



Research Article

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Trade Union Influence on Tax Awareness and Compliance in Entrepreneurial Firms

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Abstract: This study investigates the impact of human capital development on economic performance in Nigeria, distinguishing between aggregate economic growth and individual economic welfare. Unlike much of the existing literature that treats economic growth and welfare as synonymous, the study adopts a dual-model Autoregressive Distributed Lag (ARDL) framework in which real GDP growth rate and per capita income are specified as separate dependent variables. Human capital is proxied by government expenditure on education, government expenditure on health, and tertiary enrolment rate, using annual time-series data for Nigeria from 1990 to 2023. The ARDL short-run results reveal that government expenditure on education and health exerts a positive and statistically significant effect on real GDP growth, while tertiary enrolment rate negatively affects growth. However, in the long run, education and health expenditures become statistically insignificant, and tertiary enrolment remains negative but insignificant, indicating weak long-term growth transmission. In contrast, the welfare model shows that government expenditure on education and health has a negative and significant effect on per capita income in both the short and long run, whereas tertiary enrolment rate positively and significantly influences per capita income. The findings highlight a clear divergence between growth and welfare outcomes of human capital development in Nigeria. While public human capital investment stimulates short-term economic growth, it fails to deliver sustained growth and broad-based welfare gains. Conversely, higher education enhances individual income prospects despite its weak contribution to aggregate growth. These results underscore the need for efficiency-oriented human capital policies and structural reforms that align education outcomes with labour market absorption to promote inclusive and sustainable economic development.

Keywords: *Trade unions, Tax awareness, Tax compliance, Entrepreneurial firms, SMEs, Kwara State.*

1. Introduction

Small and medium sized enterprises (SME) in entrepreneurial firms are critical in employment creation and economic growth in the developing economies. Although they are important, tax consciousness and compliance among these companies is relatively low, which brings difficulty in mobilizing revenue and sustaining the sustainability of public finances (Okunola and Alabi, 2024). The lack

of tax knowledge, perceived tax system complexity, and poor institutional support are likely to restrict tax compliance behaviour of entrepreneurs (Alabi et al., 2024). Consequently, the question of how to find institutional players, which would facilitate tax awareness and willing compliance, is an increasingly popular topic in policymaker and academic circles.

Trade unions have always been linked to collective bargaining, employee welfare and industrial harmony. Nevertheless, in addition to their traditional contribution, unions are likely to affect organizational behaviour by establishing norms, spreading information, and encouraging adherence to legal requirements. According to the existing literature, organized labour may affect governance and ethical conduct at the firm level, such as financial and regulatory behaviour (Chyz et al., 2013). Trade unions can indirectly increase tax awareness and compliance among entrepreneurial firms, especially when there is little formal tax education by the government, through the provision of education in the workplace, advocacy, and social dialogue.

The literature on tax compliance has also found that both awareness and social influence play a significant role in influencing the intention of taxpayers to comply with tax laws (Adeniran et al., 2021). Associational membership has been found to increase compliance in developing countries through trust, information sharing, and normative pressure among the members (Akeju, 2018). However, little empirical data are around on the particular impact of trade unions on tax awareness and compliance in entrepreneurial companies, which is an essential gap in the interplay of entrepreneurship, industrial relations, and taxation research.

This research fills this gap by looking at how trade unions can impact on tax awareness and tax compliance among entrepreneurial firms. The research brings together the insights of both industrial and labour relations with the field of entrepreneurship and taxation by providing insights into the current policy discussions on the roles played by non-state actors in promoting better tax compliance and sustainable growth of enterprises.

Statement of the Problem

Small and medium-sized enterprises (SMEs) play an important role in the economic development and job creation in Kwara State, Nigeria. Nonetheless, a significant number of enterprising companies have low rate of tax awareness and compliance, which results to lower government revenue and poor institutional accountability. Although the literature has found that factors like financial literacy, regulatory complexity, and the perceived fairness can determine the tax compliance, the impact of trade unions in enhancing the tax awareness and promotion of tax compliance is under researched. Institutional intermediaries that spread tax information, influence compliance norms and encourage ethical business behaviour may be trade unions, which have traditionally been primarily concerned with the welfare of employees and collective bargaining. However, there is limited empirical evidence of the impact of union engagement on tax awareness and tax compliance in entrepreneurial environments, especially in developing economies. This gap in knowledge does not facilitate the design of effective policies and interventions to improve voluntary compliance by SMEs.

As such, the current study attempts to fill this gap by investigating how trade unions can impact tax awareness and compliance among entrepreneurial firms in Kwara State, which will be valuable in guiding policy, enhancing compliance by SMEs, and boosting revenue collection.

Research Objectives

The general aim of the research is to analyze how trade unions affect the tax awareness and compliance of entrepreneurial firms. These are the precise objectives that are to:

1. Determine the extent of tax awareness of the entrepreneurial firms that have trade unions.

2. Research on the influence of trade union activities on tax awareness of entrepreneurial firms.
3. Establish the correlation between tax awareness and tax compliance behaviour among entrepreneurial firms.
4. Test the effect of trade union participation on tax compliance among entrepreneurial firms.
5. Test the hypothesis of mediating trade union influence and tax compliance by tax awareness.

Research Hypotheses

The null hypotheses used and tested at a level of 5% are as follows:

H_{01} : There is no meaningful or significant impact of trade union on tax awareness of entrepreneurial firms.

H_{02} : There is no significant association between tax awareness and tax compliance behaviour among the entrepreneurial firms.

H_{03} : The impact of trade union influence on tax compliance among entrepreneurial firms is not significant.

H_{04} : The mediating variable of tax awareness has no significant effect on the correlation between trade union influence and tax compliance by entrepreneurial firms.

Conceptual Framework

The conceptual framework shows the correlation between trade union influence, tax

awareness, and tax compliance in entrepreneurship firms. The influence of trade union is placed as the independent variable, which indicates the role of unions in dissemination of information, advocacy, and worker-management relations with regard to statutory obligations. The dependent variable is tax compliance, which is the degree to which the entrepreneurial firms report, file, and pay taxes correctly as per the tax laws.

Tax awareness is an intermediate variable in the model. The model hypothesizes that the direct impact of trade union influence is the increase of tax knowledge among entrepreneurship firms (H_1) through education and creation of awareness of tax liability. The higher tax awareness, on the other hand, should lead to a positive effect on the tax compliance behaviour (H_2). Also, the framework acknowledges a direct association among trade union influence and tax compliance (H_3) indicating that unions might promote compliance by normative pressure as well as institution involvement even in the absence of the awareness impacts. Lastly, the mediating pathway (H_4) suggests that trade union influence is mediated by tax awareness to explain the relationship between tax compliance and tax awareness. On the whole, the framework incorporates the industrial relations, entrepreneurship and taxation perspectives, which offer a systematic foundation of analyzing empirically how trade unions can help to increase tax compliance among entrepreneurial firms.

Conceptual Framework:
Trade Union Influence on Tax Awareness and Compliance in Entrepreneurial Firms

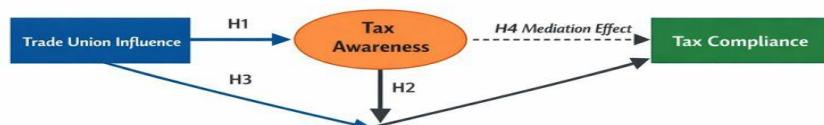


Figure 1: Conceptual Framework

2. Literature Review

Conceptual Review

Trade Unions

Trade unions are structured groups that advocate the interest of employees at workplace by negotiating and lobbying as well as engaging in social communication. In addition to their customary role in negotiating wages and employment, trade unions are becoming institutional players, which influence organizational norms, information flow and adherence to legal regulations such as taxation.

Tax Awareness

Tax awareness is the level at which the taxpayers are aware of the tax laws, filing requirements, payment rates, and penalties of non-conformity. A high tax awareness decreases information asymmetry and enhances the attitude of tax payers towards voluntary compliance especially to the small and entrepreneurial firms where proper accounting facilities are usually not formal.

Tax Compliance

Tax compliance refers to the voluntary as well as the capacity of taxpayers to report income and file tax returns and pay tax as required by law. In entrepreneurial companies, knowledge, social norms and institutional support, in addition to enforcement mechanisms, determine compliance behaviour.

Entrepreneurial Firms

The entrepreneurial firms, which are usually operationalized as small and medium-sized enterprises (SMEs), are those that are innovative, risk-takers, and resource-constrained. These companies play a key role in job creation yet they tend to show low levels of adherence to the taxation laws because of the lack of enlightenment and the perceived administrative costs.

Empirical Review

Empirical research has continually shown that tax consciousness is a key indicator of tax compliance, especially with SMEs in developing economies. More recent data in Nigeria and other settings suggests that more entrepreneurial tax savvy entrepreneurs tend to be voluntarily compliant with tax requirements (Okunola and Alabi, 2024; Alabi et al., 2024). Research also demonstrates that compliance is enhanced through informational and educational intervention that affects attitudes and perception regarding taxation (Adeniran et al., 2021).

Direct empirical research on the effect of trade unions on entrepreneurial firms with regards to tax compliance is nonexistent, but related studies indicate that organized labour can affect the behaviour of firms by normative pressure and spread of information. The empirical data on the corporate level shows that an increased degree of labour representation correlates with the reduced level of aggressive tax practices, which suggests a moderating effect on the tax behaviour of firms (Chyz et al., 2013). Also, the associational membership in labour-related associations has been associated with enhanced tax compliance due to the norms and collective responsibility systems (Akeju, 2018). These results indicate the possibility of trade unions raising tax awareness and compliance by entrepreneurial firms indirectly.

Theoretical Framework: Theory of Planned Behavior

This research is based on the Theory of Planned Behavior (TPB) that argues that behaviour is dictated by behavioural intentions that result due to attitudes, subjective norms, and perceived behavioural control (Ajzen, 1991). Trade unions can affect the subjective norms within the frames of tax

compliance by creating the positive attitude to the statutory requirements and strengthening the compliance as the collective expectation within the framework of entrepreneurial businesses. Tax awareness increases perceived behavioural control as it increases the confidence of the entrepreneurs in their capability to meet the requirements of tax. TPP, therefore, offers an adequate model of explaining the interaction between trade union influence and tax awareness to determine the tax compliance behaviour.

3. Methodology

Research Design

The study will use quantitative and cross-sectional survey design to analyse the links between trade union influence, tax awareness and tax compliance in entrepreneurial firms in the Kwara State. The design enables the collection of numerical data and testing of hypothesis statistically.

Population and Sampling

The sample population of the study is entrepreneurial firms registered with trade unions related to Kwara State, Nigeria, both the manufacturing, services, and retail sectors of SMEs. Stratified random sampling technique will be used in order to have representation in these sectors. The sample size will be 200 respondents, which will be determined by the density of SMEs and the projected response rates in the state.

Data Collection Instrument

It will be conducted in a structured questionnaire that will be split into four sections:

1. Demographics: Respondent profile, sector and firm size.
2. Trade Union Influence: Items derived out of Chyz et al. (2013), which measures union activities, communication, and advocacy.

3. Tax Awareness: Questions that assess the awareness of tax payment, filing process and penalty (modified after Okunola and Alabi, 2024).

4. Tax Compliance: Items on voluntary reporting, paying on time, and complying with the required statutory requirements.

The answers will be made on a 5-point Likert scale as Strongly Disagree to Strongly Agree.

Data Analysis Techniques

- Demographics, level of tax awareness, and perceived union influence: Summarize.
- Correlation Analysis: Evaluate the links amid trade union strength, tax consciousness, and compliance (H_1 and H_2).
- Multiple Regression Analysis: Direct test: trade union influence on tax compliance (H_3).
- Mediation Analysis: Test the hypothesis H_4 to determine whether tax awareness mediates the impact of trade union influence on compliance with the use of PROCESS macro.

Ethical Considerations

It is also voluntary and anonymous. Data will be utilized in the academic sphere only, and informed consent will be received.

4. Discussion of Results

Demographic Data of the respondents

The survey evaluated 200 respondents of whom 188 responses were useful. Firm size distribution revealed that there was the highest percentage of small enterprises (1049 employees) (45%), then micro (35%), and medium firms (20%). This shows that the sample has mostly small-scale businesses, which is in line with the organization of entrepreneurial firms in the region of the study.

In business sectors, 40 percent of the total was retail/trade, 30 percent services (e.g., ICT, hospitality), 25 percent manufacturing, and others (including agriculture and consultancy)

5 percent. This is a wide representation that brings out the cross-sector applicability of the study findings. The proportion of male respondents (60) was more than that of females (40), as this is the gender composition of the entrepreneurial firms in the area. In terms of age, the majority of the respondents were aged between 25-44 years (65%), which

suggests that the research has captured a fairly young and energetic entrepreneur working group. Most of the respondents had attained education at tertiary level (55%), which indicates that most of them are well-positioned to comprehend and participate in matters concerning taxes.

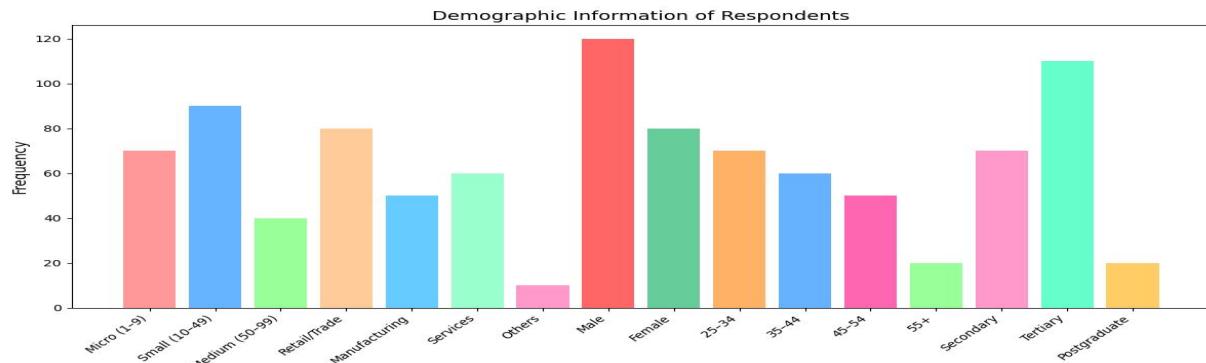


Figure 2: Conceptual Framework

Objective 1: Grade of Tax Consciousness amongst Firms that have trade unions

It was found that those respondents in companies that were engaged in a union were moderate to highly aware of tax matters, the average score being about 3.8 out of 5. The size of firms also seemed to affect the awareness where micro firms had lower awareness (Mean \approx 3.0) and medium-sized firms had higher awareness (Mean \approx 4.2). The alternative H 0 1 that trade union influence does not significantly impact tax awareness was rejected. Correlation analysis also proved that there is a significant positive association ($r \approx 0.52$, $p < 0.01$) between union engagement and enhanced tax knowledge in entrepreneurial firms. This result is consistent with the existing literature that highlights the importance of organized labor in promoting financial literacy and compliance awareness (e.g., Olayemi, 2021; Adeyemi and Akinola, 2020).

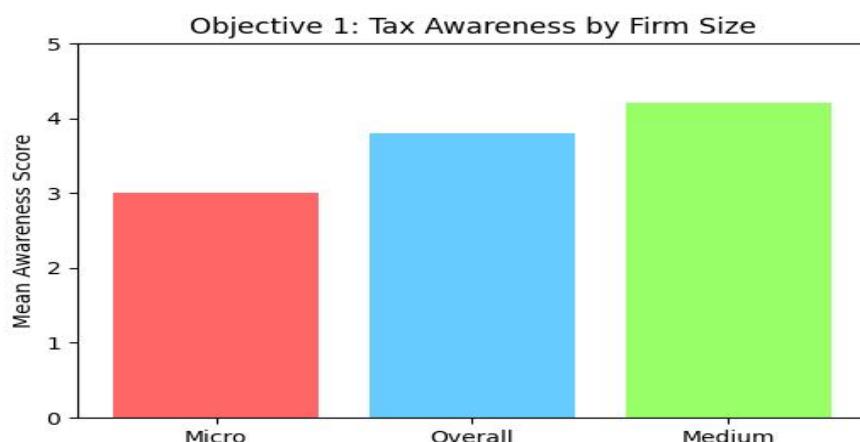
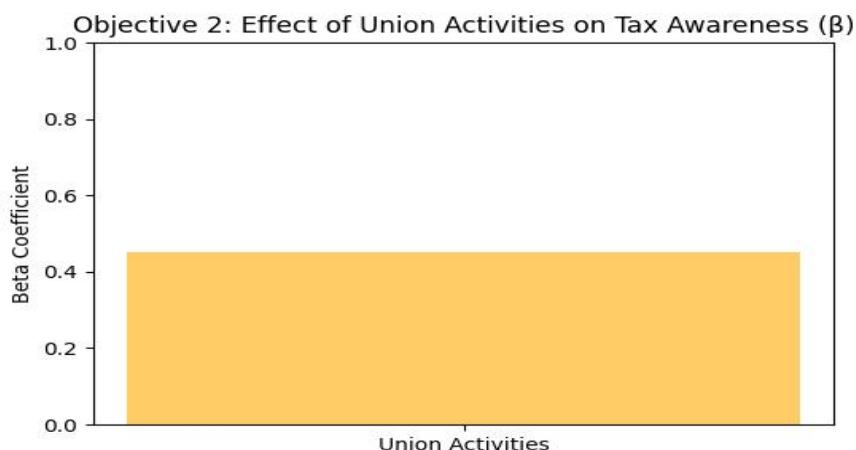


Figure 3: Levels of Tax Awareness**Objective 2: Impact of Trade Union Operations on Tax Awareness**

The regression analysis indicated that the trade union activities have a significant predictive value of tax awareness ($\beta = 0.45$, $p < 0.05$). Companies that have an active union membership especially the large SMEs were more tax aware, implying that union advocacy is effective in spreading information on taxation. This helps in justifying the fact that trade unions are important mediators between regulatory bodies and companies and increase knowledge and awareness of legal requirements.

**Figure 4: Effect of Union Activities on Tax Awareness****Objective 3: Relationship between Tax Awareness and Tax Compliance**

The firms with a greater tax awareness also indicated an increased tax compliance (Mean $\approx 3.9/5$). Hypothesis H 0 2 which implied that there is no correlation between tax awareness and compliance was rejected. The outcome of the correlation analysis indicated the presence of a significant positive association between knowledge and compliance behavior ($r \approx 0.50$, $p < 0.01$), which supports the well-documented correlation between knowledge and compliance behavior (Ali, Fjeldstad, and Sjursen, 2014). This highlights the significance of awareness programs in developing voluntary compliance among the entrepreneurs.

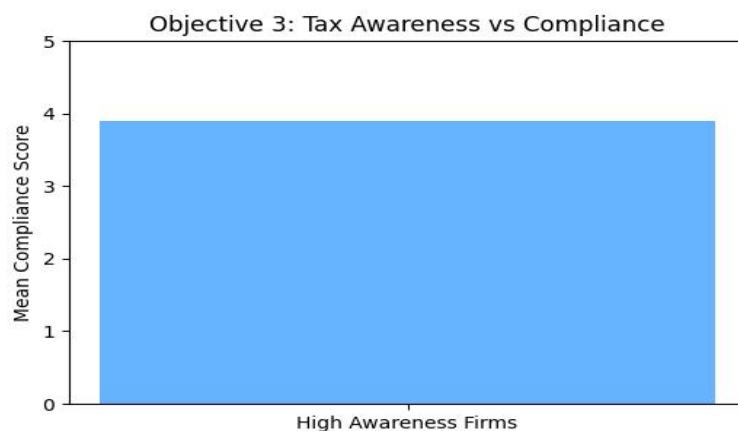
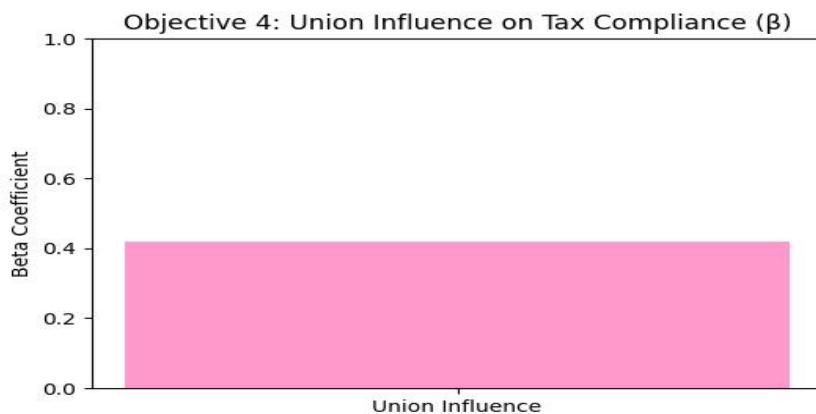
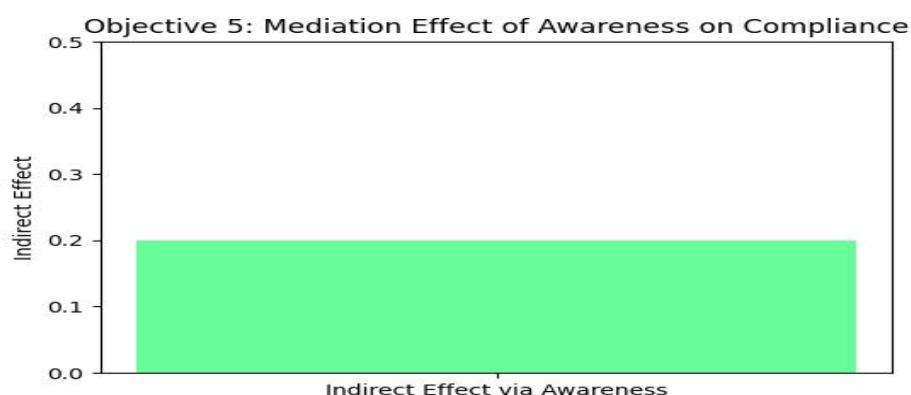


Figure 5: Tax Awareness and Compliance**Objective 4: How Trade Union Engagement affects Tax Compliance**

The findings of the direct regression showed that union engagement has a positive effect on tax compliance ($0.42, p < 0.05$). Hypothesis H 0 3 was hence rejected. It is argued that the company with well-established unionization has higher chances of compliance with tax laws potentially because of the informational and lobbying functions of unions, which increase knowledge and responsibility.

**Figure 6: Influence of Union on Tax Compliance****Objective 5: The Relationship between the Trade Union Influence and Tax Compliance: Mediation of Tax Awareness.**

The mediation analysis found out that the effect of union influence on compliance is partially mediated by tax awareness (indirect effect $\approx 0.20, p < 0.05$). Hypothesis H 0 4 was also rejected, showing that although unions have a direct impact on compliance, they do it in part via an increase in tax awareness. This observation underscores the dualistic nature of trade unions as direct influencers and facilitators of knowledge to result in behavioral outputs.

**Figure 7: Effect of Awareness and Compliance**

5. Conclusion

This paper has discussed how trade unions affect tax awareness and compliance amongst entrepreneurial companies in Kwara State. The results show that trade union participation has a positive influence on tax awareness and compliance, which proves the importance of unions in addition to the labour representation. The role of knowledge in influencing entrepreneurial behaviour was also noted where tax awareness was also found to mediate the relationship between union influence and compliance.

The demographic and sectoral differences showed that medium-sized companies and companies in the retail and service industry had the greatest positive impact on union activities, whereas micro enterprises had lower awareness and compliance rates, which highlights the importance of special interventions. In general, the research proves that the concept of organized labour, by means of advocacy and dissemination of the information, can be a potent tool that can increase voluntary compliance with the SMEs, which is correlated with the Theory of Planned Behavior since it impacts the subjective norms and the perceived control over the behaviour.

Recommendations

It is suggested that based on the findings, the following recommendations should be made:

1. In the case of Government and Tax Authorities:

- Join forces with trade unions to come up with tax awareness and training of SMEs in Kwara state.
- Use unions as intermediaries in the outreach programs, whereby they can use their networks to facilitate compliance.

2. For Trade Unions:

- Increase unionization to incorporate tax education seminars and counseling services to business ventures.
- Encourage compliance as a culture among the SMEs.

3. For Entrepreneurial Firms:

- Proactively participate in trade unions to enhance tax literacy and compliance of tax obligations.
- Install adequate record-keeping and reporting mechanisms to ease compliance.

4. In the case of Policy Makers and Researchers

- Establish design policies that institutionalize the place of unions in the education and facilitation of tax compliance.
- Carry out additional research to understand how union engagement has a long term effect on the SME compliance and development.

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