

**THE EFFECT OF CORPORATE TAX PLANNING ON THE  
FINANCIAL PERFORMANCE OF LISTED COMPANIES IN  
KENYA**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT  
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## **DECLARATION**

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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My sincere gratitude goes to my Parents and friends who stood by me during these three years. Thank you for your support and encouragement throughout my life. Finally I thank all of you who had faith in me. I will do my best to fulfill your expectations

## **DEDICATION**

I dedicate this project to my daughter Elsie Nyambura that it may encourage her to achieve higher level of education. It is also dedicated to my loving wife, Linet Muthoni; your practical help and emotional encouragement as I pursued this course is highly appreciated. To my parents, Mr. and Mrs. Kariuki and to my wonderful siblings, Tabitha Anne and Alex, I would not have made it without your moral as well as financial support, understanding and perseverance during my study period.

## ABSTRACT

According to Ogundajo and Onakoya (2016), the tax liability of a firm is positively linked to the firm's profitability. The achievement of wealth maximization goal of the firm through the many ways of increasing profitability worsens the ability of the firm to pay high taxes leading to the reduction of its tax liability. They further noted that though tax planning has positive impact on organization cash flow, it can have negative effects on the economy since the government is unable to collect enough taxes. These negative effects on the economy will translate to reduced financial performance of firms. The aim of this study was to ascertain the effect of corporate tax planning on financial performance of listed companies in Kenya. The population for the study was all the 64 companies listed in Kenya. The independent variables for the study were tax planning as measured by current income tax expense divided by profit before tax, liquidity as measured by current ratio, firm size as measured by natural logarithm of total assets and leverage as measured by long term debt divided by (shareholders equity + long term debt). Financial performance was the dependent variable and was measured by Return on Assets (ROA). Secondary data was collected for a period of 5 years (January 2012 to December 2016) on an annual basis. The study employed a descriptive cross-sectional research design and a multiple linear regression model was used to analyze the relationship between the variables. Data analysis was undertaken using the statistical package for social sciences. The results of the study produced R-square value of 0.175 which means that about 17.5 percent of the variation in financial performance of listed companies in Kenya can be explained by the four selected independent variables while 82.5 percent in the variation of financial performance was associated with other factors not covered in this research. The study also found that the independent variables had a weak correlation with financial performance ( $R=0.418$ ). ANOVA results show that the F statistic was significant at 5% level with a  $p=0.000$ . Therefore the model was fit to explain the relationship between the selected variables. The results further revealed that corporate tax planning and liquidity produced positive and statistically significant values for this study. Leverage produced negative but statistically significant values while firm size was found to be a statistically insignificant determinant of financial performance of listed companies in Kenya. This study recommends adequate measures to be put in place by managers of listed firms to improve and grow their financial performance through corporate tax planning. Listed firms and all firms in general should practice corporate tax planning that will lead to an increase in financial performance because this translates to improved shareholder wealth which is the main goal of a firm.

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## **ABBREVIATIONS**

<b>CMA</b>	Capital Markets Authority
<b>IPO</b>	Initial Public Offer
<b>KRA</b>	Kenya Revenue Authority
<b>NSE</b>	Nairobi Securities Exchange
<b>MNCs</b>	Multinational Corporations
<b>OLS</b>	Ordinary Least Squares
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Capital Employed.

## **CHAPTER ONE:**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Bruce, Deskins, and Fox (2005) states that tax planning activities consist of tax evasion and avoidance schemes which influence the financial plans of companies due to variation in state tax regulation. Sonja (2002) claimed that tax planning schemes ease up the firm's tax burden with more extensive foreign operations and higher levels of pre-tax income leading to a higher net income. Assuming that the firm does not change, fewer income taxes are accrued by firms with greater pre-tax income than those whose pre-tax income are less, since lower tax avoidance costs are associated with firms with greater pre-income tax. Plesko and Manzon (2001) state that there is more efficient utilization of tax credits, tax exemptions and tax exemptions as compared firms that are less profitable leading to huge book-tax variations. Murphy (2007) states that firms that have the ability to undertake tax planning create preferred advantage and perform better over organizations without successful assessment arranging.

This study will be based on three theories. Tax planning theory by Hoffman (1961) argued that due to the sophisticated nature of tax process and structures, loopholes in the legal system are inevitable enabling taxpayers to benefit on the tax positions. The theory supported firms redirecting corporate returns to other firm uses than flowing to government authorities. Trade-off theory of Capital Structure and Taxes by Myers (2001) argues that firms have a higher preference for debt to equity as a result of the tax shield benefit of borrowing. Myers (2001) asserts that firm borrowing is possible up to the level

where the tax shields' marginal value on additional debt is offset by the increase in the present value of possible financial distress costs. The agency cost theory of Jensen and Meckling (1976) also forms the basis of this study since it explains how managers as agents may misrepresent a firm by practicing tax planning strategies so as to redistribute corporate wealth for personal gain. Corporate tax planning can be beneficial or disadvantageous to a firm especially if the managers do not conform to governance practices.

Companies listed at the NSE are taxed differently since they also perform differently financially. Regardless of that, each firm has its own tax management practices and policies. In addition to that, the ownership structure of the various companies is diverse from state corporations, subsidiaries of foreign companies, local companies while others are privately owned but have sold some shares to the public including the government. The Tax Procedure Act, 2015, which came into operation on 19 January 2016, had the objectives to provision of uniform procedures for consistency and efficiency in organizing and implementing of tax laws, ensuring taxpayers comply with the regulations and effective and efficient collections of tax. The act, gives the KRA rights to reserve any person or company that appears to be structured for the purpose of evading taxation.

### **1.1.1 Corporate Tax Planning**

Vasanthi (2015), defines tax planning as the planning of an individuals' financial affairs without violating the law or as per the stipulated requirements. Complete privileges are taken to allow exemption of taxes, tax discounts, rebates, allowances, concessions, deductions, and other benefits or reliefs stipulated as per the Income Tax Act. The term tax planning is applied by businesses and individuals in the payment of the due taxes to

federal, local and state tax agencies. This process entails elements such as the management of tax implications, understanding type of expenses subjective to tax under the current regulations, and effective planning of tax collection practices to ensure prompt payments. The application of the prevailing tax laws in the when handling tax related matters is a fundamental aspect with regard to tax. Tax planning aims at minimizing tax liability (Hoffman, 1961).

According to Loretz and Moore (2009), the competitive environment yields planning decisions which are in line with the operational decisions of the firm. Needham (2013) noted that there are many methods employed for tax reduction purposes. For developed countries, the methods are well explained, although reliable and consistent data is not clearly available. For developing countries these methods are less well understood. These methods circulate around varying income from no tax, lower to higher tax countries. He described these methods to consist of: transfer pricing, profit shifting strategy payments for intangibles, shell holding companies, corporate debt equity, Hybrid entities and company specific tax rulings.

### **1.1.2 Financial Performance**

The range by which objectives of the firm and in this case financial objectives will be met or have been met is referred to as financial performance (Yahaya & Lamidi, 2015). A company's financial performance is subject to how effectively a firm uses its assets from its principal role of conducting business and its subsequent generation of revenues. Financial performance can also refer to the general well-being of a firm as far as finance is concerned over a certain period of time. Financial performance can as well be used to gauge or measure firms from the same industry or across different industries for

comparison purposes. Financial performance is, in summary, is a crucial objective that firms especially the profit oriented firms desire or aim at to achieve (Kajirwa, 2015).

Financial performance focuses more items that affect the financial statements or reports of a firm directly. The financial performance analysis can deal with items such as dividend growth, sales turnover, capital employed, asset base among others about the firm (Omondi & Muturi, 2013). The financial performance is a crucial indicator or measure of some economic units' success for example on achievement of set goals and objectives (Xu & Wanrapee, 2014). Firms stakeholders are mostly interested in the firm's performance as far as finance is concerned (Nyamita, 2014).

The measurement of financial performance is usually based on financial ratios such as activity ratios, debt ratios, liquidity ratios and profitability ratios (Bouba, 2011). Financial performance can be measured from various perspectives including: solvency, profitability, and liquidity (Mwangi & Angima, 2016). Performance measurement for a company can be done through accounting measures derived from the financial statements of the firm such as Return on Equity, Return on Assets and Gross profit margin (Mwangi & Murigu, 2015).

### **1.1.3 Corporate Tax planning and Financial Performance**

According to Ogundajo and Onakoya (2016), the tax liability of a firm is positively linked to the firm's profitability. The achievement of wealth maximization goal of the firm through the many ways of increasing profitability worsens the ability of the firm to pay high taxes leading to the reduction of its tax liability. They further noted that though tax planning has positive impact on organization cash flow, it can have negative effects

on the economy since the government is unable to collect enough taxes. These negative effects on the economy will translate to reduced financial performance of firms.

Tax planning strategies have a positive influence on the flow of cash and financial performance of an organization as it can lead to higher earnings after tax. In addition, firms which are financed by debt enjoy tax shields since debt reduces the taxable amount as compared to equity financing. Desai, Dyck and Zingales (2007) noted that tax planning leads to improved financial planning in an organization. Firms may also consider other tax planning incentives to enjoy tax shield such as offering business such as MNCs free trade zones, issuing rural area investment allowances, timing to buy assets at the right time for claims of capital allowances and issuing exemptions of tax on interest on loans granted to any business by foreign companies in that country.

A study by Dharmapala and Desai (2006), constitutes a more complex set of agency costs which arise due to conflicts of interests between the shareholders and managers. This view argues that self-interested managers are always ready to indulge in tax avoidance activities in order to divert from rent payment. Therefore, the shareholders would tolerate the managers' obscenity " tax-related undertakings in so as to divert the attention of tax agents.

According to Slemrod (2004), tax planning can have detrimental effects to the economy, industry, the society at large and financial performance of a firm. Extensive tax planning can lead to poor service renditions to the public such as poor health facilities, poor infrastructure and declining education systems simply because the government is not collecting enough revenue to support public amenities.

#### **1.1.4 Companies Listed at the Nairobi Securities Exchange**

The activities of the NSE are regulated and licensed by the CMA. It is accredited to avail a listed securities' financial trading platform and monitoring its member firms. Only 64 companies are listed on the NSE which are grouped into the following categories; Telecommunication and Technology, Agricultural, Commercial and services, Banking, Insurance, Investment, Construction and Allied, Energy and Petroleum and Manufacturing and Allied (NSE, 2016).

All companies registered in Kenya are required by law to file for tax returns annually. This is one of the various ways the government earns revenue failure to which the company can be fined. In addition, in 2015, the government of Kenya passed a law that required all investors to pay 5% capital gains tax for all trades. To increase investor confidence, the CMA requires all listed companies to publish their financial statements publicly for all investors to analyze and make investment decisions on the basis of the firm's performance (CMA, 2016).

Companies listed at the NSE are taxed differently since they also perform differently financially. Regardless of that, each firm has its own tax management practices and policies. In addition to that, the ownership structure of the various companies is diverse from state corporations, subsidiaries of foreign companies, local companies while others are privately owned but have sold some shares to the public including the government (Ratemo, 2014).



## **1.2 Research Problem**

Hanlon and Heitzman (2010) found two alternative perspectives on tax avoidance motivations and consequences in literature. Mainstream one identifies its ultimate objective as the transfer wealth from the state to the shareholders. This will be possible each time the firm evades the payment of a substantial amount of tax that would be paid. The shareholders would therefore be keen on encouraging their representatives to undertake that practice. Desai, Zingales & Dyck (2007) takes into perspective a more elaborate type of agency costs arising from the conflicts of interests between managers and shareholders. This dimension holds that self-interested managers participate in tax avoidance activities so as to benefit from more advanced discretion and thus rent diversion for their interests.

In Kenya, most companies listed at the NSE have had improved in performance however others have experienced declining fortunes which has been attributed to the fact that corporate managers and other practitioners lack adequate guidance required to attain optimal decisions (Ayako, Kungu & Githui, 2015). The main objective of a firm is generating profit and maximize on shareholders' wealth which is achievable through improved financial performance. Many companies use various tax planning methods such as tax avoidance mechanisms as a way to maximize their profits. According to PwC (2013) some Kenyan firms have been able to report high earnings due to efficient tax management practices.

International empirical studies carried out on the area of corporate tax planning and financial performance have produced mixed results. Desai and Dharmapala (2009) noted that tax avoidance not only affects financial performance but also the firm value increases

with improved tax planning schemes. It was significantly found that good corporate governance and tax avoidance practices result in greater abnormal returns. These findings tally with those of Wilson (2009) who noted that good corporate governance and tax avoidance practices and result in a higher value of the firm. On the contrary, Katz et al., (2013) found a negative link between tax avoidance and future profitability.

Locally, there are few studies conducted on the area of tax planning but these studies do not relate tax planning with financial performance. Widell and Levin (2007) undertook a comparison of the tax evasion Tanzania and Kenya while Kamau, Mutiso, and Ngui (2012) described tax evasion and avoidance in Kenya to have a significant influence on the Kenyan creative accounting practices. Wachira (2011) surveyed incentives and tax avoidance schemes adopted by the Kenya Airways. Owiti (2012) examined the influence strategies of tax planning on tax savings on firms undertaking manufacturing in Nairobi and found that the tax planning strategies were ineffective in contributing to tax savings. The researcher is certain that no specific study has been carried out in Kenya on how corporate tax planning affects financial performance of firms in the NSE listing. A gap therefore exists in literature which the present study seeks to bridge. This study intends to plug this gap by answering the question; does corporate tax planning affect financial performance of companies listed in the NSE?

### **1.3 Research Objective**

To establish the effect of corporate tax planning on the financial performance of companies listed at the Nairobi Securities Exchange.

#### **1.4 Value of the Study**

The government will benefit from the findings of this study who will use the finding to evaluate effectiveness of tax avoidance and tax incentives schemes towards improving performance of firms within the country. Information resulting from this research will form a basis of formation of government policies that govern taxation.

The study's findings will be of great importance to stakeholders including the management of both listed and non-listed companies who run the companies on a daily basis since it will provide an insight into effect of tax avoidance strategies and the tax incentives offered by the government or in law. The findings will also be important in formulation of financial strategies within the companies.

The study will be a new source of knowledge to academicians and researchers to further understand and appreciate the value of taxation, tax avoidance and the impact it has on the financial performance of a company.

## **CHAPTER TWO:**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter includes a review of literature examining recent and historical studies. It will analyze various theories and their relevance to the study of corporate tax planning and the effects the practice has on the financial performance of listed companies in Kenya.

#### **2.2 Theoretical Review**

The study will use tax planning theory, taxes and agency cost theory and trade-off theory of capital structure to explain the effectiveness of corporate tax planning on the financial performance of firms.

##### **2.2.1 Tax Planning Theory**

Hoffman (1961) established the tax planning theory that supported firms redirecting corporate returns to other firm uses than flowing to government authorities. Due to the sophisticated nature of tax process and structures, loopholes in the legal system are inevitable enabling taxpayers to benefit on the tax positions. He explained that tax planning would involve firms using legal ways to reduce the tax liability by maximizing on the loopholes in the legal system. He added that firms should reduce the tax income to a minimum keeping in mind not to affect accounting income. In so doing, a firm will be able to enjoy tax planning benefits without conflicting with the legal authorities. The theory suggests that a tax plan should be flexible in a way that it can accommodate tax law changes, it should be personalized according to the needs of the taxpayer, a professional product which is well coordinated to include and support the various types

of taxes- corporate, income, capital gains, gift. He further added that a tax plan should be able to resolve conflicting interests of the parties involved, time conscious to factor in future tax requirements of the taxpayer and should be completely honest (Hanlon & Heitzman, 2009).

### **2.2.2 Trade-off Theory of Capital Structure and Taxes**

A study conducted by Myers (2001) on capital structure noted that moderate debt ratios could be explained by the trade-off theory. The strategy adopted by a firm to finance its investments either through debt or equity is explained by the Trade-off theory. The capital structure trade-off theory basically seeks to explain the strategy adopted by a firm in the financing of its investments to which could be through equity or debt. According to the tradeoff theory, not well established firms will purely rely on debts from the bank for capital. This therefore implies that bank debts dominate market mix despite the structure of any weak firm. According to Hackbarth, Hennessy & Leland (2007), the findings that all weak firms seek bank contradicts with the un-established firms lack access to sources of financial debt or incur higher costs to do so. The debt “pecking-order” exists within the trade-off theory with bank debt getting a higher preference since is a lower bankruptcy cost associated with it. Hack Barth (2007) argues that the bank debt is the only means of attaining the required number of tax shields when the ex-post bargaining power. Myers form borrowing rises up to the level where the tax marginal value shields on additional debt is diluted by the present value of costs that may accrue due to financial constraints (Myers, 2001). Miller and Modigliani (1958) assert that debt attractiveness decreases with the tax rate subjected on personal income. Failure by the firm to cope with the obligations of the debt holder leads to a financial distress within the firm. Insolvency

accrues due to the continuous debt defaulting by the firm to its holders. Pandey, (2005) asserts that the agency costs and financial distress costs could explain this phenomenon. Furthermore, the financial distress direct costs include; insolvency costs which are demonstrated through demoralized customers and employees who in the long run cease to purchase the products of the company, failure by the investors of the available capital at high costs and risk avoidance by managers thus failure to venture into profitable investments (Pandey, 2005).

According to Murinde (2002) the firm's capital structure decisions are dictated by the existing tax policy. This is brought about by the fact that firms are privileged to deduct interest on debts by corporate tax during taxable profits' computation. The implication of this is that the tax advantages resulting from debt compels firms to debt financing since the debt' interest payments are subjected to tax deduction whereas equity payments for instance dividends are not subjected to tax deductions. Thus the firm's value may either be positively or negatively influenced depending on the type of business. The trade-off theory was thus found not to give a proper explanation on the associations between low debt ratios and high profitability. The studies by Rajan (1995) also demonstrated a negative link between leverage and profitability for the Canada and United states although no associations were found for Germany, Britain and Italy.

### **2.2.3 Agency Cost Theory**

The agency cost theory was developed by Meckling and Jensen (1976), managers are their agents whereas owners are the principals. The managers seek to fulfill the needs of

the owners and are awarded with strong incentives so as to meet both the interests with of the owners and economic value as well as the value of the shareholders. Two reasons exist as to why the agency costs contribute to large publicly traded companies. The first reason being less than 50% ownership by company owners which makes the existence of agency costs non-existent in small companies. The involvement of family members in the management of small businesses forms the second reason since this does not generate any agency costs. Tax avoidance creates tension between managers and investors or owners of a firm. Dharmapala and Desai (2009b) contend that avoidance of tax creates agency problems including managerial opportunism where the managers will want to cut organizational costs by avoiding taxes and diverting resources to be used for selfish gain or other use in the company.

Ang, Cole and Lin (2000) held that managers may be acting in their best interests instead of the interest of the firm. This theory explains how managers as agents may misrepresent a firm by practicing tax planning strategies so as to redistribute corporate wealth for personal gain. As was discussed earlier, corporate tax planning can be beneficial or disadvantageous to a firm especially if the managers do not conform to governance practices. Previous studies have shown significant proof that practicing tax avoidance with good corporate governance results to greater abnormal financial returns (Wilson, 2009). Similarly, Dharmapala and Desai (2009) noted that acts of tax avoidance and desirable governance structures among firms generate more value to the firm. Lack of stable corporate governance structures leads to managers misusing corporate tax planning activities to enrich themselves. To avoid or minimize agency costs, Jensen and Meckling

(1976) suggested that the principal should compensate and remunerate the agent handsomely and also establish incentives.

### **2.3 Determinants of Financial Performance of Listed Firms in Kenya**

Taxes are statutory deductions that play a huge role in the financial performance of all firms especially since it determines the amount the company and investors can distribute among themselves from the earnings after tax. Tax is a liability of all firms and the tax burden must be managed to a minimum if the company is to maximize on profits. Other than taxes, there are other factors that affect financial performance of firms and this study will highlight some of those factors.

#### **2.3.1 Ownership Structure**

Financial performance is key to any business mainly for its survival and firms have an important duty to ensure that they make enough returns. Company ownership is an important factor for organizations conflicting interests between shareholders and managers can lead to poor performance of the firm. To curb this challenge, many firms increase the equity ownership of managers making them shareholders of the company thus being motivated to maximize the firm's wealth. On the contrary, this approach may not work as expected since some managers may use the power and influence they have as shareholders for personal gain. Andow and Bature (2016) note that good corporate governance among board of directors, managers and other stakeholders is the only favorable approach and leads to economic development.

The agency theory looked at the how conflict of interest comes about and the relationship between ownership and performance in situations where the owners engage an agent known as manager to run the daily affairs of the firm. The owners delegated some of the



responsibilities and authority to the agent in the spirit that the agent will act on the best interest of the owner in the running of the firm (Jensen & Meckling, 1976). Brennan (1995) postulated that a conflict of interest arising from the agency relationship is reflected in the share prices since they drop over time. To minimize this conflict, firms employ and set up a board of directors which is independently selected from annual general meetings and is mandated to ensure firms carry out transparent financial reporting.

### **2.3.2 Liquidity**

Studies done by Shiu (2004) show that company with more investments in liquid assets show a better performance since they are able to meet their cash needs more easily thereby reducing their overall exposure to liquidity risks. Lack of sufficient cash to meet short term financial needs may force a company to sell off investment securities at below market price just to settle their claims. As a result, their financial performance may be hindered. According to Adam and Buckle (2003), liquidity is a measure of management's ability in fulfilling immediate commitments to the various policy holders without an increase in the profit from investments and without being forced to sell off financial assets. Having sufficient liquidity is hence a measure of improving company financial performance.

### **2.3.3 Firm Size**

Financial performance has been positively linked to the company size. Hardwick (1997) argued that the positive correlation between size and performance of companies can be attributed to efficiencies in operating costs that improve performance by increasing output and subsequently reducing the cost per unit of output. Investors will be able to

diversify their risks in large corporate and respond to the changing market circumstances. Bain (1968) argues that the large firms possess monopoly power which enables them to set prices of their goods above the economic costs of production thereby profiting additionally. These sentiments were also argued by Scherer (1980). Adam (1996) in his study believes that the ability of large firms to diversify their investment portfolios could enable them to significantly reduce their business risk exposure.

### **2.3.4 Capital Structure**

The capital structure of a firm is the combination of its financial liabilities. Harris and Raviv (1991) noted that suppliers of finance or investors have the right and ability to manage the firms. Financial liabilities are either debt or equity where investors can either be debt holders or equity holders. In various situations, a hybrid of securities can arise where an investor supplies funds through equity and debt. A capital structure refers to the method used by a firm in the management of its resources, growth and developments by utilizing various funds. Debt funding comes from company issuing bonds, short term debt and long term notes payable which act as loan while equity funding comes from the sale of stocks which may include common stock, preferred stock or retained earnings. The management of the firm decides on the financing choices which affect the market share price as well as the firm's value.

A significantly positive association was found established between profitability and total debt presented as a percentage of the total buyout-financing package (Roden and Lewellen 1995). On the contrary, Fama and French (1998) found negative associations between debt financing and financial performance. They stated that excessive use of debt translates to agency problems among creditors and shareholders' which could in negative

associations between profitability and leverage. On the same note, Miller and Modigliani (1958) established the unimportance of capital structure on the value of the firm. However, their theories have been subject to scrutiny by other scholars since they based their findings on various assumptions which can only apply in a perfect market. These assumptions include free entry into the market and access to information, no tax difference between capital gains and dividends and zero transactions costs. These assumptions are not realistic in the real world and in 1963 they revised the irrelevance theory and stated that value of firm increases with higher debt ratios since interest expenses are tax deductible.

#### **2.4 Empirical Studies**

Stavroula and Theofanis (2012) did a study on the level to which corporate tax is evaded and its effects on the shareholders' protection and the capital market functioning. The mean rate of tax evasion was estimated at 16 %, insinuating that the tax evasion incentive does not reduce diminish when firms are in the stock exchange listing. This implies that the tax behavior of companies only changes a year prior or preceding the IPO. The level of the omitted tax evasion was also influenced by the type of audit firm. This proved that tax evasion is a national disaster that requires serious attention. Since Greece was in a financial crisis at that particular time, the topic on tax evasion was more crucial than ever. The role of the importance of the effectiveness the firm in the detection of fraud was also found to be significant since it is granted with the rights of issuing tax certificates by the 2010 Greek tax bill.

Antonio (2015) did a study on internationals and the Portuguese corporate tax reforms and international trends. The aim of the study was to explore the impact of the 2014

Portuguese corporate tax reform on the shift towards international trends. It was also used in determining the more pronounced fields of disparities and similarities in the assessment of Portuguese reforms against the Common Consolidated Corporate Tax Base. They found that Portugal was increasingly out of line with international trends in corporate taxation. The bailout asked for the Portuguese Government in 2011 placed a heavy burden in public finances, with an apparent lack of room to follow international trends of corporate tax reform. However, it can be concluded that, after convincing the troika that investment and growth were paramount to overcome the severe economic and social crisis that fell upon the country, the corporate tax was seen as an important policy tool to promote these goals.

Katz et al., (2013) examined the levels to which the saving acquired from tax avoidance is invested by the managers to increase the firm's profitability or divert them towards rent extraction, non value adding projects and perquisite consumption. The findings were in line with the negative tax avoidance effects such as rent extraction thus the main components yielding profitability were identified as: utilization of assets, operating liability leverage and margins lead to lower future tax profitability for firms whose tax aggressiveness is higher compared to less tax aggressive firms. Lower margins also had a more robust impact than that of operating liability leverage and inefficient asset utilization. This outcome is applicable in many contexts that exacerbate or mitigate rent extraction, such as the better governance structure, existence of foreign operations, industry leadership position, across corporate life cycle stages and more transparency.

A study by Hasan et al., (2014) examined the impact of corporate tax avoidance on bank loans' cost. Firms with huge tax avoidance incur more spreads during bank loan

acquisition. Strict non-price loan conditions were also subjected to extreme tax avoidance, bank loans preference over public bonds during debt financing. These results indicate tax avoidance could lead to adverse risks in a firm.

Ongore (2013) attempted to explore the factors influencing the financial performance of the Kenyan commercial banks. The parameters were estimated using the generalized Least Square and Linear multiple regression model. It was concluded from the findings that the Kenyan commercial banks' performance is influenced by specific factors except liquidity. There was cumulative significance level of 5% of the influence of the micro-economic variables. The commercial banks' financial performance was however insignificantly influenced by the role of ownership. Thus, the conclusion was that the Kenyan commercial banks' performance is mainly driven by management and board decisions, whereas an insignificant contribution of the macroeconomic factors was noted.

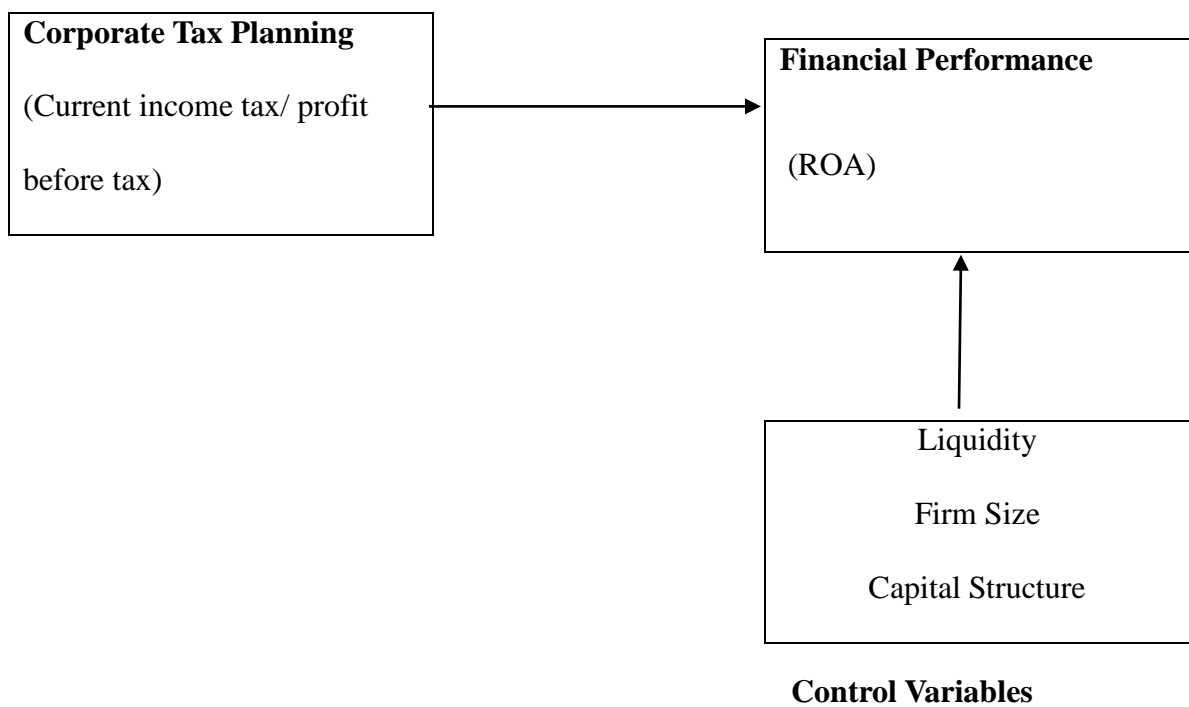
Levin and Widell (2007) examined the tax evasion level in Tanzania and Kenya. It was concluded from the study that the tax coefficient in Tanzania was higher than that of Kenya whose implication was that Tanzania's tax evasion on imported goods was higher than that of Kenya. This findings went contrary to the Transparency International Corruption Perceptions Index which indicates that Tanzania is a lesser corrupt country than Kenya. The United Kingdom was also included in the equation and tax evasion was found to have more severe trade flows between Tanzania and Kenya than those between the UK and Tanzania/ Kenya. It was further noted from the study that there was a lower tax evasion coefficient in the case of Kenya-United Kingdom compared to that of Tanzanian-United Kingdom.

A study by Ngingi (2012) on the impact of financial innovation on commercial bank's financial performance. Kenya's financial sector has undergone significant transformation in the last few years. All the 43 Kenyan commercial banks as at 30th June 2012 were used as the study population. The secondary data published from the annual reports of the central bank were also used in the study. The findings of the study revealed a huge contribution of financial innovation to profitability in the banking sector especially the commercial banks.

## 2.5 Conceptual Framework

### Independent Variable

### Dependent Variable



Source: Researcher (2017)

## **Figure 2.1: The Conceptual Model**

The conceptual framework gives a portrayal of how the factors identified are related to each other. The factors characterized here are corporate tax planning and financial performance. The independent variable is corporate tax planning as measured by current income tax expense divided by profit before tax as per its annual financial statements. The control variables are liquidity given as current assets/ current liabilities, firm size given by natural logarithm of total assets and capital structure as measured by debt ratio given as long-term debt/ (shareholders equity + long term debt). Financial performance is the dependent variable which the study seeks to explain and it will be measured by return on assets.

## **2.6 Summary of the Literature Review**

Various theoretical frameworks have attempted to explain the concept of corporate tax planning. Three theories have been discussed in this theoretical review. The theories are namely: tax planning theory, trade-off theory of capital structure and taxes and agency cost theory. Some of the key determinants of financial performance have also been discussed in this section. Several empirical studies have been conducted both internationally and locally on corporate tax planning and financial performance. The findings of these studies have also been discussed in this chapter.

The empirical studies analyzed indicate that different researchers have considered different contexts and industries with respect to corporate tax planning and varying effect have been established depending on the industry, country, period of study or methodology applied. The studies that were analyzed had different variables investigated

to understand how they affected or were interrelated to firm performance. The country and period of the studies also differed and this meant that further and current studies need to be undertaken to institute what is the influence of corporate tax planning on firm performance.



## **CHAPTER THREE:**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter entails the research methodology selected and preferred for research. It further looks into the research design preferred and the target population. The appropriate data collection tool was established and the section further stated how data will be analyzed.

#### **3.2 Research Design**

The research design describes the procedures to be used by a researcher for establishing the associations between dependent variables and independent variables (Khan, 2008). Descriptive cross sectional design was adopted for the study. A descriptive study involves a description of all the elements of the population. It allows estimates of a part of a population that has these attributes. Identifying relationships among various variables is possible, to establish whether the variables are independent or dependent. Cross-sectional study methods are done once and they represent summary at a given timeframe (Cooper & Schindler, 2008).

#### **3.3 Target Population**

Population refers to all observations of interest in an entire collection like people or events as defined by a researcher (Burns & Burns, 2008). The target population was all the listed companies at the NSE. As at December 2016, the Nairobi bourse had listed 64 companies from various industries. Since the target population is small, the study will be a census targeting all the listed firms.

### **3.4 Data Collection**

Secondary data was sourced from audited financial reports, statements and other available corporate publications for the past five years between January 2012 and December 2016. Data from websites was also utilized since recently firms have automated their methods of communication and most prefer digital systems.

### **3.5 Diagnostic Tests**

Linearity show that two variables X and Y are related by a mathematical equation  $Y=c+bX$  where c is a constant number. The linearity test was obtained through the scatterplot testing or F-statistic in ANOVA. Normality is a test for the assumption that the residual of the response variable are normally distributed around the mean. This was determined by Shapiro-walk test or Kolmogorov-Smirnov test. Autocorrelation is the measurement of the similarity between a certain time series and a lagged value of the same time series over successive time intervals. It was tested using Durbin-Watson statistic (Cooper & Schindler, 2008).

Multicollinearity is said to occur when there is a nearly exact or exact linear relation among two or more of the independent variables. This was tested by the determinant of the correlation matrices, which varies from zero to one. Orthogonal independent variable is an indication that the determinant is one while it is zero if there is a complete linear dependence between them and as it approaches to zero then the Multicollinearity becomes more intense (Burns & Burns, 2008).

### **3.6 Data Analysis**

The study used a regression model to show the effect of corporate tax planning on financial performance. The model was a linear regression analysis where the corporate

tax planning was the independent variable while financial performance was the dependent variable.

Quantitative data collected from the secondary sources was entered in a statistical package for social science (SPSS) data editor and presented through means, percentages, frequencies, standard deviations as well as through written explanations. SPSS is preferred because it is user friendly to any form of analysis depending on the nature of analysis one would like to carry out. The relationship was explained through the regression model below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon.$$

Where,

Y = Financial Performance as measured by ROA

$\alpha$  = Constant Term (the value of Financial performance when all variables are held to constant zero)

$\beta_n$  = Beta Coefficients

X<sub>1</sub> = Corporate Tax Planning measured as current income tax expense divided by profit before tax

X<sub>2</sub> = Liquidity, as given by Current Assets divided by Current Liabilities

X<sub>3</sub> = Size, as given by; Natural logarithm of total assets

X<sub>4</sub> = Leverage given as long term debt / (shareholders equity + long term debt)

$\varepsilon$  = error term

### **3.6.1 Tests of Significance**

To test the statistical significance the F- test and the t – test will be used at 95% confidence level. The F statistic will be utilized to establish a statistical significance of regression equation while the t statistic will be used to test statistical significance of study coefficients.

## **CHAPTER FOUR**

### **DATA ANALYSIS, FINDINGS AND INTERPRETATION**

#### **4.1 Introduction**

This chapter focused on the analysis of the collected data from the CBK, KNBS and CMA to establish the effectiveness of corporate tax planning on financial performance of listed firms at the Nairobi Securities Exchange. Using descriptive statistics, correlation analysis and regression analysis, the results of the study were presented in table forms as shown in the following sections.

#### **4.2 Response Rate**

This study targeted all the 64 companies listed in Kenya as at 31<sup>st</sup> December 2016. Data was obtained from all the 64 companies representing a response rate of 100%. From the respondents, the researcher was able to obtain secondary data on Return on Assets, corporate tax planning, firm size, liquidity and leverage.

#### **4.3 Diagnostic Tests**

The study looked for data that would be able to meet the objectives of the study. The data collected from the various sources i.e. CMA, CBK and KNBS was cross checked for errors to test the validity of the data sources. The research assumed a 95 percent confidence interval or 5 percent significance level (both leading to identical conclusions) for the data used. These values helped to verify the truth or the falsity of the data. Thus, the closer to 100 percent the confidence interval (and thus, the closer to 0 percent the significance level), the higher the accuracy of the data used and analyzed is assumed to be.

The researcher carried out diagnostic tests on the collected data. The null hypothesis for the test was that the secondary data was not normal. If the p-value recorded was more than 0.05, the researcher would reject it. The results of the test are as shown in Table 4.1

**Table 4.1: Normality Test**

Financial performance	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	Df	Sig.
Tax Planning	.149	320	.300	.857	320	.853
Liquidity	.156	320	.300	.906	320	.822
Firm Size	.172	320	.300	.869	320	.723
Leverage	.165	320	.300	.880	320	.784
a. Lilliefors Significance Correction						

**Source: Research Findings (2017)**

Both Kolmogorov-Smirnova and Shapiro-Wilk tests recorded o-values greater than 0.05 which implies that the research data was normally distributed and therefore the null hypothesis was rejected. The data was therefore appropriate for use to conduct parametric tests such as Pearson's correlation, regression analysis and analysis of variance.

#### 4.4 Descriptive Analysis

Descriptive statistics gives a presentation of the average, maximum and minimum values of variables applied together with their standard deviations in this study. Table 4.2 below shows the descriptive statistics for the variables applied in the study. An analysis of all the variables was obtained using SPSS software for the period of five years (2012 to 2016). ROA which was the dependent variable in this study had a mean of 0.0475218 and a standard deviation of 0.08818303. Tax planning had a mean of 0.2087181 with a standard deviation of 0.30413129. Size resulted to a mean of 7.1993438 with a standard deviation of 1.22602417. Liquidity recorded a mean of 1.7067123 with a standard deviation of 1.47087040. Leverage had a mean of 0.6069981 and standard deviation of 0.38361936.

**Table 4.2: Descriptive Statistics**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	320	-.54288	.38886	.0475218	.08818303
Tax Planning	320	-2.43012	.86985	.2087181	.30413129
Size	320	3.94529	11.24666	7.1993438	1.22602417
Liquidity	320	.34311	10.08932	1.7067123	1.47087040
Leverage	320	.00075	4.27983	.6069981	.38361936
Valid N (listwise)	320				

**Source: Research Findings (2017)**

#### 4.5 Correlation Analysis

Correlation analysis is used to establish if there exists a relationship between two variables which lies between (-) strong negative correlation and (+) perfect positive correlation. Pearson correlation was employed to analyze the level of association between the financial performance of listed companies in Kenya and the independent variables for this study (tax planning, liquidity, size and leverage).

The study found out that there was a positive and statistically significant correlation ( $r = .212, p = .000$ ) between tax planning and financial performance. The study also found out that there was a positive and significant correlation between liquidity and financial performance of listed companies as evidenced by ( $r = .332, p = .000$ ). Firm size and leverage were found to have a weak negative but significant association with financial performance as evidenced by ( $r = -.148, p = .008$ ) and ( $r = -.278, p = .000$ ) respectively. Although the independent variables had an association to each other, the association was not strong to cause Multicollinearity as all the  $r$  values were less than 0.70. This implies that there was no Multicollinearity among the independent variables and therefore they can be used as determinants of financial performance of listed companies in regression analysis.

**Table 4.3: Correlation Analysis**

Correlations						
		ROA	Tax Planning	Size	Liquidity	Leverage
ROA	Pearson Correlation	1	.212**	-.148**	.332**	-.278**
	Sig. (2-tailed)		.000	.008	.000	.000



Tax Planning	Pearson Correlation	.212**	1	.128*	.113*	-.087
	Sig. (2-tailed)	.000		.022	.044	.121
Size	Pearson Correlation	-.148**	.128*	1	-.241**	.179**
	Sig. (2-tailed)	.008	.022		.000	.001
Liquidity	Pearson Correlation	.332**	.113*	-.241**	1	-.349**
	Sig. (2-tailed)	.000	.044	.000		.000
Leverage	Pearson Correlation	-.278**	-.087	.179**	-.349**	1
	Sig. (2-tailed)	.000	.121	.001	.000	
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

**Source: Research Findings (2017).**

#### **4.6 Regression Analysis**

Financial performance of listed companies in Kenya was regressed against four predictor variables; tax planning, liquidity, firm size and leverage. The regression analysis was undertaken at 5% significance level. The study obtained the model summary statistics as shown in table 4.4 below.

**Table 4.4: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.418 <sup>a</sup>	.175	.164	.08062280	1.803

a. Predictors: (Constant), Tax Planning, Size, Liquidity, Leverage

b. Dependent Variable: ROA

**Source: Research Findings (2017).**

R squared, being the coefficient of determination indicates the deviations in the response variable that is as a result of changes in the predictor variables. From the outcome in table 4.4 above, the value of R square was 0.175, a discovery that 17.5 percent of the deviations in financial performance of listed companies is caused by changes in tax planning, liquidity, firm size and leverage of the firms. Other variables not included in the model justify for 82.5 percent of the variations in financial performance of listed companies. Also, the results revealed that there exists a strong relationship among the selected independent variables and the financial performance as shown by the correlation coefficient (R) equal to 0.418. A durbin-watson statistic of 1.803 indicated that the variable residuals were not serially correlated since the value was more than 1.5.

**Table 4.5: Analysis of Variance**

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	.433	4	.108	16.658	.000 <sup>b</sup>
Residual	2.048	315	.007		
Total	2.481	319			

a. Dependent Variable: ROA

b. Predictors: (Constant), Tax Planning, Size, Liquidity, Leverage

**Source: Research findings (2017)**

The significance value is 0.000 which is less than  $p=0.05$ . This implies that the model was statistically significant in predicting how tax planning, liquidity, firm size and debt leverage affects financial performance of listed companies in Kenya.

The researcher used t-test to determine the significance of each individual variable used in this study as a predictor of financial performance of listed companies. The p-value under sig. column was used as an indicator of the significance of the relationship between the dependent and the independent variables. At 95% confidence level, a p-value of less than 0.05 was interpreted as a measure of statistical significance. As such, a p-value above 0.05 indicates a statistically insignificant relationship between the dependent and the independent variables. The results are as shown in table 4.6

**Table 4.6: Model Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.080	.030		2.652	.008
1 Tax Planning	.053	.015	.182	3.479	.001
Size	-.006	.004	-.086	-1.593	.112
Liquidity	.014	.003	.233	4.154	.000
Leverage	-.038	.013	-.166	-3.009	.003

a. Dependent Variable: ROA

**Source: Research Findings (2017)**

From the above results, it is evident that tax planning and liquidity produced positive and statistically significant values for this study (high t-values (3.479 and 4.154),  $p < 0.05$ ). Leverage produced a negative but statistically significant values for this study ( $t = -3.009$ ,  $p = 0.003$ ). Firm size was found to be statistically insignificant for this study as evidenced by ( $t = -1.593$ ,  $p = 0.112$ ).

The following regression equation was estimated:

$$Y = 0.80 + 0.053X_1 - 0.006X_2 + 0.014X_3 - 0.038X_4$$

Where,

Y = Financial performance

X<sub>1</sub> = Tax planning

X<sub>2</sub> = Firm size

$X_3 = \text{Liquidity}$

$X_4 = \text{Leverage}$

On the estimated regression model above, the constant = 0.80 shows that if selected dependent variables (tax planning, firm size, liquidity and leverage) were rated zero, financial performance of listed companies would be 0.80. A unit increase in tax planning would lead to increase in financial performance by 0.053. A unit increase in liquidity would lead to an increase in financial performance by 0.014 while a unit increase in firm size and leverage would lead to a decrease in financial performance by -0.006 and -0.038 respectively.

#### **4.7 Discussion of Research Findings**

The study sought to determine the effect of corporate tax planning on financial performance of companies listed in Kenya. Corporate tax planning as measured by current income tax expense divided by profit before tax, liquidity as measured by current ratio, firm size as measured by natural logarithm of total assets, and leverage as measured by debt ratio were the independent variables while financial performance as measured by return on assets was the dependent variable. The effect of each of the independent variable on the dependent variable was analyzed in terms of strength and direction.

The Pearson correlation coefficients between the variables revealed that a weak positive correlation exists between tax planning and financial performance. The relationship between liquidity and financial performance was found to be weak and positive. The study also showed that there exist a weak negative relationship between leverage and financial performance while firm size was found to have a weak and insignificant

negative relationship with financial performance.

The model summary revealed that the independent variables: tax planning, firm size, liquidity and leverage explains 17.5% of changes in the dependent variable as indicated by the value of  $R^2$  which implies that there are other factors not included in this model that account for 82.5% of changes in financial performance of listed companies. The model is fit at 95% level of confidence since the F-value is 16.658. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how the selected independent variables affects financial performance of listed companies in Kenya.

The findings of this study are in line with Katz et al., (2013) who examined the levels to which the saving acquired from tax avoidance is invested by the managers to increase the firm's profitability or divert them towards rent extraction, non-value adding projects and perquisite consumption. The findings were in line with the negative tax avoidance effects such as rent extraction thus the main components yielding profitability were identified as: utilization of assets, operating liability leverage and margins lead to lower future tax profitability for firms whose tax aggressiveness is higher compared to less tax aggressive firms. Lower margins also had a more robust impact than that of operating liability leverage and inefficient asset utilization. This outcome is applicable in many contexts that exacerbate or mitigate rent extraction, such as the better governance structure, existence of foreign operations, industry leadership position, across corporate life cycle stages and more transparency.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter summarizes the findings of the previous chapter, conclusion, limitations encountered during the study. This chapter also elucidates the policy recommendations that policy makers can implement to achieve the expected financial performance of listed firms in Kenya. Lastly the chapter presents suggestions for further research which can be useful by future researchers.

#### **5.2 Summary of Findings**

The study sought to investigate the effect of corporate tax planning on financial performance of listed companies in Kenya. The independent variables for the study were tax planning, firm size, liquidity and leverage. The study adopted a descriptive cross-sectional research design. Secondary data was obtained from the CMA, CBK and KNBS and was analyzed using SPSS software version 21. The study used annual data for the 64 listed companies in Kenya covering a period of five years from January 2012 to December 2016.

From the results of correlation analysis, a weak positive correlation exists between tax planning and financial performance. The relationship between liquidity and financial performance was found to be weak and positive. The study also showed that there exist a weak negative relationship between leverage and financial performance while firm size was found to have a weak and insignificant negative relationship with financial performance.

The co-efficient of determination R-square value was 0.175 implying that the predictor variables selected for this study explains 17.5% of changes in the dependent variable. This means that there are other factors not included in this model that account for 82.5% of changes in financial performance of listed companies. The model is fit at 95% level of confidence since the F-value is 16.658. This confirms that overall the multiple regression model is statistically significant, in that it is a suitable prediction model for explaining how the selected independent variables affects financial performance of listed companies in Kenya..

The regression results show that when all the independent variables selected for the study have zero value, financial performance of listed companies would be 0.80. It is also noted that a unit increase in tax planning would lead to increase in financial performance by 0.053. A unit increase in liquidity would lead to an increase in financial performance by 0.014 while a unit increase in firm size and leverage would lead to a decrease in financial performance by -0.006 and -0.038 respectively..

### **5.3 Conclusion**

From the study findings, the study concludes that financial performance of listed companies in Kenya is significantly affected by tax planning, liquidity and leverage of the companies. The study found that tax planning had a positive and significant effect on financial performance of listed companies. The study therefore concludes that tax planning by listed firms leads to an increase in financial performance. The study found that liquidity had a positive and significant effect on financial performance and therefore it is concluded that higher levels of liquidity leads to an increase in financial performance. Leverage was found to have a negative but statistically significant



relationship with financial performance and this means an increase in leverage leads to a decrease in financial performance. Firm size was found to be statistically insignificant determinant of financial performance and therefore this study concludes that firm size does not significantly influence financial performance of listed companies in Kenya.

This study concludes that independent variables selected for this study tax planning, liquidity, firm size and leverage influence to a large extent financial performance of listed companies in Kenya. It is therefore sufficient to conclude that these variables significantly influence financial performance as shown by the p value in anova summary. The fact that the four independent variables explain 17.5% of changes in financial performance imply that the variables not included in the model explain 82.5% of changes in financial performance.

This finding concurs with Katz et al., (2013) who examined the levels to which the saving acquired from tax avoidance is invested by the managers to increase the firm's profitability or divert them towards rent extraction, non-value adding projects and perquisite consumption. The findings were in line with the negative tax avoidance effects such as rent extraction thus the main components yielding profitability were identified as: utilization of assets, operating liability leverage and margins lead to lower future tax profitability for firms whose tax aggressiveness is higher compared to less tax aggressive firms. Lower margins also had a more robust impact than that of operating liability leverage and inefficient asset utilization. This outcome is applicable in many contexts that exacerbate or mitigate rent extraction, such as the better governance structure, existence of foreign operations, industry leadership position, across corporate life cycle stages and more transparency.

#### **5.4 Recommendations**

The study established that there was a positive influence of tax planning on financial performance of listed companies in Kenya. This study recommends adequate measures should be put in place by managers of these firms to improve and grow their financial performance through corporate tax planning. Listed firms and all firms in general should practice corporate tax planning that will lead to an increase in financial performance because this translates to improved shareholder wealth which is the main goal of a firm.

The study found out that a positive relationship exists between financial position and liquidity position. This study recommends that a comprehensive assessment of listed firm's immediate liquidity position should be undertaken to ensure the company is operating at sufficient levels of liquidity that will lead to improved financial performance of firms. This is because a firm's liquidity position is of high importance since it influences the firm's current operations.

Leverage was also found to have a significant negative effect on financial performance of listed firms. The study recommends that when firms are setting their capital structure they should strike a balance between the tax savings benefit of debt and bankruptcy costs associated with borrowing. High levels of debt has been found to reduce financial performance of listed firms from the findings of this study and so firm managers should maintain debt in levels that do not impact negatively on financial performance to ensure the goal of maximizing shareholders' wealth is attained.

#### **5.5 Limitations of the Study**

The scope of this research was for five years 2012-2016. It has not been determined if the results would hold for a longer study period. Furthermore it is uncertain whether similar

findings would result beyond 2016. A longer study period is more reliable as it will take into account major happenings not accounted for in this study.

One of the limitations of the study is the quality of the data. It is difficult to conclude from this research whether the findings present the true facts about the situation. The data that has been used is only assumed to be accurate. The measures used may keep on varying from one year to another subject to prevailing condition. The study utilized secondary data, which had already been obtained and was in the public domain, unlike the primary data which is first-hand information. The study also considered selected determinants and not all the factors affecting financial performance of listed firms mainly due to limitation of data availability.

For data analysis purposes, the researcher applied a multiple linear regression model. Due to the shortcomings involved when using regression models such as erroneous and misleading results when the variable values change, the researcher cannot be able to generalize the findings with certainty. If more and more data is added to the functional regression model, the hypothesized relationship between two or more variables may not hold.

### **5.6 Suggestions for Further Research**

This study focused on corporate tax earnings and financial performance of listed companies in Kenya and relied on secondary data. A research study where data collection relies on primary data i.e. in depth questionnaires and interviews covering all the 65 listed companies in Kenya is recommended so as to compliment this research.

The study was not exhaustive of the independent variables affecting financial performance of listed companies in Kenya and this study recommends that further studies be conducted to incorporate other variables like management efficiency, growth opportunities, corporate governance, industry practices, age of the firm, political stability and other macro-economic variables. Establishing the effect of each variable on financial performance of listed companies will enable policy makers know what tool to use when maximizing shareholder's wealth.

The study concentrated on the last five years since it was the most recent data available. Future studies may use a range of many years e.g. from 2000 to date and this can be helpful to confirm or disapprove the findings of this study. The study limited itself by focusing on listed firms in Kenya. The recommendations of this study are that further studies be conducted on other non-listed firms operating in Kenya. Finally, due to the shortcomings of regression models, other models such as the Vector Error Correction Model (VECM) can be used to explain the various relationships between the variables.

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## APPENDICES

### Appendix I: Firms Listed in the Nairobi Securities Exchange

<b>Company's Name</b>	<b>Sector</b>	<b>Symbol</b>
A Baumann & Co	Financials	BAUM
ARM Cement	Industrials	ARM
Atlas African Industries (GEMS)	Industrials	AAI
B O C Kenya	Basic Materials	BOC
Bamburi Cement	Industrials	BAMB
Barclays Bank of Kenya	Financials	BBK
BAT Kenya	Consumer Goods	BATK
British-American Investments Co(Kenya)	Financials	BRIT
Car & General (K)	Consumer Services	CG
Carbacid Investments	Basic Materials	CARB
Centum Investment Co	Financials	ICDC
CFC Stanbic Kenya	Financials	CFC
CIC Insurance Group	Financials	CIC
Co-operative Bank of Kenya	Financials	COOP
Crown Paints Kenya	Basic Materials	BERG
Deacons East Africa	Consumer Services	DCON
Diamond Trust Bank Kenya	Financials	DTK
Eaagads	Consumer Goods	EGAD
East African Breweries	Consumer Goods	EABL

East African Cables	Industrials	CABL
East African Portland Cement	Industrials	EAPC
Equity Group	Financials	EQTY
Eveready East Africa	Consumer Goods	EVRD
Flame Tree Group Holdings (GEMS)	Basic Materials	FTGH
Home Afrika (GEMS)	Financials	HAFR
Housing Finance Co Kenya	Financials	HFCK
I&M Holdings	Financials	IM
Jubilee Holdings	Financials	JUB
Kakuzi	Consumer Goods	KUKZ
Kapchorua Tea Company	Consumer Goods	KAPC
KCB Group	Financials	KCB
KenGen Company	Utilities	KEGN
KenolKobil	Oil & Gas	KENO
Kenya Airways	Consumer Services	KQ
Kenya Orchards	Consumer Goods	ORCH
Kenya Power & Lighting Co	Utilities	KPLC
Kenya Re	Financials	KNRE
Kurwitu Ventures (GEMS)	Financials	KURV
Liberty Kenya Holdings	Financials	CFCI
Limuru Tea Co	Consumer Goods	LIMT
Longhorn Publishers	Consumer Services	LKL

Marshalls East Africa	Consumer Services	MASH
Mumias Sugar Co	Consumer Goods	MSC
Nairobi Business Ventures	Consumer Services	NBV
Nairobi Securities Exchange	Financials	NSE
Nation Media Group	Consumer Services	NMG
National Bank of Kenya	Financials	NBK
NIC Bank	Financials	NICB
Olympia Capital Holdings	Industrials	OCH
Safaricom	Telecommunications	SCOM
Sameer Africa	Consumer Goods	FIRE
Sanlam Kenya	Financials	PAFR
Sasini	Consumer Goods	SASN
Scangroup	Consumer Services	SCAN
Standard Chartered Bank Kenya	Financials	SCBK
Standard Group	Consumer Services	SGL
Stanlib Fahari I-REIT	Financials	FAHR
Total Kenya	Oil & Gas	TOTL
TPS Eastern Africa	Consumer Services	TPSE
Trans-Century	Industrials	TCL
Uchumi Supermarkets	Consumer Services	UCHM
Umeme	Utilities	UMME
Unga Group	Consumer Goods	UNGA

Williamson Tea Kenya	Consumer Goods	WTK
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**NSE (2017)**

**Appendix II: Data Collection Form**

<b>Year</b>	<b>current tax provisions</b>	<b>expected tax level payable</b>	<b>Net income</b>	<b>Total assets</b>	<b>Current assets</b>	<b>Current liabilities</b>	<b>Equity</b>