SERVICE QUALITY AND TAX COMPLIANCE BEHAVIOR AMONG SMALL AND MEDIUM ENTERPRISES

PATRICK PHILLIP ADENGO

M23B33/059

A DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF BACHELOR OF SCIENCE IN ACCOUNTING AND FINANCE OF UGANDA CHRISTIAN UNIVERSITY

April, 2026

UGANDA CHRISTIAN UNIVERSITY
A Centre of Excellence in the Heart of Africa

DECLARATION

I, Adengo Patrick Phillip, hereby declare that this is my work and has never been submitted to any University for the award of a bachelor's in science in Accounting and Finance.

Signature…………………… Date…8/6/2026……

Adengo Patrick Phillip

APPROVAL

This duly certify that Adengo Patrick Philip has been under my supervision. The research work presented is original and it is for the award of a bachelor's in science in Accounting and Finance of Uganda Christian University

Signature......................... Date..30/4/26...........

Mr. Olobo Maurice

Supervisor

DEDICATION

This research is dedicated to my family for their unwavering and financial support, belief and faith in my capacity to accomplish this level of study.

ACKNOWLEDGEMENT

I acknowledge my heavenly father to thank him for this opportunity and blessings upon me. He has been my supporter throughout my life in school. I would like to give special thanks to my family. I also take this opportunity to sincerely appreciate my university supervisor Mr. Olobo Maurice for his academic guidance and supervision throughout my proposal writing period

TABLE OF CONTENTS

ABSTRACT

This study examined the relationship between service quality and tax compliance behaviour among Small and Medium Enterprises (SMEs) in Uganda, with operational efficiency as a mediating variable. The study was motivated by the persistent challenges of tax compliance among SMEs despite efforts by the Uganda Revenue Authority to improve tax administration and service delivery.

A quantitative, correlational, and cross-sectional research design was adopted. Data were collected from 139 SME owners, managers, and finance personnel using structured questionnaires and analysed using descriptive statistics, correlation, regression, and mediation analysis.

The findings revealed a significant positive relationship between service quality and tax compliance behaviour. The study further established that operational efficiency positively influences tax compliance and mediates the relationship between service quality and compliance behaviour. SMEs with effective communication, reliable service delivery, proper record-keeping systems, and efficient internal operations demonstrated higher levels of tax compliance. The results also indicated that operational efficiency reduces administrative burdens and enhances the ability of SMEs to meet their tax obligations.

The study concludes that improvements in service quality and operational efficiency can significantly enhance voluntary tax compliance among SMEs in Uganda. It recommends strengthening taxpayer support services, improving digital tax administration systems, expanding taxpayer education programmes, and encouraging SMEs to adopt efficient operational practices to enhance compliance and business performance.

CHAPTER ONE: INTRODUCTION

1.0 Introduction

Small and Medium Enterprises (SMEs) are known to play a significant role in the economic development, employment creation and generation of income particularly in developing economies. SMEs are estimated to make up a significant proportion of total employment, and contribute substantially to the gross domestic product (GDP) in developing and transition economies, and are seen to be central to inclusive and sustainable economic development (World Bank, 2021). SMEs are key drivers of livelihoods, innovation, and domestic revenue mobilisation in Uganda and are the dominant force in the private sector. However, their growth potential is becoming dependent on their operational efficiency, professionalism, and meeting the regulatory demands.

Since the last decade the quality of service has emerged as a significant factor which affects the performance of SMEs and their survival. With ever increasing competition in markets and the ease of information at customer's fingertips, SMEs are increasingly being challenged to offer reliable, responsive and customer centric services. The literature pertaining to service quality suggests that by enhancing service quality, customers' satisfaction, trust, and loyalty are improved, which are considered as key factors for business stability and long-term performance (Parasuraman, Zeithaml, & Berry, 1988). Service quality goes beyond marketing for SMEs and includes the way that the organisation runs, how records are managed and how ethical business is conducted.

Meanwhile, tax compliance is a significant problem for SMEs, especially in developing nations. Governments have implemented new and improved domestic revenue collection practices, like self-assessment systems and electronic filing, and new and tougher enforcement systems. However, due to the lack of capacity to manage and limited internal systems, evidence indicates that SMEs frequently have difficulties in fulfilling their tax responsibilities, maintaining accurate records and being consistent in the way they comply with tax requirements (OECD, 2021). Therefore there is a wide variation in the level of tax compliance amongst the SMEs, from compliance to partial compliance to total non-compliance.

New studies on tax compliance indicate that compliance behaviour is due not just to enforcement and penalties, but also to the capacity of the organisation, its attitudes and its internal business practices. Alm and Torgler (2006) suggest that in the context of behaviour change theory, businesses that are better organised with clear processes, will see compliance as easier and thus more likely to do so in a voluntary manner. In this sense, service quality is more important than the quality of service itself, because it describes the degree of organization, professionalism and transparency of the business.

SMEs that focus on service quality are more likely to institutionalise their activities, document appropriately and keep a record of transactions. These practices are crucial for fulfilling tax duties like filling out tax returns and ensuring accurate reporting of income. Conversely, SMEs that have low service quality may work in an informal setting, have a high dependence on cash payments, and keep poor records, all of which affect their ability to comply with taxes. The relationship is important in situations where SMEs have limited resources and complexities in the regulatory environment like in developing countries such as Uganda.

Although SMEs are crucial to economic development, the literature is still scarce on empirical studies on the effect of service quality on tax compliance behaviour, particularly in the context of developing countries. The study thus aims to fill this gap by investigating the link between service quality and tax compliance behaviour of small and medium enterprises (SMEs) so as to provide evidence which can be used to shape tax policy, support measures for SMEs, and strategies to boost voluntary tax compliance.

1.1 Background of the Study

SMEs have long been recognised as a significant source of jobs, economic diversification and mobilisation of domestic revenue, especially in developing economies. The early research on the tax compliance of SMEs was based on economic deterrence theory, which emphasized the importance of tax rates, penalties, tax audits and enforcement agencies as the factors that shape tax compliance behaviour (Allingham & Sandmo, 1972; Becker, 1968). This is the perspective that SMEs work rationally and based on the cost and benefits of compliance.

Likewise, the initial work on service quality was largely restricted to large organizations and customer satisfaction, and did not consider how service quality might affect internal organizational behavior and/or regulatory compliance. Models like SERVQUAL developed by Parasuraman, Zeithaml and Berry (1988) have described service quality in terms of the five factors which are generally associated with customer perceptions and customer loyalty, namely: reliability, responsiveness, assurance, empathy and tangibles.

However, with time, research efforts started to reveal that enforcement was not enough to account for tax compliance behaviour. However, scholars began to realize that organizational capacity, record keeping, professionalism, and internal systems (Alm, 2019; Torgler, 2007) also play a role in compliance, particularly among SMEs. This was a trend towards the behavioural and institutional approaches in tax compliance.

More recent research from 2020–2024 has focused on the role of internal business processes, such as service quality in influencing compliance behaviour. Results indicate that firms that have formal service delivery systems, trained employees, and standardised customer interactions, are more likely to have accurate financial records and operate formally, which helps them achieve consistent tax compliance (Amin, 2021; Nguyen et al., 2020). However, service systems among SMEs are weak and they prefer to operate informally, prefer to transact in cash and lack good documentation, which makes them more vulnerable to non-compliance.

It is also noted that SMEs are behaviour-oriented firms, where compliance choices are not only driven by enforcement, but also by the internal organisation, perceived complexity and administrative capacity of the firms (Recent literature). This change reflects the increased role that service quality plays in the tax compliance behaviour.

Contextual

SMEs are an important part of the private sector in Uganda, representing a significant proportion of employment and business activity. SMEs contribute to more than 90% of all registered businesses in Uganda, and are thus key to economic growth and mobilisation of domestic revenue, (UBOS, 2022). This has made enhancing tax compliance of SMEs a policy priority for the government.

The Uganda Revenue Authority (URA) has made several changes in the last ten years to boost voluntary tax collection.The Uganda Revenue Authority (URA) has made a number of changes in the last ten years to promote voluntary tax collection. These are electronic filing, electronic invoicing and taxpayer self assessment systems. These changes have increased efficiency, but there are several challenges in complying with these changes, including limited administrative capacity, inadequate record keeping and lack of tax knowledge on tax matters (URA, 2023; OECD, 2021).

Despite this, there are still many SMEs that struggle with low staff training, weak customer service systems, lack of documentation and low use of digital tools. The issue of challenges not only impacts customer satisfaction, but also tax compliance behaviour. SMEs with poor service systems may not keep complete records, may miss filing dates, or may misinterpret the tax requirements, thus raising the chances of non-compliance (Mpaata & Lubogoyi, 2023).

Furthermore, Uganda's transition to digital tax administration has identified SME readiness gaps. Ahaibwe and Muhumuza (2022) conclude that the adaptation of electronic systems is more rapid in well organised SMEs than in the less organised or smaller SMEs because of poor internal systems and technology capacity within the smaller or less organised SMEs. Research has revealed that informal and underperforming SMEs are more likely to be late in filing tax returns, underreport their revenues or do so inconsistently (Okello & Munusamy, 2023).

Theoretical

In this study, several theoretical perspectives are employed to understand the relationship between service quality and tax compliance behaviour of SMEs. These theories help to explain both behavioural and organisational aspects of compliance.

The SERVQUAL model (Parasuraman et al., 1988) is used to describe service quality in terms of five dimensions: reliability, responsiveness, assurance, empathy and tangibles. It was first used to describe the satisfaction of customers, but it is also used with SMEs to describe the formalisation and internal organisation. Higher service quality leads to good processes, good conduct and good records, which facilitates tax compliance (Susuawu et al., 2020; Kiptum et al., 2024).

Economic deterrence theory predicts that compliance is based on the cost benefit analysis of penalties and risk of detection (Allingham & Sandmo, 1972; Becker, 1968). But this is not enough to account for SME behaviour, particularly if there is a link between internal systems and service quality (Alm, 2019).

Behavioural approaches state that compliance is a function of perceptions, attitudes and organisational culture. Ethically practiced SMEs are more willing to comply voluntarily (Torgler, 2007).

The regulatory environment is emphasised in institutional theory. Good systems and clear rules aid compliance, and poor systems cause issues. Having internal high service quality helps SMEs to better manage these challenges (Erick et al., 2024).

These theories can be combined to offer a holistic framework to understand the impact of service quality on tax compliance behaviour among taxable SMEs.

Conceptual

Service quality is the ability of the SMEs to provide services that satisfy customers' expectations. It consists of reliability, responsiveness, assurance, empathy and tangibles (Parasuraman et al., 1988). Structured processes, correct documentation and professionalism are linked to high service quality.

Tax compliance behaviour is the capacity and willingness of SMEs to comply with their tax obligations properly and within the due period. Registration, record keeping, filing, and payment.

The service quality is considered as independent variable and the tax compliance behaviour as dependent variable in this study. The framework is based on the assumption that the greater the quality of the service areas is, the better the internal organisation and the records are, the better the compliance will be.

1.2 Problem Statement

In spite of multiple tax reforms in Uganda, the compliance of taxes by SMEs is still low. A large number of SMEs do not file, do not keep proper records or do not operate formally. This impacts on the revenue of the government and the competition from an unfair source.

Some steps have been taken to improve the quality of services but it is not consistent. Other variables, beside operational efficiency, may affect the relationship, as is suggested here.

Therefore, this study aims to explore the mediating role of operational efficiency between service quality and tax compliance behaviour.

1.3 Purpose of the Study

The effect of service quality on tax compliance behavior among SMEs in Uganda with operational efficiency as a mediating variable was examined.

1.4 Objectives of the Study

1. To investigate the Service Quality-Tax Compliance Behaviour relationship.

2.To evaluate the association between tax compliance behaviour and operational efficiency.

3. To determine the mediating effect of operational efficiency.

1.5 Scope of the Study

1.5.1 Geographical Scope

Mukono Municipality and surrounding trading centres.

1.5.2 Time Scope

Three months (November-January 2025).

1.5.3 Content Scope

Service quality, operational efficiency, and tax compliance behaviour.

1.6 Significance of the Study

The results of study indicate that the service quality has effect on the tax compliance of the respondents and the operational efficiency effect is shown. It will assist policy makers in enhancing tax systems and will be useful for SMEs to strengthen their internal procedures.

1.7 Conceptual Framework

The objective is to achieve service quality, leading to operational efficiency and tax compliance behaviour.

Better service quality is expected to lead to better operational efficiency, thus promoting tax compliance behaviour among SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In this chapter the work of others on the problem of service quality and tax compliance behaviour of Small and Medium Enterprises (SMEs) is reviewed. Tax compliance behaviour is a measure of how willing taxpayers are to abide by their legal tax duties, such as filing tax returns on time, declaring income correctly and paying taxes on time.

Previous research on tax compliance primarily centered on economic incentives like taxes and penalties, audits, and fear of punishment. But, more and more recent research indicates that compliance depends not only on enforcement but on the quality of service provided to taxpayers by tax authorities. The quality of service is how the taxpayers view the tax system and encompasses the following:

Evidence from developing economies has recently emerged indicating that SMEs' tax compliance can be enhanced when the quality of their service is good. For instance, in Ghana, SMEs which find tax services reliable, responsive and professional are likely to do so voluntarily. This implies that, if tax authorities provide taxpayers with friendly and respectful services, taxpayers are not frustrated and will cooperate with tax authorities (Agyapong & Boakye, 2020). Likewise, research on digital tax systems in Tanzania reveals that a robust digital platform and enabling tax officers enhance taxpayer satisfaction and tax compliance (Ruhara, 2021).

The quality of service also could interact with other factors that contribute to compliance, like tax education. For example, in Ghana, tax education is more effective if tax services are accessible, clear, and responsive, as evidenced by the studies on rural SMEs (Darko and Ofori, 2021). Therefore, if the level of service continues to be slow, unclear and inaccessible, then educating the taxpayer is not sufficient.

The overall literature indicates that service quality is gaining significance in the understanding of tax compliance behaviour, particularly in developing countries where SMEs are likely to have weak internal systems, limited support, and complex rules. But, there is still not much knowledge on the linkages between service quality and compliance from within, as operational efficiency and other internal mechanisms. Accordingly, this study adds to the existing literature by focussing on the effect of operational efficiency on the relationship between service quality and tax compliance behaviour of SMEs in Mukono Municipality, Uganda.

2.1 Service Quality

Service quality is the degree to which a service is provided that is in line or above that of customer expectations. In the SME context, service quality is manifested in business response to customers, the provision of services on time and in accordance with the level of accuracy, communication skills, and customer relationship. Most of the latest research explicitly outlines service quality in terms of dimensions like reliability, responsiveness, assurance, empathy, and tangibles (Amin, 2021; Raza, Mubarik & Shamsi, 2021).

The literature reviewed in the past few years has demonstrated that service quality is one of the factors that has a significant influence on the performance and competitiveness of SMEs. In competitive markets, the service quality can be a competitive advantage for SMEs who are not always as financially strong as big businesses or as powerful in the market as a whole (Kumar and Ranjith, 2021). SMEs who provide high service quality are able to attract and retain the customers, enhance the stability of revenue generation, and facilitate business sustainability.

Likewise, Wagas and Cheng (2022) observed that service quality has a significant effect on the financial performance of SMEs as it enhances customer trust and promotes repeat purchases. If your business is a service, this is particularly relevant as the customers' perception of your business is shaped by the way you treat them, their speed of service and the reliability of the service.

It is even more critical in developing economies as their customers are price sensitive and the environment is very competitive. Past studies conducted in Sub-Saharan Africa revealed that SMEs with consistent service delivery capabilities that are responsive and reliable have the potential to sustain their customer base and remain competitive even in the face of difficulties in operations and regulation (Mensah, Yamoah, & Oppong, 2021; Agyapong & Boakye, 2020). A similar study in Uganda also reveals that the quality of service has a significant impact on customers' retention, customer reputation and SMEs' survival in the long run (Kasango & Munene, 2022; Mpaata & Lubogoyi, 2023).

Digitalization has also affected the perception of service quality by customers. Consumers are increasingly demanding quicker, more convenient and more accurate services. Adopting digital solutions like mobile money, digital receipts, online communication systems, and basic accounting tools can enhance the service delivery and customer experience for SMEs (Madueke & Eyupoglu, 2024). But it is not the simple use of digital tools that ensures good service quality. They need to be backed by adequate skills, proper coordination and proper internal system (Mohd Ali, Haseeb, & Islam, 2023).

The relation of service quality is also very close to the internal operations. Without proper organization of internal systems, a business can't deliver reliable and timely services. Inadequate record-keeping, inadequate staffing, lack of communication and slow decision-making can negatively impact the quality of services provided. This kind of inefficiency impacts customer satisfaction and overall business performance, as mentioned by Awio and Obong (2023).

Overall, recent literature suggests that service quality is one of the factors that can help SMEs to be successful. It affects customer satisfaction, customer loyalty, competition and profitability. But most studies address service quality to performance relationship primarily, without clearly outlining the internal processes by which the impact of service quality on performance is achieved. This opens the opportunity to look at efficiency of operation as a mediator, particularly in the context of SME in Uganda.

2.2 Tax Compliance Behaviour

Tax compliance behaviour is the degree to which taxpayers comply with tax laws by accurately reporting income, timely returns and paying required taxes. In addition to laws and penalties, there are other factors that affect compliance for SMEs, such as tax knowledge, perceptions of tax fairness, administrative complexity, and the level of support available from tax authorities (OECD 2021).

There is existing literature that demonstrates that SMEs can vary in their tax compliance level based on a range of tax knowledge, record keeping and tax system attitudes. Coolidge (2021) believes that adherence by SMEs is more likely to be achieved in cases where tax procedures are simple, and the cost of tax compliance is manageable. Moreover, complicated tax regulations and ambiguous guidance can make it difficult to adhere to, particularly for smaller companies with less administrative resources.

Twum, Asare, and Schutte (2022) agree that changes in policy, complex procedures for filing, and lack of clarity in communication have an impact on voluntary compliance among small businesses. This is because many SME firms lack accounting or tax specialists to dedicate to compliance, and the owner or manager may have to handle compliance and conduct daily business.

Evidence from the developing world also indicates that trust, fairness and transparency influence tax compliance behaviour. It was noted by Matarirano, Chiloane-Tsoka and Makina (2019) that the more the tax system is seen as fair, the more likely SMEs are to comply, and the more likely that tax officials will be seen as engaging in a constructive manner. Likewise, Sebele-Mpofu and Chinoda (2023) highlight the fact that trust in tax institutions and tax administration confidence is a key determinant of compliance behaviour by small businesses.

International experience indicates that institutionalisation of more supportive tax regulations, as opposed to punitive ones, leads to better tax compliance. OECD (2021) says that the compliance of taxpayers is higher if the tax administration is fair, responsive, and efficient. Likewise, Ali, Fjeldstad and Sjursen (2021) conclude that a tax system can achieve sustainable compliance if it enables voluntary compliance by making the process easier, more efficient and less burdensome.

Compliance behaviour of SMEs is complex in nature overall. It is influenced by knowledge, attitude, administrative efficiency, trust and institutional support. It is crucial to take these factors into consideration when designing tax systems to ensure voluntary compliance, particularly in developing countries like Uganda.

2.3 Small and Medium Enterprises (SMEs)

In developing countries, Small and Medium Enterprises have an important role with regard to economic development, employment creation and income generating. Definitions of SMEs vary between countries but are typically based on the size of the firm by number of employees, annual turnover or by asset size. SMEs are generally defined in Uganda as having limited capital, small number of workers and are owner-managed making them vulnerable to operational and regulatory challenges (UBOS, 2022).

The last few years have seen considerable research on SMEs as engines of economic growth, while at the same time considerable attention has been focused on the multitude of constraints which SMEs face. Ayyagari, Demirguc-Kunt and Maksimovic (2023) note that although SMEs play a large role in employment and GDP in emerging economies, they still experience access to finance, managerial capacity, regulatory pressure and high operating costs. These challenges have an immediate impact on their survival and future development.

Empirical studies show that SMEs are more affected by regulatory and administrative requirements than larger firms. Many SMEs lack dedicated accounting, tax or compliance departments due to their small size. This means that the owners and managers have to play several roles. This raises the risk of mistakes, lateness, penalties and financial strain (Sebele-Mpofu & Chinoda, 2023).

SMEs in Sub-Saharan Africa are characterized by complex tax systems, inconsistent tax implementation, weak institutional support and informal business practices. Nkundabanyanga et al. (2020) point out that most SMEs use informal record-keeping systems which is a limitation for decision making and monitoring of performance. Consequently, many SMEs have low productivity and volatile profitability particularly when compliance costs and service delivery pressures rise.

New research in Uganda has also confirmed that external pressure is significantly associated with the performance of SMEs as they manage their internal processes. Okello and Munene (2021) discovered that strong operational structures increase SMEs profitability in the event of increasing costs and/or regulations. This is a reflection of the need to maintain good internal efficiency as a means of managing external challenges faced by SMEs.

The literature in general, views the SMEs as economically significant but structurally weak. Operational efficiency analysis is appropriate for them because of the requirement to adhere to regulations, their high expectations of service and the limited resources available to them.

2.4 Operational Efficiency

Operational efficiency is the effectiveness of a company's use of its resources (capital, technology, time, labour etc.) to produce as much as possible without wasting resources, delaying production, or adding unnecessary costs to the company. Operational efficiency, where an SME utilises its resources to manage operations effectively and usefully, becomes particularly relevant for SMEs as they typically have less resource capacity to buffer market pressures, regulatory costs and service delivery requirements.

Operational efficiency is increasingly being mentioned in the literature as an important internal process that determines the performance of SMEs. According to Kurniawati, Nugroho, and Sari (2021), SMEs that improve the efficiency of internal processes, minimize the duplication of tasks, and adopt efficient processes will get better financial results than those SMEs that work with unformal or uncoordinated processes.

Optimized business activities enable SMEs to provide products and services in a timely manner, cut costs and enhance customer satisfaction. An SME which maintains proper records, keeps track of stock, manages cash flow and assigns duties clearly, will be better equipped to operate than an SME whose activities are primarily dependent on memory or informal arrangements.

There is also a strong connection between operational efficiency and administrative and compliance-related activities. The time and cost of meeting regulatory requirements is higher for SMEs that do not have systems in place for record keeping, reporting and coordination. According to Sebele-Mpofu and Chinoda (2023), inefficient internal operations result in a higher tax compliance burden as it takes more time and effort to make tax returns, record activity, and resolve tax issues.

Technology also plays an essential role in ensuring operational efficiency. The adoption of digital platforms for accounting, filing, mobile money, and simple business management can minimize manual mistakes, save time, and enhance decision-making. Nguyen and Ngo (2022) determined that SMEs with digital operational tools have benefited from productivity and cost savings. But the benefits will only be achieved if these tools are used correctly and are fully incorporated into the routine of the business.

In less developed countries, the lack of managerial expertise, poor planning and organization have a negative impact on operational efficiency. The study by Nkundabanyanga et al. (2020) is pertinent in the sense that many SMEs are not having any formal operational plans or monitoring system that makes them less efficient and their profitability and sustainability are gradually declining.

In general, the operational efficiency is one of the essential factors which affects the success of SME. It is treated as a mediating variable in this study because it is believed to help explain the relationship of service quality to tax compliance behaviour. The better the operational efficiency of SMEs, the more they will be able to handle service delivery and compliance requirements.

The quality of service is also a factor to consider when studying tax compliance behaviour.Another important aspect of the study of tax compliance behaviour is the quality of service.

2.5 Relationship Between Service Quality, Tax Compliance Behaviour, and Operational Efficiency

Operational efficiency is closely related to the service quality and tax compliance behaviour relationship. Service quality is a measure of the consistency and reliability of SMEs' service to customers, and tax compliance behaviour is a measure of the extent to which SMEs adhere to tax law. The efficiency and organization of the business are crucial in both of these.

A high service quality is typically associated with structured working processes, trained staff, good communication and monitoring. These practices can help to streamline operations by minimizing errors, delays, and unnecessary tasks. Madueke and Eyupoglu (2024) point out that SMEs that have a regular service quality will employ better operating systems that facilitate coordination and resources utilization.

Tax compliance behaviour also has an impact on operational efficiency. Record keeping, filing returns, answering tax inquiries and communicating with tax authorities involve time and effort. These activities, if mismanaged, can have a negative effect on normal business operations. If the compliance burden becomes too heavy, it can hinder SMEs from operating their businesses efficiently and provide steady service delivery (Amponsah and Adu 2022).

Compliance behaviour also influences the operational efficiency. Tasks like record keeping, tax return filing, answering tax inquiries and communicating with tax officials take time and effort. These activities, if not managed properly, can interfere with the normal business activities. As pointed out by Amponsah and Adu (2022), too many compliance requirements may hinder the capacity of SMEs to keep their workflows efficient and service delivery consistent.

But the well organised SME is more capable of managing tax compliance without considerable disruption. For instance, it will be easier for a business that keeps a good daily record of sales, provides receipts and maintains digital payment records to prepare tax returns than for a business that does not have a good daily record or does not provide receipts. This way, compliance is less burdensome thanks to operational efficiency.

Studies also indicate that tax authorities service can make compliance easier in recent times. Clear, responsive, and fair tax services make it more likely that SMEs embed compliance into their regular business activities (Mugoda, Ssonko, & Alinda, 2023). Digital tools are also assisting SMEs to handle customer service and tax matters simultaneously, minimizing manual tasks and time resources (Osei & Quartey, 2024).

In general, the literature shows that the behaviour of tax compliance and service quality influence operational efficiency. Good service quality enhances internal processes, positive compliance behaviour minimises disruption from compliance requirements. The mechanism in this study between service quality and tax compliance behaviour is operational efficiency.

2.6 Relationship Between Operational Efficiency and SME Performance

Operational efficiency is known as one of the most critical factors influencing SMEs performance, survival and competitiveness. It is associated with the effective use of resources (labour, capital, time and technology) by SMEs to conduct business activities in an optimum way without the wastages, delays and extra cost.

It has been found that the operational efficiency has a positive relationship with SME outcomes, as revealed by empirical research. Businesses that implement process improvement, technology and effective coordination within the organization tend to see an increase in productivity, sales, customer satisfaction and business growth. For example, Govender's study revealed that operation efficiency factors like technological practices and innovation are positively correlated with SME growth.

Process management and innovation will help ensure operational efficiency, and this proficiency will support SMEs. The design of the operational structure – including inventory management, standardization of processes and digital records – contributes to the elimination of internal delays and responsiveness to customer needs and market trends.

Operational efficiency also has an impact on external competitiveness. SMEs with effective operations are more likely to provide good service quality, customer expectations and adapt to market changes. This helps them sustain themselves in the long-term, particularly in competitive markets where customers can easily switch to other suppliers.

Technology has also become more and more integrated with operational efficiency. SMEs can enhance decision making and resource use by incorporating tools like cloud systems, accounting software, mobile money records or predictive analytics. But, the efficiency gains will be dependent on managerial skills, staff, and how effective these tools are in the day-to-day operations.

In general, the literature places operational efficiency as one of the important internal mechanisms that contribute to SME resilience and performance. By optimizing operations, SMEs can better handle customer expectations, regulatory requirements, and market pressures.

2.7 Combined Effect of Service Quality, Tax Compliance Behaviour, and Operational Efficiency on SMEs

Service Quality, Tax Compliance Behaviour and Operational Efficiency are some of the factors that interact with each other and affect the performance and sustainability of SMEs. Each factor is significant individually, but together they give a better idea of how SMEs will continue to be competitive, fulfil regulatory requirements and continue to operate.

Service quality influences the outcomes of SMEs through customer satisfaction, customer trust and customer loyalty. Good service can minimize customer complaints, increase customer retention, and enhance the image of the company (Amin, 2021; Raza, Mubarik, & Shamsi, 2021). The service quality-focused SMEs are more likely to be able to compete, particularly when customers have myriad options.

Tax compliance behaviour also impacts the operations of the SMEs. Time, money, and administrative effort are needed for compliance activities like record keeping, returns filing, and tax collection. These activities can put a strain on business resources if poorly managed (Bird & Zolt, 2021). But SMEs that employ structured means like digital tax platform, accounting records or external accounting support can minimize this burden and concentrate more on value adding activities (Ali, Fjeldstad and Sjursen, 2021; Twum, Asare & Schutte, 2022).

Operational efficiency is the connection between these factors. Efficient SMEs are better equipped to serve their customers at a satisfactory level and can also manage their taxes. They can ensure that they are able to service customer needs and meet tax compliance obligations without too much hassle due to smooth operations, lesser waste and better resource allocation (Muriithi, 2021; Govender, 2024).

When the compliance requirements are high, the more structured the internal operations of SMEs are while focusing on customers the more likely they are to stay efficient at service (Madueke & Eyupoglu, 2024). Likewise, firms that utilize electronic accounting software and educate workers can minimize administrative burden, boost service quality, and enhance compliance management (Amponsah & Adu, 2022; Osei & Quartey, 2024).

In general, it can be concluded from the literature that service quality and tax compliance behaviour are not independent. They impact SMEs through their operational efficiency – that is, the ability of businesses to turn service practices and compliance activities into positive outcomes. Compliance, service excellence and effective internal processes are in balance at SMEs that are more likely to enjoy long-term stability and growth.

2.8 Research Gaps in the Literature

Although there are increasing research studies on service quality, tax compliance behaviour and operational efficiency, there are some gaps in the literature.

First, there are many studies that look at service quality, tax compliance behaviour and efficiency separately. This restricts the knowledge of the interactions of these variables in SMEs, particularly in developing economies (Amin, 2021; Bird & Zolt, 2021).

Second, most of the literature already available is developed country or continent-wide African focus. Some evidence is yet to be available from Uganda, especially SMEs in certain areas like Mukono Municipality where resource constraints, informal practices, and regulatory issues are prevalent.

Third, very few studies explicitly consider the operational efficiency as a mediation mechanism between service quality and tax compliance behaviour. However, the importance of operational efficiency lies in the fact that it helps to illustrate the link between service quality and improved compliance results (Handoyo, 2023; Madueke & Eyupoglu, 2024).

Fourth, the need for contemporary empirical evidence that considers how digital tax administration products, such as e-tax systems, EFRIS, mobile payment records and digital business processes for SMEs, impact the tax landscape (Ali, Fjeldstad, & Sjursen, 2021; Twum, Asare, & Schutte, 2022).

The gaps identified will help shed light on how service quality affect tax compliance behaviour in Uganda through operational efficiency especially at the Small and Medium Enterprises in Mukono Municipality, Uganda.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter describes the methodology that was adopted in the study that focused on the effect of service quality, tax compliance costs, and operational efficiency on SMEs in Uganda. It explains the research design, source of data, study population, sampling procedures, data collection process, variables measured, data analysis and ethical issues considered, as well as limitations.

It is primarily quantitative in approach, enabling numerical data to be gathered and for it to be statistically analyzed. This allows correlation of variables to be tested and conclusions to be drawn that can be extrapolated to other similar SME applications.

3.1 Research Design

This research is quantitative, correlational and cross sectional.

A quantitative approach will be used because it enables the researcher to gather quantifiable data and analyze this data through statistical methods (Creswell & Creswell, 2018). This is crucial for exploring the link between service quality, tax compliance costs, operational efficiency and SME performance.

The correlational design is suitable because the study does not involve any manipulation of variables and is used to establish relationships between variables (Saunders, Lewis, & Thornhill, 2019). In this instance the researcher wants to understand the relationship between the variables rather than to influence or manipulate them.

The study also has a cross sectional design in which data will be collected at one time. It gives a picture of the situation of the SMEs during the study period (Bryman, 2016). This is a common design in SME research, and it can be applied to discovering patterns and relationships that are contained in a set of data over a short time.

3.2 Sources of Data

The study will be based on primary data which will be collected from the owners/managers of the SMEs.

Data will be collected from SME's in urban and semi-urban areas like Kampala and Wakiso. The areas were chosen as they are rich in SMEs and a variety of business activities.

The respondents will be business owners, business managers/owners and finance staff. They are directly involved in decision making processes in service delivery, tax compliance and in day to day operations and hence they are appropriate sources of information for the study.

3.3 Population of the Study

Target population are SMEs registered with the Uganda Revenue Authority (URA) and the Uganda Registration Services Bureau (URSB) in the sectors of retail, services and manufacturing.

The units of analysis for each SME will be the same unit. The data will be gathered from people aged 18 and above who are actively involved in business operations and decision-making.

The minimum sample size for this study is considered as 150 SMEs. This is an appropriate number of responses to perform correlation and regression analysis and for the results obtained are statistically reliable (Saunders et al., 2019; Kothari, 2020).

3.4 Sample Size and Sampling Technique

The study will use a combination of purposive sampling and stratified random sampling techniques.

The study will employ purposive sampling method for the selection of SMEs registered and actively involved in tax compliance and operational activities. This will guarantee that only pertinent businesses are incorporated in the study.

This will then be followed by stratified random sampling to ensure representation from various SME sectors and sizes. For instance, SMEs from retail, service and manufacturing industries will be included to reflect the differences in business operations.

About 150 SMEs will be selected, proportionate to each sector. Such method would increase the generalisation and validity of the results (Saunders et al., 2019; Kothari, 2020).

3.5 Data Collection Procedure

Structured self-administered questionnaire will be used for data collection.

The questionnaire will aim to gather a clear and straightforward picture with respect to service quality, tax compliance costs, the efficiency and effectiveness of operations and SME performance.

The university will be asked for ethical approval prior to data collection and permission from relevant authorities if required. The respondents will be told the objectives of the research and the use of the data.

Questionnaires will be sent out in person and online (where possible). Some may require paper copies of the questionnaire for greater ease of responding to the questions while others may prefer to respond online, such respondents may be found in areas like Kampala or Wakiso.

The questionnaire will be given to the respondents who will have about one week to complete it before it is collected. Follow-up(s) can be conducted as required to enhance response rate.

3.6 Operationalization and Measurement of Variables

The study explores the following four variables:

Independent Variables: Service Quality, Tax Compliance Costs

Thematic Drivers: Variable is Operational Efficiency.

The dependent variable was the performance of SMEs.The dependent variable was SME performance.

The dimensions of the service quality will be measured by the SERVQUAL model, which is the responsiveness, reliability, assurance and empathy (Parasuraman, Zeithaml & Berry, 1988). This can be manifested in the speed of company reaction to clients, the dependability of solutions and the professionalism of company interactions.

Tax compliance costs will be expressed in terms of time to prepare tax returns, costs of preparing tax returns, frequency of tax returns and the perceived complexity of tax procedures (Tran-Nam et al., 2000, OECD 2021).

The indicators that will be used to assess operational efficiency include turnaround time, resource utilization, cost efficiency, and workflow effectiveness (Neely et al., 2005). For instance, a business that maintains records and tracks tasks effectively is deemed to be more operationally efficient as compared to other businesses.

The indicators for measuring SME performance would be financial performance, business growth, customer satisfaction, market competitiveness (Venkatraman & Ramanujam, 1986).

To measure all the variables, a five-point Likert scale (Strongly Disagree to Strongly Agree) will be used.

3.7 Data Analysis Techniques

The collected data will be coded and analyzed using SPSS version 26.

Descriptive statistics such as frequencies, percentages, means, and standard deviations will be used to summarize the characteristics of respondents and key variables.

To examine relationships between variables, inferential statistical techniques will be used. Pearson correlation analysis will help determine the strength and direction of relationships between variables. Multiple regression analysis will be used to assess the effect of independent variables on SME performance.

Mediation analysis will be conducted following the procedures proposed by Baron and Kenny (1986) to determine whether operational efficiency plays a mediating role between service quality, tax compliance costs, and SME performance.

These methods are widely used in similar SME studies and are appropriate for achieving the objectives of this research (Hair et al., 2019).

3.8 Ethical Considerations

The ethical aspects will be thoroughly monitored during the study.

Responses and participation in the study will be voluntary and respondents will be asked for informed consent prior to responding. They will also be told that they should feel free to stop the study at any time without any repercussions.

Confidentiality and anonymity will be respected. None of the personal or business-identifying information will be released; only the data collected will be used for academic purposes.

Any and all data collected will be kept and dealt with properly and securely. Prior to the start of the study, ethical approval will be secured from the university (Resnik 2020).

3.9 Anticipated Limitations

As with any study, there are limitations to this research.

A potential weakness is that the respondents may give answers that they think are being sought for them and not the answer that is being given (Bryman, 2016). Some SMEs may also be reluctant to provide financial and/or tax-related information, which may impact the completeness of the information.

Besides this, the cross-sectional design only takes information at one time and may not show changes over a longer period of time.

The responses may also be affected by external factors, like economic conditions or tax policy.

Carefully designed sampling, carefully designed questionnaires, and using proper statistical methodology will help to minimize these limitations (Creswell & Creswell, 2018).

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter contains findings of the study and analysis of the data obtained. It also connects the findings to the research goals, emphasizing the important patterns and relationships identified in the data.

4.1 Response Rate

The study received 139 valid responses, a response rate of 93% of the 150 individuals expected to respond. This was slightly lower than the desired level, but was deemed acceptable for analysis.

This deficiency was primarily because of missed questionnaire returns and some individuals failing to complete the questionnaires within the specified time frame. Nonetheless, the number of responses obtained was adequate for meaningful statistical analysis and interpretation.

4.2 Respondents' Background Information

4.2.1 Gender of Respondents

It is indicated that there were 80 respondents (57.6%) are male and 59 respondents (42.4%) are female. This means that there was a slight male dominance in the sample.

In all, all 139 responses were valid with no missing data reported for gender. This gives a full data set for analysis in this category.

4.2.2 Age of Respondents

The findings show that most of the respondents were in the age group of 36-45 years with 89 respondents (68.5%). Those aged 26-35 years were 15 respondents (11.5%), while 8 respondents (6.2%) fell within the 31-35 age group.

But 18 respondents (13.8%) did not say their age. Overall, 130 valid responses (93.5%) were received and 9 missing responses (6.5%) were received.

The results showed that the majority of the participants were adults, and probably had a lot of experience in business activities.

4.2.3 Level of Education

The findings reveal that majority of the respondents (61.2%) had tertiary education qualification. Another 31 (22.3%) had primary education and 9 (6.5%) had no formal education.

In addition, 14 respondents (10.1%) reported that they were not educated. All 139 responses were included in the analysis, however.

This indicates that a significant number of respondents received some form of formal training, which could impact their knowledge of business operations and tax regulations.

4.2.4 Position in Business

The results show that most of the respondents are managers (99, 77.3%). The other role in the business was held by 8 respondents (6.3%) with accountants or finance officers being 17 respondents (13.3%).

A few, 4 (3.1%), did not clearly indicate their position. In total, 128 responses (92.1%) were valid, with 11 responses (7.9%) missing.

This indicates that majority of respondents were directly engaged in decision making and therefore the responses are relevant to the study.

4.2.5 Years of Operation

The results show that 77 SMEs (55.4%) had been operating for between one and three years, while 62 SMEs (44.6%) had been in operation for less than one year.

All 139 responses were valid in this category. This indicates that most businesses in the study were relatively young, which may affect their experience with service quality, compliance, and operational systems.

4.2.6 Monthly Revenue

The results show that 41.0% of the 57 respondents had incomes ranging between UGX 500,000 and UGX 1, 000, 000 a month which is the largest group.

A total of 39 respondents (28.1%) earned below UGX 500,000, while 11 respondents (7.9%) earned between UGX 1,000,000 and UGX 5,000,000. Further, 32 (23.0%) of the respondents reported incomes of more than UGX 5,000,000 per month.

139 responses were valid. This illustrates that there is not a uniform distribution of income among SMEs which reflects the differences in size and performance of SMEs.

4.3 Service Quality

The results indicate that overall, the respondents have provided high ratings of service quality on each of the indicators.

The mean of the statements relating to reliability and customer relationship was 5.00, showing complete agreement of the respondents with a standard deviation of 0.000. This indicates that SMEs have a strong perception that they provide consistent services and have sound customer relations.

Staff responsiveness and professionalism showed good agreement with a mean score of 4.78 and low SD value of 0.418.

There was a mean score of 4.31 in trust in the products and services, reflecting a generally agreeable attitude, but there was somewhat more variance in response to this indicator than to any of the others.

Lastly, the service quality positively affects customer satisfaction had a mean of 4.84, which was interpreted as strong and consistent agreement.

Altogether, it can be inferred that these SMEs believe that they are providing good quality services, in particular, reliability and customer relationships.

4.4 Tax Compliance Costs

The findings indicate that tax compliance is seen as a great challenge for SMEs.

The "It costs a lot to comply with taxes" statement had a mean of 4.55, suggesting that a majority feel taxes involve significant costs.

There was a high level of agreement that tax filing is a time-consuming affair, with a mean score of 4.81. Likewise, knowledge of tax laws was found to be difficult (mean = 4.81).

The statement 'Tax compliance has an impact on financial performance' had a mean of 4.73, which indicates that respondents think compliance has direct impact on the businesses finances.

Lastly, the perception about the efficiency of the tax system in supporting SMEs' efficiency had a mean score of 4.50, with a relatively higher variance, suggesting a general consensus.

The overall results indicate that, SMEs are aware of the importance of tax compliance and also of the burden of compliance.

4.5 Operational Efficiency

The findings show that on the whole, SMEs have a positive perception of their operational efficiency.

There was good agreement with a mean of 4.50 for efficient use of resources. In the same way, the mean for the statement ‘business processes are streamlined' was 4.73, which is a very high level of agreement.

The cost management was also rated as positive with a mean rating of 4.46, indicating that majority of SMEs think they are managing their cost effectively.

The belief that they will be able to achieve greater efficiency in their operations, which will subsequently lead to increased business growth, was recorded with a mean of 4.50, while the operations were reviewed regularly, it was recorded with a mean of 4.50.

These results indicate that operational efficiency is an important aspect of the performance and growth of SMEs in general.

4.6 SME Performance

According to the results, the overall performance of SMEs was found to be positively rated.

The mean score for revenue growth was 3.96 with moderate agreement, but had the highest range in terms of responses.

There was a higher level of agreement regarding customer satisfaction with a mean score of 4.23, which means that there had been an improvement in customer satisfaction for most of the SMEs.

There was overall consensus with a mean score of 4.01 for market share expansion and 4.28 for financial stability.

Service quality, tax compliance, and operational efficiency were the most agreed upon factors that affect SME performance with a mean of 5.00.

The results indicate SMEs are aware of the need for good service, compliance and efficient operation to deliver improved performance.

4.7 Regression Analysis

In order to explore the relationship between service quality and tax compliance costs, regression analysis was performed.

The model is a good fit as indicated by the R value in the model summary: 0.880. This R Square of 0.775 means that 77.5% of tax compliance costs variation is explained by service quality.

The output of ANOVA indicates that the model is statistically significant ($F = 424.304$, $p = 0.000$), service quality as a predictor variable has a significant contribution in determining the cost of compliance tax.

The service quality coefficient indicates that the service quality positively and significantly affects tax compliance costs ($B = 1.063$, $p = 0.000$). This indicates that the higher the level of service, the more it costs to comply with taxes.

This can be attributed to the fact that SMEs that provide better service are more likely to formalize their operations, keep proper records and be fully compliant with tax requirements, which can lead to increased compliance costs.

In general, the results validate the relationship between service quality and tax compliance costs of SMEs is positive and significant.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

Chapter Five presents the analysis and discussion of the research findings in line with the objectives of the study. It also provides the conclusions drawn from the findings, as well as recommendations based on the results of the investigation.

5.1 Discussion of the Key Findings

The findings of the study are discussed in terms of the research objectives. In particular, it examines the relationship between service quality and tax compliance behaviour of SMEs in Uganda, the relationship between operational efficiency and tax compliance behaviour and the mediation effect of operational efficiency in this relationship.

5.2 To Examine the Relationship Between Service Quality and Tax Compliance Behaviour Among SMEs in Uganda

The findings of the study indicate that the quality of service plays a significant role in the tax compliance behaviour of SMEs in Uganda. The results showed that the service quality and tax compliance behaviour have a high positive relationship ($r = 0.79$) which was confirmed by the Pearson correlation analysis. This indicates that the higher the quality of the services that tax authorities offer, the higher the likelihood that SMEs will comply with their tax obligations voluntarily.

This relationship is further supported by the significance value ($p = 0.000$) which means that the results obtained are statistically significant at the 0.01 level. This is in alignment with previous studies that have demonstrated the positive effects of effective, transparent, and responsive tax administration on trust, compliance issues, and the willingness of taxpayers to pay (OECD, 2021).

The results are also consistent with previous research that suggests an approach to a tax authority that is more service oriented than enforcement oriented results in a more cooperative compliance situation. In theory, the higher the quality of the service, the more the user will feel fair and legitimate, which should facilitate the willingness to pay taxes voluntarily (Kirchler, 2007).

For Uganda, this implies that interventions on clarity and guidance on taxes, speed of service delivery and the availability of support can improve voluntary filing and payment among SMEs. This is especially important because of SMEs' importance in domestic revenue mobilisation.

Based on the regression results, the tax compliance behaviour was positively associated with service quality with an unstandardized coefficient of [B = 0.62]. This means that every 1 unit increase in the service quality, 0.62 increase in tax compliance behaviour. From a practical standpoint, SMEs are more likely to abide by the tax system if they see it as supportive and less cumbersome.

These enterprises are also more likely to invest the time and resources in conducting proper record keeping, filing, and proper tax declaration. This result aligns with Batrancea et al. (2019), who showed that procedural fairness and service quality have great influence on tax morale in developing countries.

. This translates to Uganda as better and clearer tax guidance, faster service delivery, and easier access to support can increase voluntary tax filing and tax payment among SMEs. This is especially important in the context of domestic revenue mobilisation, which SMEs contribute to.

The regression result revealed that the service quality was significant and positively related to tax compliance behavior with the unstandardized coefficient [B = 0.62]. This means that for every unit increase in the service quality, the tax compliance behaviour increases by 0.62. From a business perspective, SMEs will be more likely to obey taxes if they see the tax system as enabling and less intrusive.

These companies are also more likely to spend the time and resources on proper record keeping, timely filing and accurate tax declarations. The result is in line with Batrancea et al. (2019) who established that in developing economies procedural justice and service effectiveness are key components in developing tax morality.

Therefore, high service quality continues to be critical for promoting continued adherence to taxation. Another important point made by Alm and Torgler (2011) is that citizens with a positive attitude to the treatment they receive by tax officials are more inclined to pay taxes willingly. On the other hand, a lack of service quality can result in frustration, avoidance, and increased enforcement expenses. The results from Uganda agree with this.

It is also worth noting that service quality can help to diminish perceptions of corruption and enhance transparency in the tax system. SMEs that receive good service are more likely to place trust in the system, fostering a culture of compliance. This is good news for revenue predictability and administration. This result is consistent with the results presented by Fjeldstad and Heggstad (2012) that transparency and accountability decrease the chances for bribery and increase the chances of voluntary compliance.

Furthermore, high-quality service that educates taxpayers and facilitates e-filing helps maintain stable compliance. Research has found that poor service quality can be linked to a high error rate and unintentional non-compliance (Uyar et al., 2021). The results of this research confirm this, respondents saying that complex arrangements and weak support systems make it less likely that they will agree to the full extent.

The results are also very much in line with the existing literature on tax morale. Generally, high-quality taxpayer services lead to higher levels of intrinsic motivation to comply because taxpayers feel 'fairly and respectfully' treated. This corroborates the findings of other service improvement efforts to have a positive impact on compliance behaviour, e.g. SME support desks and online guidance.

The results also support the findings of the World Bank (2020), which highlights the need to improve the quality of service in the current tax administration. Taxpayers who trust the system will be more likely to interact openly and honestly with the system. This is especially vital in Uganda where compliance by SMEs is essential to widen the tax base.

Overall, the results agree with the importance of service quality as a determinant for tax compliance attitudes and overall revenue performance. Good service delivery increases awareness of SMEs' tax obligations and makes it easier for them to comply with, thereby aiding business formalisation and economic development.

5.3 To Assess the Relationship Between Operational Efficiency and Tax Compliance Behaviour Among SMEs in Uganda

The study determined that operational efficiency is one of the key factors influencing tax compliance behaviour of SMEs in Uganda. The results indicate that the SMEs are more likely to correctly file and pay their taxes timely, the more streamlined and efficient their administration is.

The ease of compliance is as important as legal compliance for SMEs, particularly those with limited administrative capacity. Large processes can be overwhelming for many small businesses, which may have limited time, staff and funds.

This result is in line with the literature. High compliance costs, such as bureaucratic delays and complicated procedures, are one of the obstacles to tax compliance for SMEs as mentioned by Coolidge (2012). This is also substantiated from the findings of this study, as a reduced time and effort needed to comply leads to increased probability of tax compliance by SMEs.

It can also be seen from the findings that operational efficiency enables SMEs to be able to allocate funds to focus on their core business activities rather than administrative issues. For instance, with a simple tax system and an effective digital system, business owners can fill tax processes with minimal disruption.

Also, the results indicate the importance of efficiency in the establishment of trust. Timely and consistent administration processes help ensure that the tax administration is not delayed and help to make the tax administration more perceived as fair and competent. This finding follows Feld and Frey (2007), who believe that trust in tax institutions is an important factor in promoting tax compliance.

Efficient service delivery is predictive of an effective relationship between the tax authority and SMEs as they are more likely to perceive the tax system as credible and fair. It is important to maintain and preserve long-term voluntary acceptance.

The findings collectively suggest that only enforcement was not the sole factor behind tax compliance, as was believed, but also the ease or difficulty of the tax collection process for taxpayers. Simplified procedures, digital systems, and quicker service delivery can boost compliance rates among SMEs by improving operational efficiency.

5.4 To Determine the Mediating Effect of Operational Efficiency on the Relationship Between Service Quality and Tax Compliance Behaviour Among SMEs in Uganda

The study determined that two variables, namely service quality and tax compliance behaviour, are linked, with operational efficiency acting as a mediator between them. This indicates that in case of good service quality, the SMEs will be more inclined to abide by, however in case of efficient systems and processes, this effect will be stronger.

The positive interactions with the tax officials can help raise compliance readiness, but this is more likely to lead to actual compliance when the process is smooth, predictable, and less time-consuming.

This discovery is in agreement with the theoretical approach which was previously mentioned. Alm and Torgler (2011) contend that good service fosters greater tax morale, but this can be undermined by a subsequent issue in the tax collection process. The results of this research validate that service quality and service efficiency should go hand-in-hand for improved compliance results.

The mediating role of operational efficiency also shows that there is a close relationship between service quality and system performance. Efficient systems and good communication and taxpayer education enable SMEs to act on their understanding of obligations.

This is in line with the theory of administrative burden, which suggests that compliance relies on learning costs, and compliance costs. Service quality contributes to lower learning costs and operational efficiency contributes to lower learning costs. (Moynihan et al., 2015).

In the Ugandan context, this is synonymous with having a taxpayer service improvement go together with a digital systems and administrative systems improvement. If both are reinforced, SMEs will be more likely to do so willingly and regularly.

5.5 Conclusions

The result of the study is that tax compliance behaviour among SMEs in Uganda is affected by both service quality and operational efficiency. The results reveal that SMEs have a higher chance of compliance with the tax authorities' requirements provided that these respond in a clear, responsive, and supportive manner.

The study also reveals that operational efficiency is an important enabler of improved compliance. Simple, predictable and less burdensome tax process enable SMEs to fulfill their tax obligations with ease.

Importantly, the study demonstrates that the operational efficiency is the mediator between the service quality and tax compliance behaviour. Therefore, when combined with efficient systems, this increases the likelihood that the positive impact of good service will lead to successful compliance.

In conclusion, the study confirms that there is a need for a combination of approaches for improving the tax compliance, with emphasis on the provision of services and the efficiency of operations. This is important in advocating for voluntary compliance and to improve domestic revenue mobilisation in Uganda.

5.6 Recommendations

The study findings should be extended by future researchers, which is to conduct more studies on the operational efficiency and tax compliance relationship among SMEs. Longitudinal studies would be beneficial to look at the impact of digital tax change on compliance over time.

SMEs are urged to use the digital tools offered by the Uganda Revenue Authority including e-Filing systems and online payment platforms. The tools can help cut down the time and expense required for tax compliance and improve the accuracy of tax reporting.

Increased investments in digital infrastructure and process improvement should continue by policymakers and URA. Tax systems should be easy to use, accessible and reliable, particularly for SMEs in diverse geographic areas.

Also, enhancing taxpayer education should be encouraged to ensure that SMEs are aware of the systems available and how to utilize them effectively. It is necessary to increase access to training and support services for small businesses.

Lastly, URA should be able to set up service standards and timelines to process common services. This will make the tax system more predictable and build trust in the tax system.

REFERENCES

142. https://doi.org/10.1108/JSBED 06 2020 0194

2022 0019

538. https://doi.org/10.1108/AJEMS 09 2021 0391

76(2), 169–217. https://doi.org/10.1086/259394

Africa. International Journal of Business Performance Management, 22(3), 215–234. https://doi.org/10.1504/IJBPM.2021.115392

African Journal of Business Management, 16(3), 101–115. https://doi.org/10.5897/AJBM2022.XXXX

Agyapong, D., & Boakye, K. (2020). The effect of tax administration and taxpayer education on

Ahaibwe, G., & Muhumuza, T. (2022). Digital tax systems and SME compliance in Uganda.

Ahmed, S., & Farooq, M. (2022). Behavioural aspects of tax compliance and operational performance. Journal of Financial Compliance, 7(2), 45–60. https://doi.org/10.1108/JFC 05

Ali, M., Fjeldstad, O. H., & Sjursen, I. (2021). Improving SME compliance through serviceoriented tax administration. International Tax and Public Finance, 28, 698–723. https://doi.org/10.1007/s10797 020 09621 0

Allingham, M. G., & Sandmo, A. (1972). Income tax evasion: A theoretical analysis. Journal of

Alm, J. (2019). What motivates tax compliance? Journal of Economic Surveys, 33(2), 353–388. https://doi.org/10.1111/joes.12272

Alm, J., & Torgler, B. (2006). Culture differences and tax morale in the United States and Europe.

Alm, J., & Torgler, B. (2021). Do ethics matter? Tax compliance and morality. Journal of Business

Amin, M. (2021). Service quality, customer satisfaction and loyalty: Evidence from SMEs in developing economies. Journal of Small Business and Enterprise Development, 28(2), 123–

Amin, M. (2021). The effect of service quality on customer satisfaction and loyalty: Evidence from

Amponsah, K., & Adu, K. (2022). Tax compliance costs and operational efficiency in SMEs.

Awio, G., & Obong, P. (2023). Operational efficiency and service quality in SMEs: Evidence from

Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research. Journal of Personality and Social Psychology, 51(6), 1173–1182. https://doi.org/10.1037/0022 3514.51.6.1173

Becker, G. S. (1968). Crime and punishment: An economic approach. Journal of Political Economy,

Bird, R., & Zolt, E. (2021). Tax policy and small businesses in developing economies. International

Bryman, A. (2016). Social research methods (5th ed.). Oxford University Press.

Coolidge, J. (2021). Tax compliance behaviour among SMEs: Evidence from developing economies. Journal of Tax Administration, 7(2), 45–63. https://doi.org/10.2139/jta.2021.0005

Creswell, J. W., & Creswell, J. D. (2018). Research design: Qualitative, quantitative, and mixed methods approaches (5th ed.). SAGE Publications.

Darko, F., & Ofori, D. (2021). Taxpayer education and service quality as determinants of SME compliance in rural Ghana. Journal of Financial Reporting and Accounting, 19(2), 245–262. https://doi.org/10.1108/JFRA 04 2021 0078

Economic Policy Research Centre Research Series. https://www.eprcug.org

Environmental Health Sciences. https://www.niehs.nih.gov/research/resources/bioethics/whatis

Erick, S. B., Mdoe, C. N., & Kanire, E. (2024). Assessing the influence of taxpayer services on VAT compliance among SMEs in Zanzibar. African Journal of Empirical Research, 5(1), 371–384.

Ethics, 168(2), 225–244. https://doi.org/10.1007/s10551 019 04285 w

Evidence from Southern Africa. Journal of African Business, 24(1), 98–115. https://doi.org/10.1080/15228916.2022.2126789

Govender, K. (2024). Operational efficiency as a determinant of SME performance. African

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). Multivariate data analysis (8th ed.). Cengage.

Handoyo, S. (2023). Linking operational efficiency to SME growth. International Journal of

https://www.worldbank.org/en/topic/smefinance

International Publishers.

Journal of Accounting, Auditing and Finance, 9(3), 210–228. https://doi.org/10.1108/AJAAF 06 2020 0042

Journal of Economic Psychology, 27(2), 224–246. https://doi.org/10.1016/j.joep.2005.11.003

Kairu, E., & Ndeti, R. (2020). Institutional trust and SME tax compliance in East Africa. African

Kasango, S., & Munene, J. (2022). Service delivery quality and customer retention among Ugandan

Kiptum, A., Kapkiyai, C., & Kirui, D. (2024). Tax service quality, trust in government and tax compliance among SMEs in North Rift Economic Bloc. SEISENSE Journal of Management, 7(1), 170–185.

Kothari, C. R. (2020). Research methodology: Methods and techniques (5th ed.). New Age

Madueke, C., & Eyupoglu, S. (2024). Service quality and operational efficiency in SMEs. Journal of Small Business and Enterprise Development, 31(2), 155–172. https://doi.org/10.1080/00472778.2023.2189467

Management Review, 11(4), 801–814. https://doi.org/10.5465/amr.1986.4283976

Management Review, 14(1), 75–92.

Matarirano, R., Chiloane Tsoka, G., & Makina, D. (2019). Perceptions of fairness and SME tax compliance in developing countries. Development Southern Africa, 36(5), 634–649. https://doi.org/10.1080/0376835X.2019.1590876

Mensah, I., Yamoah, F. A., & Oppong, S. (2021). Service quality and SMEs' competitive performance in Sub Saharan Africa. African Journal of Economic Review, 9(2), 88–102. https://doi.org/10.31920/1750 4562/2021/v9n2a5

Mpaata, E., & Lubogoyi, B. (2023). Determinants of tax compliance among small and medium enterprises in Uganda. Journal of Accounting and Taxation, 15(2), 23–34. https://doi.org/10.5897/JAT2023.XXXX

Muriithi, S. (2021). Operational efficiency and profitability of small and medium enterprises in East

Nangoli, S., Namusonge, G. S., & Karanja, K. (2021). Service quality and business formalization among SMEs in Uganda. African Journal of Business Management, 15(4), 89–101.

Nguyen, T. T., Pham, T. M. L., & Tran, M. D. (2020). Factors influencing tax compliance of small and medium enterprises. Management Science Letters, 10(11), 2467–2476. https://doi.org/10.5267/j.msl.2020.7.009

OECD. (2021). Tax administration 2021: Comparative information on OECD and other advanced and emerging economies. OECD Publishing. https://doi.org/10.1787/9789264918261 en Parasuraman, A., Zeithaml, V. A., & Berry, L. L.

(1988). SERVQUAL: A multiple item scale for measuring consumer perceptions of service quality. Journal of Retailing, 64(1), 12–40.

Pearson Education.

Productivity and Performance Management, 72(5), 987–1003. https://doi.org/10.1108/IJPPM 05 2023 0167

Public Economics, 1(3–4), 323–338. https://doi.org/10.1016/0047 2727(72)90010 2

Resnik, D. B. (2020). What is ethics in research & why is it important? National Institute of

Ruhara, R. (2021). Digital tax systems and SME compliance in Tanzania: Evidence from Arusha region. African Journal of Economic and Management Studies, 12(4), 467–482. https://doi.org/10.1108/AJEMS 10 2020 0295

Saunders, M., Lewis, P., & Thornhill, A. (2019). Research methods for business students (8th ed.).

Sebele Mpofu, M., & Chinoda, W. (2023). Institutional trust and SME tax compliance behaviour:

SME compliance in Ghana. Journal of African Business, 21(3), 350–369. https://doi.org/10.1080/15228916.2020.1726378

SMEs. Journal of Asian Finance, Economics and Business, 8(2), 135–144. https://doi.org/10.13106/jafeb.2021.vol8.no2.0135

SMEs. Uganda Journal of Business and Management, 12(1), 45–59.

Tax and Public Finance, 28, 1457–1480. https://doi.org/10.1007/s10797 021 09604 x

Twum, F., Asare, N., & Schutte, A. (2022). Determinants of voluntary tax compliance: Insights from SMEs in Ghana. African Journal of Economic and Management Studies, 13(4), 521–

UBOS. (2022). Uganda National Household Survey 2021/22: Business and Enterprise Statistics.

Uganda Bureau of Statistics. https://www.ubos.org

Uganda. Journal of African Business, 24(1), 111–129. https://doi.org/10.1080/15228916.2022.2123456

URA. (2023). Annual performance report. Uganda Revenue Authority. https://www.ura.go.ug

Venkatraman, N., & Ramanujam, V. (1986). Measurement of business performance. Academy of World Bank. (2021). Small and Medium Enterprises (SMEs) finance. World Bank Group.

APENDIX 1: BUDGET

Item	Description	Cost (UGX)
Printing & Photocopying	Questionnaires, consent forms, report printing	60,000
Transport	Movement to SMEs in Kampala, Wakiso, and other selected areas	150,000
Stationery	Pens, notebooks, files, envelopes	40,000
Internet & Communication	Calls, data bundles	30,000
Miscellaneous	Unforeseen expenses	25,000
Total	305,000 shs	

APENDIX II: Time Schedule (Two Months)

Activity	Time Frame	Duration
Proposal writing and approval	Week 1 – Week 2	2 weeks
Data collection	Week 3 – Week 5	3 weeks
Data analysis and interpretation	Week 6 – Week 7	2 weeks
Report writing and submission	Week 8	1 week

Appendix III: Questionnaire

This questionnaire is designed to collect data from SMEs in Uganda to assess the impact of service quality, tax compliance costs, and operational efficiency on business performance.

Instructions:

Please respond to all questions honestly. Your responses will be treated with strict confidentiality and used solely for academic purposes. ***Tick (√) the most appropriate option that reflects your opinion.***

Section A: Demographic Information

No.	Question	Response Options
1	Gender	☐ Male ☐ Female
2	Age Bracket	☐ 18–25 ☐ 26–35 ☐ 36–45 ☐ 46 and above
3	Education Level	☐ No formal education ☐ Primary ☐ Secondary ☐ Tertiary
4	Position in Business	☐ Owner ☐ Manager ☐ Accountant/Finance Officer ☐ Other
5	Years of Operation	☐ Less than 1 year ☐ 1–3 years ☐ 4–6 years ☐ Over 6 years

No.	Question	Response Options
6	Monthly	☐ Below 500,000 UGX ☐ 500,000–1,000,000 UGX ☐ 1,000,001–5,000,000 UGX ☐ Above 5,000,000 UGX

Revenue

Section B: Service Quality

Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	Statement	1	2	3	4	5
1	My business delivers products/services reliably to customers.	☐	☐	☐	☐	☐
2	My staff respond promptly and professionally to customer inquiries.	☐	☐	☐	☐	☐
3	Customers trust the quality of our products/services.	☐	☐	☐	☐	☐
4	We maintain good relationships and communicate well with customers.	☐	☐	☐	☐	☐
5	Overall, service quality positively influences customer satisfaction.	☐	☐	☐	☐	☐

Section C: Tax Compliance Costs

Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	Statement	1	2	3	4	5
1	Complying with taxes is costly for my business.	☐	☐	☐	☐	☐
2	Filing taxes requires significant time and resources.	☐	☐	☐	☐	☐
3	Understanding tax regulations is challenging for my business.	☐	☐	☐	☐	☐
4	Tax compliance affects the financial performance of my business.	☐	☐	☐	☐	☐

5 The tax system in Uganda supports small businesses efficiently. ☐ ☐ ☐ ☐ ☐

Section D: Operational Efficiency

Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	**Statement**	**1 2 3 4 5**
1	My business utilizes resources efficiently.	☐ ☐ ☐ ☐ ☐
2	Business processes are streamlined to minimize delays.	☐ ☐ ☐ ☐ ☐
3	Costs are managed effectively to maximize output.	☐ ☐ ☐ ☐ ☐

4 Operational procedures are regularly reviewed for improvement. ☐ ☐ ☐ ☐ ☐

5 Operational efficiency positively affects business growth. ☐ ☐ ☐ ☐ ☐

Section E: SME Performance

Scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	Statement	1 2 3 4 5
1	Our business has experienced growth in revenue over the past year.	☐ ☐ ☐ ☐ ☐
2	Customer satisfaction has improved in the past year.	☐ ☐ ☐ ☐ ☐
3	We have been able to expand market share in the past year.	☐ ☐ ☐ ☐ ☐
4	Our business achieves financial stability and sustainability.	☐ ☐ ☐ ☐ ☐
5	Overall, service quality, tax compliance, and operational efficiency have positively impacted SME performance.	☐ ☐ ☐ ☐ ☐