to capitalize on the benefits of ADR to enhance collection of revenue by identifying existing loopholes in the KRA ADR framework and the formulation of policies to promote the use of ADR in resolution of disputes as a means to enhance revenue performance.

The findings of the study will provide recommendations to the KRA Management on the areas for improvement regarding tax compliance.

As such it will be insightful to formulation of new policies by policy makers. The representatives in the legislature and the government will use the findings of this study to create policies and regulations that will promote ADR in tax disputes thus contributing to the collection of more revenue

### **1.8 Scope of the study**

The objective of the study was to investigate the determinants of ADR mechanisms among medium taxpayers: Most of the medium taxpayers preferred ADR in tax dispute than the courts. Nakuru County was chosen because it had many medium taxpayers as compared to any other county in the country. Additionally, medium taxpayers are close to each other hence ensuring convenience in terms of time taken to gather data

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter presents the theoretical review, empirical review, and the conceptual framework, and gives a critique of existing literature relevant to the study, research gaps and the summary of the literature. The chapter also presents the literature review on adoption of ADR in tax disputes and other forms of disputes as well as factors that influence adoption of various strategies in its operations. The chapter summarizes the works of other researchers who carried out studies regarding the topic. It also presents the conceptual framework.

#### **2.2 Theoretical Review**

The research was anchored on the unified theory of acceptance and use of technology and supported by three other theories which include social influence theory, concern-based adoption theory, and theory of reasoned action. These theories were used to explain the level of ADR adoption and reasons for or against adoption and in formulation or justification of the study hypothesis.

##### **2.2.1 Social Influence Theory**

This theory was fronted by Kelman (1958) who provided a well-established foundation for understanding the social behavior of individuals relating to identities. Social influence theory distinguishes a variety of types and levels of social commitment: compliance, identification, and internalization. Kelman's theory (1958) explains how the diverse commitment mechanisms change the attitude toward target behavior.

For example, compliance occurs when an individual accepts influence because he or she hopes to achieve a positive reaction from another person or group with a normative commitment. Identification occurs when system users adopt behaviors to realize a satisfying and self-defining relationship with another person or group with an affective commitment. Internalization occurs when system users adopt behaviors because of content, which they uncover congruent with their own values with intrinsic motivation. These social influence factors change an individual's belief structure, causing an individual to respond to possible social status gain.

This study includes social norms that is compliance and acceptability of ADR, social identity in that the medium companies' method of dispute resolution can be through ADR and perceived benefits or enjoyment which is the internalization of every individual company forming the core reason why they would adopt and use ADR mechanism.

Social influence describes how our thoughts, feelings, and behaviors respond to our social world, including our tendencies to conform to others, follow social rules, and obey authority figures (Rana & Dwivedi, 2015). Social influence takes two basic forms: implicit expectations and explicit expectations. Implicit expectations are unspoken rules. Like the unwritten laws of middle school, implicit expectations are enforced by group norms. Unlike implicit expectations, explicit expectations are clearly and formally stated not at all subtle. There are also two forms of explicit expectations: compliance and obedience. Compliance occurs when a person behave in response to a direct or indirect request (Rana & Dwivedi, 2015). In this sense, if another company solved their tax disputes through ADR mechanism and benefited from it, the ADR could be a norm and ostensibly other companies are more likely to follow suit.

As such this theory supports the hypothesis  $H_{01}$  that there is significant influence of perceived benefits of ADR on the adoption of alternative dispute resolution by medium taxpayers in Nakuru County.

### **2.2.2 Technology Acceptance Model**

Technology acceptance model was advanced by Davis Jr (1986). The model was developed to increase the interpretation of user acceptance processes, giving new information into the planning and execution of new innovations. particular, TAM suggests that when a person is using a new technology, a number of factors such as the perceived use (PU), perceive ease of use PEOU, attitude towards use (ATU) and behavior intentions (BI) influence a person's decision about how to and when he will use it.

The Technology Acceptance Model (TAM) (Davis, F.D. 1998) is an intention-based model derived from the Theory of Reasoned Action (Fishbein, M. & Ajzen I. 1975) of a social psychology. Davis (Davis F D 1989) developed TAM to explain the effect of user perception of system characteristics on the user acceptance of computers. The objective of TAM is “to provide an explanation of the determinants of computer acceptance that are capable of explaining the behavior of Users across a broad range of end-user computing and user populations while concurrently being economical and theoretically justified” Two particular belief constructs, perceived use (PU) and perceived ease of use (PEOU) are central in TAM for predicting information about technology Users' acceptance behaviors.

According to TRA external stimuli indirectly influence a person's attitude towards the behavior, through BI by influencing his/her salient beliefs about the consequences of performing the behavior (Fishbein, M. & Ajzen I. 1975).

The aim of TAM, therefore, is to provide basis for tracing the impact of external factors on internal beliefs and attitudes. TAM was developed in attempt to achieve these aims by identifying a number of fundamental variables that deal with cognitive and affective determinants of computer acceptance. In addition, TAM assumes that the decision to use a particular computer technology is based upon one's cognitive response (PU and PEOU) to using the technology, which in turn affects one's affective response (attitude) toward the technology. As a result, the affective response drives the behavioral response about whether to use the technology.

In that regard, the theory can be used to describe the behavior of managers to adopt ADR or not based on their perceptions of perceived usefulness and perceived ease of use. Although the theory was designed to explain reasons to adopt or not to adopt a technology, the same concepts can be used in adoption of any organization strategic change and in the case of the current study, the theory was helpful in expounding how perceived ease of use determines the extent to which organizations adopt ADR.

### **2.2.3 Theory of Reasoned Action**

The theory of reasoned action (TRA) is a general theory of behavior that was first introduced in 1967 and further extended by Fishbein in 1980.

According to the theory of Reasoned Action (Fishbein and Ajzen, 1975), attitudes (i.e., evaluations of a behavior) and subjective norms (i.e., perceived social pressure to perform or not to perform the behavior) influence intentions to perform a behavior. Attitudes are influenced by beliefs, which are perceptions about the characteristics of the behavior (e.g., whether irradiated food is "safe to eat"). Similarly, subjective norms are influenced by the individual's perception about what referent others may think about certain behavior, and their motivations to comply with these opinions.

Adoption of ADR mechanism is ostensibly influenced by attitudes and subjective norms which are all based on the knowledge and awareness of ADR mechanism. In that regard, this theory relates to the third objective of the study which was the influence of knowledge or awareness on adoption of ADR mechanism. This was particularly because knowledge influences beliefs and attitudes and consequently makes the management of the companies to reason whether to adopt ADR mechanism or not.

#### **2.2.4 Unified Theory of Acceptance and Use Theory**

Unified theory of acceptance and use theory was developed by Venkatesh et al., (2003). The theory proposes that performance expectancy, effort expectancy, and social influence predict behavioral intention towards the acceptance of information technology. The theory further proposes that facilitating conditions and behavioral intention predicts use behavior in the acceptance of information technology. The theory was developed based on social cognitive theory with a combination of eight prominent information technology (IT) acceptance research models which use four core determinants of usage and intention (performance expectancy, effort

expectancy, social influence, and facilitating conditions) alongside with four moderators (gender, age, experience and voluntariness of use) of key relationships.

Although the model has been predominantly used in adoption of information system, the concept relates to the adoption of ADR mechanism. The main points of the theory that relates to the current study include performance expectancy which also includes benefits expected, effort expectancy which covers the perceived ease of use, and facilitating conditions such as the level of awareness. In that sense, this theory will be used to anchor the study and expound on the findings of the study.

### **2.3 Conceptual Framework**

A conceptual framework is defined as relationship conceptualization among study variables represented diagrammatically (Mugenda & Mugenda, 2003).The framework indicated the direction of relationship as well as the independent variable effect on the dependent variable. In this study, independent variables were the perceived benefits, perceived ease of use and knowledge of ADR. The impact of these variables were examined on the adoption of alternative dispute resolution which was the dependent variable of the study.

**Figure 2.1: Conceptual Model**

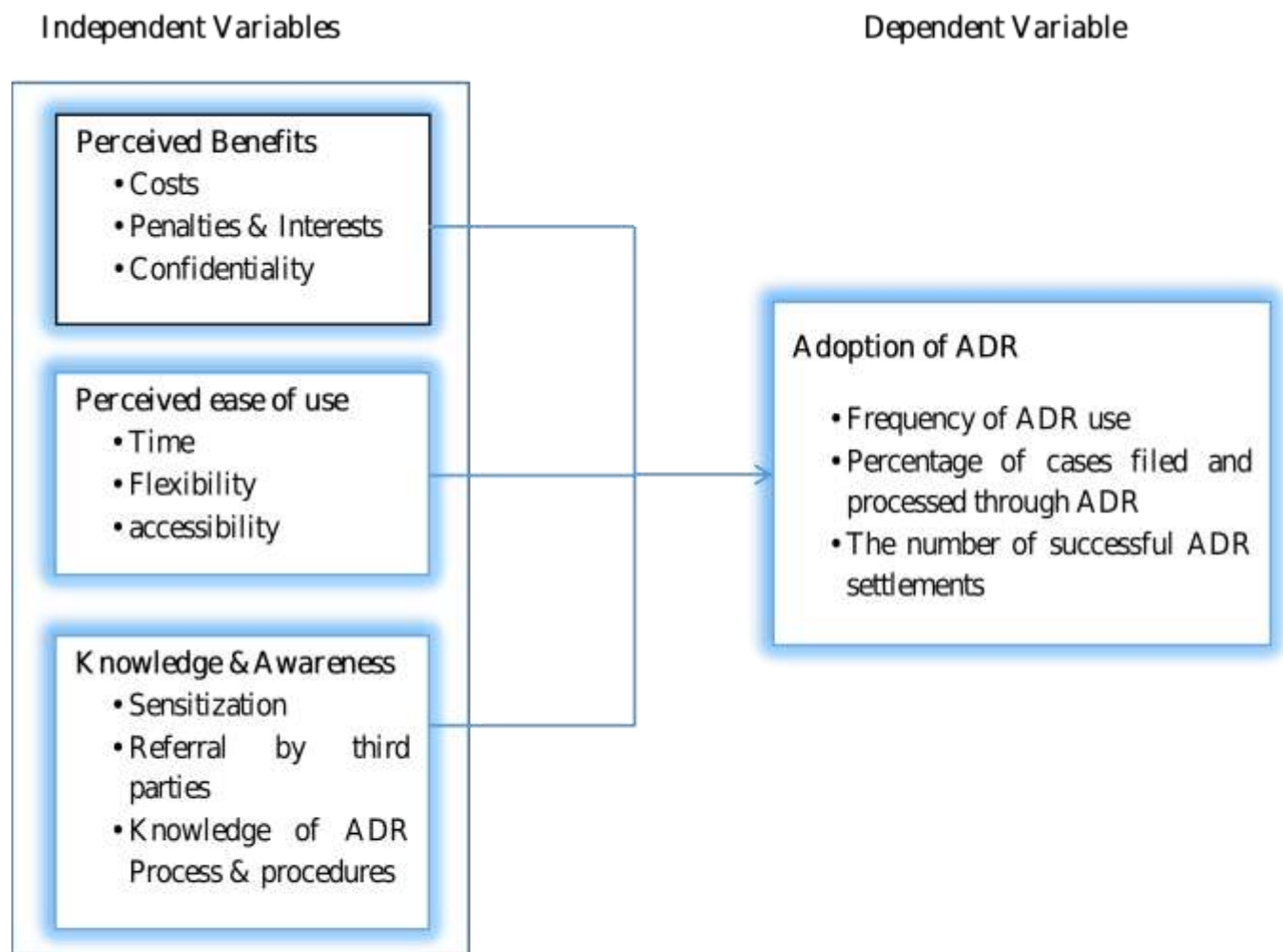


Figure 2.1: Conceptual Framework (Author's Construct, 2018)

## 2.4 Empirical Review

Empirical literature was reviewed on studies done in relation to study variables; perceived benefits, perceived ease of use and adoption of alternative dispute resolution mechanism.

### **2.3.1 Perceived Benefits and Adoption of Change**

Various studies have been conducted on the influence of perceived benefits on change, or adoption of technology, strategy or mechanism. However, few studies have concentrated on the effects of perceived benefits on adoption of ADR mechanism a fact which may be attributed to the fact that the adoption of ADR in tax management is in its initial stages of implementation. However, looking at other studies of change and adoption, perceived benefits has a great impact on adoption of the change or acceptability of mechanism, strategy and innovations.

Chemingui and Ben lallouna (2013) conducted a study on the resistance, motivations, trust, and intention to use mobile financial services in Tunisia. This research paper determined factors which could lead customers to resist adoption of new technology and the motivational factors which could lead to the intention of using mobile financial services. The results showed that there were some barriers to the intention to use mobile financial services. The major barrier was tradition, here customers showed some resistance on changing their habits and behaviors by allowing interaction with service providers through mobile services and the offers provided. Other barriers are usage, value, and risk on mobile banking adoption. This revealed that customers are motivated to use the services which are compatible with their needs and behaviors; additionally, if they can get the opportunity to try the product or service, the emotional enjoyment when using the service and also the way they perceive the word quality which has positive impact on increasing customers' confidence on the service.

Thakur (2014) conducted a study on what makes public adopt new e-government service line.

This study was conducted in Mumbai, India. The purpose of the study was to see if perceived benefits and government service delivery are the concepts which interfere on one another. The study placed emphasis on these concepts as being paramount as far as government service delivery is concerned in order to reach many citizens. The data collection method used was questionnaires targeted to individuals who had used e-government system previously. These questionnaires were administered online by mailing electronic hyperlink to the respondents. Five hundred responses were received in which only 433 were valid questionnaires for the data analysis. The findings revealed that satisfaction from e-government services has a positive effect on a government service delivery. Although the study brought out the concept of perceived benefits in the area of governance, there is a contextual and geographical gap since the study focus was on influence of perceived benefits on e-government services and performance of government.

Chen (2013) as well as Laforet and Li (2005) also supported perceived benefit as the factor that can influence acceptance hence adoption new farming products. The data collection methods used were different. Generally, the two studies showed that perceived benefit was not the only factor that leads to acceptance and use of new agricultural products but other factors such as cost. Contextually, the study focused on farming products while the current study focused on adoption of ADR mechanism in tax management.

Mwesigwa (2010) conducted a research to establish the relationship between consumer attitudes, trust, perceived risk and internet banking adoption in Uganda.

A cross sectional, descriptive and analytical research design was used. Primary data was collected using a self-structured questionnaire from commercial bank customers. A regression analysis focusing on consumer attitudes, trust, and perceived risk was made to establish the extent to which they contribute internet-banking adoption. The findings indicated a positive relationship between Consumer attitudes, trust and internet banking adoption. This implied that if the customers have positive attitudes towards internet banking, they are bound to trust the transactions done in this fashion and therefore changing consumer attitudes should be given more emphasis by commercial banks that is should be informative when planning any new internet service for financial customers. In the same breadth, the tax payers perception about the benefits to accrue from adopting ADR would influence their decision whether or not to adopt the use of ADR.

#### **2.4.2 Perceived Ease of Use and Adoption**

Various studies have focused on perception of ease of use and performance expectancy but majority of them have been in information system field. Nyambura and Waema (2013) conducted a study on development outcomes of the Internet and mobile phones use in Kenya, households' perspectives. This paper examined the acceptance of the Internet and mobile phones for improvement and sometimes impediment of various conditions of development conveying radical changes to Kenyan households in the last couple of years. The findings of this study showed that a high value was attached to the new technologies and in particular mobile phones which informs that new technologies facilitate some capabilities and limit others bringing to diverse development outcomes. Other factors like social, economic, knowledge, and status of individuals contribute on development of new technologies and their outcomes.

Mohammadi (2015) evaluated mobile banking usage in Iran. The questionnaires were administered randomly through private emails to 410 students' member in Facebook and LinkedIn. The findings of this study showed that system compatibility was the major determinant stirring customers' attitude on using mobile banking. Perceived usefulness arbitrates the relationship between ease of use and customers' attitude toward usage of mobile banking. Though youth are normally the ones easy to adopt new innovation but most of the people who use mobile banking are middle-aged individuals with income.

According to Forsythe, et al. (2006), shopping convenience is perceived of the ability to shop anytime from different place regardless the location and without visiting the store. Convenience is measured based on the duration of time consumed, location to shop and the process of purchasing. Comparing between the traditional way of buying with the practice of Internet shopping, online shopping gives more convenient to customers. Convenience here can be in the form of time, effort and stress. Shopping convenience was a strong motivator that influences the intention of potential internet shoppers to do online shopping.

Makongoro (2014) conducted a study to analyze the factors that influence consumer adoption of mobile banking in Tanzania. A questionnaire was developed and then distributed to customers of major mobile banking service providers in Tanzania. The data was analyzed using Quantitative research design through use of multiple regression analysis and the results suggested that perceived risk, relative advantage and convenience are the determinant factors in influencing consumers' adoption decisions.

These studies have shown that perceived ease of use is important factor on adoption of strategy/change or innovation. The studies have also helped in differentiating between perceived usefulness and perceived ease of use. Perceived usefulness is the degree to which a person believes that using a particular system would enhance his or her job whereas, perceived ease of use is the degree to which a person believes that using a particular system would be free from effort.

### **2.4.3 Level of Knowledge and Awareness and Adoption**

A number of studies have been conducted regarding the influence of knowledge on the adoption of innovation, technology and change. Bhanot et al. (2012) study focused on factors which affect financial inclusion of the marginalized and disadvantaged people in rural areas of northeast India. Findings of this study indicated that some factors can lead to financial inclusion to the marginalized groups on remote areas, which include among others financial information from various channels, education on financial issues, and awareness to the low-income individuals on rural areas.

Adewoye and Akanbi (2012) evaluated the effects of Information and Communication Technology investment on the profitability of Small Medium Scale Industries in Nigeria. The study revealed that educational level of the manager has significant effects on the extent of ICT usage. The study therefore concluded that ICT investment in skills had positive effects on the profitability of SMEs. Tobbin (2013) discussed individual awareness as one of the factors that influence acceptance and adoption of mobile banking.

Though there were differences on the findings between one study and the other concerning other factors blocking the respondents on financial information. Such factors are behavioral characteristics of individuals', convenience, ease to use, and education.

Slade (2012), dynamic model of diffusion of a new technology involving a variable input. The model highlights the role of information accumulation, and distinguishes between active gathering of information, which entails costs, and passive information acquisition, which takes place in an autonomous manner. Data from a recent survey of farming practices in North-West India is presented in order to assess the implications of the model. According to the study results, they identified the knowledge level of the farmers as a major determinant of diffusion of new technology.

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The data was analyzed using Quantitative research design through use of multiple regression analysis and the results suggested that perceived risk, relative advantage and convenience are the determinant factors in influencing consumers' adoption decisions.

## 2.5 Critiques of the study

(Fishbein and Ajzen, 1975), attitudes (i.e., evaluations of a behavior) and subjective norms (i.e., perceived social pressure to perform or not to perform the behavior) influence intentions to perform a behavior. Attitudes are influenced by beliefs, which are perceptions about the characteristics of the behavior (e.g., whether irradiated food is "safe to eat"). Similarly, subjective norms are influenced by the individual's perception about what referent others may think about certain behavior, and their motivations to comply with these opinions

(Rana & Dwivedi, 2015). Social influence takes two basic forms: implicit expectations and explicit expectations. Implicit expectations are unspoken rules. Like the unwritten laws of middle school, implicit expectations are enforced by group norms. Unlike implicit expectations, explicit expectations are clearly and formally stated not at all subtle. There are also two forms of explicit expectations: compliance and obedience. Compliance occurs when a person behave in response to a direct or indirect request

Shome, et al., (2014) postulates that majority of advanced tax administrations have established fully functional organizations for dispute settlement that act independent of the tax administration. This serves to boost taxpayer confidence in the objectivity of the process which then has the ripple effect of minimizing compliance costs on the part of the taxpayer and as a result enhance revenue collection.

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India is presented in order to assess the implications of the model. According to the study results, they identified the knowledge level of the farmers as a major determinant of diffusion of new technology.

Adewoye and Akanbi (2012) evaluated the effects of Information and Communication Technology investment on the profitability of Small Medium Scale Industries in Nigeria. The study revealed that educational level of the manager has significant effects on the extent of ICT usage. The study therefore concluded that ICT investment in skills had positive effects on the profitability of SMEs.

Tobbin (2013) discussed individual awareness as one of the factors that influence acceptance and adoption of mobile banking. Though there were differences on the findings between one study and the other concerning other factors blocking the respondents on financial information. Such factors are behavioral characteristics of individuals', convenience, ease to use, and education.

Slade (2012), dynamic model of diffusion of a new technology involving a variable input. The model highlights the role of information accumulation, and distinguishes between active gathering of information, which entails costs, and passive information acquisition, which takes place in an autonomous manner. Data from a recent survey of farming practices in North-West India is presented in order to assess the implications of the model. According to the study results, they identified the knowledge level of the farmers as a major determinant of diffusion of new technology.

Makongoro (2014) conducted a study to analyze the factors that influence consumer adoption of mobile banking in Tanzania. A questionnaire was developed and then distributed to customers of major mobile banking service providers in Tanzania. The data was analyzed using Quantitative research design through use of multiple regression analysis and the results suggested that perceived risk, relative advantage and convenience are the determinant factors in influencing consumers' adoption decisions.

## **2.6 Research Gaps**

Available literature local and international indicate the influence of perceived benefits, perceived ease of use and knowledge or awareness on adoption of innovation, change or strategy. However, none of the studies have focused on adoption of ADR mechanism. Forsythe, et al. (2006) looked at shopping. From these contextual gap, the imperative is to conduct a study seeking the link perceived ease of use and adoption of ADR mechanism. Additionally, the studies looked at perceived ease of use or perceived benefits as an individual factor while the current study will look at the concept from an organizational point of view.

## **2.7 Summary**

Chapter one gave an introduction and background to the study and outlined the problem statement and the purpose of the study, it also clearly stated the research questions that the study aims to achieve. The significance alongside beneficiaries of the study has been outlined. The scope both geographical and conceptual is covered. The chapter concludes by defining the key terminologies used.

Chapter three comprised of the research methodology used in the study. The chapter defined the research design, population targeted, sample design, procedures of data collection and analysis of data techniques. Also discussed are characteristics of the study design and why the research deemed it appropriate for this study. The chapter also provides information on the population, sample frame and size, sample selection. Data collection method and data collection tool used in the study is also provided. Presentation the findings and results of the study is covered in chapter four. Presentations of the findings and results were presented in table forms. Percentages were used for easy interpretation and understanding.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter described the research design, target population, the sampling frame, the sample and the sampling techniques used in the study. The Chapter also described how data collection and analysis was conducted and also explain ethical considerations.

#### **3.2 Research Design**

This study used descriptive research design. A descriptive research design is a systematic research method for collecting data from a representative sample of individuals using instruments composed of closed structured ended questions, observations, and interviews(Creswell, 2013). It is widely used in non-experimental research designs across disciplines to collect large amounts of survey data from a representative sample of individuals sampled from the targeted population (Lavrakas, 2008).

#### **3.3 Sampling Frame**

A simple definition of a sampling frame is the set of source materials from which the sample is selected. The definition also encompasses the purpose of sampling frames, which is to provide a means for choosing the particular members of the target population that are to be interviewed in the survey. The sampling frame of this study comprised all the medium taxpayers registered by KRA in Nakuru County.

### **3.4 Target Population**

Kombo and Tromp, (2006) define a population as a set group of items, things or people under study that help determine the characteristics of the general sets. This definition makes the assumption that the population is not homogeneous. The study target population was 1200 medium taxpayers registered by KRA and obligated to pay taxes.

### **3.5 Sample size**

Due to constraints of time and budget, it was possible to collect data from the entire population of the KRA taxpayers. Therefore, the sample size is computed using Muganda Mugenda (2003) formula: He eludes that 10 to 30% is adequate for the sample size. The study adopted 10% of 1200 is equivalent to 120. The sample size of the study will be 120 medium taxpayes

### **3.6 Sample and sampling techniques**

Kothari, (2006) defines a sample design as a precise outline of the procedure to be adopted in defining the sample size from the target population. On the other hand, a sampling technique is the methods adopted in the selection of a representative population from the general population that reflects the actual characteristics of the whole population (Cohen, 2000). The use of a sampling technique serves to ensure that only data from a sub-group is collected which represents the actual characteristics of the total population. The study used simple random sampling which is probabilistic sampling to select samples from the target population. Simple random sampling is chosen because of the homogeneity of companies (that is they are all medium taxpayers) hence it is easier to apply and get samples scientifically.

### **3.7 Data Collection Method**

Data collection may be defined as the process of gathering and measuring information on the variable under study in a procedural manner with a view to finding solutions to the research questions under study (Mugenda & Mugenda, 2003). Primary data in this study collected using 120 questionnaires that was administered to managers of the selected companies to help the researcher get the required information.

Questionnaires were used in collection of primary data. Kothari (2008) observes that the use of questionnaires enables the researcher to gather more information from a large target population in a faster manner. The researcher personally administers the questionnaires which were distributed randomly to the selected population. All questionnaires were accompanied by an introduction letter explaining the purpose of collecting information. The questionnaires consisted of five sections. The first sections sought to determine the company characteristics, the second section consisted of questions relating to management perceived benefits of using ADR, the third section consisted of questions relating to company management perceived ease of ADR use, the fourth section consisted of questions relating to management or company knowledge and awareness of ADR mechanism and the fifth section consisted of questions relating to ADR adoption.

### **3.6 Pilot study**

Pilot study was carried to determine the reliability as well as validity of the research tools in order to ensure there is consistency and accuracy of the research instruments.

### **3.6.1 Validity of the research instruments**

Kothari (2008) defines validity as a sound measurement that indicates the degree to which an instrument measures what it purports to measure. This study adopted content validity which is the extent to which a measuring instrument provides adequate coverage of the topic under study. So as to establish content validity and make adjustments to the research instruments, consultations and discussions with the supervisor.

### **3.6.2 Reliability of the research instruments**

Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Cooper, 2003). Instrument reliability is the dependability, consistency or trustworthiness of a test. Cronbach's Coefficient Alpha approach measured internal consistency of the research instruments. Cronbach's Coefficient Alpha is a scale measurement tool appropriate in measuring internal consistency in descriptive survey researches as recommended by Cohen, Manion and Morrison (2007). Computation of Cronbach's Alpha used statistical package for social sciences (SPSS Version.24).

### **3.7 Data collection procedure**

Data collection procedures commenced upon approval of the proposal after its defense. An introduction letter was issued to the sampled entities for consent to collect data from the respondents. The questionnaires administered to the respondents directly by the researcher with the help of two research assistants in order to save on time.

For those respondents who were not available for a sit-in filling of the questionnaire, the respondent used to drop and pick method to ensure they fill the questionnaires

### **3.8 Data analysis and presentation**

The data collected for the purpose of the study checked for consistency as well as completeness before the final analysis of the study was done. Through editing of the data, the completeness of the study was assessed. The study findings was analysed using descriptive and inferential statistics using the SPSS software. The findings was presented in the following thematic areas: response rate; demographic characteristics of the respondents; KRA tax incentives; Rental income earners tax behaviors; testing hypothesis of the tax models used.

#### **3.8.1 The Qualitative Analysis**

Qualitative data was collected through questionnaires was first edited and response rate calculated. The data was then categorized into different themes according to research variable and descriptive statistics such as mean, standard deviation and frequency distribution which according to Kothari (2012) measures the point about which items have a tendency to cluster and describe the characteristics of the data collected was computed. Qualitative data for the study was derived from the questionnaires and the purpose for analyzing the data.

#### **3.8.2 The Quantitative Analysis**

Quantitative data was analyzed using inferential statistics where both parametric (Chi- Square test) and non- parametric (Pearson correlation coefficient) test was used. Chi-square test was used to test statistically significant difference between large and mutually unrelated parametric samples. Pearson correlation test was conducted to test level of significance between all independent variables and dependent variables.

Pearson's correlation coefficient was used as a measure of linear correlation. The measure is symbolized by letter  $R$  and varies between -1 and +1, with 0 indicating no linear relationship while Coefficient of determination ( $R^2$ ) measures the amount of variation in the dependent variable explained by independent variables. The closer the  $R^2$  is to 1 the better the regression line to the actual data (Sekaran, 2000).

### 3.9.3 Empirical Model

In multivariate analysis, multi-linear regression model was used in explaining decision to financial performance by testing variables was used as the independent variables of the study. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable. Multiple regressions was therefore being adopted to measure the effects of multiple independent variables on the dependent variable and effects of multiple independent variable. Multiple regression analysis was performed to establish the relationships between dependent and independent variables using the following equations which are in accordance with the study objectives and hypothesis:

The overall regression equation was as follow:

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

Where;

Y = Adoption of ADR mechanism in Tax Management

$\beta_0$  = Constant or intercept

$X_1$  = Perceived benefits

$X_2$  = Perceived ease of use

$X_3$  = Knowledge and awareness

$\epsilon$  = error term

### 3.10. Data Measurements

Data was collected on a wide range of variables. Data measurement and operationalization of variables is of great importance since it allows coding and analysis of the further as well as proper interpretation. Perceived benefits, perceived ease of ADR use and knowledge and awareness are the independent variables of the study. Nominal measurement was used to measure the independent variables using 5 point Likert scale.

**Table 3.1: Measurement of Variables**

| <b>Measurement Variables</b> | <b>Terms of measurement</b>   | <b>Likert scale</b> |
|------------------------------|---|---------------------|
| Adoption of ADR              | Adoption of ADR in tax management was measured as a function of frequency of ADR use by the company, percentage of cases filed and processed through ADR and the number of successful ADR settlements. These was also measured on nominal scale where the higher the number or percentage indicated high level of ADR adoption. | 5 points            |
| Perceived benefits           | The perceived benefits of ADR was measured as a function of the reduced cost of dispute settlement, penalties and interests and confidentiality of the ADR process.   | 5 points            |

|                         |   |          |
|-------------------------|---|----------|
| Perceived ease of use   | The perceived ease of use of ADR was measured as a function of the flexibility of the ADR process, the time savings in using the process and the accessibility of ADR.              | 5 points |
| Knowledge and awareness | The knowledge and awareness of the ADR was measured as a function of the number of sensitizations attended, referrals by a third party and knowledge of ADR process and procedures. | 5 points |

## CHAPTER FOUR

### RESEARCH FINDINGS AND DISCUSSION

#### 4.1 Introduction

This chapter shows response rate, the results of data reliability, and descriptive statistics of the study variables, regression analysis and an interpretation of the study findings.

#### 4.2 Response Rate

The researcher administered a total of 120 questionnaires and 116 were completed and returned.

This represents a response rate of 94.9% as shown in Table 4.1. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study.

**Table 4.1 Response rate**

| Category               | Frequency | Percentage |
|------------------------|-----------|------------|
| Completed and returned | 116       | 94.9       |
| Not returned           | 4         | 5.1        |
| Total                  | 120       | 100        |

#### 4.3 Reliability test results

Reliability is measure of the degree to which a research instrument yields consistent result after repeated trials (Mugenda & Mugenda, 2003). The results are depicted in tale 4.2 below.

**Table 4.2: Reliability tests results**

| <b>Constructs</b>       | <b>Reliability</b>      | <b>Reliability</b> |          |
|-------------------------|-------------------------|--------------------|----------|
|                         | <b>Comment</b>          |                    |          |
|                         | <b>Cronbach's alpha</b> | <b>No of</b>       |          |
|                         |                         | <b>Items</b>       |          |
| Perceived benefits      | 0.873                   | 6                  | Accepted |
| Perceived ease of use   | 0.721                   | 6                  | Accepted |
| Knowledge and awareness | 0.766                   | 6                  | Accepted |
| Adoption of ADR         | 0.756                   | 6                  | Accepted |

The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.832 while specific findings indicated that, perceived benefits had a coefficient of 0.873, perceived ease of use had a coefficient of 0.721, knowledge and awareness had a coefficient of 0.766 and adoption of ADR had a coefficient of 0.756. Table 4.2 shows that all the study variables yielded Cronbach alpha coefficients values of more than 0.7, which is the recommended value. This indicates that the instrument was reliable to obtain data on determinants of alternative dispute resolution mechanism.

#### 4.4. Descriptive statistics

##### 4.4.1 Perceived benefits

This section sought to evaluate several statements on perceived benefits, perceived ease of use and knowledge and awareness to determine the adoption of ADR among medium taxpayers.

Table 4.3 shows the results obtained.

**Table 4.3 Perceived benefits**

| <b>Statement</b>   | <b>Mean</b> | <b>Std. deviation</b> |
|--|-------------|-----------------------|
| ADR mechanism is less costly compared to litigation in dispute settlement i.e. ADR is cost effective.  | <b>2.12</b> | <b>1.152</b>          |
| ADR is cost effective and speedy dispute resolutions compared to multi jurisdictional proceedings, ADR methods generate significant cost savings | <b>2.38</b> | <b>1.233</b>          |
| Using ADR allows the taxpayer to negotiate for reduced penalties and interest levied on the taxes deemed due and payable                         | <b>2.27</b> | <b>1.223</b>          |
| ADR proceedings and outcomes are confidential allowing the parties to sidestep concerns about the disputes public impacts                        | <b>1.33</b> | <b>1.154</b>          |

According to the results on table 4.3 show that, highest mean values were 2.38, 2.27 and 2.12, which correspond to the likert scale value of 2. This indicates that the respondents agree that ADR is cost effective and speedy dispute resolution compared to multi jurisdictional proceedings, using ADR allows the taxpayers to negotiate for reduced penalties and interest levied and on the taxes deemed due and payable and ADR mechanism is less costly compared to litigation in dispute settlement i.e. ADR is cost effective. The lowest mean value was 1.33, which indicates that the respondents strongly agreed that ADR proceedings and outcomes are confidential, allowing the parties to sidestep concerns about the dispute's public impact are very punitive to property owners. The study findings are supported by a number of studies which includes Makongoro (2014) .

#### 4.4.2 Perceived ease of use

This section sought to evaluate several statements on perceived ease of use to determine the adoption of ADR among medium taxpayers.

**Table 4.4 Perceived ease of use**

| <b>Statement</b>  | <b>Mean</b> | <b>Std. deviation</b> |
|---|-------------|-----------------------|
| The time taken to resolve tax disputes through ADR is less than that of going through the court. So ADR is absolutely time effective. | <b>3.28</b> | <b>1.345</b>          |
| ADR offers specific fast track methods such as expedited arbitration or mediation   | <b>3.20</b> | <b>1.444</b>          |
| ADR is a straightforward method with less formality hence making it flexible  | <b>2.39</b> | <b>1.067</b>          |
| ADR is good at settling dispute involving several jurisdictions in a single forum, thereby  | <b>2.11</b> | <b>1.067</b>          |

|  |  |  |
|--|--|--|
| avoiding the expenses and complexity of multi jurisdictional litigation and the risk of inconsistent results |  |  |
|--|--|--|

According to the results on table 4.4 the highest mean values were 3.28 and 3.20 which corresponds to the scale value of 3. The results indicate that the time taken to resolve tax disputes through ADR is less than that of going through the court. So ADR is absolutely time effective

The results also established that the ADR offers specific fast track methods such as expedited arbitration or mediation. The results also established that respondents strongly agreed that ADR is a straightforward method with less formality hence making it flexible and ADR is good at settling dispute involving several jurisdictions in a single forum, thereby avoiding the expenses and complexity of multi jurisdictional litigation and the risk of inconsistent results. The study findings are supported by a number of studies which includes Adewoye and Akanbi (2012)

#### 4.4.3 Knowledge and awareness

This section sought to evaluate several statements on knowledge and awareness to determine the adoption of ADR among medium taxpayers.

**Table 4.5 Knowledge and awareness**

| Statement  | Mean        | Std. deviation |
|--|-------------|----------------|
| The company managers have attended at least one Tax management and ADR sensitization seminars. | <b>2.33</b> | <b>1.065</b>   |
| The organization has learnt about ADR through print media and other forms of media.            | <b>2.13</b> | <b>1.056</b>   |
| Our company learnt about ADR through referrals from other companies who used ADR to resolve    | <b>3.56</b> | <b>1.335</b>   |

|  |             |              |
|--|-------------|--------------|
| their tax disputes.  |             |              |
| Our Company learnt about ADR through referral from the Tax Appeals Tribunal. | <b>2.61</b> | <b>1.455</b> |

According to the result in table 4.5 the highest mean values were 3.56 and 2.88. Meaning respondents were indifferent, they agreed that ADR through referrals from other companies who used ADR to resolve their tax disputes . Followed by the Company learnt about ADR through referral from the Tax Appeals Tribunal and the company managers have attended at least one Tax management and ADR sensitization seminars and The organization has learnt about ADR through print media and other forms of media comes last in the mean. The study findings are supported by a number of studies which includes Shome, et al., (2014).

#### **4.4.4 Adoption of ADR**

This section sought to evaluate several statements on the adoption of among medium taxpayers.

**Table 4.6 Adoption of ADR**

| <b>Statement</b>  | <b>Mean</b> | <b>Std. deviation</b> |
|---|-------------|-----------------------|
| ADR method of tax dispute resolution is frequently used by this organization.                   | <b>3.19</b> | <b>1.085</b>          |
| This organization has filed a good percentage of cases and processed them through ADR mechanism | <b>2.11</b> | <b>1.0801</b>         |
| The number of successful ADR settlement for this company is high.                               | <b>3.20</b> | <b>1.344</b>          |

According to the results on table 4.6 the highest mean values were 3.20 and 3.19 which corresponds to the scale value of 3. The results indicate that ADR method of tax dispute resolution is frequently used by this organization, This organization has filed a good percentage of cases and processed them through ADR mechanism and The number of successful ADR settlement for this company is high. The study findings are supported by a number of studies which includes Tobbin (2013).

## **4.5 Correlation Analysis**

### **4.5.1 Correlation results on independent variables**

Correlation shows the relationship existing between variables in the study. The study's dependent variable is Adoption of ADR and the independent variables consist of perceived benefits, perceived ease of use and knowledge and awareness.

The results depicted in table 4.7 below

## 4.6 Regression Analysis

### 4.6.1 Model Summary

**Table 4.8: Model Summary for independent and dependent variables**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1     | .544 <sup>a</sup> | .276     | .203              | .81664                     | 2.001         |

**a. Predictors: (Constant),** Perceived benefits, perceived ease of use and knowledge and awareness.

#### **b. Dependent Variable: Adoption of ADR**

From the model summary The R square value in Table 4.8 is 0.544 which clearly suggests that there is a strong relationship between Perceived benefits, perceived ease of use and knowledge and awareness as indicated in table above. This indicates that Perceived benefits, perceived ease of use and knowledge and awareness share a variation of 54.4% of Adoption of ADR.

Table 4.8 shows that R-Square value (coefficient of determination) is 0.276, which indicates that the independent variables (perceived benefits, perceived ease of use and knowledge and awareness) explain 20.3% of the variation in the dependent variable (adoption of ADR). This means that 81.8% of adoption of ADR is influenced by other factors apart from the considered research variables. Other factors represented by 81.6% of adoption of ADR could be perceived benefits, perceived ease of use and knowledge and awareness.

#### **4.7 Analysis of Variance**

The results of the Analysis of variance are shown by table 4.7 below

The overall goodness of fit was obtained through regressing the goodness of fit for all the independent variables. The results of the multiple regression indicate  $R^2 = .544$  and adjusted  $R = .203$  as shown in Table 4.19. This is an indication that there is a strong relationship between independent variables and Adoption of ADR.

**Table 4.7: Correlation between independent variable and dependent variable**

| Variables               |                     | Adoption of ADR | Perceived benefits | Perceived ease of use | Knowledge and awareness |
|-------------------------|---------------------|-----------------|--------------------|-----------------------|-------------------------|
| Adoption of ADR         | Pearson Correlation | 1               |                    |                       |                         |
|                         | Sig. (2-tailed)     |                 |                    |                       |                         |
| Perceived benefits      | Pearson Correlation | 0.436           | 1                  |                       |                         |
|                         | Sig. (2-tailed)     | 0.002           |                    |                       |                         |
| Perceived ease of use   | Pearson Correlation | 0.422           | .3234              | 1                     |                         |
|                         | Sig. (2-tailed)     | 0.001           | .0012              |                       |                         |
| Knowledge and awareness | Pearson Correlation | 0.435           | .3341              | .0000                 | 1                       |
|                         | Sig. (2-tailed)     | 0.000           | .00423             | 1.000                 |                         |

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

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

In an attempt to show the relationship between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). According to the findings as indicated in table 4.7, it was clear that there was a positive correlation between Adoption of ADR and perceived benefits as depicted by a correlation value of 0.436. This implies that perceived benefits was linearly related to adoption of ADR. The study also depicted that there is a positive correlation between perceived ease of use and adoption of ADR with a correlation value of 0.422. Another positive correlation was between knowledge and awareness and adoption of ADR with a correlation value of 0.435. This shows that there was a positive correlation between perceived benefits, perceived ease of ease, knowledge and awareness and adoption of ADR.

**Table 4.9: ANOVA for independent and dependent variables**

| Model |            | Sum of Squares | df  | Mean Square | F      | Sig.              |
|-------|------------|----------------|-----|-------------|--------|-------------------|
| 1     | Regression | 27.376         | 4   | 5.466       | 10.448 | .000 <sup>b</sup> |
|       | Residual   | 27.262         | 134 | .513        |        |                   |
|       | Total      | 54.629         | 138 |             |        |                   |

**a. Dependent Variable: Adoption of ADR**

**b. Predictors: (Constant), perceived of benefits, perceived ease of use and knowledge and awareness.**

The overall model significance was presented using the ANOVA test table. The results in Table 4.9 shows that the overall model was a good fit since (F-value=10.448 and p-value=0.000<0.05) for all independent variables meaning that null hypothesis is rejected and concludes that there is a relationship between different independent and dependent variables. The findings there imply that all independent variables were statistically significant in explaining rental revenue collection

in Kenya. ANOVA was used to test whether the regression analysis model used is fit or the relationship of the variable just occurred by chance.

Significance of F ratio is used to determine whether model used was fit or not. If the F ratio is significant the model used is considered fit and vice versa. A P - value of less than 0.05 indicates that the F statistics is high and that the null hypothesis of independent needs to be rejected since it's not true. In this case the F ratio (F=10.448, P=.000<sup>b</sup>) was found to be significant hence the model used for analysis was fit

#### 4.8 Regression Coefficients

Table 4.10 below shows the regression coefficients results.

Table 4.10 Regression Coefficients

**Table 4.10: Coefficients of Overall Regression Model**

| Model |                         | Unstandardized |            | Standardized |       | Sig. |
|-------|-------------------------|----------------|------------|--------------|-------|------|
|       |                         | B              | Std. Error | Beta         | t     |      |
| 1     | (Constant)              | .195           | .096       | -            | 2.055 | .033 |
|       | Perceived benefits      | -.148          | .098       | .234         | 2.266 | .017 |
|       | Perceived ease of use   | .341           | .097       | .355         | 3.560 | .031 |
|       | Knowledge and awareness | .298           | .096       | .314         | 3.062 | .002 |

---

**a. Dependent Variable: Adoption of ADR**

The regression coefficient results indicate a positive significant effect between perceived ease of use, knowledge and awareness and adoption of ADR.

**From results on table 4.10 the following regression equation was obtained**

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon \dots \dots \dots$$

$Y = 0.195 + -0.148 X_1 + 0.341 X_2 + 0.298 X_3$  were significant with p- values of 0.017, 0.031, 0.002, respectively.

The coefficient for perceived benefits is -0.148, so we expect a -0.148 unit decrease in the adoption of ADR holding all other variables constant. The coefficient for perceived ease of use is 0.341 so for every unit increase in perceived ease of use, we expect 0.34 point increase in adoption of ADR. For knowledge and awareness, is represented by a coefficient of 0.298, meaning for every increase in perceived ease of use a 0.29-unit increase in adoption of ADR is predicted holding all other variables constant.

**4.9 Discussion of key Findings**

The key findings of the study are discussed in this section as per study objectives.

**4.7.1 Perceived benefits and Adoption of ADR**

Perceived benefits was assessed using five measures and the overall mean score or responses regarding perceived benefits were 2.2 on a 5-point scale which indicates that majority of the respondents agreed that perceived benefits on adoption of ADR in Kenya. The average overall standard deviation of 0.72 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that

perceived benefits had negative and insignificantly related to Adoption of ADR ( $r = -0.148$ ,  $p\text{-value}=0.00<0.05$ ).

#### **4.7.2 Perceived ease of use and Adoption of ADR**

Perceived ease of use was assessed using five measures and the overall mean score or responses regarding perceived were 1.66 on a 5-point scale which indicates that majority of the respondents agreed that perceived affects the adoption of ADR in Kenya.

The average overall standard deviation of 0.66 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results revealed that perceived ease of use had a positive and significantly related to adoption of ADR ( $r = 0.341$ ,  $p\text{-value}=0.00<0.05$ ).

#### **4.7.3 Knowledge and awareness and adoption of ADR**

Knowledge and awareness was assessed using four measures and the overall mean score or responses regarding knowledge and awareness were 2.5 on a 5-point scale which indicates that majority of the respondents agreed that knowledge and awareness affects the adoption of ADR in Kenya. The average overall standard deviation of 0.74 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that knowledge and awareness had a positive and significantly related to adoption of ADR in Kenya ( $r = 0.298$ ,  $p\text{-value}=0.00<0.05$ ).

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### **Introduction**

Chapter five outlines the summary of this research, conclusions and recommendations based on research findings and suggestion of areas which may require further consideration as far as future research is concerned.

#### **5.1 Summary of the findings**

The findings of the study have been summarized below as per the study objectives. The findings were supported by the frequencies of the responses

##### **5.1.1 Perceived benefits**

The first objective of the study was to evaluate the effect of perceived benefits on adoption of ADR in Kenya. Methods used to arrive at the findings included descriptive statistics, analysis of variance and regression analysis. The study found out that perceived benefits had a significant positive influence on adoption of ADR in Kenya. The overall mean score of responses regarding Perceived benefits indicated that majority of the respondents disagreed that perceived benefits affects the adoption of ADR in Kenya.

The reliability analysis results showed that all the coefficients of the constructs were positive and significant.

### **5.1.2 Perceived ease of use**

The second objective of the study sought to find out` the effect of perceived ease of use on adoption of ADR in Kenya. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that perceived ease of use had a significant positive influence on adoption of ADR.

The overall mean score of response regarding perceived ease of use and adoption of ADR indicated that majority of the respondents agreed that perceived ease of use affects the adoption of ADR in Kenya. Correlation results indicated that there was a positive and significant relationship between perceived ease of use and adoption of ADR. It was therefore concluded that perceived ease of use has significant positive effect on adoption of ADR in Kenya.

### **5.1.3 Knowledge and awareness**

The third objective of the study sought to investigate the effect of knowledge and awareness on adoption of ADR in Kenya. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that knowledge and awareness had a significant positive influence on adoption of ADR in Kenya.

The overall mean score of response regarding knowledge and awareness and adoption of ADR indicated that majority of the respondents agreed that knowledge and awareness affects the adoption of ADR in Kenya. Correlation results indicated that there was a positive and significant relationship between knowledge and awareness and adoption of ADR. It was therefore concluded that knowledge and awareness has significant positive effect on adoption of ADR in Kenya.

## 5.2 Conclusions

The aim of the study was to investigate the determinants of alternative dispute resolution mechanism among medium taxpayers in Kenya. Data collected and analyzed through both descriptive and inferential statistics established that all independent variables had significant effects on adoption of ADR. The study found out that perceived benefits had a negative influence on adoption of ADR. The overall mean score of responses regarding perceived benefits indicated that majority of the respondents agreed that perceived benefits affects had negative effect on ADR in Kenya.

The study found out that perceived ease of use had a significant positive influence on adoption of ADR. The overall mean score of response regarding perceived ease of use and adoption of ADR indicated that majority of the respondents agreed that perceived ease of use affects the adoption of ADR in Kenya. Correlation results indicated that there was a positive and significant relationship between perceived ease of use and adoption of ADR. It was therefore concluded that perceived ease of use has significant positive effect on adoption of ADR .

The study found out that knowledge and awareness had a significant positive influence on adoption of ADR. The overall mean score of response regarding knowledge and awareness and adoption of ADR indicated that majority of the respondents agreed that perceived ease of use affects the adoption of ADR in Kenya. Correlation results indicated that there was a positive and significant relationship between knowledge and awareness and adoption of ADR. It was therefore concluded that knowledge and awareness has significant positive effect on adoption of ADR.

### **5.3 Recommendations**

- The ADR process of resolving tax disputes should be made free or the fees charged should be minimized so as to avoid an inevitable paradox of a more costly mediation process.
- The ADR process should be simple and ease of use. The process of ADR should be shorten.
- The regulation on ADR in tax disputes given by KRA should be aimed at making ADR process less costly to ensure all the taxpayers and the KRA can benefit from it .
- The KRA should carry out intensive creation of awareness and sensitization so as to encourage the use of ADR to citizenry at large.

### **5.4 Suggestions for further research**

There is need to conduct more research, by the tax administration and other researchers on the ADR using different variables besides perceived benefits, perceived ease of use and knowledge and awareness.

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## APPENDICES

### APPENDIX II: INTRODUCTION LETTER

Gladwell Kaluhi  
P.O Box 50922  
Nairobi,  
10<sup>th</sup> February 2020.

Dear Respondent,

RE: **DATA COLLECTION**

I am a student at KESRA currently undertaking a research study to fulfill the requirements of the Award of Post Graduate Diploma in Tax Administration on the determinants of ADR among medium taxpayers in Nakuru County. You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study only.

Kindly note that the study will be conducted as academic research and the information you provide will be treated as confidential. Your participation in the exercise is voluntary and so you are free to choose to or not to participate. But it would be helpful if you could participate fully. Kindly spare a few minutes from your busy schedule to complete the attached questionnaire.

Thank you in advance for your co-operation.

Yours faithfully.

## Appendix II: Questionnaire

### SECTION ONE: PERCEIVED BENEFITS AND ADOPTION OF ALTERNATIVE DISPUTE RESOLUTION MECHANISM.

1. Kindly indicate the level you agree with the following statements on the perceived benefits of ADR.

*Where 1 is strongly disagree, 2 is disagree, 3 is not sure, 4 is agree and 5 is strongly*

*agree*

| Statements  | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| ADR mechanism is less costly compared to litigation in dispute settlement i.e. ADR is cost effective.                     |   |   |   |   |   |
| ADR is cost effective and speedy dispute resolution compared to multi jurisdictional proceedings.                         |   |   |   |   |   |
| Using ADR allows the taxpayer to negotiate for reduced penalties and interest levied on the taxes deemed due and payable. |   |   |   |   |   |
| ADR is cost effective and speedy dispute resolution compared to multi jurisdictional proceedings .                        |   |   |   |   |   |

**SECTION TWO: PERCEIVED EASE OF USE AND ADOPTION OF ALTERNATIVE DISPUTE RESOLUTION MECHANISM.**

**2. Kindly the level you agree to the following statements on perceived ease of ADR use.**

*Where 1 is strongly disagree, 2 is disagree, 3 is not sure, 4 is agree and 5 is strongly agree*

| <b>Statements</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
|---|----------|----------|----------|----------|----------|
| The time taken to resolve tax disputes through ADR is less than that of going through the court. So ADR is absolutely time effective.                               |          |          |          |          |          |
| The time taken to resolve tax disputes through ADR is less than that of going through the court. So ADR is absolutely time effective                                |          |          |          |          |          |
| ADR offers specific fast track methods such as expedited arbitration or mediation   |          |          |          |          |          |
| ADR is a straightforward method with less formality hence making it flexible  |          |          |          |          |          |
| .ADR is good at settling disputes involving several jurisdictions in a single forum, thereby avoiding the expense and complexity of multi jurisdictional litigation |          |          |          |          |          |

**SECTION THREE: KNOWLEDGE AND AWARENESS OF AND ADOPTION OF ALTERNATIVE DISPUTE RESOLUTION MECHANISM.**

**3. Kindly the level you agree to the following statements on knowledge and awareness of ADR.**

*Where 1 is strongly disagree, 2 is disagree, 3 is not sure, 4 is agree and 5 is strongly agree*

| <b>Statements</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
|---|----------|----------|----------|----------|----------|
| The company managers have attended at least one Tax management and ADR sensitization seminars.                  |          |          |          |          |          |
| The organization has learnt about ADR through print media and other forms of media.                             |          |          |          |          |          |
| Our company learnt about ADR through referrals from other companies who used ADR to resolve their tax disputes. |          |          |          |          |          |
| Our Company learnt about ADR through referral from the Tax Appeals Tribunal.                                    |          |          |          |          |          |
| We have employees who are well versed in tax management.  |          |          |          |          |          |
| We have employees who are knowledgeable of ADR process and procedures for the resolution of any tax disputes    |          |          |          |          |          |

**SECTION FOUR: Adoption of ADR**

4.

5. **Kindly the level you agree to the following statements on ADR adoption.**

*Where 1 is strongly disagree, 2 is disagree, 3 is not sure, 4 is agree and 5 is strongly agree*

| <b>Statements</b>   | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
|---|----------|----------|----------|----------|----------|
| ADR method of tax dispute resolution is frequently used by this organization.                   |          |          |          |          |          |
| This organization has filed a good percentage of cases and processed them through ADR mechanism |          |          |          |          |          |
| The number of successful ADR settlement for this company is high.                               |          |          |          |          |          |

**Thank you**

**APPENDIX 111: BUDGET**

| DESCRIPTION   | TOTAL AMOUNT (Kshs)     |
|---|-------------------------|
| <b>Stationery</b><br>Photocopying papers<br>Pens, pencils, rubbers<br>Ink cartridge (Printer)<br>Files (12 rim binders) | <b>20,000.00</b>        |
| <b>Personnel</b><br>Questionnaires administrators<br>Stastician   | <b>20,000.00</b>        |
| <b>Transport and subsistence</b><br>Vehicles<br>Subsistence allowance   | <b>10,000.00</b>        |
| <b>Communication</b><br>Telephone<br>Internet   | <b>20,000.00</b>        |
| <b>Other Services</b><br>Library services<br>Purchase of periodicals and books  | <b>20,000.00</b>        |
| <u><b>Total expected cost</b></u>   | <u><b>90,000.00</b></u> |

**APPENDIX 1V: WORK PLAN**

| <b>ACTIVITY (2018)</b>                | <b>DECEMBER(2019)</b> | <b>FEBRUARY(2020)</b> | <b>APRIL (2020)</b> |
|---------------------------------------|-----------------------|-----------------------|---------------------|
| Draft proposal                        |                       |                       |                     |
| Proposal presentation                 |                       |                       |                     |
| Designing the research instrument     |                       |                       |                     |
| Proposal defense                      |                       |                       |                     |
| Field work & data Collection          |                       |                       |                     |
| Data Entry / Analysis                 |                       |                       |                     |
| Report Writing                        |                       |                       |                     |
| Presentation of 1 <sup>st</sup> draft |                       |                       |                     |
| Presentation of 2 <sup>nd</sup> draft |                       |                       |                     |
| Submission of final report            |                       |                       |                     |