

**CORPORATE GOVERNANCE PRACTICES AND TAX PLANNING AMONG
MANUFACTURING AND ALLIED FIRMS LISTED AT THE NAIROBI
SECURITIES EXCHANGE, KENYA**

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DECLARATION

Student's Declaration

This thesis is my own work, and it has not been submitted for a degree at Kenyatta University or any other academic institution.

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DEDICATION

In loving memory of “Victor Otieno Ochola”, who introduced me to Accounting and Commerce and passed on marks of diligence to our lives.

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ABBREVIATIONS AND ACRONYMS

AC	Audit Committee
CG	Corporate Governance
CIT	Company Income Tax
CMA	Capital Markets Authority
EGMS	Excise Goods Management System
ETR	Effective Tax Rate
FE	Fixed Effect
GAAP	Generally Accepted Accounting Principles
ICPAK	Institute of Certified Public Accountants of Kenya
IEA	Institute of Economic Affairs
IO	Institutional Ownership
ISA	International Standards on Auditing
KRA	Kenya revenue Authority
NED	Non-Executive Directors
NSE	Nairobi Securities Exchange
RENSE	Random Effect
TP	Tax Planning
WHT	Withholding Tax
WHVAT	Withholding Value Added Tax

OPERATIONAL DEFINITIONS OF TERMS

Board Independence	The proportion of outside directors on the board to the total number of directors measures the board's capacity to function without interference from insiders in the firm.
Board size	The number of persons that constitute the board of directors of a corporate entity, this was measured by the range prescribed by the CMA of at least eight board members
Corporate Governance	Systems implemented to direct and control affairs of a company so as to achieve profitability and increase shareholders' wealth at the same time allowing the interest of other stakeholders, this was measured using magnitude of board, number of non-executive directors, external audit quality and institutional ownership.
Effective Tax Rate	Aggregate of the actual corporate tax obligation determined by dividing income tax expense by earnings before tax. If the ETR is lower than the prescribed tax rate of 30 percent, then there is evidence of tax planning
External Audit Quality	Key elements such as input, process and output which enhance the ability to detect and report material misstatements and fraud of the financial statement, this was assessed in terms of if the audit firms fall under the big4 or not.

Firm Size	Refers to the total value of firms' assets within a given time period usually one year. Firm size was measured using the firm's total assets
Institutional Ownership	Described as the number of shares held by institutional investors (such as mutual funds, banks and corporations) proportional to the total shares outstanding
Tax Expense	The aggregate amount of money owed to the revenue authority after multiplying the taxable income by the statutory tax rate
Tax Planning	Ways designed by a tax payer so as to minimize, postpone or totally do away with taxes charged on his income

ABSTRACT

The manufacturing and allied sector in Kenya has been growing at a slower rate than the economy and the Gross Domestic Product has been deteriorating with time. From the year 2010, the sector has witnessed some large manufacturing firms either relocating or restructuring their operations owing to heavy taxation and unfavorable operating environment. Taxes represent a significant cost to firms; it affects a firm's profitability and almost all financing decisions hence actions designed for reducing corporate tax burden through tax planning are regarded highly. The separation of ownership from control in public listed companies means that tax planning occurs within agency framework. Corporate governance practices play key roles in the management of public companies' affairs with the overall objective of wealth maximization. The Capital Market Authority has continuously issued corporate governance guidelines for public institutions in recognition of the guideline's contribution in the effective management of these companies and also in response to the changing business environment alongside the motivation to position Kenyan local code of ethics to worldwide unparalleled practices and to advance institutional strengthening for listed companies. Despite the Manufacturing sector registering stagnation and declining profits for the last five years, there is reawakened stake in the sector through the Big 4 Agenda which seeks to increase the Gross Domestic Product input of the sector to fifteen percent by 2022. The purpose of this investigation was to assess the influence of corporate governance practices on tax planning among manufacturing and allied firms listed on the Nairobi Stock Exchange, Kenya. The study's main objective was to examine how board size, independence, external audit quality, and institutional ownership influenced tax planning among manufacturing and allied firms listed on Kenya's Nairobi Securities Exchange. The study further examined the moderating influence of firm size on the relationship between the corporate governance practices and tax planning. This study was based on Agency Theory, Stakeholder Theory, Upper Echelons Theory, Resource Dependency Theory and Tax Planning Theory. The target population consisted of nine manufacturing and allied firms listed at the NSE. Census approach was employed to obtain secondary panel data from 2010 to 2019. Descriptive analysis obtained an ETR higher than the statutory tax rate whereas regression analysis results revealed that: board size had an insignificant positive influence, board independence had significant positive influence, external audit quality had an insignificant positive influence while institutional ownership had significant negative influence on tax planning among manufacturing and allied companies quoted at the Nairobi Securities Exchange, Kenya. It was also observed that firm size had a positive moderating effect on the relationship between board size, board independence, external audit quality, institutional ownership and tax planning among the firms under the study

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Worldwide, almost all corporations are required to pay taxes, according to Ogbonna and Appah (2012), a tax is an obligatory levy levied by the government on a subject or his property in order to provide security, social amenities, and alleviate poverty. Tax is a significant cost for corporations, therefore companies are more and more inventing means to bring down expenses, sustain more profits for investment opportunities and increase their values. Part of the approaches to execute these objectives, tax planning represents a major activity that takes a colossal part of management's time and resources. Tax planning is closely linked to virtually all corporate features varying from firm performance to matters on corporate governance framework, market value, dividend policy and potentially the progression of the concern.

Tax planning does not suggest anything illegitimate; even in complex cases, the tribunals have always determined that there is nothing unusual with minimizing tax expenses if it complies with the tax laws and on this account it beats all odds for one to pay additional taxes beyond what is charged by the authority. According to Manxia Yuan and Xi Xu (2015), APPLE Company paid \$14 billion taxes for the \$55.76 billion annual pre-tax income in 2012, after thorough re-calculation, they established a tax rate of 22%, substantially much lower than the statutory charge. Moreover, tax planning in first world countries is prevalent and transformed into a fully developed profession, with clear specialization and orientation. In particular, at least 60% and 85% of the firms in the USA and Japan respectively appoint a tax agent to help optimize tax expenditure.

In Africa, corporate tax planning has over the years become a matter of significant public interest. Notable mentions include South Africa vs Sasol Oil, November 2018, Supreme Court of Appeal, Case No 923/2017, the court followed the decision of the English court in Duke of Westminster v CIR⁴ and accordingly reaffirming that once planning scheme is valid, the government authority cannot issue additional assessment. Similarly, the short fall of contribution to overall tax revenue by companies in Nigeria has been attributed to effective tax planning by many corporate firms, including banking and manufacturing (Salaudeen and Ekeh ,2018).

In Kenya, a report by PWC (2014) showed that almost all public companies in Kenya have a tax department or are engaging professionals in taxation and tax matters with the overall responsibility of minimizing a company's overall tax liability and that firms such as Safaricom Plc and Kenya Breweries limited have been able to report higher profitability as a result of strategic tax planning. Moreover, Cobham and Janský, (2018) revealed that approximately, Kenya loses around \$1.22 billion yearly as a result of tax planning undertakings which is represents nearly 3% of her GDP.

Existing loopholes in the tax system allows managers to reduce tax burden, however, the degree to which firms exploit the existing tax loopholes and provisions differs among the various institution. Companies do not have similar abilities to reduce their tax burdens; hence, the question of which peculiar features predisposes firms to tax planning. Moreover, the separation of ownership from control in public companies means that tax planning decisions are made by the managers therefore showing that tax planning indeed occurs with agency framework and subsequently calls for a look at corporate governance practices.

1.1.1 Corporate Governance

At the heart of quoted companies characterized by separation of ownership from control lies the agency problem, described as contrasting interest between the shareholders and management. Shareholders expect the management to maximize their value; tax planning is one way of reducing cash payment to the government therefore maximizing shareholders' wealth. Corporate tax planning occurs within agency framework, Desai, Dyck, and Zingales (2007) propose a situation where managers become selfish and design structures aimed at diverting gains from tax planning for their personal use. Corporate governance provides structures for shareholders to monitor the management and ensure their interests are protected Kingara, (2019).

Capital Markets Authority, 2015 describes corporate governance as processes along with structures adopted to control and governs the operations of an institution so as to increase success and transparency so as to achieve shareholders' wealth maximization goal as well as heading to the welfare of other stakeholders. Emphasize has shifted to governance, particularly following recent scandals, where big companies have collapsed, some have performed very poor performance while others have been put under receivership. The CMA, in 2016 promulgated codes for corporate governance framework for public corporations, which replaced the previous corporate governance guidelines (CMA, 2002). The new regulation was guided by the demand to react to the changing business environment together with the motivation to level up Kenyan local practices to worldwide best practice to enhance institutional regulation for public enterprises.

One of the key guidelines require that that each firm be directed by a competent board, to determine among others the purpose and the strategy of the firm CMA, (2015). The board is in charge of defining purpose, values, monitoring together with evaluating the

implementation of strategies, policing and managing performance criteria and constantly reviewing the viability and financial sustainability of the firm. As part of their fiduciary responsibility, the board plays a major role in determining tax optimization strategies. Similarly, the boards are held accountable in the event of failure, tax planning is a very risky affair because they are directly answerable to the stakeholders. The CMA Act recommended board size is not defined but its membership should neither be too small or too large to ensure incorporation of individuals with extensive skills which is necessary for efficient management is not undermined. The number of board members was used to assess the board size.

Board independence remains crucial in the corporate governance of institutions Ogundajo & Onakoya, (2016). The CMA also postulate for a proportional board that comprises both the executives and non-executive directors (NEDs) who are independent. CMA 2015 enumerates that the board must contain at least one third of the members as NEDs who have not worked for a term greater than five years. Moreover, NEDs are appointed by the chairman of the board is guided by the professional deficiency of the board and strategic needs of the organization. Tax planning is one such strategic need of an organization; it is expected that the NEDs contribute to improving competitiveness of by way of minimizing tax expenses using individual knowledge from their own experience and/or industry Kang'ara, (2019). NEDs chair audit committees and required to safe guard and promote the welfare of the corporation, being independent they are ambiguously placed in a better position challenge, interrogate, and manage the top management. Percentage of outside directors on the board was used in assessing board independence.

Good CG make certain that all stakeholders are informed about the company's activities; such information is contained in the financial statements. In Kenya, all listed companies

are required to have external auditors typically appointed during the AGM to ensure transparency, adequate disclosure, and accountability. The audit profession is controlled by the Big 4 audit companies namely, Deloitte & Touche, Ernst & Young (EY), KPMG and PricewaterhouseCoopers (PwC). It is known that the Big4 audit firms have the technical expertise, required for analyzing complex accounting environments which is the main attribute of large, listed firms. Auditors evaluate the soundness and validity of income and expenses and also carry out tax risk evaluation, on matters such as deferred taxes, related party transaction disclosures, and appraise their effect on the overall tax position and legal claims by the authority Eko Suyono, (2018).

Shareholding composition is essential in defining the governance framework of any sovereign state; it shapes the essential characteristics of the agency problem, specifically, the fundamental and inborn differences resulting from expectations of managers, and different classes shareholders Kuria & Memba, (2016). Ownership structure plays a crucial role in value creation; presently, a high percentage of worldwide assets are under the operative control of institutional shareholders Kang'ara, (2019). Institutional investors are lifelong owners, motivated to inspire good governance practices and processes which recompense interests of all shareholders and increases firm value. Institutional owners normally have more financial competencies and can monitor management with fewer costs Thomsen & Coynon, (2012); Chang, Kang, & Li, (2016).

1.1.2 Firm Size

Firm size is determined differently in different sectors of the economy. For example, Machfoedz, Suwito and Herawati, (2005), opines that firm size can be determined using total assets, market value, sales average, and total sales while other authors used the number of staff especially for small and medium enterprises (McMahon, 2001). Despite

the fact that company size is important in everyday financial management, there is no stated reasoning for assessing firm size using a specific metric in the literature. Moreover, the barometer used to determine size has both benefits and limitations, and no criterion can realize every single required. Principally, total assets quantify comprehensive wealth and capital of a firm, market value outlines future potential and stock trading, whereas total sales show product competitiveness in market competition, which might not be futuristic Frank Li and Chongyu Dang, (2013).

Firms corporations at the NSE are considered big in size in terms to total assets and turnover; they equally enjoy large economies of scale; permitting them to negotiate for better interest rates from financial institutions because of their stature, better pricing from vendors, specialization of labor, highly skilled workforce, and greater strategic diversification Nairobi Securities Exchange, (2019). A high level of economies of scale positively influences profitability and performance, performance in this case specifically refers to financial performance that is return on investments to shareholders and excludes all other types of performance specifically social performance of the firm. Higher firm financial performance directly translates to high profits and high taxes which must be paid by the company. Paying taxes entail a reduction of cash available for re-investments; therefore, managers are likely to be motivated to reduce such payments through tax optimization strategies to increase firm value.

From the political power theory perspective, bigger firms could leverage political power in their favor; highly skilled man-power necessary to instigate competence in tax planning and greater resources to conduct their operations in such a way to decrease tax expense such as efficient application of tax deductions, tax credits and tax exemptions therefore they are expected to have lower ETR. For example, Companies such as Safaricom,

Britam, Kenya Airways, East African Breweries, Kenya Power and Nzoia Sugar Company that sponsor sports activities in the country were able to reduce their tax bill from January 1, 2017 can reduce their tax expenses by deducting all associated sports expenses from gross profits. Whereas sports sponsorship has been part of corporate social responsibility (CSR), many companies are now funding sporting activities to benefit from this tax-saving incentive.

Big firms are generally popular beyond their country of operations; therefore, this visibility trigger increased monitoring by the government and other institutions such as Tax Justice Africa and Oxfam to ensure that these firms pay taxes. Subsequently, disclosure requirements and strict monitoring by non- governmental organizations is increasingly coercing large companies to pay their taxes up to the last coin due to the government. To create wealth and jobs it seems essential that the managers have an incentive to make sure that the corporation complies with tax law and pays its fair amount of taxes. The Institute of Certified Public Accountants of Kenya has also encouraged auditors to follow new standards that require more transparency on critical audit concerns like fraud, corruption, and tax payments. Firm size was assessed using total assets Chen et al., (2014).

1.1.3 Tax Planning

Pniowsky, (2010) define tax planning as the exercise of arranging a person's financial affairs to postpone, minimize tax payable or even completely pay nothing. Prior research has used different terms such tax planning, tax management and tax avoidance to illustrate the application of acceptable ways to reduce tax liability (Chen et al., 2010) and (Boussaidi & Hamed, 2015). In this study, the terms tax planning, tax management and tax avoidance were used interchangeably in reference to the ultimate reduction of tax

expense. Tax loopholes and provisions enable taxpayers to arrange their financial transactions to reduce the tax payable. Corporate tax planning has existed since tax payment was created and is likely to continue, in the event that the benefits of such practices surpass the costs (Harvey, 2014).

Tax plays an important role in redistribution of wealth, in Kenya; resident companies pay corporate tax at 30% whereas non- resident companies pay corporate tax at 37.5%. Equally, there are additional taxes in the form of IDF, RDL and most recently, the government introduced Excise Goods Management System (EGMS) targeting Manufacturers of Non-Alcoholic drinks. Withholding VAT is another form of taxation which has hit manufacturers in particular very hard. Even though consumers are responsible for payment of VAT and not supplying corporate entities; however, the inability of KRA to refund VAT to corporate entities has caused these firms to suffer cash-flow problems. VAT credits due to manufacturers stood at Sh24.3 billion as at June 2018, this is further complicated by bureaucratic rules for tax refunds making it more difficult to get a refund (KAM, 2018).

In the view of enhancing competitiveness and profitability of firms, tax planning is very essential in their overall strategic in response to the heavy current tax burden and more active and efficient surveillance by the tax authorities. The strategy encompasses the putting into operation appropriate laws premised on laws such as the ITA, VAT among others These legal acts provide some incentives such capital allowances, commencement rule, roll-over loss relief tax exemptions, rebate and other tax concessions allowed by tax statutes. Madugba *et al.*, (2020) argue that, in addition to tax loopholes and provisions, other strategies commonly used to reduce tax liability include the timing of fixed asset acquisitions and disposals.

Effective corporate tax planning improves profitability and performance; the firm can invest cash saved through tax planning in other rewarding investments. Aganya (2014) recommends the need for firms listed in the NSE to implement a very strong tax optimization strategy that decreases their tax expense and therefore improve efficiency and return on investments; this is because firms that can effectively manage their tax costs are likely to improve their performance. Similarly, Samuel Kariuki (2017) concluded that performance of public corporations in Kenya is considerably shaped by the ability of an organization to manage its tax expense. Managers should also take appropriate actions, according to the report. Such measures are aimed at lowering ETR, which benefit a company through cash savings which affords it the freedom to invest in lucrative projects enhancing firm value. Consequently, shareholders' wealth is maximized in terms of increased share price and higher dividends.

1.1.4 Manufacturing and Allied Firms Listed at the Nairobi Securities Exchange, Kenya

The NSE is a nationalized platform which facilitates trading of ownership stocks issued by publicly listed companies in Kenya. As a capital market institution, the exchange performs a critical role enhancing economic development, mobilizing savings resulting into redistribution of financial resources from inactive to active agents Nairobi Securities Exchange, (2019). The NSE is governed by the Capital Markets Authority, which plays a key part in the efficient pricing of securities which allows for the best investment decisions and adept usage of limited resources.

There are twelve classifications of sectors in the Nairobi Securities Exchange which include Manufacturing and allied, Telecommunication and technology, Investment, construction & allied, Insurance, Investment services, energy & petroleum, banking,

commercial services, real estate, agricultural and automobile and accessories www.nse.co.ke,(2016). The manufacturing and Allied sector consist nine listed firms, these are: B.O.C Kenya Ltd, British American Tobacco Kenya Ltd, Carbacid Investments Ltd, East African Breweries Ltd, Eveready East Africa Ltd, Flame Tree Group Holdings Ltd, Kenya Orchards Ltd, Mumias Sugar Co. Ltd and Unga Group Ltd Nairobi Securities Exchange, (2019).

The World Bank (2014) opines that manufacturing and allied sector could propel Kenya's because of its capacity to create productive employment. The sector has strong linkages to virtually all other sectors of the economy, therefore stimulating more economic activity than any other sector. All though the manufacturing sector has not lived up to its full potential, there is renewed interest in the sector by various players and stakeholders.

1.2 Statement of the Problem

Corporate tax in Kenya takes-up approximately one-third of before tax income, the total tax burden becomes considerably high when other tax assessments are incorporated in the tax expense. Uwalomwa, Ranti, Kingsley, and Chinenye (2016) concluded that although taxation forms one of the major sources of government revenue, it dwindles firms' resources and investment opportunities. Therefore, shareholders are expected to encourage the management minimize tax expenses.

The manufacturing and allied sector in Kenya is currently made up of 9 firms, the sector's development has been very sluggish as compared to the economy and GDP has been sinking with time Wamoiri, (2019). Between 2010-2020, some large manufacturing firms have either relocated or restructured their operations due to heavy taxation and unfavorable operating environment. Most recently, the government introduced WHVAT,

incidentally the inability of KRA to refund VAT to corporate entities has resulted to suffer cash-flow problems. VAT credits due to the manufacturing sector stood at Sh24.3 billion as at June 2018. This is further complicated by bureaucratic rules for tax refunds potentially making it more difficult to get a refund, (KAM, 2018).

Makokha (2017) established that corporate income tax has a significant positive correlation with financial performance of corporations trading on the Nairobi Securities Exchange therefore suggesting influence corporate tax has on major corporate decisions. According to J.R (2014), corporate tax planning has existed since creation of taxes and will continue provided corporate entities perceive benefits arising from tax planning to exceed cost. In Kenya, tribunals have supported the rights of taxpayers to exploit tax provisions so as to minimize their tax expense (Bata Shoe Company Vs KRA (2014)).

Firms that exploit the loopholes in tax laws generally have lower ETR, which benefit the firm through cash savings which affords it the freedom to invest in lucrative projects, therefore enhancing the value of the firm. Angaya (2014) recommended that firms listed in the NSE should implement a very strong tax optimization strategy that decreases their tax expense through lower effective tax rate. Consequently, shareholders' wealth is maximized in terms of increased share price and higher dividends. Despite the Manufacturing sector registering stagnation and declining profits for the last five years, there is rejuvenated stake in this area through the Big 4 Agenda which endeavours by 2022 to expand the sector's GDP input to 15%.

The separation of proprietorship and management in the manufacturing and allied sector, implies that tax planning occurs with agency framework and subsequently calls for corporate governance to direct and control tax planning activities. However, there is dearth of a general unanimity on the consequence of corporate governance on tax

planning among firms. Notably, some of the studies done on corporate governance and tax planning focused on developed nations and the resulting differences from these studies can be linked to the varying levels of capital market growth for both for developing and developed economies of these countries; Lanis and Richardson (2012); Jesus and Emma (2013); Pratama (2017); Dirk and Johanes (2017). This study therefore, adduced proof on the consequence of corporate governance on tax planning among the manufacturing and allied sector in Kenyan. Moreover, empirical studies on the influence of external audit quality on client's tax planning strategies is limited, this is an important research gap that the study sought to adduce.

1.3 Objectives of the Study

This study focused on the corporate governance practices and tax planning among manufacturing and allied firms listed at the Nairobi Securities Exchange, Kenya.

1.3.1 General Objective

The General objective was to establish the influence of corporate governance practices namely: board size, board independence, external audit quality and institutional ownership on tax planning and the moderating effect of firm size on the relationship between corporate governance practices (board size, board independence, external audit quality and institutional ownership) and tax planning among the manufacturing and allied companies listed in NSE.

1.3.2 Specific Objectives

Specifically, the study sought to:

- i. To determine the influence of board size on tax planning in manufacturing and allied corporations listed in Nairobi Securities Exchange, Kenya.
- ii. To examine the influence of board independence on Tax planning in

- manufacturing and related enterprise listed in Nairobi Securities Exchange, Kenya.
- iii. To substantiate the influence of external audit on tax planning in Manufacturing and related organizations in Nairobi Stock Exchange, Kenya.
 - iv. To assess the influence of institutional ownership on tax planning of manufacturing and allied enterprises trading in Nairobi Securities Exchange, Kenya.
 - v. To establish the moderating influence of firm size on the relationship between CG and tax planning in manufacturing and allied companies listed in NSE, Kenya.

1.4 Research Hypotheses

The study tested below null hypotheses:

H₀₁: Board size has no significant influence on tax planning among manufacturing and allied firms listed in Nairobi Securities Exchange, Kenya.

H₀₂: Board independence has no significant influence on tax planning among manufacturing and allied firms listed in Nairobi Securities Exchange, Kenya.

H₀₃: External audit has no significant influence on tax planning among manufacturing and allied firms listed in Nairobi Securities Exchange, Kenya.

H₀₄: Institutional ownership has no significant influence on tax planning among manufacturing and allied firms listed in Nairobi Securities Exchange, Kenya.

H₀₅: Firm size has no significant moderating effect on the correlation between board size, board independence, external audit quality, institutional ownership and tax planning among manufacturing and allied firms listed in Nairobi Securities Exchange, Kenya.

1.5 Significance of the Study

Government and taxpayers have similar interest in tax; to the government, it is its source of income, while to the taxpayer, corporation tax reduces its net income. The result of this study enhances research in several aspects. Primarily, the conclusion adds knowledge about legal strategies available for companies seeking to achieve cost benefit in areas such as tax while highlighting how corporate governance mechanisms are employed to cushion risks for a complex and concealed tax optimization for the realization of increased firm value.

Secondly, the results of this study impacts on the ever-ranging debate on the causal factor of the flexibility in corporate effective tax rates. Scholars do not seem to have developed hard and reliable position on either possibility. This study strives to present evidence on the existence of tax planning by empirically examining the influence of board size, board independence, external audit quality, institution ownership and the moderating effect of firm size on tax planning.

In Kenya, there has not been adequate research on the significance of corporate governance on corporate tax planning amongst manufacturing and allied sector without regard to the contribution of the sector in economic acceleration and achieving the BIG 4 agenda. The survival and success of manufacturing and allied sector is very critical to the general public, KAM (2018) opines that there are strategies to assist fix up the sector by 2022 in addition to accelerating GDP from 8.4% to 15%. Taxation and tax policy of any economy has a major implication on the growth and economic development. Therefore, the results will influence policy and reforms aimed at reviving the manufacturing and allied sector as well as other sectors so as to improve industrialization and investments

1.6 Scope of the Study

The study evaluated the influence of board size, board independence, external audit quality, and institutional ownership on tax planning by the manufacturing and allied sector. The study also evaluated the moderating consequence of firm size on the association amongst the above corporate governance practices and tax planning during the period from 2010 to 2019. The period of ten years was considered ideal, because the sector had seen some large manufacturing firms either relocating or restructuring their operations due to heavy taxation and unfavorable operating environment. Equally, the introduction of new policies on taxation by KRA such as RDL, EGMS and WHVAT which had significantly affected the manufacturing and allied sector coupled with the new CMA 2015 ACT on corporate governance framework for the listed firms in Kenya.

1.7 Limitations of the Study

The research's limitation was based on the study data and the type of information utilized; the study attempted to analyze corporate governance and tax planning using a range of ratios. There was a foreseen limitation of these ratios not being not being contained in the various financial statements of the manufacturing corporations. The researcher ensured the limitation was addressed by extracting the components of each ratios and then converting them to the desired ratios by calculating them in line with the data review guide attached in the list of appendices.

1.8 Organization of the study

This research work was structured in a systematic manner: Chapter one provides details on background, statement of the problem, research objectives, research hypothesis, significance, scope, limitations and organization. Chapter two presents theoretical and empirical assessment of the independent and the dependent variables and a conceptual

framework of the research study. Chapter three covers the research methodology deployed in the research. Specifically, it outlines the research philosophy, design, empirical model, population target, sampling design, data collection, diagnostic tests and ethical considerations for this analysis. The analysis outcomes are contained in chapter four and key discussion where the various null hypotheses were evaluated in accordance to the research specific motivations and the results obtained linked with literature. Chapter five contains the summary, recommendations and study conclusions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The section examined the literature on fundamental theories that supported corporate governance practices and tax planning. Grounded on the examined literature, a conceptual model was established and key variables in the model explored comprehensively. In building the research model and collating the results of the study with earlier opinions, an empirical literature review of earlier studies was included. The chapter concluded by abstracting the literature review with a brief discussion of identified research gaps.

2.2 Theoretical Literature Review

The researcher analyzed the relevant theories which informed the theoretical background and aligned them to the objectives of the study. The theories used in this research include: Agency Theory, Stakeholder Theory, Upper Echelons Theory, Resource Dependency Theory and Tax Planning Theory.

2.2.1 Agency Theory

Agency theory was fathered by Jensen and Meckling (1976) they hypothesized that an agency relationship ensues where individual(s), the principal, enters into a contract with another individual(s), the agent, to effectuate assignments such as decision making. Managers serve as representatives of shareholders who delegate obligation to a 3rd person in a corporate structure. According to this theory, the separation of proprietorship from management causes divergence of interest betwixt the shareholders and the management. Managers are generally pre-occupied with realizing their own interests and targets which are usually different from the overall objective of increasing firm value.

Agency theory guided this study by helping to understand the agency framework in corporate tax planning and proposing ways in order to reduce problems arising from such framework. Tax minimization decisions are made by managers who act on behalf of the shareholders; conflicts between shareholders' and management might occur because the executives responsible for tax effective decisions are more likely to opportunistic and redirect benefits realized from tax optimization for their benefit (Putri et al., 2017). Moreover, tax minimization is rather a risky activity which if not properly implemented could lead to additional costs borne by the firm, including, the risk of being audited, tax fines, and loss of corporation reputation. This implies that management cannot be relied upon, thereby demanding for the application of corporate governance mechanisms such as strict monitoring and advisory.

According to agency theory, the board of directors performs a critical function in reducing managerial opportunism consequently contributing to shareholders' wealth maximization. The board of directors, which is mandated to assign and ensure efficient use of necessary resources, enhance productivity, and ameliorate shareholder wealth, plays a key function in determining tax optimization strategies of a firm. Moreover, in most corporate organizations, tax ideologies and practices are executed and supervised by the board of directors as part of their fiduciary responsibility. Similarly, when corporate entities fail or suffer reputational loss, boards are held accountable because they are directly answerable to the stakeholders. The efficacy of the board to adequately oversee the executives is influenced by its size (Jensen, 1993). The numbers of board members affect a firm's administration guidelines. Smaller boards are considered effective for strengthening tax reduction practices, while large board memberships have demonstrated inefficiencies.

2.2.2 Stakeholder Theory

Founded by R. Edward Freeman in 1984; advocates a pluralistic approach by considering other stakeholders in addition to the shareholders. The term stakeholder includes all individual or groups with a legitimate claim in the firm; debtors, staffs, vendors, conservation groups, local communities, the media, financial institutions, governmental groups, and others who interact with the firm in reciprocity. These different parties have different and defined interest in the welfare and status of a company in a particular period of time and thus management should put in place structures which foster a realistic, methodical constructive and moral way to direct and control organizations in a highly complicated and unstable environment.

Stakeholder theory was accordingly apropos to this study because it validates the interest of independent stakeholders to business while reducing their tax liability. Shareholders, lenders, creditors, and the government are all interested in financial statements that are timely and reliable (Leventis et al., 2005; Akinguonla et al., 2018). Directors who operate on behalf of the sponsors in an agency role and compile a financial statement and report to stakeholders, primarily shareholders, on the use of resources of which they are custodians, are tasked with meeting the information needs of these varied shareholders (Akingunola et al., 2018). To enhance the credibility and reliability of financial statements by the stakeholders, it is necessary that an independent auditor scrutinizes the information and gives an independent opinion about the financial status of the company.

External auditors promote corporate governance by analyzing the comprehensive presentation, and composition of the financial statements, BIG4 auditors are credited with strong business acumen which enables them to understand the internal controls of the client thus designing audit procedures suitable in the circumstances. The audit procedures

are then applied on the income statements which contains the foundation of tax planning i.e. income before tax and tax charged thereof. The auditors must scrutinize the notes to the financial statements which are very important in explaining various elements of the income statements such as tax charged, expenses allowed and disallowed for tax purposes and fundamental details of guidelines and policies and other illustrative and related information. At the end of the assignment, the audit must give an opinion whether financial statements portray the intrinsic transactions and events in a way that realize fair presentation. Barrett (2004) opines that the auditor is compelled to pay more attention to the income tax credit and debit in the company's statement of financial position and the tax expense contained in the income statement and the practicability of additional notes to tax.

2.2.3 Upper Echelons Theory

Upper Echelons Theory was put forward by Hambrick and Mason (1984), it asserts that organizational outcomes, with regards to strategies and effectiveness, is a replica of the values and cognition of top management team (TMT) in a firm. Successful execution of strategic issues and strategic leadership comprise both leadership and management functions (Hitt et al., 2002). Strategic decision making requires collaborative relationships of individuals to increase the exchange of information and risk taking at a cognitive level while promoting good corporate governance in companies in which they manage.

The theory proposes that strategic leaders are indispensable assets to a firm and are committed to strategic actions in the firm (Mubarak & Yusoff, 2019). The presence of institutional proprietors provides outside governance in the management of the affairs of the firm as per prescribed rules. Institutional owners bring along, know-how, skills and resources to influence the performance of the companies (Cornett et.al, 2005). Tax

planning is one of the strategic mechanisms implemented so as to increase firm value, however, it is equally a politically perfervid subject and likely to draw not so good observation from many stakeholders including the press, government, and consumer in what is described as “tax-shaming” (Barford and Holt 2013). The institutional owners are presumed to reflect on the benefits vis a viz costs of possible audit, punishment, and reputation loss if the strategy is unlawful (Hanlon and Heitzman 2010)

2.2.4 Resource Dependence Theory

Pfeffer proffered the Resource Dependence Theory in 1973, the theory focuses on the roles of boards of firms in the acquisition of resources, rather than the utilization of those resources. The theory is hinged on the postulation that directors strive to establish linkages between the firm and its other attributes by co-opting assets as well as funds needed for survival (Amer, 2016). Resource Dependence Theory depicts how other firm attributes impacts on its features thereby concentrating on the dependence of firms with the outside settings. The theory further holds the belief that the board of a firm carries out various roles which include providing the necessary assets such as skills, professionalism, exposure, and work contracts (Siswanto & Fuad, 2017).

Resource Dependence Theory relates to this study in that as a management-based theory, it provides additional insight on the resource role of directors which covers some of the attributes of boards and that of audit committees. In the context of a corporate body, the board is the channel to acquire and direct critical resources required for the realization of critical goals (Minnick & Noga, 2010). The theory is based on the supposition that, board composition is not random or independent factor, but is rather, a rational organizational acknowledgement to the conditions which affect its business and which it has no control

over. The composition of board of director creates governance structures that enable their management to allocate vital resources such as advice, counsel and know how.

Tax optimization is one such strategic need of an organization; NEDs are noted to head the critical board committees of audit and remuneration. The audit committee (AC) is directly linked to internal audit function and plays an independent role in monitoring and evaluation of organization's operations. As head of AC, NEDs offer expertise advice on finance and governance. They ensure performance of internal control systems and compliance to GAAP.

2.2.5 Tax Planning Theory

Theory was propounded by Hoffman (1961). The theory supports the redirecting of the corporate returns of firms for other uses rather than transferring the government agencies. Owing to the complex characteristic of tax structures and processes, loopholes in the legal systems become inevitable which enables taxpayers derive benefits on the tax positions. Tax planning entails companies employing legal ways for purposes of reducing tax liability by taking advantage of loopholes in the legal systems Slemrod, (2004). The theory advocates that companies ought to decrease the tax income to a minimum while having in mind not to affect accounting income. Through this, an organization will therefore have the ability to enjoy the benefits of tax planning without having conflict with the legal authorities.

Tax planning involves the application of foresight which is ultimately focused on subsequent matters; it is therefore regarded as the consequence of certain amount of knowledge. Tax planning relates the capacity of a taxpayer to have his/her financial activities arranged in a manner such that minimum tax expenditure is achieved. The theory advocates that tax planning should be flexible such that it accommodates changes

in tax laws. It should further be personalized in line with taxpayer's needs, a professional product that is coordinated adequately to incorporate and support the different kinds of income, taxes-corporate, capital gains and gifts. The theory additionally added that tax planning ought to be able to resolve conflicts of interests arising from the parties involved, time conscious in factoring the taxpayer's future tax requirements and should be fully honest Hanlon & Heitzman, (2009).

2.2.6 Summary of Research Theories

The theories which supported this research project are present in the below table, with details of the assumption and linkages to the current study.

Table 2.1: Summary of Research Theories

Theory, Founder and Year	Assumption of the Theory	Link to current study
Agency Theory Jensen and Meckling, 1976	There exists conflict of interest between the agent and the principal. The theory proposes a framework for reconciling this conflict of interest.	The separation of ownership from control, provides an opportunity for managers to divert benefits from tax planning for personal gains and not for firm value enhancement. The board of directors plays a key function in reducing managerial opportunism, thereby contributing to shareholders' wealth maximization.
Stakeholder Theory Edward Freeman, 1984	The firm has different stakeholders with different and defined interest in a particular period of time The management should put in place structures which foster a realistic, methodical constructive and moral way which considers all the different stakeholders and their interest.	The information pertaining a firm's tax planning activities and ERT are contained in the financial statements Tax planning is a very risky affair, external auditors enhances the credibility and reliability of financial statements by other stakeholders, by scrutinizing and giving an independent opinion about the financial status of the company.

<p>Upper Echelon Theory Hambrick and Mason, 1984</p>	<p>Organization's outcomes, in-terms of strategies and effectiveness, is a replica of the values and cognition of top management team. Strategic leaders are important assets to an organization and are devoted to strategic actions in the organization</p>	<p>Tax planning is one of the strategic mechanisms implemented to increase firm value, however, it is equally a politically charged topic that can attract unfavorable attention in a phenomenon referred to as "tax-shaming" Institutional owners are also part of the top management, they ensure the company's operations are properly managed and in accordance with regulations. They bring along, know-how, skills and resources to influence the performance of the companies</p>
<p>Resource Dependency Theory Pfeffer, 1973</p>	<p>The board of a firm carries out various roles such as providing necessary assets, skills and professionalism, so as to achieve its strategic objectives.</p>	<p>Board composition is not random factor, but rather, a rational organizational acknowledgement to the conditions which affect its business. Non-Executive Directors offer expertise advice on finance and governance matters, they ensure performance of internal control systems and compliance to GAAP</p>
<p>Tax Planning Theory Hoffman (1961).</p>	<p>The sophisticated nature of tax process, structures and loopholes in the tax laws permits tax payers to take advantage such provisions. Therefore corporate income should be used for other investments rather than transferred to government</p>	<p>In Kenya, tribunals have supported the rights of taxpayers to exploit tax provisions to reduce their tax expense (Bata Shoe Company Vs KRA (2014). Firms that exploit the ambiguity in tax law have lower ETR, which benefit a firm through cash savings which it invests in lucrative projects,</p>

2.3 Empirical Review

Empirical literature concerning corporate governance practices and tax planning about each of the hypothesized variables was reviewed in this segment.

2.3.1 Board Size and Tax Planning

In a public company, firms with distinct governance systems might undertake distinct strategies to minimize tax expense Abdul Wahab et al., (2017). Existing literature argues that the number of directors is the utmost determinant of the success of the board of directors. Smaller boards have been praised for ease in decision making; however, they have been castigated for making low quality decisions due to limited variety of skills. On the other hand, big boards of directors can benefit from a large pool of practical knowledge, professionalism, and expertise of its members. Therefore, they can positively influence tax decisions, having a wider outlook about the operating environment and different interpretation of tax laws.

Ribeiro et al. (2015) considered the contribution of firm characteristics and corporate governance attributes in explaining ETRs employing data from 704 nonfinancial companies quoted on the LSE covering duration from 2011 to 2013 and concluded that a larger amount of board members contributes to higher ETRs. This study was based in UK, a developed country with more elaborate governance mechanisms and high market capitalization. This research was based in Kenya, an emerging market with different capital market laws as compared to UK. Equally the study was limited by short sample period, the present research covered a period of 2010 to 2019.

Armstrong et al. (2015) studied the nexus linking Corporate Governance mechanisms and tax avoidance. The study sampled all companies listed on Compustat covering the period 2007 to 2011. The study indicated that firm with bigger board size have the advantage of higher cash flows through the minimization of effective tax rate, besides such firm strives to heighten tax avoidance as it does not carry any uncertainty as regards investment. Based on quantile regression, the conclusions of the study indicated that

number of board members having significant work on tax planning and avoidance by firms. The study however did not consider diagnostics tests before inferential analyses.

Pratama (2017) conducted a study among listed Indonesian companies. The study was based on regression methods and concluded a significant negative relationship between the number of board members and effective tax rates implying the higher the number of directors, the lower the tax expense tax rate. He attributes this to difficulty in arriving at a consensus thus allowing management to take decisions that benefit themselves. The study apart from being based on listed Indonesian firms, firm size, and its moderating impact on the relationship linking board size and tax planning was not examined which stood as an objective in the study.

Dirk and Johanes (2017) studied Corporate Governance mechanisms influences tax minimization in Germany. Regression discontinuity plan was applied in the study, the difference in governance framework due to value-weighted structure the market capitalization-based indexes. Their study results showed a significant discontinuity in the corporate governance characteristics level in the level at the cutoff. Largest MDAX corporations exhibited stronger governance characteristics in relation to the smallest DAX businesses. The study revealed that board size significantly contributes to effective tax rate of firms. This present thesis centered on manufacturing and allied enterprises trading at the NSE. Additionally, panel regression analyses were applied where the underling requirements were met.

Kang'ara (2019) studied the consequence of governance on tax planning for 11 commercial and service businesses trading in NSE, Kenya. The study period was 2014 to 2018 (5years) where secondary panel data was applied. The variables considered were board size, number of meetings, independence of the team, managerial ownership

(portion of management shares), return on equity and bond financing. ETR was applied to proxy tax planning. The study adopted descriptive research design and analysis based on multiple regression methods. Findings indicated a R-Square of 0.605. The analysis of variance (ANOVA) provided a p-value of 0.000. Based on the regression output, board size revealed a negative but significant effect on tax planning. Unlike the previous studies which isolated diagnostics tests, various pre- and post-estimation tests for panel regression analysis were in the current undertaken to ensure the data was adequate for inferential analyses.

Chytis et al. (2020) examined corporate governance effects on tax planning at the same time the financial crisis period. The research concentrated on quoted firms on the Athens exchange, assessing how corporate governance attributes affect firms' tax in the time of inauspicious conditions due to the economic crisis. The period between the years 2011 to 2015 was covered based on fifty (55) non-financial listed firms were sampled. It was acknowledged board size having a negative but considerable effect on tax planning of listed firms in Greece. The study notably centered on public companies on the Athens stock whereas this thesis looked at listed firms in Kenya.

2.3.2 Board Independence and Tax Planning

A handful of researchers have assessed to the ability of the board to perform its function effectively in cases of financial reporting manipulations such as earnings management and corporate tax avoidance. The results have always varied. Some studies found positive relationships; some studies found negative relationship while others found a significant relationship. Minnick and Noga (2010) found it possible that independent directors perhaps are able to contribute to tax optimization efforts using individual knowledge from their own experience and/or industry.

They also concluded that the independent directors are most likely inclined to endorse a successful tax governance strategy which greatly impact the after-tax earnings thus enhancing firm performance. They are also capable of giving productive and capable knowledge according to their own experiences in the sector that can lead to increased business efficiency.

Lanis and Richardson (2011) considered the correlation betwixt composition of board and tax efficacy among 32 corporations listed on the Australian Stock Exchange (ASX) from 2001 to 2006. Board composition was determined as a percentage of outside directors. Results confirmed existing studies, that independent board measured by a higher percentage of non-executive directors' results into superior supervision of the management on behalf other stakeholders. The study concluded that board independence adversely affects tax aggressiveness. This study was based in Australia unlike this study which was on listed firms in Kenya.

Armstrong et al. (2015) studied the relationship between corporate governance and tax management. They sampled all firms listed on Compustat covering the period 2007 to 2011. The study indicated that firm with a higher proportion of outside boards size have the advantage of higher cash flows through the minimization of effective tax rate, besides such firm strives to heighten tax avoidance as it does not carry any uncertainty as regards investment. The study was based on quantile regression and found board independence to have a positive relation with financial sophistication given lower tax planning levels, but an inverse relationship in firms with higher tax planning levels. The current study based on manufacturing and related businesses dealing on the Nairobi Securities. Exchange, Kenya and also used panel regression techniques.

Păunescu et al. (2016) did a research on linkages between corporate governance attributes and effective tax rate. The research used panel data analysis of quoted firms in United States (U.S). The study sampled fifty (50) firms drawn across technology area (2000 to 2013 period). Panel regression analysis and results indicate that board independence has significant and negative impacts on tax planning (effective tax rate). The study was conducted on listed firms in U.S. The present research was based on Kenya, an emerging market therefore based on different capital market laws as compared to U.S which is a developed country. The present research focused on manufacturing and related firms trading on the Nairobi Stock. Exchange (NSE).

Jamei (2017) valued the effect of Corporate Governance on tax management by one hundred and four (104) firms quoted in Tehran Securities Market from 2011 to 2015 using multiple regression method to analyze the research data. The outcomes of the study show that board independence has no effect on tax evasion by companies listed on the Tehran Exchange. The current study was unique in that it is concentrated on manufacturing and related firms are trading on the Nairobi. Securities Exchange, Kenya.

Putri et al., (2017) assessed the significance of corporate governance mechanisms on tax planning while exploring public organizations in Indonesia. The study utilized secondary data across listed firms in the Indonesia Stock Exchange covering the periods 2011 up to 2014. The outcomes of the study showed that board independence has no effect on tax planning by companies listed on the Tehran Exchange. This research work was unique in that it is centered on manufacturing and related firms trading on the Nairobi. Securities Exchange (NSE), the findings of the previous study were based on listed Indonesian firms and cannot be directly applicable to those trading firms in Kenya.

Kang'ara (2019) examined corporate governance effect on tax planning for commercial and service enterprises trading in NSE, Kenya. The research was based on the eleven (11) commercial and service listed firms which formed the target population. The period 2014 to 2018 (5years) was considered in the study where secondary panel data was applied. The variables considered were board size, number of meetings, independence of the team, managerial ownership (percentage of shares held by management), return on equity and debt financing. Effective Tax Rate was applied to proxy tax savings. The research utilized descriptive research design and analysis used multiple regression methods. The findings indicated a R-Square of 0.605. The analysis of variance (ANOVA) provided a p-value of 0.000. Despite the fact that the investigation was conducted in a set-up of publicly traded companies, it did not examine the moderating influence of firm size on the relationship between independent directors and tax planning. The current study also focused on only manufacturing and related firms trading on the NSE, Kenya.

Chytis et al. (2020) examined corporate governance effects on tax planning albeit probing the period of the financial crisis. The study focused on listed companies on the Athens securities market. This explored the consequence of governance on tax within the unfavorable conditions which emanated from the economic crisis. The study focused on the time scope 2011 to 2015 where fifty (55) non-financial listed firms were sampled. Based on the study findings, board independence had remarkable positive effect with tax planning of quoted firms in Greece. Unlike this study, this was focused on manufacturing and related firms trading at the NSE, Kenya.

2.3.3 External Audit Quality and Tax Planning

The external audit quality is a multifaceted concept that has been discussed in various empirical studies of corporate governance; it is believed to play a key role in restraining

managers from managerial opportunism. Richardson et al. (2013) demonstrated that, where a business engages a BIG4 auditor to examine the books of accounts and provide additional non-audit services such as interpretation of tax laws, the company will not be susceptible to abuse tax loopholes and provisions so as to optimize tax expenses as such exploitations increase litigation risks of auditors. The BIG4 auditors are equally interested in guarding their reputation and professional ethics. Accordingly, controlling and directing the responsibility and authority of the managers through corporate governance measures can directly influence tax efficiency since the management is directly involved in the implementation of tax management strategies such as donations to approved organizations which results to a reduction in taxable profit.

Hanlon et al. (2012) asserted that abuse of tax loopholes and tax provisions by management will cast doubts regarding the audit standard; abuse and exploitation of financial reports by managers are against the principle of good corporate governance which accentuate aspects of transparency and accountability. In such instances the managers would be reluctant to disclose the tax optimization strategies used by the firm to decrease its tax expense resulting into information asymmetry. The primary responsibility of the auditor is to prevent, detect and report any such fraud to the users of financial statements, reducing information asymmetry and protecting the interests of various stakeholders by issuing unqualified, qualified, adverse and disclaimer opinion on the affairs of the company.

Armstrong et al. (2015) examined the association entre corporate governance and tax planning, sampling quoted companies on Compustat covering the period 2007 to 2011. The study analysis was undertaken using quantile regression model. Study findings reveal that external audit quality had inconclusive effect on tax planning and tax avoidance by

firms. The results show that governance attributes exhibit strong linkages with higher degrees of extreme tax avoidance levels. The study however ignored firm size and its moderating influence on the nexus linking external audit and effective tax rates of firms which was one of the goals of the current study. Moreover, the present study was based in Kenya, thereby addressing the contextual gap.

Jamei (2017) analyzed the influence CG mechanisms on tax planning, focusing on trading firms in Tehran Exchange which was based on the period 2011-2015. One hundred and four (104) listed firms in Tehran Exchange was the sample of the study, using multiple regression to analyze research data. Results showed insignificant influence of external audit on tax minimization by businesses trading in Tehran Exchange. Considering different capital market regulations of countries, the study results cannot be generalized for listed firms at the NSE, Kenya. The current study was further based on panel regression techniques where the various underlying diagnostic tests were satisfied before making inferences.

2.3.4 Institutional Ownership and Tax Planning

Chen et al. (2010) opine institutional investors' holds shares for a longer period and therefore they assess the balance between tax benefits resulting from tax planning and probable fines and sanctions if such strategies are later degree non-compliant. Furthermore, these investors do also assess any implication of additional charges of tax planning such as incentives paid to managers to optimize tax expense, additional costs of engaging auditors to thoroughly scrutinize financial statements to guarantee financial reports comply with accounting principles and costs of engaging a lawyer in-case of future litigations against the company. Such monitoring activities by IO are fundamental in the choice and implication of tax planning.

Wu et al., (2016) considered impact of shareholding structure and institutional context on taxation of public Chinese companies between 1999 and 2006. They established that private owned (institutional) companies have a lower ETR compared with firms with government ownership. Furthermore, incentives to support local economic growth are linked to advantageous taxes of privately owned businesses. They also discovered that private-equity firms in areas with lesser levels of privatization got advantageous tax treatment. The study, on the other hand, was limited to Chinese publicly traded companies. The current research was different in that it focused on manufacturing and related corporations quoted on the Nairobi. Securities. Exchange, Nairobi.

Jamei (2017) assessed how Corporate Governance exert influence on tax management by one hundred and four (104) firms quoted in Tehran Stock Exchange from 2011 to 2015 using multiple regression method to analyze the research data. It was deduced that institutional ownership had inconclusive impact on Effective Tax Rate of listed firms in Tehran Exchange. The research notably was done based on a different environment, consequently the results cannot be exerted in the present environment. In tackling the contextual and conceptual gaps, the present study was further validated as to whether firm size moderates the relationship entre institutional ownership and tax planning of public manufacturing firms in Kenya.

Kang'ara (2019) analyzed the relationship between tax planning and corporate governance for commercial and service companies listed at the NSE, Kenya, covering eleven (11) commercial and service listed firms which constituted the target population. The study focused on the period 2014 to 2018 (5years) where secondary panel data was applied. The examination utilized descriptive research design and analysis used multiple regression methods. Inferential results revealed that institutional ownership had negative

and considerable influence on tax planning of commercial and service firms quoted at the NSE, Kenya. Notably, the researcher did not consider firm size and its moderating roles on the nexus entre corporate governance and tax planning being among the objectives of the present research.

Chytis et al. (2020) examined corporate governance effects on tax planning while exploring the period of the financial crisis. The study focused on listed companies on the Athens stock exchange. Though tax burden has been a major concern for corporate finance, it is however questionable if tax stands among the main attributes of corporate governance. The study focused on the time scope 2011 to 2015 where fifty (55) non-financial listed firms were sampled. The empirical findings revealed that ownership concentration had insignificant effect on tax planning for enterprises trading in Greece. The study furnished additional understanding on the linkage between ownership and tax planning in periods of financial crisis, however, the focus was listed banks in Greece. Due to the unique and varying economic as well as regulatory environments of countries, the findings cannot be deduced to public firms in the Nairobi Securities. Exchange, Kenya.

2.4 Synopsis of Literature review and gaps

Table 2.2: Synopsis of Empirical Literature Reviewed and Gaps Identified

Authors/ (Years)	Cynsure of previous research	Key Conclusions	Research Gaps	Centre of current research
Armstrong <i>et al.</i> , (2015)	Nexus between CG and tax planning	Board characteristics had significant effect on tax planning	Diagnostics tests were not carried out. Isolated moderation effect did not consider moderating effects	Various diagnostic tests for panel regression was done. Moderation effects was examined
Păunescu <i>et al.</i> (2016)	The linkages between corporate governance attributes and effective tax rate in U.S	Board independence had significant effect on tax planning	Focus was United States	Focused on Kenya
Wu <i>et al.</i> (2016)	Examined how ownership and institutional framework affect the taxation of listed firms in China	The study established that firms with no government ownership have a lower ETR than firms with state ownership	Focused on listed Chinese companies	The current study is unique in that it focuses on manufacturing and related firms listed on NSE, Kenya
Jamei (2017)	Impact of corporate governance on ETR while focusing on listed firms in Tehran Exchange	Institutional ownership had insignificant effect on ETR	Was based on listed firms in Tehran Exchange and cannot be generalized to Kenya Isolated moderation effects	Was based on Kenya Moderation effect of firm size was assessed
Putri <i>et al.</i> , (2017)	Influence of CG attributes on ETR among listed at the IDX	Board independence had no significant effect of ETR	Based on listed firms and used sampling approach and generalized findings for the entire population	Current study used a census approach which is considered very accurate
Kang'ara (2019)	corporate governance and tax planning for commercial and service enterprises listed on the Nairobi Stock Exchange (NSE).	The current study is unique in that it focuses on manufacturing and related firms listed on the Nairobi Stock Exchange (NSE).	Concentrated on trade and business firms listed on Kenya's National Stock Exchange	Based on Manufacturing and related trading on the NSE, Kenya. Moderation effects

			(NSE). Moderating effects that are isolated	considered
Chytis <i>et al.</i> (2020)	examined corporate governance effects on tax planning while considering the period of the financial crisis (listed companies on the Athens stock exchange)	Board size and institutional ownership had insignificant effect, board independence had significant effect on tax planning	Centred on quoted firms on the Athens stock exchange. Focused on effect of financial crisis	Focused on listed manufacturing and related firms in Kenya

Source: Literature Review (2020)

Companies continually seek for ways to achieve maximum tax benefit given the proportion of cash flows paid to revenue authorities in the form of taxes subsequently affect the profits available for distribution and re-investments. Out of the literature examined, greater studies centered on developed nations; a close scrutiny also presented inconsistent results by different researchers with identical variables. In addition, most studies focusing on corporate governance and tax planning have not considered the influence of external audit, considering its role in enhancing reliability and validity of financial information of a company. Corporate governance and effective tax rates have not been adequately studied in the manufacturing and allied sector in Kenya. Moreover, most studies on effective tax rates have focused on firm-definite attributes namely: size, leverage, growth, and profitability, therefore failing to provide a full picture of what exactly determines effective tax rates among firms that are characterized by separation of ownership from control.

2.5 Conceptual Framework

Mugenda & Mugenda, (2013) opines that a study's conceptual framework depicts the underlying relationship of the research variables in the form of a diagram. In this study, corporate governance practices were claimed to have an underlying effect on tax planning of listed corporations, making them independent variables. Consequently, tax planning as

measured by effective tax rate served as the dependent variable of the study. Firm size acted as a moderating element and was shown to have an impact on the strength of the relationship between tax planning and corporate governance practices among the manufacturing and related firms trading at the Nairobi Securities Exchange, Kenya.

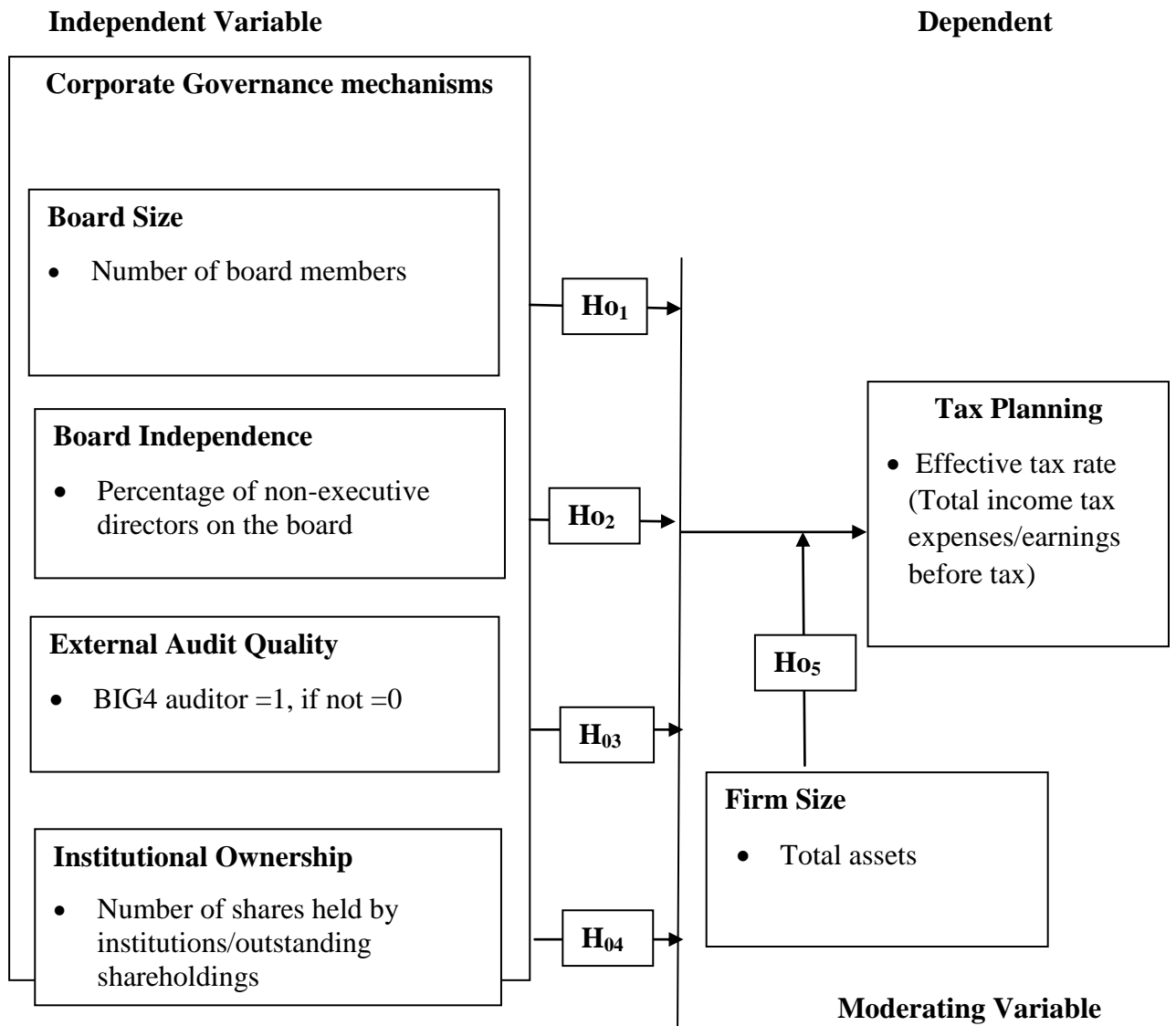


Figure2.1:Conceptual Framework

Source: Researcher (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section summarizes data collection and analysis techniques adopted for this study, it solves study problem in an organized and structured manner. It provides an overview of Research philosophy, Design, model used to show the interrelationship amongst study variables, the data collection tools, sources of data, procedure of data collection, analysis and diagnostic tests.

3.2 Research Philosophy

This describes ways of data collection, analysis, and development into knowledge. This research project was based on the positivist concept, which promotes objectivity and uniform application of rational and logical research methods. According to Sanders, Lewis, and Thornbill (2009), positivist researchers do study in a structured and organized manner by identifying a study topic, determining research objectives, developing relevant research objectives and questions, and using suitable approach. Positivism aims to build conceptual and theoretical frameworks in research, subsequently sorely tested via actual studies. Positivism philosophy suites this work because the main purpose of this study was to give quantifiable information through building a conceptual and theoretical framework, and testing the results and to contribute to the development of policies in tax management.

3.3 Research Design

In line with the assertion by Kothari (2011), research design refers to the outline adopted in a research enquiry which spans from the process of data collections, measurements and as well as analyses of data. According to Mugenda and Mugenda (2013), research design

is therefore regarded as the blueprint to an investigation which is used for purposes of answers to questions in research. The study used causal research design which is employed in studies which endeavor to ascertain the cause-and-effect linkages of research variables. The investigation aimed to evaluate the relationship between tax planning and corporate governance practices in manufacturing and related enterprises trading on the NSE in Kenya, the research design is optimal for this topic.

3.4 Empirical Model

The empirical model was derived from panel regression model as convened by Whisman and McChelland (2005), where the direct effect and moderation effect models were consistent with specific objectives and research hypotheses of the study as written in sections 3.4.1 and 3.4.2.

3.4.1 Direct Effect Model

$$TP_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 EA_{it} + \beta_4 IO_{it} + \varepsilon \dots \dots \dots 3.1$$

Where:

TP = Tax Planning

BS = Board Size

BI = Board Independence

EA = External Audit Quality

IO = Institutional Ownership

t = Time Scope

i = Firm

β_1 to β_4 = Co-efficients

ε = Error term

3.4.2 Moderation Effect Model

The moderating test effect followed the technique by Whisman and McClelland (2005) which was on two-step procedure as indicated in sections 3.4.2.1 and 3.4.2.2 below.

3.4.2.1 Step 1

$$TP_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 EA_{it} + \beta_4 IO_{it} + \beta_5 FS_{it} + \varepsilon \dots\dots\dots 3.2$$

Where FS is..... Firm Size

3.4.2.2 Step 2

$$TP_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 EA_{it} + \beta_4 IO_{it} + \beta_5 BS * FS_{it} + \beta_6 BI * FS_{it} + \beta_7 EA * FS_{it} + \beta_8 IO * FS_{it} + \varepsilon \dots\dots\dots 3.3$$

Where:

- TP = Tax Planning
- BS = Board Size
- BI = Board Independence
- EA = External Audit Quality
- IO = Institutional Ownership
- t = Time Scope
- * = Interaction term
- i = Firm
- $\beta_1 - \beta_8$ = Coefficients
- ε = Error term

In line with the approach by Whisman and MacClelland (2005), in the case where firm size (FS) is significant in the first model and the various interactions in the second model insignificant, denoting that firm size is an explanatory variable and not a moderator.

Where the opposite is established, it therefore implies that firm size moderates the correlation between tax planning and corporate governance practices.

3.5 Operationalization and Measurements of Variables

Table 3.1: Operationalization and Variables Measurement

Variable	Type	Operationalization of variables	Measurement of variables	Measurement Scale	Hypotheses Direction
Tax Planning	Dependent Variable	Effective tax rate of firms	Total income tax expenses/earning before tax	Percentage	Positive/ Negative
Board Size	Independent Variable	Total number of board members	Number of board of directors	Nominal	Positive/ Negative
Board independence	Independent Variable	The non-executive board of directors of firms	Non-executive board of directors to number of directors	Percentage	Positive/ Negative
External Audit quality	Independent Variable	The reputation of external auditor	If the external auditor falls under the BIG4 :Deloitte & Touche, Ernst & Young (EY), KPMG and PricewaterhouseCoopers (PwC) =1, otherwise=0	Nominal	Positive/ Negative
Institutional Ownership	Independent Variable	Shares held by institutional owners	Total of all shares of institutional owners/Outstanding shareholdings*100	Percentage	Positive/ Negative
Firm Size	Moderating Variable	Volume of assets of firms	Total assets	Percentage	Positive/ Negative

Source: Researcher (2020)

3.6 Target Population

This was defined as the objects or proponents of interest that were taken into consideration (Kothari, 2011). It is the number of firms or people in totality that a research study seeks to cover and make inferences from. The study's population consisted

of nine (9) identified Manufacturing and Allied corporations. The financial statements of these listed firms from 2010 to 2019 served as the unit of analysis for the proposed study, and the accounting information of these listed firms served as the unit of observation.

3.7 Sampling Design

Sampling is viewed as an undertaking whereby a subset of a population is selected by a research which is used to generalize findings for the entire population (Saunders, Lewis & Thornbill, 2009). There are nine manufacturing and allied enterprises trading at NSE in number, notably, this number was relatively small and fairly manageable to consider all the firms in line with Mugenda and Mugenda (2013). The study therefore applied a census approach so as to cover all the nine manufacturing and allied companies listed at NSE, Kenya, therefore enhancing the reliability and validity of the research.

3.8 Data Collection Procedure

This procedure entailed gathering of data from different sources for purposes of transforming such into useable form for making conclusions and recommendations (Mugenda & Mugenda, 2013). This research was based on secondary data obtained from various financial information of the NSE's companies under the study from 2010 to 2019, using schedule as documented in Appendix II. Secondary data is more convenient to use due to its cost and time saving nature as compared to questionnaires which involve several individuals and as well as various procedure.

3.9 Data Analysis and Presentation

The analyses of data entailed the various steps, processes and procedures used in the transformation of collected data into suitable forms for use Greene, (2012). It further involved the application of statistical methods and models in line with stated research questions or objectives to provide solutions or answers to research problems. Panel data

was used in this research which was drawn from the nine covering the period 2010 to 2011. The research was carried out using STATA statistical software and panel regression analysis. Descriptive, correlation and regression analyses were undertaken. Descriptive statistics provided values included mean, percentages, standard deviation, and trends. The statistical significance of the influence of corporate governance practices on tax planning was ascertained using panel regression analyses. The null hypothesis was tested using the p-value approach at a significance level of 0.05 (5%) in the regression analysis, which was modeled by the study's unique objectives.

3.10 Diagnostic Tests

The study carried out various pre- and post-estimation tests to satisfy the requirements for panel data regression analyses. Ignoring these tests often result in spurious results based on biased parameter estimates Verbeek, (2012).

3.10.1 Multicollinearity Test

Multicollinearity refers to a situation in which the predictor variables of a study are correlated in some way (Wooldridge, 2013). Excessive multicollinearity in a regression model leads to the issue of spurious output because of inaccurate confidence intervals and p-values. The study applied the VIF test in assessing the multicollinearity levels among predictors. The VIF test was guided by a threshold of 2 for the collinearity levels to be considered as moderate. The affected variables were dropped in the event of severe multicollinearity established.

3.10.2 Normality Test

Normality test is used to determine the distribution of study variables. The data set in a regression panel analysis is assumed to be regularly distributed (Verbeek, 2012). The distribution of Data was tested using the Shapiro Wilk Tests. The test was guided by a

null hypothesis that perhaps the data set has a normal distribution with a 0.05 p-value as the cutoff. In the event where the research variables have non normal distribution, non-parametric tests will be used.

3.10.3 Autocorrelation Test

Autocorrelation is viewed as a situation by which a regression model has correlated error terms across different time periods which leads to inefficient estimates and in turn wrong inferences and conclusions. The Wooldridge autocorrelation test was used, which is based on the null hypothesis of no first order serial correlation. The test was determined based on a 0.05 p-value as threshold. The robust standard errors were used if first order autocorrelation is established.

3.10.4 Heteroscedasticity Test

Heteroscedasticity refers to a scenario of residual variances in a regression analyses being similar over observations (Verbeek, 2012). The residuals in a regression analyses are required to be homoscedastic. The issue of heteroscedasticity leads to spurious results in a regression analysis. The study applied Breusch-Pagan test in assessing the heteroscedasticity levels and this test was informed by a null hypothesis stating that the residuals are homoscedastic and heteroscedastic for the alternative hypothesis. A p-value of >0.05 served as the decision rule for this test and in the event of heteroscedasticity found, the study applied the robust standards errors.

3.10.5 Hausman Test

In a panel regression analyses, the regression outcome is based on two models (fixed effect and random effect models). A Hausman test was applied for purposes of selected the best model which was used for subsequent estimations (Baltagi, 2005). The test is led by a 0.05 threshold, which corresponds to the normality test that the random effect model

is the preferred model. The null hypothesis is rejected in the event of the p-value being below 0.05 significance level which implies the use of the FE model. The RE model is therefore applied in the event the p-value is above 0.05 which implies failure to reject the null hypothesis.

3.11 Ethical Considerations

Ethics relate to the underlying behaviors and procedures which are expected to be adhered to in a research study by researcher which in turn enhances its aims and objectives (Mugenda & Mugenda, 2013). Research in Kenyatta University and Kenya are expected to be carried out within the confines of various procedures and ethics. The researcher obtained a permit from NACOSTI after Kenyatta University gave the authorization letter. All the stipulated guidelines and norms of research were strongly followed to uphold all ethical considerations.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

Results obtained from the investigation are examined and reviewed comprehensively in this section. These results include variables description, correlation outcomes as well as panel regression outcomes with inferences are drawn thereafter. Additionally, findings were compared to existing literature

4.2 Descriptive Analysis

The study exposed the descriptive statistics of the variables with respect to their standard deviation, mean, values on maximum and minimum. The outcomes of this study are documented in Table 4.1.

Table 4.1: Descriptive Statistics

	Tax Plannin g	Boar d Size	Board Indepen dence	External Audit Quality	Instituti onal Owners hip	Firm Size
Mean	0.5153	8.444 4	0.6581	0.5889	0.6529	0.7287
Std. Deviation	2.0452	2.652 6	0.6894	0.4948	0.4206	0.8991
Minimum	-0.5036	4	0.4046	0	0.2764	0.5394
Maximum	18.1678	15	0.8049	1	0.7238	0.9538

Source: Study Data (2021)

Table 4.1 showed the study descriptive statistics. Tax planning had mean value of 0.5153, implying that manufacturing and allied companies tax expense was above the 30% tax rate as indicated by 51.53%. Osebe et al., (2019) established an average ETR of 24.7 % as

opposed to a tax rate of 30% as provided by the Income Tax Act, indicating incidences and depth of tax planning among listed firms in Kenya. Similarly, Kingara, (2019) established an average ETR of 23.72% among commercial and service firms listed at the NSE. On the contrary, Bashiru *et al*, (2020) established an average ETR of 42.31% as opposed to a tax rate of 30% among listed Nigerian conglomerate companies.

The firms under the study have a board with a minimum of 4 members and a maximum of 15 members. On average, there were 8 members on the board (Mean=8.444). Similarly, Osebe *et al*, (2019) established a minimum and maximum of 4 and 15 members on the board among listed firms in Kenya whereas Kingara (2019), found a minimum and maximum of 4 and 18 members on the board among commercial and service firms listed at the NSE. Moreover, board size had a standard deviation of 2.6526 which implies that board size had large fluctuations over the period covered. Given a standard deviation of 2.0452 for tax planning, it implies that manufacturing and allied companies in Kenya had high degree of variation in their tax planning.

It was observed that board independence has a mean value of 0.6581, implying that board independence in manufacturing companies, Kenya was high to the tune of about 65.81% on an average. Osebe *et al*, (2019) found that out of the total number of directors on the board, 80% were non- executive directors, therefore concluding that boards of the NSE listed firms are commanded by outside directors. Adams, Hermalin, & Weisbach, (2010), assert that a higher percentage of outside directors is a prerequisite for good governance and by overseeing managements' designing and implementation of strategies such as tax planning.

External audit quality of tax planning among manufacturing and allied firms in Kenya had a mean of 0.5889 (58.89%) which is above the average of 30% tax rate, translating to

a variation of 0.4948 (49.48%). This implies that external audit quality among the firms is highly different in the determination of tax planning. Drawing from these observation, board independence fluctuates among the firms within the range of 0.3046 and 0.8049 values while external audit quality varies within the range of 0 and 1. This shows that among the firms, external audit quality's fluctuation is low as external audit quality performs a critical role in tax planning among the firms.

Institutional ownership had a mean 0.6529 with the implication that the ownership of manufacturing companies listed in Nairobi Securities Exchange, Kenya on an average is 65.29% with the minimum and maximum ownership by institutional shareholders among the firms stands at 27.64% and 72.38% respectively. By extension, it means that firms' ownership varies given a standard deviation of 42.06. This means that among firms listed, the ownership varies highly on the number of people who owned that institutions which affects their tax planning policy, thus, a great disparity in institutional ownership among manufacturing and allied firms in Kenya. Osebe *et al.*, (2019) established a minimum and maximum corporate ownership structure among listed firms at the NSE at 19.4% and 93.03% respectively. Putri *et al.*, (2017) established an average shareholding of 69.33% among listed Indonesian companies, implying high concentration of institutional ownership.

The study further explained that firm size had a mean vale of 0.7287. By implication, it means that firm size is high to the tune of about 72.87% in manufacturing and allied companies listed in NSE, Kenya. This is further described by the standard deviation of 0.8991. By implication, the size of firms' variation from each other is high at the rate of 89.91%. Consequently, institutional ownership varies within the minimum and maximum

values of 27.64% and 72.38% while firm size had a minimum value of 0.5394 and 0.9538 maximum value respectively.

4.3 Diagnostic Tests

The classical linear regression model assumptions were ascertained by conducting various diagnostic tests such as normality test, heteroscedasticity test, autocorrelation test, multicollinearity, stationarity and specification test effect model. These were conducted to avoid inconsistency and inefficiency that could arise from the estimated parameters.

4.3.1 Normality Test

Shapiro Wilk test was carried out to determine the normality of the study data. Under the null hypothesis, the data was assumed to be regularly distributed. The test was tested at 0.05 level of significance. Normality test outcome is presented in Table 4.2.

Table 4.2: Normality Test Results

Variables	Obs	W	V	Z	Prob> z
Tax Planning	90	0.20064	57.673	7.563	0.00000
Board Size	90	0.96201	2.874	1.452	0.07326
Board Independence	90	0.09706	68.298	2.462	0.00691
External Audit Quality	90	0.99718	0.213	-3.037	0.99880
Institutional Planning	90	0.40333	45.132	-0.039	0.51558

Source: Study Data (2021)

Based on the null hypothesis of normally distributed data, the outcomes on Table 4.2 shows that tax planning and board independence were not distributed normally as shown by probability values which are less than 0.05 level of significance. Other variables such as board size, external audit quality and institutional ownership were normally

distributed. With large sample sizes (> 30 or 40), According to Ghasemi and Zahediasl (2012), violating the normality assumption should not pose serious problems, implying that parametric techniques can be used even if the data are not normally distributed and the sample size is high enough to ignore such distribution.

4.3.2 Heteroskedasticity Test

The test of variance stability was examined using heteroscedasticity test put forward by Breusch-Pagan. This was to determine whether the study variances were constant across the observational errors. Therefore, the outcome of the study based on this test is exhibited (see table 4.3).

Table 4.3: Heteroscedasticity Test Results

chi2(15)	=	101.06
Prob> chi 2	=	0.0000

Sources: Study Data (2021)

The result of the Breusch-Pagan test is shown in Table 4.3. The test yielded a statistical value of 101.06 and a probability value of 0.0000, both of which are less than the 0.05 level of significance. The null hypothesis was rejected based on the findings, meaning that the errors covariance was inconsistent across the study observations. Furthermore, the problem of heteroscedasticity is said to be present in the model. However, this problem was corrected by estimating the standard error test.

4.3.3 Multicollinearity Test

The presence of multicollinearity was conducted with the use of variance inflation factor (VIF). This is to ensure that none of the explanatory variable was highly correlated to the other in the study model. In the study, 2 was used as the estimation threshold to ascertain

the degree of multicollinearity in the model. The result obtained from the variance inflation factor test is displayed in Table 4.4.

Table 4.4: Tests results on Multicollinearity

Factors	V.I.F	Remarks
Board Size	1.31	No Multicollinearity
Board Independence	1.24	No Multicollinearity
External Audit Quality	1.09	No Multicollinearity
Institutional Ownership	1.02	No Multicollinearity

Sources: Study Data (2021)

From the results above, it was exposed that none of the variable was highly correlated in the model, thus the study failed to reject the null hypothesis. From the exposition, all the variables used in the study were lower than the threshold value of 2. Particularly, board size shows a VIF value of 1.31, board independence 1.24, external audit quality 1.09 and institutional ownership 1.02 respectively.

4.3.4 Tests on Autocorrelation

The tests on autocorrelation was done through Wooldridge test. The null hypothesis of no first-order autocorrelation led the test. The study was conducted using a significance level of 0.05. In Table 4.5, the study's findings are revealed and presented.

Table 4.5: Autocorrelation Test Results

$$F(3, 77) = 0.71$$

$$\text{Prob} > F = 0.5499$$

Source: Study Data (2021)

F-statistic value of 0.71 was shown in Table 4.5. This was further evident by a probability value of 0.5499, implying that the exposed probability value was less than the threshold value of 0.05, therefore there was no first-order autocorrelation in the model and accordingly failing to reject the null hypothesis.

4.3.5 Stationarity Test

The study used Fisher type (Phillips-Perron) unit roots test to determine whether the variables have unit root or not. The null hypothesis of this test states that at least all panels have unit root which was tested using 0.05 level of significance. The result of the unit root test is presented in Table 4.6.

Table 4.6: Stationarity Test Results

Variable name	t-Statistic(adjusted)	P-value	Comment
Tax Planning	6.7763	0.0000	Stationary
Board Size	6.9734	0.0000	Stationary
Board Independence	10.7481	0.0000	Stationary
External Audit Quality	10.3249	0.0000	Stationary
Institutional Ownership	2.8360	0.0023	Stationary
Firm Size	5.7861	0.0000	Stationary

Sources: Study Data (2021)

Stationary results tested is included in the table 4.6. The tests were done at 95% confidence interval that. Tax planning, board size, board independence, external audit quality, institutional ownership, and firm size all have p-values less than 0.05, according to the study's findings. As a result, all of the variables used in the model were stationary, and the null hypothesis was rejected at the 0.05 significance level.

4.3.6 Model Specification Test

To find the optimal model to utilize in the investigation, the Hausman test was used. This criterion determines whether the study will use a random or fixed effect model to estimate the data. Baltagi (2005) said that the estimation technique of panel regression analysis is encompassed by two models (Random and fixed models). Table 4.7 shows the results on tests based on Hausman.

Table 4.7: Tests of Hausman Results

(b)	(B)	(b-B)	Sqrt (diag (V_b -V_B))
------------	------------	--------------	---

	Fixed	Random	Difference	S.E.
Board Size	0.8499	0.2862	0.5637	0.2599
Board Independence	0.0913	0.0565	0.0347	0.0071
External Audit Quality	1.7561	0.6377	1.1185	1.1499
Institutional Ownership	-0.1266	-0.0735	-0.0531	0.0251
chi2(3)	8.0809			
Prob>chi2	0.0809			

Source: Study Data (2021)

The Hausman test was established on the basis of the hypothesis which posited that the random effects model was best suited for the study against the alternative that the fixed effect in suitable. In line with this, Table 4.7 presents that outcome of the study. A chi-square value of 8.31 and 0.0809 corresponding p-value was obtained. In line with this outcome, the null hypothesis was rejected with the preferred model as fixed effect model.

4.4 Regression Analyses

For the purposes of determining the mediation role of certain variables on the association of other variables, panel regression analysis was conducted. However, this was done on the basis of the direct effect and moderating effect variables. The direct effect model was used to estimate the impact of corporate governance mechanisms on tax planning by the under study firms (Manufacturing & Allied Firms) Listed at NSE, Kenya. The first and second step moderation effect models were used to assess the influence of business size on the connection between corporate governance practices and tax planning among the under study firms (Manufacturing & Allied Firms) at NSE, Kenya.

4.4.1 Direct Effect Model

This section discussed the impact of corporate governance practices on tax planning by the under study firms listed in NSE. Table 4.8 contained the outcome of the study.

Table 4.8: Direct Effect Model Results

Tax Planning	Coef.	Robust Std.	Z	P> z 	[95% Conf.	Interval]
---------------------	--------------	--------------------	----------	-----------------	-------------------	-------------------

	Err.					
Board Size	0.2862	0.2614	1.09	0.274	-0.2261	0.7986
Board Independence	0.0565	0.0079	7.18	0.000	0.0411	0.0719
External Audit Quality	0.6377	1.6612	0.38	0.701	-2.6183	3.8936
Institutional Ownership	-0.0735	0.0152	-4.84	0.000	-0.1032	-0.0438
_cons	0.1149	2.1713	-0.05	0.958	-4.1409	4.3707
R²	0.8904					
Wald chi2 (4)	1143.5					
	9					
Prob > chi 2	0.0000					

Sources: Study Data (2021)

Results from the above table, indicate the coefficient of determination as indicated by R-squared had a value of 0.8904 implying that board independence and institutional ownership jointly explains tax planning by listed manufacturing and allied to a tune of 89.04%. The other 10.96 can be explained by other factors which are not present in this regression analysis. The F –statistic value of 1143.59 and the corresponding p-value of 0.0000 shows that corporate governance mechanisms used in the model jointly explained significantly the changes in tax planning by the firms under study.

Board independence was shown to have a positive coefficient of (=0.0565), indicating that it had a direct positive and substantial (=0.000) impact on tax planning by the companies under study on the NSE, Kenya. An increase in the external members of the board, for example, would result in a 0.05 increase in tax planning by the Listed firms under study. The null hypothesis was rejected, and the alternative hypothesis took effect, according to the interpretation.

Similarly, institutional ownership had a negative coefficient (= -0.0735) and a significant (0.000) influence on tax planning by the firms under study. In this scenario, a 0.07 drop in tax planning by the firms under review would come from a unit gain in institutional quality. From table 4.8, it was observed that the constant of the model was 0.1149,

implying in the absence of corporate governance mechanisms, tax planning would by 0.1149.

In accordance to Table 4.8 outcome, the subsequent regression function was extracted: the variables that were insignificance was excluded from the study model summary.

$$TP_{it} = 0.1149 + 0.0565BI_{it} + 0.6377EA_{it} - 0.0735IO_{it} + \varepsilon$$

4.4.2 Moderation Effect, Step One

According to Whisman and McChelland (2005) technique, the first step in estimating the moderation effect involves the moderating variable inclusion in the estimated model. This is to find out the significance of the variable in explaining the association between the dependent and explanatory variable as to whether procession can be made from step one or not. The outcome obtained from the first step are presented in Table 4.9.

Table 4.9: Moderation Effect, Step One Results

Tax Planning	Coef.	Std. Err.	Z	P> z 	[95% Conf. Interval]
Board Size	0.9566	0.0979	0.98	0.357	-0.1303 0.3216
Board Independence	0.0134	0.0109	1.22	0.258	-0.0119 0.0387
External Audit Quality	0.1643	0.1447	1.14	0.289	-0.1694 0.4979
Institutional Ownership	0.0055	0.0000	36.44	0.000	0.0005 0.0005
Firm Size	-3.6044	3.0138	-1.20	0.266	-10.5542 3.3454
_cons	25.1736	20.6873	1.22	0.258	-22.5313 72.8786
R²	0.9494				
Wald chi2 (5, 8)	1392.15				
Prob> chi2	0.0000				

Source: Study Data (2021)

The study's outcome yielded an R^2 of 0.9494(table 4.8). This implied that when the moderating variable (firm size) was added to the corporate governance variables (board size, board independence, external audit quality, and institutional ownership), tax planning by the companies under study, was explained to the tune of 94.94 percent. Furthermore, an F-statistical value of 1392.15 and p-value of 0.0000 were noted implying high significance of corporate governance on tax planning. Therefore, corporate governance mechanisms and the inclusion of the moderator (firm size) in the model has joint significant effects on tax planning among the manufacturing companies under study. When firm size was included in the estimated model, board size, board independence and external audit quality had insignificant positive effects on tax planning by the firms under study in Kenya. Institutional ownership, on the other hand, has a favourable and considerable impact on tax planning by the companies under study. It was observed that firm size had an insignificant effect on tax planning which means that firm size is not an explanatory variable and hence a criterion for second step procession for the moderation test.

4.4.3 Moderation Effect, Step Two

Following the result obtained in Table 4.9, the insignificance of firm size was upheld and hence the second step was proceeded upon. This entailed the interaction of the moderating variable (firm size) with the explanatory variables (board size, board independence, external audit quality and institutional ownership) for the purpose of ascertaining the moderating variable significance. Results obtained from the second step are presented in table 4.10

Table 4.10: Moderation Effect, Step Two Results

Tax Planning	Coef.	Std. Err.	Z	P> z 	[95% Conf.	Interv al]
---------------------	--------------	------------------	----------	-----------------	-------------------	-------------------

Board Size	0.0020	0.0029	0.73	0.485	0.0045	0.0087
Board Independence	-	0.0148	-6.59	0.000	-0.1314	-0.0633
	0.0973					
	8					
External Audit Quality	-	0.0149	-0.77	0.464	-0.0020	0.0228
	0.0114					
Institutional Ownership	0.0423	0.0644	0.66	0.531	-0.1064	0.1909
Board Size*Firm Size	9.01e0	0.0000	0.80	0.444	-0.0000	0.0000
	6					
Board Independence*Firm Size	-	0.0286	-0.07	0.945	-0.0681	0.0640
	0.0020					
External Audit Quality*Firm Size	0.0166	0.0025	6.57	0.000	0.0107	0.0223
Institutional Ownership*Firm Size	-	0.0002	-5.73	0.000	-0.0000	0.0000
	0.0014					
_cons	0.0771	0.0379	2.03	0.076	-0.0103	0.1645
R²	0.9997					
F (8, 8)	2.07					
Prob> F	0.0000					

Source: Study Data (2021)

The R-squared for the outcomes in Table 4.10 was 0.9997, indicating that the corporate governance mechanisms (board size, board independence, external audit quality, institutional ownership) and the interaction between firm size and Board Size, Board Independence, External Audit Quality, and Institutional Ownership had high descriptive powers. The factors explained 99.97 percent of changes in tax planning by the firms under study. The model's significance was determined by an F-statistical value of 2.07 and a p-value of 0.0000. As a result, tax planning among firms under study, is influenced by board size, board independence, external audit quality, and institutional ownership in combination with firm size. The influence of firm size on the connection between board size and tax planning was minimal. The association between board independence and tax planning was moderated by firm size in a non-significant way. The association between external audit quality and tax planning was significantly moderated by firm size. The correlation between institutional ownership and tax planning among the firms under study tax planning was significantly moderated by firm size.

From the outcomes documented in Table 4.10 above model summary was as indicated; firm size does not moderate majority of the variables. Moderation was significance on Board independence external audit and internal ownership; the significance level at 95% confidence interval was (<0.05).

$$TP_{it} = 0.0771 + 0.097BI_{it} + 0.016EA*FS_{it} - 0.001IO*FS_{it} + \varepsilon$$

4.5 Hypotheses Testing

The hypotheses of the study were evaluated in this section on the basis of the study specific objectives. Hypothesis **H₀₁**, **H₀₂**, **H₀₃**, **H₀₄** and **H₀₅** were based of corporate governance mechanisms and the respective influence on tax planning by Manufacturing and Allied Firms Listed at NSE, Kenya. Furthermore, firms size moderating effect on the relationship between corporate governance mechanisms and tax planning was tested. The study hypotheses were evaluated using a 0.05 threshold of significance to determine whether they were accepted or rejected.

H₀₁: Board size has no significant influence on tax planning by the firms under study

The study looked into the impact of board size on tax planning by the under study firms. According to the study, board size has no significant impact on tax planning, as stated at the 0.05 significance level. A probability of 0.274 was found, showing that board size had no significant impact on tax planning, at the 0.05 significance level. This result can be linked to the huge tax board's bureaucratic nature, which decreases the efficacy and efficiency of tax planning. This could be attributed to huge boards having a sluggish decision-making process, which has an impact on the firms' tax planning system.

In line with the result of board size and tax panning of manufacturing and allied firms, Ribeiro *et al.* (2015) considered the contribution of firm characteristics and corporate governance attributes in explaining ETRs employing data from 704 nonfinancial companies quoted on the LSE covering duration from 2011 to 2013 and concluded that a larger amount of board members contributes to higher ETRs. Similarly, Armstrong *et al.* (2015) studied the nexus linking CG mechanisms and tax avoidance. The study sampled all companies listed on Compustat covering the period 2007 to 2011. The study exhibited that firm with bigger board size will have the advantage of higher cash flows through the minimization of effective tax rate, besides such firm strives to heighten tax avoidance as it does not carry any uncertainty as regards investment. Dirk and Johanes (2017) studied CG mechanisms impacts tax minimization in Germany. Regression discontinuity design was applied in the research. The study discovered that board size significantly contributes to effective tax rate of firms.

On the contrary, Pratama (2017) conducted a study among listed Indonesian companies. The study based on regression methods concluded a significant negative relationship between the number of board members and effective tax rates implying the higher the number of directors, the lower the effective tax rate. He attributes this to difficulty in arriving at a consensus thus allowing management to take decisions that benefit themselves. Kang'ara (2019) studied the effect of corporate governance on tax planning for 11 commercial and service firms trading at the NSE, Kenya. Based on the regression output, board size was found to have a negative but significant effect on tax planning. Variations in the study results could be accredited to different nature of tax systems in the study areas which allows for varying degrees of outcome on board size on tax planning. Also, the various regulatory conditions can be the reasons for the variations in findings.

H₀₂: Board Independence has no significant influence on tax planning

The study sought to examine the influence of board independence on tax planning by firms under study. In view of this, the null hypothesis which states that board Independence has no significant influence on tax planning by the firms considered in the study was rejected. This means that at 0.05 level of significance, board independence significantly influences tax planning by firms under study. This is shown by the p-value of 0.000 portraying the significance of the variable's influence on tax planning by the firms under study. The significance of board independence can be accredited to the determination of tax policy planning that helps in optimizing the value of the firms under the study. The independence of board members allows them to use their wealth of knowledge to provide effective suggestions and guide on the conduct of the firm which in turn helps in achieving efficient tax planning.

The outcome of the investigation is in agreement with existing literature. Păunescu *et al.* (2016) did a research on linkages between corporate governance attributes and effective tax rate. The research used a panel data analysis of quoted firms in United States (U.S). The study sampled fifty (50) firms drawn across technology area. The research was based on panel regression analysis and results indicate that board independence has significantly and negatively impacts on tax planning (effective tax rate). Similarly, Chytis *et al.* (2020) examined corporate governance effects on tax planning while reviewing the period of the financial crisis. The study focused on listed companies on the Athens stock exchange. This explored the effect of corporate governance on tax planning within the unfavorable conditions which emanated from the economic crisis. The study focused on the time scope 2011 to 2015 where fifty (55) non-financial listed firms were sampled. Based on the study findings, board independence had significant positive effect with tax planning of listed Companies in Greece.

On the other hand, Putri *et al.*, (2017) assessed the effect of corporate governance mechanisms on tax planning while exploring public firms in Indonesia. The study utilized secondary data across listed firms in the Indonesia Stock Exchange where the years 2011 up to 2014 were covered. The conclusions of the study showed that board independence had no significant effect of tax planning of listed firms using effective tax rate. Jamei (2017) also assessed the effect of CG on tax management by one hundred and four (104) firms quoted in Tehran Stock Exchange from 2011 to 2015 using multiple regression method to examine the research data. The research findings reveal that board independence had insignificant influences on tax avoidance of firms listed at the Tehran Exchange. The deviation in the study outcomes could be attributed to the context of the study. However, these studies in existing literatures were focused on other types of firms other than manufacturing and allied firms thereby producing varying outcomes. As such, the varying context of the studies accounts for the discrepancies in results.

H₀₃: External Audit Quality has no significant influence on tax planning

Focusing on the firms under study, the researcher investigated the impact of external audit quality on tax planning. There was no substantial impact of external audit quality on tax planning by firms under study, taking into consideration the study's unique goal. The probability value of 0.701, which is greater than the 0.05 level of significance, demonstrates this. Therefore, the null hypothesis with respect to this objective was upheld. The insignificance of external audit quality can be attributed to proficiency of internal audit of the firms in the tax planning process. The efficiency of internal audit of the firms covers the loopholes which would guarantee external audit penalties.

The results of external audit quality and tax planning by firms under study, were consistent with Armstrong *et al.* (2015), who looked into the relationship between

corporate governance and tax planning. The study sampled quoted companies on Compustat covering the period 2007 to 2011. The study analysis was undertaken using quantile regression model. Study findings reveal that external audit quality had insignificant effect on tax planning and tax avoidance by firms. The results show that governance attributes exhibit strong linkages with higher degrees of extreme tax avoidance levels. Jamei (2017) analyzed the influence CG mechanisms on tax planning, focusing on listed firms in Tehran Exchange which was based on the period 2011-2015.

One hundred and four (104) listed firms in Tehran Exchange was the sample of the study, using multiple regression to analyze research data. Results showed insignificant influence of external audit on tax avoidance of listed firms in Tehran Exchange. Hanlon *et al.* (2012) asserted that abuse of tax loopholes and tax provisions by management will cast doubts regarding the audit standard; abuse and exploitation of financial reports by managers are against the principle of good corporate governance which accentuates aspects of transparency and accountability thereby leading to insignificant influence on tax planning policies.

H₀₄: Institutional Ownership has no significant influence on tax planning in Manufacturing and Allied Companies listed at Nairobi Stock Exchange

The analysis looked into the impact of institutional ownership on tax planning by the firms under study. The null hypothesis indicated that institutional ownership has no influence on tax planning by the firms under study. Finding with regard to this objective showed that at the specified significance level, the probability outcome when compared was 0.0000($P < 0.05$). This refutes the set hypothesis, indicating that institutional ownership has a major impact on tax planning by manufacturing and related enterprises

listed on Kenya's Nairobi Securities Exchange. Despite the fact that institutional ownership had the opposite effect, it has a considerable impact on tax planning among firms under the study. The significance of this variable can be attributed to the respective individual tax planning policy which affects its tax decision making process. Institutional ownership stands as a key attribute of corporate governance, thus, its significant effect on tax planning in the firms under study.

Research findings on institutional ownership are consistent with those of Wu et al., (2016), who looked at the impact of shareholding structure and institutional environment on taxes of public Chinese enterprises from 1999 to 2006. They discovered that private (institutional) corporations have a lower ETR than companies owned by the government. Furthermore, incentives to foster local economic growth are linked to preferential taxes of privately owned businesses. They also discovered that private-equity firms in areas with lesser levels of privatization enjoy advantageous tax treatment. Kang'ara (2019) investigated the impact of corporate governance on tax planning for commercial and service enterprises listed on the Nairobi Stock Exchange (NSE), Kenya, with the target population consisting of eleven (11) commercial and service firms. The research covered the years 2014 to 2018 (5 years) and employed secondary panel data. The inferential findings reveal that institutional ownership had negative and significant influence on tax planning of commercial and service firms quoted at the NSE, Kenya.

Furthermore, the study of Chytis *et al.* (2020) who examined corporate governance effects on tax planning while considering the period of the financial crisis. The study focused on listed companies on the Athens stock exchange. Though tax burden has been a major concern for corporate finance, it is however questionable if tax stands among the main attributes of corporate governance. The study focused on the time scope 2011 to

2015 where fifty (55) non-financial listed firms were sampled. The empirical findings revealed that ownership concentration had insignificant effect on tax planning for firms listed in Greece. Jamei (2017) assessed how CG exert influence on tax management by one hundred and four (104) firms quoted in Tehran Stock Exchange from 2011 to 2015 using multiple regression method to analyze the research data. It was deduced that institutional ownership had insignificant impact on ETR of listed firms in Tehran Exchange. Disparity in the study outcome could be associated to different tax policies across these countries as well as the operational nature of these firms. Also, the location of these firms could determine the tax planning policies of these economies thereby determining its efficiency and effectiveness.

H₀₅: Firm Size has no significant moderating effect on the relationship between corporate governance mechanisms and tax planning

The purpose of this study was to see whether firm size has a moderating influence on the relationship between tax planning and corporate governance among the firms under study. In order to ascertain moderation effect, the fifth hypothesis was divided into sub hypotheses.

The 1st null sub-hypothesis was that there was no moderating effect from firm size on determining the effect of board size on tax planning in the firms under study. In this case, the probability value of the Board Size-Firm Size interaction was 0.444, which is greater than the confidence interval ($P < 0.05$). The results support the set null hypothesis that firms size have no significant moderating effects in testing the relationship between board size and tax planning in the firms under study.

The second null hypothesis: Firms size has no significant moderating effect on the relationship between board independence and tax planning in the firms under study. The

purpose of this study was to evaluate the moderating effect of firm size on the link between board independence and tax planning among the firms under study. The null hypothesis, that firm size has no significant moderating effect on the relationship between board independence and tax planning in firms under study, was supported at the 0.05 level of significance, as evidenced by the p-value of 0.945. As a result, firm size had no effect on the relationship between independence and tax planning in manufacturing companies listed in NSE, Kenya.

The 3rd null sub hypothesis confirmed that the moderator (firm size) had no significant moderating effect on the relationships between external audit quality and tax planning by firms under study. The impact of firm size on the link between external audit quality and tax planning by the firms under study was investigated. As a result, at the 0.05 level of significance, the null hypothesis was rejected. The probability value of 0.000 indicates that there is a significant moderating effect of firm size on the link between external audit quality and tax planning by the firms under study. As a result, the relationship between external audit quality and tax planning by the firms under study, is moderated by firm size.

The 4th null sub hypothesis stated as; The firms size has no moderating significant effect predicting the relationship between institutional ownership and tax planning by the firms under study. The 0.05 level of significance was used to test the sub-null hypothesis that firm's size has no significant moderating influence on the link between institutional ownership and tax planning by firms under study. The study established that size of the firm has no substantial moderating influence on the relationship between institutional ownership and tax planning by the firms under study, supporting this hypothesis. A p-value of 0.000, which is less than the 0.05 level of significance, indicates this. As a result,

the ownership of institutions is decided by firm size, which has an impact on tax planning strategies for manufacturing and related businesses. These firms use a combination of firm size and institutional ownership to decide tax planning.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Detailed presentation of research's overview, conclusions and recommendations are put forward in this section. Additionally, contributions to knowledge, suggestions for further studies, are set forth in this chapter as carried out as stated in assent with the study definite objective findings.

5.2 Summary of the Study

The purpose of the research was to probe the consequence of; board size, board independence, external audit quality and institutional ownership on tax planning by firms under study. Definitively, the research attempted to determine the influence of board size, board independence, external audit quality, and institutional ownership on tax planning by the firms under study. Based on these firms also, the study determined the moderating capacity of firm size on the correlation between board size, board independence, external audit quality, institutional ownership and tax planning.

Summarily, the study was modelled by the definite goals of the investigation as exposed by the outcomes exposed from the techniques of analysis. Descriptive analysis of the variables showed that external audit quality had the lowest variation while institutional ownership had the largest variation over the studied firms. However, board size and board independence had relative dispersion over time across the studied firms. Inferential statistics of the correlation analysis showed board size, board independence and external audit quality had positive influence whereas institutional ownership had a negative influence on tax planning among manufacturing and related corporations quoted at the

NSE, Kenya. The diagnostic tests for evaluation of the model were duly followed where regression analysis was inferentially presented.

Board size had positive and insignificant leverage on tax planning by manufacturing companies listed in NSE, Kenya according to the regression outcomes. Bureaucratic conditions among firms can result to insignificant influence on tax planning in manufacturing and allied companies in Kenya, listed in NSE.

Board independence exhibited a major and significant implication on tax planning by manufacturing and allied companies listed in NSE, Kenya. Independence of the board improves tax planning strategies. Moreover, it was obtained that external audit quality had a positive and insignificant influence on tax planning by manufacturing and allied companies in Kenya. External audit quality does not boost the efficiency of tax planning among manufacturing companies in Kenya.

Institutional ownership had unfavorable and significant outcome on tax planning by manufacturing and allied companies listed in NSE, according to the panel regression analysis. Despite the importance of institutional ownership, tax planning by the firms under study has decreased. Appropriate to the moderating variable (firm size) outcome, the relationship between corporate governance mechanism and tax planning by the firms under study, Kenya, is statistically significant based external audit quality and Institutional Ownership.

5.3 Conclusion of the study

The exposition deduced that board size, board independence, and external audit quality had positive influence on tax planning by the firms under study while institutional quality had inverse influence on tax planning among the manufacturing and related enterprise

trading at the Nairobi Securities Exchange, Kenya. With respect to the first specific objective, it was concluded that board size was not a major predictor of tax planning by firms under study. In spite of the vast tax policy effectiveness put through by manufacturing and allied firms their large number slows down the effectiveness of the tax policies due to bureaucratic conditions.

In line with the second specific objective, it was reported that board independence is significant in predicting tax planning by manufacturing companies in Kenya. Conclusively, board independence is the major determinant of tax planning by manufacturing companies in Kenya listed in NSE. Therefore, the independence of a firms' board facilitates individual tax planning among these firms.

The outcome of the third objective pointed to the fact that external audit quality had insignificant influence on tax planning by manufacturing companies Listed at the NSE, Kenya. Denoting external audit quality not wielding a major role in tax planning. Tax planning techniques among the firms failed to yield maximum result as internal audit could provide the basis for effectiveness of the firms' tax policies.

In line with the fourth study objective, institutional ownership had substantial effect on tax planning by Kenyan Manufacturing firms. In view of this finding, it was concluded that institutional ownership is relevant in determining tax planning by Kenyan Manufacturing firms. Increase in institutional ownership structure lead to corresponding fall in tax planning by firms under study.

With respect to the moderator objective, it was reported that firm size had conclusive influence on the association betwixt external audit quality, institutional ownership and tax planning by manufacturing and related businesses. However, it had no moderating effect on the nexus between board size, board independence and tax planning.

5.4 Policy Recommendations of the study

The results obtained revealed that only board independence and institutional ownership were important predictors of tax planning among the manufacturing and allied organizations trading at the NSE, Kenyan. This study therefore, suggested that board independence be improved in order to improve the efficacy of tax planning. This permits the board of directors of a company to successfully influence strategic decisions such as tax policy without affecting the company's efficiency. The non-executive directors are also reputed with skills which are need for success of firms, and tax minimization is one of the key areas recognized as a major inhibitor to corporate profitability.

Institutional ownership was shown to be significant in explaining tax planning by firms under study. The CMA should establish rules for firm ownership structures, particularly institutional ownership, in order to maximize the efficiency of manufacturing and related businesses through good tax planning.

The relationship between external audit quality and tax planning by manufacturing companies in Kenya, was found to have a significatory moderating influence. As a result, it is suggested that tax management agencies use the firms' economies of scale when formulating tax policy and corporate governance, amidst other non-audit services supplied by the external auditor. The study found that the nexus betwixt institutional ownership and tax planning by manufacturing and allied firms is strongly mitigated by firm size. The ownership structure of the firms should be evaluated when the firm grows in size, as this is a crucial aspect impacting successful tax planning.

5.5 Recommendations for Practice

Board independence was found to have a substantial impact on tax planning. The positive significance of board independence on effective corporate tax rate is by dint of non-executive directors engaging in more constructive management monitoring. Consequently, this study recommended that the non-executive directors should boost extensive industry specific sagacity along with experience in strategic decisions such as firm performance and tax management.

This research inferred that institutional ownership displayed a considerable effect on tax planning by the firms under study. In view of this finding, it was concluded that institutional ownership is relevant in determining tax planning by firms under study. Tax planning is a highly sensitive matter with the possibility of drawing not so good analysis from the press and other parties. Institutional shareholders should therefore assess the cost benefit analysis of tax planning against the costs of potential enforcement, penalty, and reputation loss to the firm if the strategy is illegal. This also ensures compliance with tax laws and provisions

A significant moderating effect of firm size was observed on the linkage between external audit quality and tax planning by firms under study. The study recommends that external audit quality should be reduced to increase the efficiency of internal audit system. This will help in the evaluation of the tax burden which the firms pay thereby optimizing the efficiency.

ETR according to this investigation was 51.53%, this is above the statutory rate of 30%. Correspondingly, policy makers should reconsider tax incentives for this sector so as to help in the realization of vision 2030.

5.6 Suggestions for Further Research

The analogy of corporate governance and tax planning has not been fully exploited in Kenya, it is recommended that other studies look at governance practices namely age, gender, expertise, Audit committee alongside duality.

The study concluded that institutional ownership negatively influences tax planning, considering that literature has not been fully exploited, the study recommends further study on this association

This study used Effective Tax Rate to measure tax planning, other studies can use other measures of tax planning such as Book Tax Difference.

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APPENDICES

Appendix I: Listed Manufacturing and Allied Firms in Kenya

- Unga Group Ltd Ord 5.00
- British American Tobacco Kenya Ltd Ord 10.00
- Flame Tree Group Holdings Ltd Ord 0.825
- B.O.C Kenya Ltd Ord 5.00
- East African Breweries Ltd Ord 2.00
- Eveready East Africa Ltd Ord.1.00
- Carbacid Investments Ltd Ord 5.00
- Kenya Orchards Ltd Ord 5.00
- Mumias Sugar Co. Ltd Ord 2.00

Source: (KAM, 2020)

Appendix II: Secondary Data Collection and Review Guide

Time scope	Board size	Board independence	External Audit Quality	Institutional Ownership	Firm size	Tax planning
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						

Appendix III: Research Authorization Letter



KENYATTA UNIVERSITY GRADUATE SCHOOL

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P.O. Box 43844, 00100
NAIROBI, KENYA
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Our Ref: D58/CTY/PT/29246/2014

DATE: 4th June, 2021

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

**RE: RESEARCH AUTHORIZATION FOR MS. OCHOLA SAPHINA AWUOR –
REG. NO. D58/CTY/PT/29246/14**

I write to introduce Ms. Ochola Saphina Awuor who is a Postgraduate Student of this University. She is registered for M.Sc. degree programme in the **Department of Accounting & Finance**.

Ms. Ochola intends to conduct research for a M.Sc. thesis Proposal entitled, **“Corporate Governance and Tax Planning among Manufacturing and Allied Firms Listed at the Nairobi Securities Exchange, Kenya.”**

Any assistance given will be highly appreciated.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Elishiba Kimani', written over a light blue horizontal line.


**PROF. ELISHIBA KIMANI
DEAN, GRADUATE SCHOOL**

Appendix IV: Research Permit

REPUBLIC OF KENYA
NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION

Ref No: 259598

RESEARCH LICENSE




This is to Certify that Ms. Saphina Awuor Ochola of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: Corporate Governance and Tax Planning among Manufacturing and Allied Firms Listed at the Nairobi Securities Exchange, Kenya for the period ending : 21/June/2022.

License No: NACOSTI/P/21/11233

Applicant Identification Number
259598

Director General
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