EFFECT OF TAXATION ON FINANCIAL PERFORMANCE OF TELECOMMUNICATION COMPANIES IN KENYA

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DECLARATION

I declare that this is my original work and has not been submitted in any university for the award of Postgraduate degree of Masters in Business Administration.

Signature……………………………….   Date…25/11/2023……………………

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D61/27392/2019

This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This research project is dedicated to my parents,siblings and friends for their tireless support,

prayer and encouragement during the study period.

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LIST OF ABBREVIATIONS

ANOVA   Analysis of Variances

CAK   Communication Authority of Kenya

CS   Capital Structure

FL   Firm Liquidity

FP   Financial Perfprmance

KRA   Kenya Revenue Authority

ME   Management Efficiency

SPSS   Statistical Package for Social Sciences

TCIT   Total Corporate Income Tax

TED   Total Excise Duty

VAT   Value Added Tax

ABSTRACT

This study delved into a comprehensive analysis of the influence of taxation on the financial performance of telecommunication companies in Kenya. Its overarching goal was to determine the effects of corporate income tax, liquidity, and other pertinent factors on financial performance within this sector. The study was grounded in well-established economic theories, including Allingham and Sandmo Theory, taxation morale theory, and the ability to pay theory. Employing a descriptive research design, this investigation utilized a dataset spanning seven years, from 2016 to 2022, encompassing data from five major telecommunication firms operating in Kenya. Both descriptive and inferential analyses were meticulously conducted using the statistical software SPSS. The study's findings illuminated significant and meaningful insights. It unveiled robust positive correlations between financial performance and total corporate income tax, as well as total excise duty. These correlations were not only statistically significant but also indicative of the substantial impact these tax components had on enhancing financial performance. Conversely, an intriguing negative correlation emerged between financial performance and capital structure. While this relationship was observed to be negative, it was deemed non-statistically significant, warranting careful consideration in practice. The regression model applied in this study showcased a commendable R-squared value of 0.860. This value underscored the model's robust predictive power, explaining roughly 86% of the variability in financial performance. Furthermore, the adjusted R-squared value, though slightly lower, hinted at the model's aptitude to capture relevant aspects affecting financial performance within the telecommunication industry. Building upon these findings, the study formulated a series of insightful recommendations for both policymakers and telecommunication firms in Kenya. Policymakers were encouraged to weigh the implications of TCIT and TED, recognizing their positive relationships with financial performance. Policymakers were advised to strike a balance between tax revenue generation and the sustainability of telecommunication companies, ensuring that tax policies do not excessively burden these firms.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Taxation serves as an imperative as far as revenue collection is concerned and is especially notable where authority imposes financial obligation on its citizens. Taxes are levied in most of the countries in the world, mainly to raise income for government expenditure, (Ojede, 2012). The total government grant was largely comprised of what is tax revenue with it accounting for 80.4 % as from 1995 to 2004 with the foreign revenue playing a minimum role reading at 4.5% of the total. The central tenets of taxation are two including raising revenue for the purpose of public funding while also serving to gather equitable revenue that in turn reduces the deterrent implications on financial effects (Ronge, 2006).

The level of indirect taxes in Kenya has been noted to consistently rise due to factors including but not limited to lackluster tax administration to ensure efficient and effective collection of direct taxes, low income per capita and the possibilities of tax evasion. According to the Tax Amendment Act, in addition to the 16% VAT that applies to mobile services, the law elevated the rate of excise tax that was applicable to general mobile services from 10% to 15%. This has led to Kenya' biggest telecom company Safaricom hiking their prices following approval of a government new taxes so as to maintain their good financial performance.

Over the years, the tax burden situation in Kenya underwent changes, transitioning from what was initially a relatively low tax burden nation to one characterized by a high tax burden. The transition occurred despite the need for a consistent revenue stream to support uninterrupted

public service provision. Kenyans were found to be prone to resisting a tax-paying culture, and the high tax burden was exacerbated by bleak expectations for additional revenue streams. Tax collection was also influenced by taxpayer wealth. The poor had little to no income to tax, whereas the wealthy frequently sought ways to preserve their wealth, which led them to seek loopholes to reduce tax revenue collection. As a result, most taxpayers saw tax collectors as confiscators of their belongings, whereas tax collectors saw most taxpayers as individuals with a low proclivity to fulfil their tax obligations. This created an overall atmosphere of mistrust regarding tax revenue collection, emphasizing the need for tax agents to improve their public image by building confidence with the populace (Ronge, 2006).

Financial performance refers to the capability of firms to meet the expectations as set by the institution it self as well as the shareholders as it pertains to economic objectives, (Almajali, 2012). Taxation and financial performance are inseparable as taxes are levied as inferred from the average Income of the firm. Taxing firms is normally viewed as a better way of raising income for the government. Nevertheless it is a consensus among economists that when a company is subjected to high tax, investment may fall and investors may look for other areas to invest in (Ojede, 2012).

1.1.1 Taxation

The act that entails taxation is defined as the government collecting revenue by imposing financial obligations on the citizenry. The process of taxation has thus been augmented such that it is transparent through the implementation of a multitude of policy reforms by the central government, (Ojede,2012).

There are two types of taxes that contribute to the country's revenue, direct taxes and indirect taxes. In terms of revenue collection indirect taxes constitute the majority of funds collected since they are charged on items consumed by the majority of the populace contrasting direct taxation which mainly consisted of people's income as the basis. Most people pay indirect taxes unlike direct taxes which usually eliminates the poor people. The VAT, typically levied on the sale of goods, is the most prevalent example of an indirect tax. Income tax, which is a tax levied on all of the earnings of a business, is an example of a direct tax (Income Tax Act 2010). For resident citizens, a rate between 10% and 30% is used.

The most common indirect tax form is VAT, which according to the tax act, serves as the basis for how to administer, collect and enforce tax obligations on the citizenry. The acquisition of tax supplies thus is charged and taxed as a part of consumption tax in products sale. The current VAT rate is 16% of the overall demand as well as supply of goods and services. The rate of VAT is thus 16% of the overall demand as well as supply of goods and services depending on the policies in put place at the time by the pertinent tax authorities. The taxation of most of the populace is thus imperative in increasing the revenue base for the government making funding for development possible.

In addition to VAT, Customs/Import duty serves as another indirect tax which was formulated in 1962 under the customs Act to prevent illegal imports and exports of goods. This tax is usually imposed on goods imported and exported on a tariff. The oldest of the modern taxes are cutom duties that rae charged as a fraction of the value of shipment or a constant quantity as determined from a specific volume of goods. Wines, automobiles, mobile phones, and cigars, among other products and services, are among those subject to excise duty, which is a tax imposed on the sale of excisable goods and services within a

nation. Excise duty is a transactional tax in that a specific event, such as the production or sale of a good, must take place., (Owino, 2019).

1.1.2 Financial Performance

How well a company performs financially serves as an idiosyncratic indicator of how well it is able to use its core business assets to generate revenues. To maximize shareholder wealth, ensure survival, and promote growth, sustained and progressive financial performance is essential. When evaluating a company's financial performance, there are four important financial ratios that stand out as it relates to liquidity success in turning over profits, solvency and different efficiencies. Particularly important are solvability ratios, which assess a company's ability to pay off its debt in relation to its assets and equity. They are therefore useful indicators for determining the overall financial stability of a company. In difficult economic times, managing cash flows may be difficult for an overleveraged company. Profitability ratios reveal the management's skill at converting sales into profits and cash flow and reflect it. Liquidity ratios offer insights into the company's capacity to honor obligations that are short-term in relation to other obligations as far as finances are concerned such as the apt repayment of short-term loans. In conclusion efficiency ratios shed light on how effectively a company exploits its business resources and assets.

According to a study by Bouba (2011), taking into account return on equit and return on assets will help you make a more insightful gauge of how well a company is or how far along theey are in achieveing their performance objectives. Return on assets demonstrates how effectively management uses all of the company's assets toaccrue a turover of profits. Increased returns highlight skillful asset management. This ratio is calculated by dividing average total assets, expressed as a percentage, by net income. Investment experts typically

view a ROA of at least 5% favourably. Firms achieving a ROA of 1.5% or higher are exempt, though. In contrast, return on equity (ROE) contrasts net income with average shareholders' equity to reveal a company's profitability. It evaluates the returns investors receive on their investments. Superior equity resource management is indicated by a higher percentage, which in turn, is appealing to investors.

1.1.3 Taxation and Financial Performance

Onakoya, (2016) the tax liability of an organization is linked positively to organization profitability. The goal of an organization of turning in and maximising profits ffaects their capability when it comes to meeting tax obligations especially the high taxes that accompany large asset base organization leading to the reduction in the liability associated with taxes. The investigation also ascertained that while tax planning has a positive effect the cash flows of the organization it also has a negative effect on the organization since the tax agents are unable to collect taxes. In effect these factors end up nullifying the financial performance.

Kenya and other developing countries much like the much more industrialized USA have high taxation as a cause of concern since, for example, a big manufacturing sector such as the Kenyan one is faced with the realities of taxes ranging from VAT to excise duties in equal measure all across the board, (KRA, 2011). The elevated taxation rates in the telecommunications sector call for quick research into how taxes affect this industry.

It is a widespread belief that rates of tax that could be termed as high are the main impetus of dismiss performance and tax non-compliance of telecommunication industries. Companies are motivated by the margibnal ytaxes, as these rates play a crucial role in influencing the

potential benefits derived from tax evasion, which can be calculated as the sum of the ammout evaded (Lee, 2005).

1.1.4 Telecommunication Industry in Kenya

The communication industry is a sector that includes companies that transmit data, voice, audio or video across the region. This sector has made communication between individuals easier and faster with the help of technology. Mobile telephone services began in 1992 with the analogue system, which was launched in 1993 and could only be afforded by the wealthy at the time.

The Kenya Communication Act which was enacted in 1998 served as the impetus for introducing contention as it pertains to market share. This industry thus, so far, has perpetually undergone stiff competition in the industry with four major network service providers, which are Safaricom, Airtel. Telecom limited (Orange) and Essar Cellular Telecoms (Telecom Kenya). Safaricom Ltd is the most profitable and has the most mobile subscribers of the four operators. The number of mobile cellular subscriptions increased 17.5% at a a steady state for the time spanning June 2011 to June 2021. The mobile service providers augmented their mobile capacity from 55.2 to 57 million subscriptions in the year prior (CAK, 2020).

The capability of the firms within the telecommunication industry to aptly avail their goods and services is the optimal manner by which telecommunication companies can achieve recognizability and increased performance. With the introduction of new indirect tax rates like VAT 16% will be transferred to the customers who will pay after enjoyment and consumption of goods and services. Income tax remittance by the telecommunication

industry will also help the government in obtaining taxation as the sales of the company goes up which will affect its financial performance depending on rates used.

1.2 Research Problem

The concept of taxation invites a lot of attention from telecommunication companies, in as nwell as other agencies in overnment or otherwise that may find an apt avenue for understanding the communications industry to a better degree in terms of revenue collection and generation. This will therefore facilitate development of an economy. Academicians associated with or concerned with tax such as Asiweh, (2012) observe that the pressure for change when it comes to tax policies more often than not result in outcomes that are not in line with the overall objectives. Lack of statistical data hinders the tax authorities to make informed decision on what rate to be used for both financial performance and economic growth of a country. Thus, it holds true that a tax system that is sound would ensure that there is less price distortions reducing the implications on the telecommunication sector.

According to Ojede (2012), corporate taxation has a antagonistic correlation to financial performance.Conversely, Onakoya (2016) takes a different stance, claiming a pragmatic correlation between taxation and business economic success. Despite the fact that VAT is a consumption-based tax, its practical implications may include a portion of the cost being borne by the business itself. The ability of businesses to seamlessly transfer the burden to consumers through product pricing is required for VAT to be used as a consumption tax. If companies have difficulty fully passing on this cost,it may prove detrimental to the firm as it may face significant losses as a result .

There is substantial research as it pertains to the study of how economic success affects the activities of various companies.Such an analysis can be conducted through the various metholdologies employed ion conceptualizing the study variable. Diverse contextual backgrounds can also account for varaitions iin resreach outcomes prior. Slemrod, (2002) studied on how much managers saved from tax avoidance during the years 1997 to 2001 was invested in programmes meant to increase organizational profitability or consumption. The study concentrated on all profitable businesses in developing countries. The analysis and interpretation of adata was achieved by putting to use a descriptive research design as well as the collection of secondary data on the shifting of income between the corporate and income tax bases was obtained. Conclusions that were in line with the effects of tax avoidance from a negative light while subsequently identifying asset utilization as a main element when it comes to turning over profits. Lower margins had a stronger effect than operating liability leverage and inefficient asset utilization. The study in its completion thus aims to determine the answer to the question: What is the effect of taxation on financial performance of telecommunication companies in Kenya?

1.3 Research Objective

1.3.1 General Objectives

The objective of the study was to determine the effect of taxation on the financial performance. of telecommunication companies in Kenya.

1.3.2 Specific Objectives

The specific objectives of this study were

1. To examine the effect of corporate income tax on financial performance of telecommunication industry in Kenya

2. To determine the effect of Liquidity on financial performance of telecommunication industry in Kenya

3. To find out the effects of Management Efficiency on financial performance of telecommunication industry in Kenya.

4. To assess the effect of Capital Structure on financial performance of Telecommunication Industry in Kenya

1.4 Value of the Study

The completion of this study has been of use to academicians as a go to as it pertains to ctiting works that are related to taxation and financial performance can be dully conducted thus acting as a source of knowledge on the matter.

The study has been a help to businesses and the shareholders within the m especially in the telecommunication industry inferring from the impact of tax on financial performance.

Lastly, the policy makers as far as taxation is concerned have found utility in the contents of this study as its findings provide suggestions that may inform their decisions when it comes to adjusting tax policies so as to ascertain the requirements for telecommunication industries.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section of this chapter that encompassed the review of the prevailing empirical studies relating to the study topic. A case study of telecommunication industry in Kenya. It includes the theoretical review, the determinants of dependent variable of the study, the review of related scholarly works, the diagrammatical representation of the relationship between the variables, research gaps and an abridgement of the chapter.

2.2 Theoretical Literature Review

This section provides an overview of factors determine rates used on taxation, tax avoidance and tax compliance. All this is explained in theories such as Allingham and Sandmo Theory, taxation morale theory and ability to pay theory below.

2.2.1 Allingham and Sandmo Theory

Sandmo, (1972) propose Allingham and Sandmo Theory and assumes that taxpayers are individuals who rationally assess the utility of the maximisation of their taxable income in relation to the benefits as compared to the cost of compliance and the utility of not complying to tax measures. From this postulation it thus holds true that they will be non-compliant when the penalty and the likelihood are reduced in comparison to the benefits that come with non-compliance.

Endorsing the A-S theory, Yitzhakki (2002) postulated that an increase in a company's income logically corresponds to an escalated taxation rate. Furthermore, the revenue derived

from business taxations ought to contribute significantly to government funding. Consequently, Yitzhaki advocates for a tax structure rooted in income as opposed to the benefits accrued by the taxpayers.

Aiming to discredit the hypotheses divulged by this theory, Alm, (2009) postulated that once the cost of evasion has been arrived at it is most likely associated with black market earnings and more thus prompting even more evasion of taxes while others fail to divulge the actual economic status of their business. Therefore, this model is appropriate in the context of predicting behavior when it comes to taxation and how it affects its financial performance.

2.2.2 Taxation Morale Theory

Alm, (2009) conducted a comprehensive investigation into the tax morale theory and its application in various tax systems through an international comparative survey conducted in Europe. The study emphasized the significance of treating tax payers with a heightend sense of prudence in that such an approach does not only boost tax morale but also contributes to the integration tax compliance costs. Although the concept of tax morale was initially introduced in the 1960s but was sidelined in terms of tax research for decades on end. Notably the Cologne School of Tax Psychology departed from the traditional perspective by shedding light the imperative to analyze economic phenomena through fresh lens specifically conceptualizing tax morale as an individual attitude towards tax compliance.

Taking these perspectives into account it is pertinent to acknowledge that certain detractors of the postulation contend that human behavior tends to reflect its own irrational tendencies with respect to tax compliance. As a result, the tax morale theory's premise that a motivated

individual will consistently comply with tax obligations may be called into question. Furthermore, even when companies demonstrate increased motivation and morale in a favourable business environment, many taxpayers may still engage in non-compliant behaviour by evading tax payments. This deviation from compliance stems from a perceived lack of responsibility, regardless of their financial standing.

2.2.3 Ability to Pay Theory

Slemrod, (2002) proposed that the imposition of tax obligations should be based upon the ability to meet these obligations. The basis of taxation is thus should be form a cost perspective with taxation according to the theory being perceived as stealing since they give their income to authorities without putting it to use.

The contention that is brought about by the critics of this theory is that a system of continuous taxation decreases motivation and disproportionately penalizes tax payers who have duly earned their income. Thus, wealthier individuals are unjustly treated with the critics proposing that taxation ought to be founded on the benefits received from the public service the taxes pay for.

2.3 Determinants of Telecommunication Industry and Financial Performance

In this section, factors as the affect the financial performance of the telecommunication industry in Kenya were assessed. They include Income tax, VAT, excise duty, custom duty,quality of assets, efficiency of management and capital adequacy.

2.3.1 Income Tax

Income tax could be termed as the tax charged on a profit accruing entity based on all the income of the entity in question. An entity in this case could be both a corporate or an individual body with income tax forming part of direct taxes. The rates range from 10% to 30% and is the revenue collected is utilized in funding public services, financing government debt and providing goods for the citizenry.

Gordon, (2005) ascertained that income tax policies have a bearing on the decision regarding the economy with tax rate cuts resulting in an augmented economy if it is sustained for the long term.

2.3.2 VAT

In Kenya, one type of indirect taxation is Value Added Tax (VAT). The VAT Act of 2010 states that this legislation acts as the fundamental framework for directing the procedures for administering, collecting, and enforcing taxation. A consumption tax known as VAT is imposed on the provision of supplies, which includes both goods and services. The impetus for establishing this tax or increasing it is such that the government is afforded a much larger source of tax revenue making funding for development that much accessible.

2.3.3 Excise Duty

Excise Duty is a type of transactional tax that depends on the certain events taking place, like the production or sale of a good (Owino, 2019). It has to do with a tax imposed on the sale of items deemed excisable within a country. Wines, cars, mobile phones, cigars, and other products are a few examples of these goods and services. The Customs and Excise Act,

(2010) initially set forth the rules for this tax's administration; however, since 2015, those rules have changed Excise Duty Act, (2015).

2.3.4 Custom Duty

Customs duty is another indirect tax which was formulated in 1962 under the customs Act to prevent illegal imports and exports of goods. The tax is usually imposed on goods imported and exported on a tariff.

2.3.5 Capital Adequacy

According to Sangmi (2010), capital adequacy refers to the required capital reserves that should correspond to the risks that financial entities face.. Reserved capital is thus a means of mitigating probable losses while also safeguarding the debt holder's interests within the institutions. Capital adequacy is a distinct determinant influencing financial performance and profitability within a firm. It also signifies the financial resources available for sustaining business activities and serving as asafeguard in the event of a na unafavorable circumstances. Adhering to legally prescribed suitable capital postionss is of utmost importance.

Sangmi (2010) thus suggests that the robustness of the firm' s capital postions is established through the use of the capital adequacy ratio. The ratio mirrors the internal resilience of the business during economic downturns that cause losses thus directly corelating to the firm's ability to manage challenging times. Furthermore, this ratio plays a direct role in shaping a firm's profitability in that it informs decisions that are seen as high-risk ventures that could be potentially profitable. A firm's capital improves its liquidity, particularly in terms of

mitigating deposit fragility and susceptibility to bank runs. However, this reduces the demand for liabilities.

2.3.6 Asset Quality

The credit risk associated with the assets of a firm as an evaluation of the asset base is referred to as the asset quality (Bouba, 2011). Asset quality has an impact on a company's profitability and includes investments. Airtime distribution is one of the most important assets of the telecommunications industry, and the quality of voice revenue determines the industry's profitability.

An asset base that is not up to par with peer standards is the main impetus of most firms failing to achieve sustainability. It is thus the prerogative pf the credit analyst enlisted by the business to perform credit risk management duly ensuring that the quality of the loan portfolio fits with the trend analysis and industry standards. Measuring asset quality is however a challenge since it is subjective depending on the perspective of the credit analyst

2.3.7 Management Efficiency

Management efficiency is an imperative in gauging and determining the output and profitability of a firm. The expansion of total assets, the loan growth, and earnings upturns are just a few examples of the various financial ratios that show this. By evaluating management structures, a subjectivity shaped by the distinctive characteristics of each company, the extent of managerial prowess is subsequently conveyed in a descriptive manner. The criteria for evaluation cover things like workforce quality, organizational adherence, and other things as well.

According to Sangmi (2010), financial ratios can be used to assess an organization's resource utilization effectiveness and ability to maximize earnings while minimizing operational expenses. One of the ratios used to evaluate managerial efficiency stands out: the operating profit to income ratio. A higher ratio of operating profits to total income (revenue) indicates greater managerial efficiency in both operational and income generation aspects. The expense to asset ratio, which serves as a proxy for management quality, is another critical indicator of management competence. Profitability is expected to be inversely related to the correlation between operating expenses and total assets. In this context, the caliber of management determines the magnitude of operating expenses, which has a significant impact on overall profitability and financial performance.

2.4 Empirical Review

Antonio, (2015) researched developments in corporate tax reforms, with a focus on international and Portuuese contexts and analyzed global trends aswell as those form Portugal spanning the years 2011 to 2015 The investigation focused on the assessment of corporate taxation in Portugal, using a descriptive case study approach. The primary goal of the investigation was to assess the implications of Portugal's 2014 tax reform in the corporate sector in terms of its alignment with global trends. The findings shed light on Portugal's growing departure from prevalent international patterns in corporate taxation. According to the researcher, after convincing the troika of the critical role of investment and growth in mitigating the nation's profound economic and societal challenges, corporate tax was identified as a significant instrument to promote these goals.

Yitzhaki (2002) studied on the effects of avoiding corporate tax bank loan's cost from 1997-2002. The study's scope included all banks in developing countries. The study used secondary data sourced from the Federal Reserve System, and the correlation methodology. Entities with a history of significant tax evasion faced wider spreads when seeking bank loans. Furthermore, non-price loan conditions were strongly associated with pronounced tax avoidance tendencies. In debt financing scenarios, the preference for bank loans expanded to include public bonds. These findings highlighted the potential for tax evasion to create negative risks within an organization.

Slemrod, (2002) between1997 and 2001, conducted research to examine the extent to which managers directed tax savings towards increasing organizational profits or consumptio. The study focused on profitable businesses in developing countries. The study used a data obatinewd from secondary sources on the transfer of income from corporate to income tax domains via compensation methods. The results were consistent with the negative consequences of tax evasion, including rent extraction. As a result, effective asset utilization was identified as one of the primary determinants of profitability. Furthermore, it was discovered that lower margins had a greater influence than operating liability leverage and inefficient asset utilization.

Levin and Windel (2007) encompassing the years 2006 and 2007, undertook an academic endeavour to ascertain the extent of tax evasion in Kenya and Tanzania. The study made use of a case study approach and data collected from secondary sources as the methodology, with the trade gap serving as an indicator of tax evasion. Tanzania had a higher tax coefficient than Kenya, according to the findings. In comparison to Kenya, Tanzania had a higher incidence of tax evasion in relation to imported goods. In addition, the United

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Kingdom (UK) was factored into the equation. Taxation had a greater negative impact on trade flows between the two countries as compared to the UK. It was also noted that when compared to the Tanzania-UK scenario, trade between Kenya and the UK had a lower tax evasion coefficient.

2.5 Conceptual Framework

Figure 2.1: Conceptual Framework

INDEPENDENT VARIABLES

| **Taxation** |
| • Corporate Income tax |
| • Excise Duty |

DEPENDENT VARIABLE

| **Financial Performance** |
| • Return on Assets (ROE) |

| **CONTROL VARIABLES** |
| • Liquidity |
| • Management Efficiency |
| • Capital Structure |
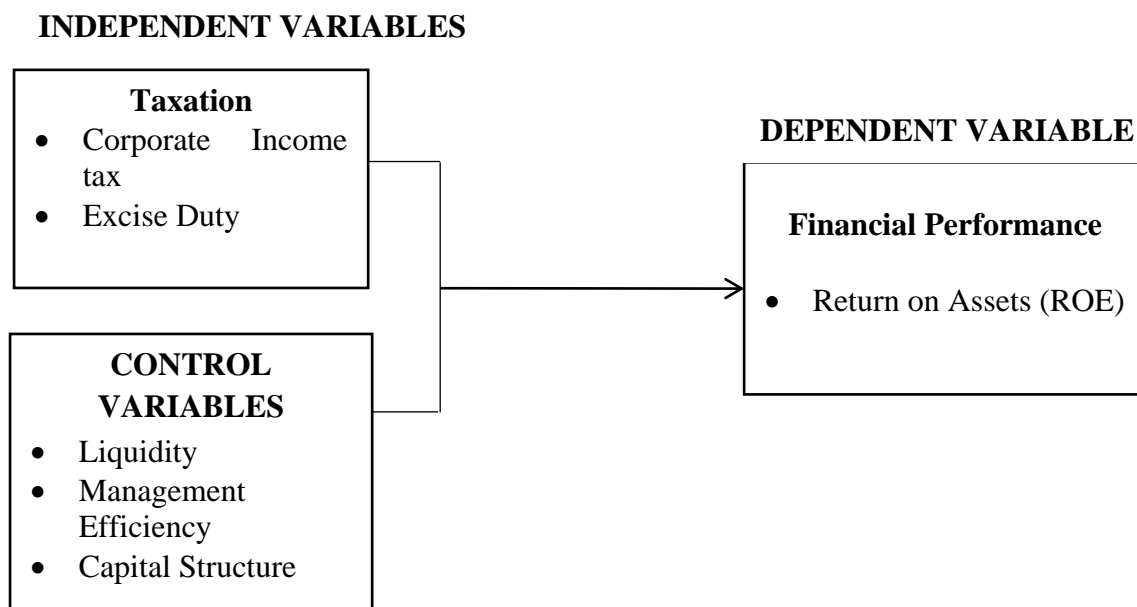
2.6 Research Gap

The end goal of starting a business is accruing profit ensuring that this profit is able to sustain the continuity of the business. Several factors have attributed to either success or failure of a firm. From the study above, several researchers have outlined some of the reasons that affect profitability. However, the fact that so little has been done as far as research is concerned to clarify how taxes affect the Kenyan telecommunications industry's financial performance forming a research gap that was filled for the purposes of this study.

Some of the common factors according to the researchers which affect financial performance of telecommunication industry is underpayment, under reporting and evasion of taxes that has been the main contributors that affect the financial performance and has inflicted great penalties in the industry.

2.7 Summary

Taxation is of great importance to Kenya as it caters for the expenses the government incurs. The government has made it easier for its organizations to remit their taxes online, which is convenient, and less time consuming. The findings shows that taxation has become a necessary tool for the development of one's nation and that taxation should be based one's ability to pay taxes.

The findings also found that an organization with higher income firms should pay higher taxes as compared to small organizations. When the utility gained from non-compliance outweighs the expected penalty and likelihood of being caught, some organizations will choose to violate the law.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This provides an overview of the study's reserchj design, the intended population, the methodologies for data collection, data analysis approaches, and the tests for ststistical significance employed within the study.

3.2 Research Design

The descriptive research design approach was used in this study. Creswell, (2017) describe this design as involving a distinct methodology encompassing various stages of the research, such as data collection, analysis, and reporting. It entails creating a comprehensive and interconnected portrayal of the subject, analyzing language, providing complex perspectives on data, and conducting the investigation in a real-world setting.

3.3 Population

According to Hungler, (2014) population consists of a whole group of people that the researcher is interested. The population of interest comprised of telecommunication industry in Kenya. Communication Authority of Kenya confirms that there are four major operators from 2016 to 2022 in Kenya. Thus, the study will used a target population of 5 key players in Kenya.

3.4 Data Collection

The data to be collectedform secondary sources, was accessed from Communication Authority of Kenya (CAK) and from audited annual reports from 1st Jan 2016 to 31st

December 2022. The data was obtained through management reports and authority websites. The data from VAT, Taxable Income, excise duty and custom duty was collected from Kenya Revenue of Authority (KRA)

3.5 Data Analysis

In the research conducted to analyze the influence of taxation on fianancial performance, a regression model was applied. The study utilized a linear regression approach, where taxation was considered as the predictor varable and the financial perforamce which serves as the dependent variable.

Data as sourced from secondary sources was assesd as the outcomes form the data editor which in this case was the Staistical Pacakge for the Social Sciences. The findings were conveyed through arrange of statistical measures such as means, percentages, frequencies and standard deviation, elaborated upon by written explanations. The regression model used was represented as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where:

Where   y = Financial performance measured using Return on Equity

α = Constant

B = Beta Beta Coefficient of variable i which measures the responsiveness X to unit of change in i

X_1 = Total Corporate Income Tax

X_2 = Total Excise Duty

X_3 = Liquidity (Current Assets/Current Liabilities)

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X_4 = Management Efficiency (Total Revenue/Total Assets)

X_5 = Capital Structure (Debt/ Equity)

e = Error term

3.6 Test of Significance

At a 95% confidence level, we will use the F-test and T-test to determine statistical significance. The F-Statistic was employed to asses the statistical significance of the regression equation while the t-statsitic was used to gauge the statistical significance of the coffecients in the resreach undertaking.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter encompassed various essential components of data analysis, including data preparation and response rate assessment, descriptive statistics to provide an overview of the collected data, diagnostic tests to ensure data met the necessary assumptions for further analysis, and a comprehensive examination of correlation and regression analyses to explore relationships between variables. The chapter concluded by offering a thorough interpretation of the research findings, shedding light on the significant insights gleaned from the data analysis process, thus contributing to a more profound understanding of the study's objectives and outcomes.

4.2 Response Rate

The study successfully achieved a 100% response rate by targeting five prominent players in the Kenyan telecommunications industry. The data collection process was facilitated by accessing and extracting information from the annual financial reports of these companies, which were readily available on their official websites. The reports covered a comprehensive period for academic assessment spanning from 2106 to 2022. The accessibility of this data directly from the companies' official sources ensured a complete response rate, enabling the study to obtain a robust and comprehensive dataset for analysis. This approach not only contributed to the reliability of the data but also streamlined the research process, allowing for a thorough examination of the chosen variables within the study's scope.

4.3 Descriptive Statistics

Descriptive statistics were crucial in characterizing and summarizing key variables, including minimum, maximum, mean, standard deviation, skewness and kurtosis. These statistics illuminated central tendency, variability and distributional characteristics. The Minimum and Maximum values revealed data range, the Mean offered the average and Standard Deviation indicated data spread. Skewness and Kurtosis assessed distribution shape. These analyses provided a foundational understanding of study variables, enabling subsequent inferential analyses.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Y = FP	35	-8.44	51.48	11.9995	17.62081	1.157	.398	.013	.778
X1 = TCIT	35	7.09	17.36	10.9324	3.34291	.616	.398	-.858	.778
X2 = TED	35	5.25	9.98	7.1663	1.68553	.493	.398	-1.506	.778
X3 = FL	35	-2.85	1.81	.7103	.83252	-2.666	.398	9.981	.778
X4 = ME	35	.06	1.40	.7069	.34718	.163	.398	-.295	.778
X5 = CS	35	-.50	1.42	.2323	.35198	.522	.398	2.754	.778
Valid N (listwise)	35								

Source: Researcher (2023)

The descriptive statistics for Y, representing financial performance measured by the percentage of return on equity, showed a mean of approximately 11.9995 and a standard deviation of roughly 17.62081. The data exhibited positive skewness (1.157) and kurtosis (0.778), indicating that the distribution is right-skewed and slightly leptokurtic. These statistics implied that the financial performance (Y) varied significantly within the sample, with a substantial spread from the minimum (-8.44) to the maximum (51.48). The positive

skewness suggested that the tail on the right side was longer or fatter than the left tail, while the kurtosis indicated that the distribution had slightly heavier tails than a normal distribution.

For X1, which represented a natural logarithm of total corporate income tax (TCIT), the descriptive statistics revealed a mean of approximately 10.9324 and a standard deviation of roughly 3.34291. The data exhibited positive skewness (0.616) and negative kurtosis (-0.858), indicating a right-skewed distribution with lighter tails. These statistics implied that TCIT varied moderately within the sample, with values ranging from 7.09 to 17.36. The positive skewness suggested that the tail on the right side was longer or fatter than the left tail, while the negative kurtosis indicated that the distribution had lighter tails than a normal distribution.

X2, representing a natural logarithm of total excise duty (TED), had a mean of approximately 7.1663 and a standard deviation of roughly 1.68553. The data exhibited positive skewness (0.493) and negative kurtosis (-1.506), indicating a right-skewed distribution with lighter tails. These statistics implied that TED varied moderately within the sample, with values ranging from 5.25 to 9.98. The positive skewness suggested that the tail on the right side was longer or fatter than the left tail, while the negative kurtosis indicated that the distribution had lighter tails than a normal distribution.

X3, representing firm liquidity, had a mean of approximately 0.7103 and a standard deviation of roughly 0.83252. The data exhibited negative skewness (-2.666) and positive kurtosis (9.981), indicating a highly left-skewed distribution with heavy tails. These statistics implied that firm liquidity varied significantly within the sample, with values ranging from -2.85 to 1.81. The negative skewness suggested that the tail on the left side was longer or fatter than

the right tail, while the positive kurtosis indicated that the distribution had heavier tails than a normal distribution.

X4, representing management efficiency (ME), had a mean of approximately 0.7069 and a standard deviation of roughly 0.34718. The data exhibited positive skewness (0.163) and negative kurtosis (-0.295), indicating a slightly right-skewed distribution with lighter tails. These statistics implied that management efficiency varied moderately within the sample, with values ranging from 0.06 to 1.40. The positive skewness suggested that the tail on the right side was longer or fatter than the left tail, while the negative kurtosis indicated that the distribution had lighter tails than a normal distribution.

X5, representing capital structure (CS), had a mean of approximately 0.2323 and a standard deviation of roughly 0.35198. The data exhibited positive skewness (0.522) and positive kurtosis (2.754), indicating a right-skewed distribution with heavier tails. These statistics imply that capital structure varied moderately within the sample, with values ranging from -0.50 to 1.42. The positive skewness suggested that the tail on the right side was longer or fatter than the left tail, while the positive kurtosis indicated that the distribution has heavier tails than a normal distribution.

4.4 Diagnostic Tests

The regression analysis and ultimately the validity of the results were put to the test using diagnostic tests. Normality was assessed using the Shapiro-Wilk test, with a significant level above 0.05indicative of data that followed a normal distribution. The linearity of the data was examined through scatter plots to check if they formed a diagonal line, indicating linearity.

Autocorrelation was assessed using the Durbin-Watson test, where a value less than 3 indicated insignificant autocorrelation in the data. Heteroscedasticity was evaluated using the Breusch-Pagan Test, and a p-value greater than 0.05 suggested the absence of heteroscedasticity. Finally, multicollinearity was assessed using the Variance Inflation Factor (VIF), with a VIF of less than 10 indicating the absence of multicollinearity. These diaganostic served as na imperative when it cam to determinningb the strength of the regression analysis as wll as the accuracy of the study's conlcuions drwand form the findings.

Table 4.2: Diagnostic Tests

Test	Definition	Measurement	Hypothesis	Decision
Normality	Data drawn from normal distribution	Shapiro- Wilk Test	P-value greater than 0.05	Some variables not normally distributed and hence moderation of variables
Linearity	Data plots are linear	P-P plots	Plots follow the diagonal line	The data is linear
Test of Autocorrelation	Negatively or positively distributed autocorrelations	Durbin-Watson Test	Ranges between 1.5 to 2.5 Result = 1.773	No significant autorrelation
Heteroscedasticity	Equal variance of errors	Breusch- Pagan Test	P- value greater than 0.05 Results= 0.336	Constant Variance
Multicollinearity	When two or more explanatory variables in a regression model are significantly connected	Variance Inflation Factor (VIF)	VIF less than 10 All values are less than 10	Absence of multicollinearity

Source: Researcher (2023)

4.5 Correlation Analysis

The did a correal;tion analysis to explore the relationships between the financial performance variable and its various determinants. It aimed to come to a conclusion about the extent and direction of association between financial performance and each of the independent variables, providing insights into which factors significantly influence financial performance. The study utilized Spearman's correlation analysis on standardized data, a robust method that allows for the examination of monotonic relationships and is particularly suitable when the assumptions of parametric correlation tests are not met.

Table 4.3: Correlations Table

			Zscore: Y = FP	Zscore: X1 = TCIT	Zscore: X2 = TED	Zscore: X3 = FL	X4 = ME	Zscore: X5 = CS
Spearman's rho	Zscore: Y = FP	Correlation Coefficient	1.000					
		Sig. (2-tailed)	.					
		N	35					
	Zscore: X1 = TCIT	Correlation Coefficient	.706**	1.000				
		Sig. (2-tailed)	.000	.				
		N	35	35				
	Zscore: X2 = TED	Correlation Coefficient	.481**	.574**	1.000			
		Sig. (2-tailed)	.003	.000	.			
		N	35	35	35			
	Zscore: X3 = FL	Correlation Coefficient	-.421*	-.506**	-.344*	1.000		
		Sig. (2-tailed)	.012	.002	.043	.		
		N	35	35	35	35		
	X4 = ME	Correlation Coefficient	.529**	.394*	.157	-.137	1.000	
		Sig. (2-tailed)	.001	.019	.366	.433	.	
		N	35	35	35	35	35	
	Zscore: X5 = CS	Correlation Coefficient	-.531**	-.627**	-.523**	.592**	-.224	1.000
		Sig. (2-tailed)	.001	.000	.001	.000	.196	.
		N	35	35	35	35	35	35
**. Correlation is significant at the 0.01 level (2-tailed).								
*. Correlation is significant at the 0.05 level (2-tailed).								

Source: Researcher (2023)

The correlation analysis revealed a number of notable correlations between financial performance and characteristics that were previously thought to be independent. A strong positive correlation was found between performance and total corporate income tax, with a correlation coefficient of 0.706, indicating a significant relationship. Similarly, there was a substantial positive correlation between FP and total excise duty, with a coefficient of 0.481, also significant. Conversely, a negative correlation was observed between FP and liquidity, with a coefficient of -0.421, indicating an inverse relationship. Additionally, a strong positive correlation was identified between FP and management efficiency, with a coefficient of 0.529, signifying a significant relationship. A negative and significant correlation was found between FP and capital structure, with a coefficient of -0.531.

4.6 Regression Analysis

The study employed regression analysis to investigate the relationships between multiplethe predictor varaibles and the outcome, which represented financial performance. By conducting regression analysis, the study aimed to assess how changes in these predictor variables influenced financial performance, providing valuable insights into the key drivers of financial outcomes within the context of the study. This statistical method allowed for a comprehensive examination of these relationships, helping to identify significant predictors and quantify their impact on financial performance.

4.6.1 Model Summary

The study utilized the model summary to assess the goodness-of-fit and overall performance of the regression model. It allowed for an evaluation of how well the model explained variations in the dependent variable based on the included predictors.

Table 4.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.927[a]	.860	.836	.40532079
a. Predictors: (Constant), Zscore: X5 = CS, X4 = ME , Zscore: X3 = FL, Zscore: X1 = TCIT, Zscore: X2 = TED				
b. Dependent Variable: Zscore: Y = FP				

The regression analysis unveiled a notable R-squared coefficient of 0.860, signifying that roughly 86% of the fluctuations in the dependent variable (FP) can be accounted for by the predictors integrated into the model. Merely 14% of the variability in financial performance remained unexplained by the factors omitted from the model.. However, when considering the adjusted R-squared value of 0.836 was notably lower than the R-squared value suggested that the model contained elements that were not adding significant value to the prediction of financial performance, potentially indicating the presence of irrelevant or redundant variables within the model.

4.6.2 Analysis of Variance

The study employed analysis of variance (ANOVA) to assess the statistical significance of the regression model. Specifically, ANOVA was utilized to perform a significance test at a 95% confidence level using F-tests, aiming to determine whether the model's predictor variables collectively had a meaningful impact on the dependent variable.

Table 4.5: Analysis of Variance

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.236	5	5.847	35.591	.000[b]
	Residual	4.764	29	.164		
	Total	34.000	34			
a. Dependent Variable: Zscore: Y = FP						
b. Predictors: (Constant), Zscore: X5 = CS, X4 = ME , Zscore: X3 = FL, Zscore: X1 = TCIT, Zscore: X2 = TED						

The ANOVA results revealed that the regression model, which included predictor variables, was statistically significant with an F-value of 35.591 and a significance level (Sig.) of .000. This implied that the model, collectively represented by these predictor variables, had a substantial and statistically significant impact on the dependent variable, FP.

4.6.3 Regression Coeffients

The regression coefficients quantified and assessed themagnituude and the orientation of the correlation as between the varaibles. These coefficients allowed for a precise evaluation of how the varaitions in the independent varaibles can be inferred and used to predict the financial performance, providing insights into the specific impact of each predictor.

Table 4.6: Regression Coefficients

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.751	.177		-4.241	.000
Zscore: X1 = TCIT	.386	.110	.386	3.504	.002
Zscore: X2 = TED	.473	.115	.473	4.125	.000
Zscore: X3 = FL	.008	.086	.008	.097	.923
X4 = ME	1.062	.231	.369	4.599	.000
Zscore: X5 = CS	.203	.100	.203	2.021	.053
a. Dependent Variable: Zscore: Y = FP					

Source: Researcher (2023)

The regression analysis revealed significant coefficients for several predictors in the model. Notably, Zscore: X1 = TCIT (Beta = 0.386, p = 0.002), Zscore: X2 = TED (Beta = 0.473, p = 0.000), and X4 = ME (Beta = 0.369, p = 0.000) all displayed positive and statistically significant relationships with Zscore: Y = FP. These findings suggest that an increase in the natural logarithm of total corporate income tax (X1), the natural logarithm of total excise tax (X2), and management efficiency (X4) is associated with a positive impact on financial

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performance (Y). However, Zscore: X3 = FL (Beta = 0.008, p = 0.923) and Zscore: X5 = CS (Beta = 0.203, p = 0.053) exhibited non-significant coefficients, indicating that firm liquidity (X3) and capital structure (X5) did not significantly influence financial performance of telecommunication firms . The constant term was also significant (p = 0.000), suggesting its essential role in the model's predictive power.The model of the study was transformed in to:

$$Y = -0.751 + 0.386X_1 + 0.473 X_2 + 1.062X_4 + 0.177$$

4.7 Discussion and Interpretation of Findings

The analysis of the study's variables provided valuable insights. The dependent variable, which measures financial performance through the percentage of return on equity, displayed significant variability. It had an average value of approximately 11.9995 and a standard deviation of around 17.62081. The distribution was right-skewed, as indicated by a positive skewness of 1.157, and slightly leptokurtic with a kurtosis of 0.778, suggesting heavier tails than a normal distribution. This implied significant diversity in financial performance within the sample. In contrast, total corporate income tax had a mean of about 10.9324 and a standard deviation of roughly 3.34291. It displayed a right-skewed distribution with lighter tails, as evidenced by a positive skewness of 0.616 and negative kurtosis of -0.858, indicating moderate variability. Total excise duty showed similar characteristics with a mean of approximately 7.1663 and a standard deviation of roughly 1.68553, along with right-skewedness (0.493) and lighter tails (-1.506). Firm liquidity exhibited high left-skewness (-2.666) and heavy tails (9.981), indicating substantial variation within the sample despite a mean of about 0.7103 and a standard deviation of roughly 0.83252. Management efficiency had a mean of approximately 0.7069 and a standard deviation of roughly 0.34718, showing slight right-skewedness (0.163) and lighter tails (-0.295). Lastly, capital structure had a mean

of around 0.2323 and a standard deviation of about 0.35198. It displayed a right-skewed distribution (0.522) with heavier tails (2.754). These statistics collectively provided a comprehensive understanding of the variables, their central tendencies, variabilities, and distributional properties within the study.

The correlation bwteen the predictore variable and the financial performance were established by correlation and regression analysis. Correlation analysis revealed significant relationships between financial performance (FP) and thepredictor factors in this study. Notably, a robust positive correlation emerged between FP and total corporate income tax (TCIT), with a substantial coefficient of 0.706, signifying a significant and positive association between the two. Similarly, FP displayed a considerable positive correlation with total excise duty (TED), boasting a coefficient of 0.481, also denoting a noteworthy and positive relationship. Conversely, a negative correlation was observed between FP and liquidity (FL), with a coefficient of -0.421, highlighting an inverse association. Furthermore, a strong positive correlation was identified between FP and management efficiency (ME), featuring a coefficient of 0.529, indicating a significant and positive relationship. In contrast, FP exhibited a significant negative correlation with capital structure (CS), characterized by a coefficient of -0.531, underscoring the presence of a significant and negative relationship.

The study's regression analysis yielded significant findings. The model showed a substantial R-squared value of 0.860, signifying that approximately 86% of the variation in financial performance (FP) could be explained by the included predictors. However, the adjusted R-squared value of 0.836, lower than the R-squared value, indicated presence of potentially irrelevant or redundant variables in the model. The ANOVA results further reinforced the model's significance, with an F-value of 35.591 and a significance level of .000. This

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indicated that the predictor variables collectively had a substantial and statistically significant impact on FP. An increase in the natural logarithm of total corporate income tax , total excise tax, and management efficiency was associated with improved financial performance. However, liquidity and capital structure exhibited non-significant coefficients, implying that firm liquidity and capital structure did not significantly influencethe dependent variable9. The constant term also played a vital role in the model's predictive power, as indicated by its significance.

In comparing the current study's results with the findings from Antonio (2015), both studies revealed a substantial and positive effect and explained variance between financial performance and total corporate income tax. In both cases, the correlation coefficients were substantial, indicating a noteworthy and positive relationship. However, there was a difference in the direction of the correlation between FP and firm liquidity. The current study found a negative correlation, suggesting an inverse association, whereas Antonio (2015) did not specifically report a correlation between FP and liquidity. Additionally, the current study identified a negative correlation between FP and capital structure, while Antonio (2015) did not report a correlation between these variables.

Turning to the Yitzhaki (2002) study, the current research and Yitzhaki's study both identified significant correlations between financial performance and certain independent variables. In both studies, a robust positive correlation was observed between FP and total corporate income tax. However, the current study did not directly examine the impact of tax avoidance or tax evasion on FP, which was a central focus of Yitzhaki's research. The current study primarily focused on tax-related variables and their correlation with FP, while Yitzhaki (2002) delved deeper into the effects of tax avoidance on bank loan costs.

Comparing the current study with Slemrod (2002), both studies found significant positive correlations between financial performance and certain independent variables. Specifically, both studies identified a strong positive correlation between FP and management efficiency. However, the current study did not explicitly investigate the impact of tax evasion on profitability, which was a central theme in Slemrod's research. Slemrod (2002) emphasized the negative consequences of tax evasion, including rent extraction, which was not a focus of the current study. Additionally, Slemrod's study highlighted the importance of effective asset utilization, which was not a key variable in the current research.

Comparing the current study with Levin and Windel (2007), both studies examined the relationship between taxation and various economic outcomes. In both cases, tax-related variables were considered, but the specific findings differed. While the current study found significant positive correlations between financial performance and certain taxation variables, Levin and Windel's research emphasized tax evasion coefficients and their impact on trade flows. The current study did not explicitly investigate the impact of taxation on trade flows. Moreover, Levin and Windel's findings highlighted the differences in tax evasion coefficients between countries, which was not a focus of the current study.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter encompassed a comprehensive summary of the study's findings, drawing upon the significant correlations and regression analysis results regarding financial performance and various independent variables. It also presented the study's conclusions. Moreover, the chapter provided practical recommendations based on the study conclusion. It acknowledged theareas whrere the study was limited as well as areas for further research.

5.2 Summary of the Study Findings

The regression model used in the study showed a substantial R-squared value of 0.860, signifying that approximately 86% of the variation in dependent study variable (financial performance) could be explained by the included predictors. However, the adjusted R-squared value of 0.836, lower than the R-squared value, indicated presence of potentially irrelevant or redundant variables in the model. The ANOVA results further reinforced the model's significance, with an F-value of 35.591 and a significance level of 0.000. This indicated that the predictor variables collectively had a substantial and statistically significant impact on FP.

5.2.1 Effect of Total Corporate Income Tax on Financial Performance

In the dataset, total corporate income tax exhibited a mean value of approximately 10.9324, along with a standard deviation of about 3.34291. Its distribution was right-skewed, featuring

lighter tails, as indicated by a positive skewness of 0.616 and negative kurtosis of -0.858, suggesting moderate variability. Correlation examination revealed meaningful connections between financial performance and the variables that stand independently. Notably, a robust and positive correlation was observed between financial performance (FP) and total corporate income tax (TCIT), with a substantial coefficient of 0.706. This coefficient underscores a significant and positive association between the two factors. The ensuing regression analysis disclosed a positive coefficient of 0.386 and a level of significance at 0.002, indicating that an increment in the natural logarithm of total corporate income tax was linked to an improvement in financial performance.

5.2.2 Effect of Total Excise Duty on Financial Performance

Total excise duty exhibited consistent characteristics, with an mean value 7.1663 and a standard deviation 1.68553. Its distribution displayed right-skewedness (0.493) and lighter tails (-1.506). Moreover, there was a notable positive correlation observed between FP and total excise duty (TED), with a coefficient of 0.481, underscoring a significant and positive relationship. This relationship was further validated through regression analysis, which yielded a statistically significant positive effect with a coefficient of 0.473 ($p\text{-value} < 0.001$). The natural logarithm of total excise taxwas very important as it pertains to explaining the positive impact of performance of communication companies.

5.2.3 Effect of Liquidity on Financial Performance

In the study, firm liquidity was found to exhibit characteristics of high left-skewness (-2.666) and heavy tails (9.981), indicating substantial variability within the sample, despite having a mean value of approximately 0.7103 and a standard deviation of roughly 0.83252.

Correlation examination revealed meaningful connections between financial performance and the variables that stand independently. Notably, a robust and positive correlation was observed between financial performance (FP) and total corporate income tax (TCIT), with a substantial coefficient of 0.706. This coefficient underscores a significant and positive association between the two factors. The ensuing regression analysis disclosed a positive coefficient of 0.386 and a level of significance at 0.002, indicating that an increment in the natural logarithm of total corporate income tax was linked to an improvement in financial performance.

5.2.4 Effect of Management Efficiency on Financial Performance

The study found that management efficiency (ME) had a mean value of approximately 0.7069, with a standard deviation of roughly 0.34718. These statistics indicated a slight right-skewedness (0.163) and lighter tails (-0.295) in the distribution of management efficiency scores. Moreover, a robust and positive correlation was observed between financial performance (FP) and management efficiency (ME), with a correlation coefficient of 0.529. This coefficient value highlights a noteworthy and favorable connection between FP and ME. Furthermore, in the regression analysis, it was evident that management efficiency (X4) had a beneficial impact on financial performance, as suggested by a coefficient of 1.062 and a p-value of 0.000. These results emphasize the considerable influence of management efficiency on financial performance, demonstrating a positive and statistically significant effect.

5.2.5 Effect of Capital Structure on Financial Performance

The study's analysis of capital structure revealed that it had a mean of approximately 0.2323 and a standard deviation of around 0.35198. This data indicated that capital structure

exhibited a right-skewed distribution with heavier tails (skewness: 0.522, kurtosis: 2.754). In contrast, the examination of its relationship with financial performance (FP) yielded a significant negative correlation. The coefficient of this negative correlation was -0.531, which emphasized the presence of a substantial and adverse association between capital structure and financial performance. However, when assessing the significance of capital structure's impact on financial performance, the study found non-significant coefficients, with a coefficient of 0.203 and a p-value of 0.053. This outcome suggested that capital structure did not exert a statistically significant influence on the financial performance of telecommunication firms, despite the observed negative correlation.

5.3 Conclusion

The regression model employed in the study demonstrated a substantial R-squared value, indicating that a significant portion of the variance could be elaborated by the included predictor variables. However, the presence of potentially irrelevant or redundant variables, as evidenced by the adjusted R-squared value, highlighted the need for careful consideration of model components. The ANOVA results further reinforced the model's significance, confirming that the predictor variables collectively had a substantial and statistically significant impact on FP.

Regarding the specific variables studied, the examination of total corporate income tax revealed a right-skewed distribution with moderate variability. Correlation and regression analyses demonstrated a substantial and a good correaltion between FP and TCIT, indicating that an increase in TCIT was associated with enhanced financial performance.

Similarly, the investigation into the effect of total excise duty on financial performance showed a positive correlation and a statistically significant positive impact in the regression analysis. This highlighted that an increase in the natural logarithm of total excise duty contributed to improved financial performance.

In contrast, firm liquidity displayed a negative correlation with FP, suggesting an inverse relationship. However, liquidity exhibited non-significant coefficients in the regression analysis, indicating that it never posessed a statistically significant influence on the economiuc downturns and conversely upturns of telecommunication firms.

Management efficiency was established to hava a asunbstantial and good relationship FP, emphasizing the importance of effective management in driving financial performance. The regression analysis further corroborated the beneficial effect of "ME" on "FP," emphasizing its substantial and statistically significant sway.

The analysis of capital structure revealed a negative correlation with FP, indicating an adverse association between the two variables. However, the subsequent regression analysis showed non-significant coefficients for capital structure, implying that it did not exert a statistically significant influence on the economic upturns or conversely downturns of telecommunication firms, despite the observed negative correlation.

5.4 Recommendation

In light of the findings from this study, several recommendations can be made to inform both policy and practice in the telecommunications industry. Policymakers should consider the implications of total corporate income tax and total excise duty on financial performance.

Given the significant and positive relationships observed between FP and both TCIT and TED, policymakers might consider maintaining or even enhancing these tax mechanisms as a means to encourage improved financial performance within the sector. However, it's essential to strike a balance to avoid burdening telecommunication firms excessively. Additionally, policymakers should focus on promoting effective management practices within telecommunication companies, as demonstrated by the significant and positive correlation between financial performance and management efficiency. Encouraging and supporting training programs, knowledge sharing, and best practices in management can be instrumental inboosting economic upturns in this industry.

Telecommunication firms should prioritize effective management efficiency practices to enhance their financial performance. The study's findings underscored the substantial and statistically significant influence of ME on FP. Therefore, firms should invest in managerial skills, streamlined operations, and efficient resource allocation. Implementing best practices in management can lead to improved financial outcomes, which may include increased profitability and shareholder value. Additionally, firms should consider the positive impacts of total corporate income tax and total excise duty on financial performance when making decisions about revenue and pricing strategies. While maintaining compliance with tax regulations, telecommunication companies can strategically leverage corporate income tax and excise duty to contribute positively to their financial performance. This entails careful planning and forecasting to optimize the impacts of corporate income tax and excise duty on the bottom line while ensuring competitive pricing for customers.

Telecommunication firms should pay close attention to their capital structure and liquidity management. While the invesytigation ascertained that their was an anatagonistic correlation between capital structure and financial performance, it's crucial for companies to recognize that this relationship was not statistically significant. Therefore, firms should not rush to make significant changes in their capital structure based solely on this study's findings. Instead, they should carefully evaluate their unique financial situations and goals before making any adjustments. Furthermore, while firm liquidity exhibited a negative correlation with FP, the regression analysis revealed non-significant coefficients. This suggests that firms should prioritize other factors, such as cost-efficiency and revenue generation, when making financial decisions. In essence, the study highlights the importance of a well-rounded approach to financial management in the telecommunications industry, considering various variables, rather than making knee-jerk reactions based on isolated findings.

5.5 Limitations of the Study

The investigation period was marked by several limitations impeded the study's progression that impacted the research process and the interpretation of the findings. One significant limitation was the reliance on secondary data, which posed challenges in terms of data availability and quality. Accessing comprehensive and up-to-date secondary data related to the financial performance and tax-related variables of telecommunication firms proved to be a challenge. The availability of accurate and reliable historical financial data for a sufficient number of firms was limited, making it difficult to conduct a robust analysis. Additionally, the quality and consistency of data from various sources could not always be guaranteed, which could introduce errors or bias into the analysis. Researchers had to carefully select and preprocess data to mitigate these issues, but some limitations in data quality remained.

The research was limited by the availability of financial data from publicly accessible sources. Not all telecommunication companies in Kenya disclose their financial information publicly, and the study did not include data from non-publicly traded or smaller firms, potentially introducing sample selection bias.

The study primarily focused on quantitative financial data and overlooked qualitative aspects that could influence financial performance, such as management practices, market competition, or consumer sentiment. These qualitative factors are essential in understanding the broader context of financial performance but were not extensively examined due to data limitations.

Another challenge encountered during the study was the limited scope of the research. The finding so f this investigation proved not to be generalizable as they were specifically focused on the telecommunication industry. While this narrow scope allowed for a more in-depth analysis within the telecommunication sector, it also limited the broader applicability of the results. It is important to acknowledge that the relationships between tax-related variables and financial performance may vary across different industries, and the study's findings may not necessarily apply to firms in other sectors.

5.6 Areas for Further Research

Future research should focus on addressing the challenges associated with data availability and quality. Researchers could explore innovative data collection methods or collaborate with industry organizations to access more comprehensive and up-to-date data on the financial performance and tax-related variables of telecommunication firms in Kenya. This would

enable a more robust analysis and provide a better grasp on the correlation between taxation and financial performance.

Research undertakings that go about this study topic could augment their sample to include non-publicly traded or smaller telecommunication firms in Kenya. By doing so, researchers can mitigate sample selection bias and provide a more inclusive analysis of the industry's financial performance in relation to taxation. This broader dataset would offer a more representative view of the sector.

Future research efforts should also incorporate qualitative aspects into the analysis. By examining qualitative factors such as management practices, market dynamics, and consumer sentiment, researchers can gain a more comprehensive understanding of how these non-financial factors interact with taxation to influence financial performance in the telecommunication sector. Qualitative research methods, including interviews and surveys, could be employed to gather valuable insights from industry experts and executives.

Lastly, researchers should consider extending the scope of their investigations beyond the telecommunication sector. Exploring the impact of taxation on financial performance in various industries or sectors would provide a broader perspective on the subject. Different industries may have unique dynamics and challenges related to taxation, and comparative studies could shed light on sector-specific trends and variations in tax-related effects on financial performance.

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APPENDICES

Appendix 1: List of Telecommunication Industry as at 31st December 2020

1.   Safaricom

2.   Airtel Kenya

3.   Telkom Kenya

4.   Kenya Data Networks

5.   Liquid Telecommunication Kenya

Source: Communication Authority of Kenya, 2020

Appendix 2: Data Used in the Analysis

Company Name	Year	Y = FP	X1 =Total Corporate Income Tax	X2 = Total Excise Duty	X3 = Liquidity	X4 = Management Efficiency	X5 = Capital Structure
Safaricom	2016	32.64	14.68	9.29	0.71	1.21	0.00
	2017	44.89	13.86	9.44	0.45	1.31	0.15
	2018	43.74	15.43	9.57	0.61	1.40	0.03
	2019	43.29	17.17	9.69	1.08	1.30	0.00
	2020	51.48	17.28	9.80	0.86	1.22	0.08
	2021	49.90	17.03	9.89	0.74	1.14	0.09
	2022	38.76	17.36	9.98	0.66	0.85	0.33
Airtel Kenya	2016	27.37	10.66	8.19	0.18	0.51	-0.33
	2017	16.77	10.73	8.34	0.13	0.64	-0.25
	2018	7.53	10.86	8.48	0.56	0.61	-0.31
	2019	7.35	10.47	8.59	-1.31	0.58	-0.21
	2020	13.69	11.91	8.70	-2.85	0.61	-0.25
	2021	-8.05	11.81	8.79	0.25	0.07	-0.50
	2022	-0.89	11.80	8.88	1.14	0.07	-0.02
Telkom Kenya	2016	10.19	13.39	5.30	0.83	0.60	0.19
	2017	16.85	12.63	5.48	0.83	0.49	0.22
	2018	4.68	12.63	5.63	0.98	0.78	0.33
	2019	5.59	12.75	5.77	0.67	0.74	0.24
	2020	1.72	13.96	5.89	0.61	0.61	0.41
	2021	6.21	9.31	5.99	0.56	0.61	0.43
	2022	7.73	8.01	6.09	0.87	0.65	0.35
Kenya Data networks	2016	0.10	7.37	5.25	1.04	1.03	0.26
	2017	0.28	7.81	5.51	1.09	0.92	0.34
	2018	0.17	7.60	5.97	0.97	0.97	0.40
	2019	0.23	7.95	5.80	0.87	0.89	0.42
	2020	0.12	8.13	6.04	0.93	0.83	0.46
	2021	0.05	7.75	5.48	1.01	0.77	0.49
	2022	0.06	7.87	5.30	1.05	0.75	0.46
Liquid Telcom	2016	3.60	7.50	5.99	1.73	0.06	1.42

	2017	4.88	7.09	6.09	1.63	0.35	0.55
	2018	-8.44	7.50	6.17	1.81	0.42	0.44
	2019	-0.11	7.78	6.25	0.97	0.48	0.54
	2020	-5.08	8.01	6.33	1.50	0.47	0.49
	2021	-1.10	8.19	6.40	0.17	0.41	0.47
	2022	3.76	8.34	6.46	1.56	0.41	0.39