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Article

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Modeling the impact of corporate legitimacy on tax compliance intention to small and medium-sized enterprises

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ABSTRACT

The objective of this study was to determine the effect of corporate legitimacy on tax compliance intentions among small and medium-sized enterprises (SMEs) in Tanzania. This study is among a few that explore the issue of tax avoidance and leakages in sub-Saharan Africa through the lens of corporate legitimacy. The research seeks to contribute to ongoing efforts in sub-Saharan Africa aimed at reducing tax avoidance and leakages. The study formulates and assesses a conceptual model that explores the relationship between corporate legitimacy, public trust, and tax compliance intentions. Data was collected through a cross-sectional survey of 430 SMEs operating in the tourism industry. The analysis was carried out using structural equation modeling and the results showed that corporate legitimacy influences tax compliance intentions through public trust. The study recommends that tax authority managers consider taxpayers' legitimacy as a strategic approach to combat tax avoidance and leakages.

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Introduction

Despite the prevalence of discussions on tax compliance in the business and economic literature, there is a limited number of empirical studies that guide tax collectors on how to incorporate a social psychological approach in tax collection (Kiconco et al., 2019). Researchers argue that the social-psychological approach is crucial in tax collection, as traditional methods such as audits, penalties, and fines have failed to effectively reduce the non-compliance rate among taxpayers (Kiconco et al., 2019; Owusu et al., 2021). The literature in public finance recognizes the significance of tax compliance for the social and economic development of countries (Agbetunde et al., 2022; Alshira'h & Abdul-Jabbar, 2020). Previous empirical studies have shown that tax compliance is a crucial factor in ensuring that tax collectors are able to collect enough funds to finance public services (Owusu et al., 2021). Despite efforts to improve tax compliance, many governments, especially in developing economies, still face the challenge of meeting their tax revenue targets due to high non-compliance rates among corporate taxpayers and small and medium-sized enterprises (Alshira'h & Abdul-Jabbar, 2020; Owusu et al., 2021). Developing economies have a higher rate of non-compliance compared to developed economies, largely due to the informal nature of their economies. Some scholars also attribute the non-compliance in developing economies, including Tanzania, to a lack of public trust in tax authorities (Owusu et al., 2021). Institutional theorists support this argument by stating that poor organizational performance can be attributed to a variety of factors, including a lack of public trust (Gupta & Gupta, 2021). Due to this, various pieces of literature have investigated the antecedents of public trust to achieve tax compliance. Nevertheless,

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the challenge of tax compliance still persists in the majority of countries within developing economies (Dwianika et al., 2023).

Literature documents that the average revenue loss in developing economies ranges from 25% to 35% (Owusu et al., 2021). Additionally, public spending in most countries in developing economies significantly increases, highlighting the need to focus on tax compliance in tax administration (Agbetunde et al., 2022; Kiconco et al., 2019). Tax compliance refers to taxpayers' willingness to follow tax laws and regulations without the need for enforcement from the tax authority (Musimenta, 2020). Most countries in developing economies, including Tanzania, have implemented various initiatives to cultivate a tax compliance culture among taxpayers (Agbetunde et al., 2022; Kiconco et al., 2019; Musimenta, 2020). This is achieved by implementing public policies aimed at reducing non-compliance and increasing compliance among taxpayers (Musimenta, 2020). The real measure of tax compliance is not just identifying the reasons for tax evasion, but understanding why people are willing to pay taxes even when the chances of being detected and penalized for evading taxes are low (Seno et al., 2022). Despite various efforts to establish a tax compliance culture, these efforts have not been successful in developing economies (Kiconco et al., 2019; Owusu et al., 2021). Surprisingly, a low rate of tax compliance is reported as a critical challenge despite various conducted studies aimed at establishing factors that can foster public trust a widely recognized key mechanism to promote voluntary tax compliance. Past studies on tax compliance have examined sources of public trust, including procedural justice (Faizal et al., 2017), personal norms of tax compliance (Jimenez & Iyer, 2016), government accountability, transparency, and the reduction of fiscal corruption (Adeyeye & Otusanya, 2015). Evidence indicates that the majority of countries have adopted these measures to promote tax compliance. However, voluntary tax compliance remains low in most developing countries (Bhutta et al., 2019).

Empirical evidence indicates that most initiatives to promote tax compliance do not focus directly on the role of tax authorities or law enforcement. Tax compliance cannot be achieved without taking into account institutional characteristics, such as the legitimacy of the tax authority in the eyes of taxpayers (Seno et al., 2022; Siglé et al., 2018). Previous research on tax compliance in developing economies, including Tanzania, has primarily focused on the tax administration perspective, examining factors such as audit rates, penalties, fairness, and compliance costs (Kiconco et al., 2019; Vincent, 2021). However, there is limited research exploring the problem of non-compliance rates from a social psychological perspective of taxpayers (Kiconco et al., 2019; Vincent, 2021). Bhutta et al. (2019) and Dwianika et al. (2023) stated that by examining the impact of social psychological forces on fostering public trust, it can present an opportunity to enhance our understanding of how to encourage voluntary tax compliance through promoting individual attitudes toward tax authorities. Some literature highlights the importance of considering social psychological factors in building a tax compliance culture, with only a few studies examining the role of behavior in shaping compliance behavior (Vincent, 2021). Alshira'h & Abdul-Jabbar (2020) investigated the impact of individual patriotism on tax compliance and suggested that patriotism can improve compliance rates. Kiconco et al. (2019) found that subjective norms play a significant role in determining tax compliance intentions among SMEs in Uganda. Alasfour et al. (2016) discovered that the level of government corruption affects tax morale, while the efficient use of tax revenues by the government has a positive impact on tax morale. Owusu et al. (2021) found that taxpayers have a greater intention to comply with taxes, but consider non-compliance to be acceptable if the tax rates are too high. In addition, trust in the tax system, perceived tax complexity, attitudes, subjective norms, moral obligation, and antecedent-based intervention strategies are important drivers of tax compliance intentions.

Despite the limited studies on tax compliance, there is a scarcity of research that examines this issue from a social psychological perspective of taxpayers (Damayanti et al., 2015; Kiconco et al., 2019; Vincent, 2021). Few studies that have explored tax compliance behavior have suggested that the social psychological perspective can offer a new way of understanding the motivations and drivers behind tax compliance (Vincent, 2021). Damayanti et al. (2015) and Kiconco et al. (2019) argue that psychology is a significant factor in compliance behavior, though it is often overlooked by public and tax policymakers. An investigation into taxpayers' attitudinal behavior regarding their tax compliance intentions could offer tax administrators a broader understanding of how to promote voluntary tax compliance through the mechanism of public trust (Bhutta et al., 2019; Dwianika et al., 2023). It has also been noted that there is little literature on the behavioral tendencies of individuals towards tax compliance. While the legal and

regulatory framework is often weak, tax compliance is typically influenced by penalties, audits, and whistleblowers. Evidence suggests that scholars and policymakers in public finance should explore alternative means of ensuring compliance (Alm et al., 2012; Kiconco et al., 2019). Tax administration is now focusing on the psychological and sociological aspects of taxpayers to promote voluntary compliance (Damayanti et al., 2015; Vincent, 2021). Understanding taxpayers' psychology can help encourage voluntary tax compliance, which is now seen as a complementary approach to the legal enforcement approach (Alm et al., 2012; Kiconco et al., 2019). This study proposes a conceptual model that examines the impact of corporate legitimacy on tax compliance intentions through public trust among small and medium-sized enterprises in the tourism sector in Tanzania. Using institutional theory, the study argues that the performance of tax authorities, i.e., achieving voluntary tax compliance, is dependent on conforming to institutional norms, which increases an organization's legitimacy. The study addresses the following important research questions to achieve its objective:

RQ₁: What is the influence of pragmatic corporate legitimacy on public trust?

RQ₂: What is the influence of moral corporate legitimacy on public trust?

RQ₃: What is the influence of cognitive corporate legitimacy on public trust?

RQ₄: What is the influence of public trust on tax compliance intention?

RQ₅: What is the mediating role of public trust in the relationship between pragmatic corporate legitimacy, moral corporate legitimacy, cognitive corporate legitimacy, and tax compliance intention?

Literature review and development of hypotheses

Mediation role of public trust

Public trust can act as a driving force for improving tax compliance rates (Owusu et al., 2021). The willingness of taxpayers to voluntarily pay taxes is closely tied to the trust they have in tax authorities (Siglé et al., 2018). It is believed that public trust should be viewed as a behavior driven by an individual's belief and faith in leaders and government authorities (Siglé et al., 2018). The idea is that when taxpayers believe that the government and its authorities are acting in the best interest of society and the country, they are more likely to demonstrate voluntary tax compliance behavior (Ababio & Gnonsio Mangueye, 2021; Seno et al., 2022). Conversely, a lack of public trust can lead to tax evasion or criticism from taxpayers and other stakeholders. Studies in public finance and tax administration highlight the significance of public trust in promoting tax compliance intentions (Alshira'h & Abdul-Jabbar, 2020; Kiconco et al., 2019; Musimenta, 2020). However, empirical research in this social psychological perspective is limited (Kiconco et al., 2019; Vincent, 2021). Most studies have focused on public trust in relation to tax administration authorities, while its relationship with a social-psychological perspective remains under-conceptualized (Kiconco et al., 2019). Some scholars suggest that public trust empowers taxpayers to participate in voluntary tax compliance behavior, while others argue that trust in tax authorities' actions and practices leads to a more responsible attitude towards voluntary tax compliance (Ababio & Gnonsio Mangueye, 2021; Alasfour et al., 2016). However, these behaviors need to be fostered through a social-psychological perspective. Additionally, it is suggested that taxpayers should be encouraged to use internal factors to express trust towards tax administration authorities (Kiconco et al., 2019). This study postulates that corporate legitimacy is a significant driver of public trust that can lead to tax compliance intentions.

Corporate legitimacy

Business ethics narratives conceptualize corporate legitimacy as the perception that a company's operations, policies, and goals are socially accepted as reasonable and appropriate (Ikram et al., 2021). This encompasses the idea that the organization has gained the trust of its stakeholders and is seen as trustworthy and legitimate (Amani & Ismail, 2022). Maintaining corporate legitimacy is crucial for building long-term relationships with stakeholders, as it demonstrates the company's reliability and credibility (Payne et al., 2021). The concept of corporate legitimacy has a significant impact on a company's

performance, success, and competitiveness (Randrianasolo & Arnold, 2020). It can be granted by government authorities and members of society (Chen & Lee, 2022). It has been suggested that legitimacy is granted when an organization's practices align with social norms, laws, and regulations, ethical standards, and best practices in the industry (Miotto et al., 2020). Transparency and accountability are also important factors in establishing corporate legitimacy, as they demonstrate the company's commitment to providing accurate information to stakeholders (Chen & Lee, 2021; Miotto & Youn, 2020). A company with a culture of ethical principles, such as integrity and respect for others, is considered to have a legitimate corporate identity (Amani, 2022). Corporate legitimacy can be categorized into three types: pragmatic, moral, and cognitive.

Pragmatic corporate legitimacy

When an organization aligns its objectives and values with the interests of its stakeholders, it can result in mutual benefits and positive outcomes (Amani, 2022). This type of legitimacy, based on social norms, beliefs, and practices, is considered a more sustainable approach than solely relying on economic performance (Payne et al., 2021). According to institutional theory, organizational behavior and success are shaped by social norms, beliefs, and practices (Gupta & Gupta, 2021). By considering the needs and interests of stakeholders, organizations can gain a better understanding of their values and create strategies to meet their needs, leading to increased trust and legitimacy (Ababio & Gnonsio Mangueye, 2021). This can also result in increased loyalty and trust from stakeholders, who feel that their interests are taken into account and respected (Farrar et al., 2021). Studies in tax administration suggest that this increased trust and loyalty can promote tax compliance behavior (Ababio & Gnonsio Mangueye, 2021). Additionally, the consideration of stakeholder interests can encourage collaboration and cooperation between the organization and its stakeholders, resulting in a more efficient and productive working environment. This study suggests that:

H₁: Pragmatic corporate legitimacy has a significant influence on public trust

Moral corporate legitimacy

Literature in business ethics views moral corporate legitimacy as an individual's judgments centered around determining the rightness or wrongness of a particular activity, practice, or scheme (Farrar et al., 2021). This judgment is made by evaluating whether the activity or practice promotes the welfare of society as defined by its value systems (Ababio & Gnonsio Mangueye, 2021). There are three main perspectives through which moral corporate legitimacy can be evaluated: consequential, procedural, and structural. From a consequential perspective, an organization is evaluated based on its intended outcomes, or what it aims to achieve in society. Through a procedural perspective, members of society evaluate whether the organization uses socially acceptable methods and processes in its daily operations. And from a structural perspective, members of society assess whether the organization is in the right place or has the right capabilities to carry out its mission. Research suggests that moral legitimacy has a significant impact on the behavior of stakeholders, including consumers, suppliers, and governments (Randrianasolo & Randrianasolo, 2017). In terms of organizational performance, the institutional theory proposes that conforming to institutional norms can lead to improved performance by enhancing the organization's legitimacy and access to valuable resources (Gupta & Gupta, 2021). Additionally, literature indicates that moral legitimacy has a direct effect on consumers' trust and purchasing decisions. This study suggests that:

H₂: Moral corporate legitimacy has a significant influence on public trust

Cognitive corporate legitimacy

The determination of whether an organization embodies a recognizable set of traits that can be classified as part of a particular type of organization forms the basis of a cognitive legitimacy judgment (Randrianasolo & Randrianasolo, 2017). This judgment is rooted in knowledge and comprehension, as

opposed to outcomes or the methods, tactics, or techniques used to attain them (Randrianasolo & Arnold, 2020). It is derived from society's members who evaluate the organization. Society confers cognitive legitimacy on organizations when they understand how the organization operates (Amani, 2022). This perspective is supported by institutional theorists, who argue that organizations are impacted by their external environment, including both formal institutions like laws and regulations and informal institutions like cultural norms and shared beliefs (Gupta & Gupta, 2021). Organizations are given cognitive legitimacy when society's evaluators perceive them to be understandable. To be considered comprehensible, an organization must align with institutional norms and stakeholders' expectations. The highest level of cognitive legitimacy is achieved when a new product, process, or service is perceived as established. Other ways to achieve cognitive legitimacy include receiving a recommendation from a legitimate organization, mimicking the practices of leading organizations in the sector, and utilizing communication tools such as storytelling. This study suggests that:

H₃: Cognitive corporate legitimacy has a significant influence on public trust

Tax compliance intention

Tax compliance refers to the willingness and ability of individuals, organizations, and businesses to follow tax laws and regulations by reporting their income accurately, paying the required taxes, and filing returns on time (Agbetunde et al., 2022; Alshira'h & Abdul-Jabbar, 2020). Governments rely on tax compliance to generate revenue, which they use to provide essential public services, fund infrastructure projects, and support social programs (Ababio & Gnonso Mangueye, 2021; Kiconco et al., 2019; Owusu et al., 2021). This is why tax compliance is considered a critical aspect of fiscal policy worldwide. Effective tax compliance requires a clear and understandable tax system that is seen as fair and equitable by citizens, businesses, and other taxpayers (Musimenta, 2020; Robbins & Kiser, 2018). It also requires effective enforcement mechanisms to deter non-compliance, and effective administration to ensure that tax returns are accurately processed, tax payments are properly credited, and refunds are paid promptly (Farrar et al., 2021; Seno et al., 2022). In developing countries, several factors can impact tax compliance including the effectiveness of tax enforcement, trust, the threat of sanctions, public opinion, citizens' expectations of their government, and rigidity or flexibility of tax laws (Ababio & Gnonso Mangueye, 2021; Agbetunde et al., 2022; Kiconco et al., 2019; Vincent, 2021).

Studies have shown that tax fairness plays a significant role in determining SME tax compliance (Ababio & Gnonso Mangueye, 2021; Owusu et al., 2021; Vincent, 2021). When SMEs perceive the tax system as fair, they are more likely to comply with tax regulations and make timely tax payments. On the other hand, if the tax system is perceived as unfair, SMEs may be less likely to comply with tax regulations, which can lead to tax avoidance and evasion (Dwianika et al., 2023; Vincent, 2021). Isomorphic influences, such as coercive, normative, and mimetic pressures, can also affect SME tax compliance (Kiconco et al., 2019). Coercive pressures refer to the enforcement mechanisms used by the tax authorities to ensure compliance, such as audits and penalties. Normative pressures refer to the social norms and expectations of the industry or society regarding tax compliance, while mimetic pressures refer to the pressure to conform to the behaviors and practices of other organizations. Research has shown that both normative and mimetic pressures can lead to increased tax compliance among SMEs. For example, if the majority of SMEs in a particular industry comply with tax regulations, there may be pressure on other SMEs in the same industry to do the same. Similarly, if the general public views tax compliance as a moral obligation, SMEs may feel pressure to conform to these societal norms (Kiconco et al., 2019). This study suggests that:

H₄: Public trust has a significant influence on tax compliance intentions

H_{5a}: Public trust mediates the relationship between pragmatic corporate legitimacy and tax compliance intentions

H_{5b}: Public trust mediates the relationship between moral corporate legitimacy and tax compliance intentions

H_{5c}: Public trust mediates the relationship between cognitive corporate legitimacy and tax compliance intentions

Theoretical underpinning

Institutional theory

The conceptual model of the study was developed using previous literature and institutional theory. The institutional theory used a sociological and economic approach to understand the role of social norms, beliefs, and practices in shaping organizational behavior and performance (Meyer & Rowan, 1977). The theory suggests that organizations are influenced by their external environment, including both formal institutions such as laws and regulations, and informal institutions such as cultural norms and shared beliefs (Rowan, 1982). Various institutional theorists maintain that organizations must conform to institutional norms and expectations to be perceived as legitimate and to gain access to valuable resources (Fernando & Lawrence, 2014; Massi et al., 2021). In the context of organizational performance, the institutional theory proposes that conforming to institutional norms can lead to improved performance by increasing an organization's legitimacy and access to valuable resources (Krell et al., 2016; Massi et al., 2021). The institutional theory provides a useful framework for understanding the relationship between an organization's external environment and its performance (Gupta & Gupta, 2021). By considering the influence of institutional norms and expectations, organizations can make informed decisions about how to balance the need to conform with the need to pursue their own goals and objectives (Krell et al., 2016). This study suggests that taxpayers must conform to institutional norms and expectations to be perceived as legitimate and to gain access to valuable resources which can enhance their performance through building tax compliance intentions.

Methodology

Study setting

The study was conducted in the Kilimanjaro, Arusha, and Dar-es-salaam regions in northern and coastal Tanzania. Tourism is a highly promising sector for social and economic development in the country, contributing no less than 10% to Tanzania's Gross Domestic Product (GDP) despite challenges related to non-compliance (Kyara et al., 2021). Statistics show that over 75% of tourism activities in Tanzania take place in the Northern and Coastal Zones (Anderson & Sanga, 2019). Kilimanjaro, Arusha, and Dar-es-salaam are strategically important for tourism development in the country, being rich in both natural and artificial tourist attractions that support various tourism activities and operations (Amani & Chao, 2021). A quantitative cross-sectional survey approach was employed, with data collected once from a dispersed study population. Furthermore, data was collected within a specified timeframe, with no intention of reiterating the study to monitor potential changes resulting from specific interventions (Saunders et al., 2009). The study was conducted with the aim of capturing a snapshot of data during a specific period, potentially for analysis or evaluation purposes. By not repeating the study, the focus was on understanding the immediate effects or outcomes of the interventions without tracking any long-term or subsequent changes that might have occurred (Zikmund, 2003). Structured questionnaires were self-administered to selected respondents and analyzed using Structural Equation Modeling (SEM), a multivariate data analysis technique that is effective in estimating the direct and indirect effects of complex models comprising both exogenous and endogenous variables.

Sampling and data collection procedures

To test the hypotheses outlined in the research model, a sample of 430 owner-managers of small and medium-sized enterprises (SMEs) operating in the tourism sector in Tanzania was established. The dominance of SMEs in the tourism sector in Tanzania, as indicated by current statistics, supported the selection of these businesses. The study focused on key stakeholders in the sector, including members of the Tourism Confederation of Tanzania (with 12 member associations), the Tanzania Association of Tour Operators (with over 200 members), and the Hotel Association of Tanzania (with over 250 members) (Anderson & Sanga, 2019). The research utilized a technique known as stratified random sampling, which involves dividing the population into distinct groups and randomly selecting participants from each of

these groups. The process of determining the sample involved several essential steps: Initially, the population was divided into similar subgroups called strata, based on the range of services provided by each tourism enterprise. Defining strata according to specific services aimed to ensure that each person in the population belonged to only one subgroup. Subsequently, a simple random sampling method was employed within each stratum (corresponding to different services offered) to enable the calculation of statistical measures for each subgroup. Before conducting the full-scale survey, the questionnaire underwent a pretest to establish its validity and reliability. The recommended sample size for the pretesting phase was 30, as suggested by Perneger et al., (2015). The results of the pretesting phase indicated that the questionnaire's validity and reliability were good; hence, no changes were made to it. During the data collection phase, each respondent was asked to consent to participate in the study before receiving the questionnaire. Therefore, the questionnaire was given or distributed only to respondents who were willing to participate. Data collection took place between July and September 2022.

Development of instrument and measures

The constructs were assessed using semantic differential scales anchored on a 5-point Likert scale (with 1 indicating "strongly disagree" and 5 indicating "strongly agree") to evaluate and assess the constructs. The instrument was devised by consolidating various items from prior studies on tax compliance and corporate legitimacy, which have already undergone reliability and validity testing. The selection of previously validated scales aims to firmly position the study within the domain of corporate legitimacy, public trust, and tax compliance. The instrument consisted of three sections: type of business, and length of time in the tourism industry. Additionally, the instrument included items that gauged respondents' agreement or disagreement with statements related to the study's constructs. The items were modified to fit the context of the study and to ensure that the scales accurately measured what was intended. Corporate legitimacy was measured using items from (Randrianasolo & Arnold, 2020), public trust was measured using items from (Wassler et al., 2021), and tax compliance intention was measured using items from (Owusu et al., 2021).

Common method bias

The possibility of common method bias cannot be disregarded when designing research methods for social sciences research. There are several ways to counteract this bias, including both procedural and statistical approaches (Fuller et al., 2015). In the procedural approach, participants were asked in a pre-survey to give their personal opinions and were assured anonymity to minimize the risk of social desirability bias. Additionally, the survey was designed to be short to avoid response biases that may occur when the survey takes too long. In the statistical approach, a single-factor test was performed to determine if one factor would account for the majority of variance in the items (Podsakoff et al., 2003). The results of the exploratory factor analysis showed that the strongest factor accounted for 40.8% of the variance. Given the steps taken to minimize the risk of common method bias, including the response instructions, guaranteed anonymity, survey structure, and post-hoc single-factor test, the risk of this bias is considered to be low in this study.

Data analysis and presentation of findings

Evaluation of the measurement model

Confirmatory Factor Analysis was conducted to establish statistically the distinctiveness of the major constructs in the study. The study used five criteria in ascertaining the overall model fit: chi-square statistic to the degree of freedom (χ^2/df) it should be less than 3, comparative fit index (CFI), adjusted goodness of fit indices (AGFI), incremental fit index (IFI), and tucker-lewis index (TLI) should have value exceeding 0.9 (Hooper et al., 2008). root mean square error of approximation (RMSEA) value should be less than 0.1 (McDonald & Ho, 2002). The baseline three-factor model reveals adequate goodness of fit indices ($[\chi^2= 149.344; df=94; p\text{-value} < 0.05; \chi^2/df = 1.589]; RMSEA= 0.037; CFI = 0.983; AGFI = 0.941; IFI = 0.983;$

TLI = 0.978). Also, the study evaluated scale reliability using internal consistency reliability. The value of Cronbach Alpha coefficient (α) for the variables ranged from 0.779 to 0.864 within the threshold level of 0.7 recommended by Tavakol & Dennick, (2011), hence verifying their internal consistency. Furthermore, the values of Composite Reliability (CR) to all variables significantly exceeded the recommended threshold level of 0.6 (Bagozzi & Yi, 1988) indicative of the robustness of variance shared by the indicators. The findings presented in Table 1 and 2 suggest that all variables had both high reliability and internal consistency. The study also tested validity scales by examining convergent and discriminant validity. The average variance extracted (AVE) values of the variables were between 0.540 and 0.634, and the factor loading loaded above 0.7 for each variable, confirming a satisfactory convergent validity of the variables (Fornell & Larcker, 1981). Furthermore, as shown in Table 2, the square root of average variance extracted (AVE) of all the variables exceeded the corresponding intercorrelations among the latent variables in the model, and therefore the variables had adequate discriminant validity (Fornell & Larcker, 1981). This further is an indication of the distinction between measures.

Evaluation of structural model and hypothesis testing

After establishing psychometric properties, and testing both the reliability and validity of the model the next step was to assess the fit of the hypothesized model. The results display the model fit statistics, tested hypotheses, and standardized estimates for the hypothesized model. The goodness statistics show that the hypothesized model fits the data reasonably well, with $\chi^2=164.136$; $df=97$; $p\text{-value} > 0.05$; $\chi^2/df=1.692$ (Byrne, 1998). Other model fit indices also indicate that the hypothesized model fits well to the data: RMSEA= 0.040; CFI=0.979; AGFI=0.939; IFI=0.979; TLI=0.974 (Hooper et al., 2008). The study tested the relationship

Table 1. Evaluation of measurement model: reliability and validity.

Construct	Code	Measurement Item	Standardized loadings	Cronbach Alpha coefficient	Composite reliability
Pragmatic corporate legitimacy				0.783	0.785
	pcl1	In general, organizations responsible for tax administration create value for their stakeholders	0.700		
	pcl2	The policies of organizations responsible for tax administration cater to the interests of their shareholders.	0.758		
	pcl3	I believe the activities and procedures of organizations responsible for tax administration benefit their immediate stakeholders	0.764		
Moral corporate legitimacy				0.829	0.829
	mcl1	Most people in the general public would approve of the operating practices of organizations responsible for tax administration	0.737		
	mcl2	The organizations responsible for tax administration are concerned with meeting acceptable standards for ethical behavior in their field	0.792		
	mcl3	If more organizations responsible for tax administration adopted policies and procedures like this one, the world would be a better place	0.828		
Cognitive corporate legitimacy				0.779	0.779
	cc1	The policies of organizations responsible for tax administration are typical of its field	0.742		
	cc2	In general, organizations responsible for tax administration provide an essential function	0.748		
	cc3	I believe that organizations responsible for tax administration are necessary	0.714		
Public trust				0.864	0.865
	put1	I can generally trust the decision made by the organization responsible for tax administration	0.760		
	put2	I can generally trust our organization in charge of tax administration	0.806		
	put3	Our organization responsible for tax administration can be trusted to do what is right without having constantly check on them	0.786		
	put4	Our organizations responsible for tax administration are attracting the most appropriate category of taxpayers	0.786		
Tax compliance intention				0.835	0.838
	tci1	I will not attempt to cheat by omitting to report any extra income in my tax return form	0.729		
	tci2	I will not fail to comply with the tax laws in future	0.858		
	tci3	I will report my income fully, including all other sources	0.796		

between dimensions of corporate legitimacy and tax compliance intention via public trust. This relationship was tested through four hypotheses as presented in Figure 1. In H1 the study tested the relationship between pragmatic corporate legitimacy and public trust. The findings displayed in Table 3 indicate that, public trust is influenced by pragmatic corporate legitimacy ($\beta=0.207$; t-statistics > 1.96; $p<0.05$). H2 tested the relationship between moral corporate legitimacy and public trust. The findings in Table 3 suggests that, moral corporate legitimacy has impact on public trust ($\beta=0.240$; t-statistics > 1.96; $p<0.05$). Also in H3 the study tested the relationship between cognitive corporate legitimacy and public trust. The findings in Table 3 show that cognitive corporate legitimacy influence public trust ($\beta=0.538$; t-statistics > 1.96; $p<0.001$). Finally, in H4 the study tested the relationship between public trust and tax compliance intention. The findings suggest that, public trust has impact on tax compliance intention ($\beta=0.696$; t-statistics > 1.96; $p<0.001$).

Testing of mediation effect

In hypotheses 5a, 5b, and 5c the study tested the mediation role of public trust in the relationship between corporate legitimacy and tax compliance intention using the Preacher-Hayes PROCESS macro model 4 (5000 bootstrap samples, 95% confidence interval). The findings as shown in Table 4 indicate

Table 2. Discriminant validity using Fornell-Larcker criterion.

	CR	AVE	MSV	MaxR(H)	PCL	MCL	CCL	PUT	TCI
PCL	0.785	0.549	0.452	0.788	0.741				
MCL	0.829	0.619	0.452	0.835	0.672	0.787			
CCL	0.779	0.540	0.493	0.779	0.581	0.549	0.735		
PUT	0.865	0.616	0.493	0.866	0.600	0.578	0.702	0.785	
TCI	0.838	0.634	0.444	0.850	0.666	0.522	0.569	0.687	0.796

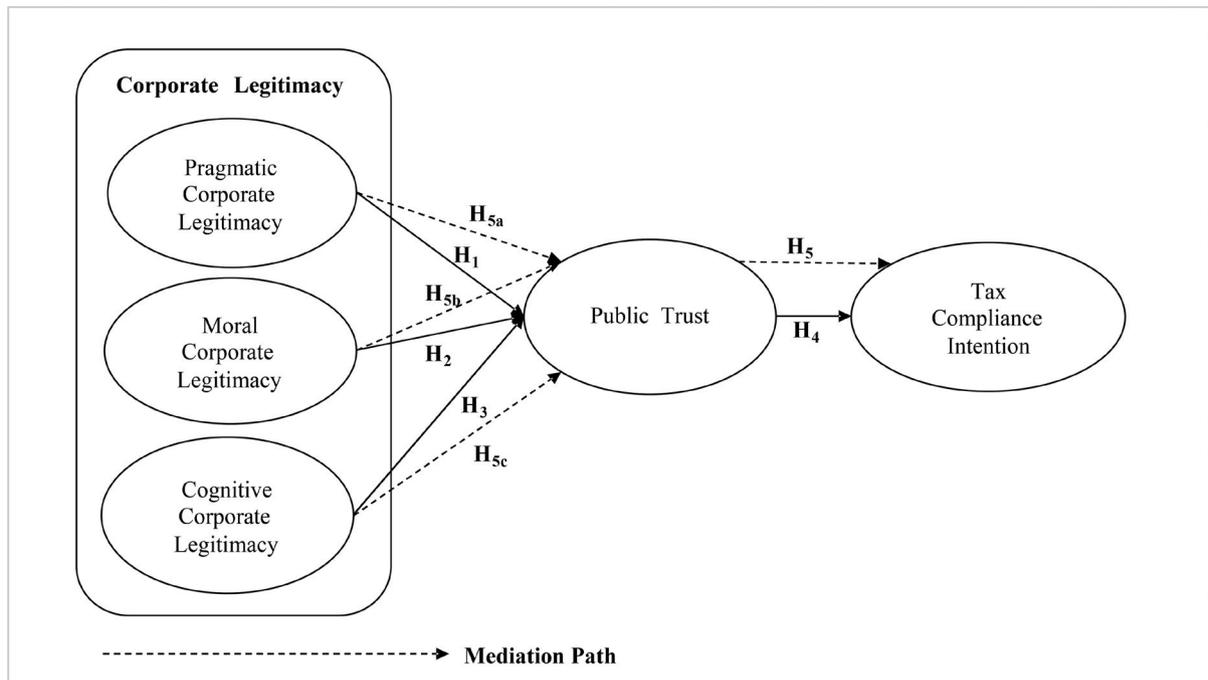


Figure 1. Conceptual model.

Table 3. Model estimation results.

Hypothesized Paths	Standardized Estimate	Standard error	t-statistics	p-value	Decision (Yes/No)
H ₁ : Pragmatic corporate legitimacy → Public Trust	0.207	0.088	2.361	0.018	Yes
H ₂ : Moral Corporate Legitimacy → Public Trust	0.240	0.087	2.762	0.006	Yes
H ₃ : Cognitive Corporate Legitimacy → Public Trust	0.538	0.076	7.068	***	Yes
H ₄ : Public Trust → Tax Compliance Intention	0.696	0.058	11.978	***	Yes

Note: *** implies $p < 0.001$.

Table 4. Mediation analysis results.

Mediation model		Standardized path coefficients	Standard error	95% confidence interval (CI)	
				Lower CI	Upper CI
H _{5a} :	Pragmatic Corporate legitimacy → Public Trust → Tax Compliance Intention	0.240	0.039	0.167	0.319
H _{5b} :	Moral Corporate Legitimacy → Public Trust → Tax Compliance Intention	0.242	0.039	0.171	0.322
H _{5c} :	Cognitive Corporate Legitimacy → Public Trust → Tax Compliance Intention	0.246	0.038	0.172	0.321

the indirect effect of Pragmatic Corporate legitimacy → Public Trust → Tax Compliance Intention ($\beta=0.240$, CI = 0.167 to 0.319). Also, the indirect effect of Moral Corporate Legitimacy → Public Trust → Tax Compliance Intention ($\beta=0.242$, CI = 0.171 to 0.322). Also, the findings suggest the indirect effect of Cognitive Corporate Legitimacy → Public Trust → Tax Compliance Intention ($\beta=0.246$, CI = 0.172 to 0.321). The findings of all indirect effects do not contain zero, demonstrating that public trust mediates the relationship between dimensions of corporate legitimacy and tax compliance intention.

Discussion of findings

The discussion of the findings is based on the theoretical proposition that corporate legitimacy should be considered a driver of tax compliance intention among SMEs through the mechanism of public trust. This reveals the likelihood that when taxpayers grant legitimacy to tax authorities and administrators, their intention to pay taxes voluntarily could increase through the mechanism of public trust (Gangl et al., 2017; Kiow et al., 2017). This implies that current efforts to reduce the non-compliance rate can be achieved by demonstrating behavior that encourages taxpayers to grant legitimacy to tax authorities and administrators (Robbins & Kiser, 2018; Sobhkhiz et al., 2019). The findings advance knowledge of the importance of social-psychological factors in promoting tax compliance rates and reducing tax evasion in developing countries. They reveal that through corporate legitimacy, tax administrators could gain public trust, which is of great importance in promoting compliance rates (Gangl et al., 2017; Kiow et al., 2017). Unlike other antecedents of public trust, in the context of this study, taxpayers are expected to build trust through the power of attitudinal behavior toward tax authorities and administrators (Jayawardane, 2015; Kiow et al., 2017). This supports the idea of institutional theorists, who argue that organizational performance is shaped by public trust in tax authorities, their systems, and procedures (Ababio & Gnonsio Manguye, 2021).

The findings indicate that building public trust can be achieved through establishing pragmatic, moral, and cognitive legitimacy. Therefore, tax authorities should adhere to existing laws and regulations, societal values, and norms to secure public trust (Mugarura et al., 2021; Owusu et al., 2021; Seno et al., 2022). Additionally, the actions and practices of tax authorities must be transparent and understood by taxpayers to gain their trust (Batrancea et al., 2019; Mugarura et al., 2021; Saruji et al., 2019). The study confirms that tax authorities must perform their duties and responsibilities with consideration for all elements of corporate legitimacy, including laws, societal values, and norms. The findings also suggest that tax compliance intentions are influenced by public trust. When taxpayers have confidence in the tax authorities and their processes, they are more likely to comply with tax laws (Gobena & Van Dijke, 2016; Siglé et al., 2018; Sobhkhiz et al., 2019). These results show that taxpayers play a crucial role in granting legitimacy to tax authorities and tax administration. Without this legitimacy, reducing or eliminating non-compliance rates in developing countries is unlikely (Ababio & Gnonsio Manguye, 2021; Musimenta et al., 2017; Sobhkhiz et al., 2019). The study's hypothesized model and hypotheses have been confirmed, meaning that public trust acts as a mediator between corporate legitimacy and tax compliance intentions.

Theoretical contribution

This study presents a research model that sheds light on the factors that influence tax compliance rates in developing countries. The model provides a comprehensive framework for future studies and research and is based on institutional theory. The study demonstrates the significant role that corporate

legitimacy plays in promoting tax compliance. The research model demonstrates that corporate legitimacy enhances public trust in tax authorities, which in turn fosters tax compliance intentions. The study makes a valuable contribution to the field of public finance by examining the antecedents of tax compliance and is one of the few studies to explore the mediating role of public trust in the relationship between corporate legitimacy and tax compliance intention. Through its examination of ethical practices and corporate legitimacy, the study highlights the importance of public trust in promoting voluntary tax compliance. This study supports and expands upon previous research on tax administration and public finance by introducing corporate legitimacy as a key antecedent of tax compliance intention. By demonstrating the mediating role of public trust, the study broadens the current understanding of tax compliance and its relationship with corporate legitimacy.

Managerial implications

The study provides valuable practical insights for managers and practitioners in public finance, particularly in the field of tax administration. It recommends that tax authorities seek legitimacy to operate as tax administrators in developing countries. This can be achieved by emphasizing compliance with societal values and norms within tax administrations. Tax authorities ought to behave as accountable public institutions responsible to societies, especially taxpayers. Evidence suggests that societies in developing countries increasingly demand social responsibility and accountability from tax authorities, urging adherence to established legal procedures and societal values in tax administration. Tax authorities and administrators should strive to meet taxpayer and societal expectations by aligning their practices with societal values and norms. Demonstrating responsible behavior is crucial to reduce misunderstandings between taxpayers and tax administrators. Tax authorities must fulfill their duties while adhering to legal procedures and societal values. According to institutional theory, an organization is deemed part of society and thus should act for the benefit of society. Evidence suggests that high rates of non-compliance in developing countries stem from hostile practices by tax authorities, fostering animosity toward taxpayers and hindering voluntary compliance. This hostility can be mitigated by regarding tax authorities as integral parts of society and by promoting their social responsibility and accountability.

Management within tax authorities and other organizations responsible for tax administration should prioritize providing in-house training for employees and tax administrators to enhance tax compliance rates. The primary focus of this training should be to underscore the significance of adhering to legal and societal norms in tax management. The training program should equip employees with the necessary skills to foster compliance, while regular in-house sessions should aid tax administrators in understanding taxpayer psychology to encourage voluntary compliance. It is recommended that tax administrators be equipped with a customer-centric approach to ensure they demonstrate proper behavior during interactions with taxpayers. Emphasizing alternative ways of promoting tax compliance, which consider taxpayers as customers possessing rights and responsibilities, is crucial. The study recommends that tax administrators possess knowledge of current efforts aimed at promoting voluntary compliance by considering the psychological and sociological aspects of taxpayers. Furthermore, implementing a policy framework that supports alternative compliance-promoting approaches in developing countries reducing the necessity for legal enforcement, and fostering better relationships between taxpayers and tax authorities is essential. This framework should address the issue of corporate legitimacy, promoting socially responsible and accountable practices. Managers within tax administration should encourage employees to consistently adhere to legal procedures and societal norms in their daily operations.

Limitations and direction for future research

The research conducted in this study focused primarily on specific aspects within small and medium-sized enterprises (SMEs) in the tourism industry. However, the study possesses certain limitations that offer opportunities for further investigation in the field. Expanding the scope beyond the tourism industry to encompass various other sectors would offer a more comprehensive understanding of the subject matter. By exploring tax compliance intentions in different industries, researchers could unearth industry-specific nuances and patterns that might impact tax behavior. While the current model

emphasizes corporate legitimacy and public trust as key factors influencing tax compliance intention, enriching this model by integrating additional variables, such as perceived ethicality, could provide a more holistic view of taxpayer behavior. Incorporating ethical considerations might shed light on how moral perceptions influence tax compliance, adding depth and clarity to the existing model. A comparative analysis between SMEs operating within the formal and informal sectors would be highly valuable. Such a comparison could unveil disparities in tax compliance behaviors between these sectors, potentially highlighting underlying factors contributing to compliance or non-compliance within each sector. Conducting a longitudinal study over an extended period would enable researchers to observe and analyze changes in tax compliance behavior over time. This longitudinal approach could reveal trends, shifts, or external influences that impact taxpayer behavior, offering insights into the dynamics of tax compliance.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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Data availability statement

Data will be available upon reasonable request.

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