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## Tax Administration and Financial Performance of Manufacturing Firms in Kenya: A literature Review

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### Abstract

This study explores the impact of tax administration practices on the financial performance of manufacturing firms in Kenya. The manufacturing sector is crucial for economic growth and job creation, making it essential to understand how tax policies affect its performance. Tax administration encompasses procedures and policies governing tax compliance, which have evolved over time. Effective tax administration is vital for economic stability and funding public services. However, inefficient practices can hinder firm productivity and growth. Drawing on tax planning theory and agency theory, this study examines how firms strategically manage tax liabilities and navigate principal-agent relationships to optimize financial performance. The empirical review highlights findings from previous studies on the relationship between tax administration practices and firm performance in Kenya. These studies underscore the importance of tax incentives, compliance costs, and governance mechanisms in shaping firm behavior and economic outcomes. By understanding the nuances of tax administration practices, policymakers and firms can implement strategies to enhance economic stability and growth in the manufacturing sector.

**Keywords:** Tax administration, Financial Performance, Tax planning, Tax compliance

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### 1. Introduction

According to Gadzi, Gadzo, and Kpportorgbi (2013), the manufacturing sector of any economy is very important as it contributes to the growth of the economy through job creation and improved tax contributions. Its history can be traced back to the industrial revolution during the 19th century (CFI Education, 2015–2024). In the early post-

independence period (1960–1971), the government prioritized industrialization, leading to the establishment of state-owned enterprises. However, inefficiency and mismanagement hindered growth. In 1980 and 1990, economic reforms encouraged private sector participation, boosting manufacturing and agro-industries. And finally, in 2000, the government focused on Vision 2030, aiming for industrialization and economic growth. Manufacturing is

the cornerstone of the Kenyan industrial sector. According to the Kenyan National Bureau of Statistics Economic Report (2017), the manufacturing sector is the economic regime of growth and also a means of diversifying it. Manufacturing companies contribute approximately more than 70% of the industrial sector's contribution to the gross domestic product (GDP). They are the main pillars and key drivers of the country's future in the realization of sustainable economic development in African countries. The manufacturing industry plays a pivotal role in the economic landscape.

Taxation is the means by which the government and the taxing authority impose or levy taxes on its citizens and businesses, from income tax to goods and services tax (GST). Tax administrative practices refer to procedures and policies employed by the government authority to manage and enforce tax laws within a jurisdiction (Nayyar & Singh, 2018). They were introduced during the colonial period under British rule, but formalization began in the early 20th century. Since then, there have been many updates and reforms to the tax systems. These practices vary globally and are influenced by legal frameworks. They primarily include tax holidays, taxpayer registration, filing requirements, audits, tariffs, and penalties. Effective tax administration is crucial to maintaining economic stability (Aringo, 2023). The collection of taxes is critical in both developed and less developed economies, as this helps fund public services. To fund public spending on goods and services used by any citizen, the study sought to study how tax administration practices affect the financial performance of manufacturing firms in Kenya. This helps the government make planned decisions that contribute towards the growth of the economy as measured against developed nations.

Tax administrative practices have major effects on manufacturing firms. Manufacturing firms must adhere to tax laws, which include filling out accurate and timely tax returns. If they don't do so or don't comply, they can be fined or get penalties, which would affect their financial performance in a negative way (Haabazoka & Chiti, 2024). On the other hand, sometimes the government provides incentives and offers tax holidays to firms to encourage their activities and welcome them to the industry through the holiday, giving them a fair chance to play in the sector. And by doing so, they impact a firm positively and thus improve its financial performance. Larger firms can benefit from economies of scale due to specialization within firms. Post-filing procedures can be more challenging for small and less experienced firms. To the extent that a high compliance burden diverts resources from productive activities and increases output costs without creating additional output, firm productivity can decline (Kamau et al, 2012). Younger firms are less productive than larger firms. The positive association between productivity and firm size arises due to sunk costs or learning. Suggesting that over time, more productive firms expand at the expense of less productive

ones. Evidence from developing countries also suggest that new firms generally exhibit lower productivity growth than incumbent exploits different in filling frequency requirements across firms from different sizes in Armenia and find that there is bunching of firms below the threshold that requires firms to file monthly instead of quarterly (Asatryan & Peichl, 2017). They show that the increase in tax compliance costs due to higher filing frequencies results in both underreporting and reducing sales to avoid crossing the threshold (Zachary et al, 2017). Similarly, evidence shows that firm's bunch below the threshold for increased monitoring efforts by tax authorities. With all this, it clearly shows that these tax administrative practices have major effects.

In a nut shell the manufacturing sector stands as a cornerstone of economic development, not just in Kenya but across the globe. As elucidated by Gadzi, Gadzo, and Kpportorgbi (2013), its pivotal role in job creation and contribution to economic growth cannot be overstated. The historical journey of Kenya's manufacturing sector, from state-owned enterprises to private sector participation and the vision for future industrialization under Vision 2030, underscores its significance in the country's economic landscape. Moreover, taxation, as a critical component of government revenue generation, profoundly impacts manufacturing firms. Tax administrative practices, ranging from compliance requirements to incentives like tax holidays, exert substantial influence on firms' financial performance. While larger firms may benefit from economies of scale, smaller and younger firms often face greater challenges in navigating tax compliance burdens. Understanding the intricate dynamics between tax administration practices and firm productivity is crucial for policymakers and stakeholders alike. Ultimately, fostering an environment that balances regulatory requirements with support for industry growth is essential for sustaining manufacturing's pivotal role in driving economic development and prosperity.

## 1.2 Statement of the Problem

Manufacturing firms bring about economic significance through improved tax contributions. They provide national income as well as offer employment opportunities to the whole economy. High taxation is one of the most identified threats to the growth and development of manufacturing firms. Previous researchers have found that taxes like VAT, service tax, and tariffs have an impact on firms. Manufacturing firms require raw materials, and sometimes these materials are imported from abroad, so if they are highly taxed, most firms might let go. Chesire (2018) conducted a study to establish the effects of tax on the profitability of cigarettes and alcohol manufacturing in Kenya. The study used secondary data obtained from the company's financial statement. The results showed a negative relationship between taxes and profitability. These

meant that these tax practices led to a decrease in profitability, hence the poor financial performance of the firms. There is a gap in understanding how variations in tax practices affect the financial performance of manufacturing firms. So, this research seeks to know how various tax administration practices impact the financial performance of manufacturing firms in Kenya and what strategies can be implemented to optimize tax-related processes for enhanced economic stability and growth within the firms.

## 2. Literature Review

This chapter provides the study's literature evaluation, which aims to determine the effects of tax administration techniques on the financial performance of Kenyan manufacturing enterprises. This review was based on certain objectives, including the effects of existing tax practices, tax laws, and tax regulation on the financial performance of Kenyan manufacturing companies.

### 2.1 Theoretical Framework

This section explores various theories related to the effect of tax administration practices on the financial performance of manufacturing firms. A theory is a set of statements of principles devised to explain a group of facts or phenomena, especially one that has been repeated, tested, or is widely accepted and can be used to make predictions about natural phenomena.

#### Tax planning theory.

Tax planning theory by Hoffman (1961) argued that due to the sophisticated nature of the tax process and structure, loopholes in the legal system are inevitable, enabling taxpayers to benefit from their tax positions. Tax planning theory involves strategic decision-making to legally minimize tax liabilities. It encompasses various approaches aimed at optimizing the financial position of individuals and businesses within the bounds of tax laws. Tax planning plays a pivotal role in the financial landscape of manufacturing firms. It involves strategically organizing financial activities to optimize tax liabilities while ensuring compliance with legal obligations. It encompasses various aspects, including income recognition, deductions, and credits, with the primary goal of maximizing after-tax profit.

Firms engage in strategic decision-making to align their financial operations with tax regulations. This involves evaluating alternative tax scenarios to identify the most advantageous paths, considering current and future tax implications. Based on Herbert Simon (1944), the behavior of humans is rational but only bounded, and he thus came up with the term bounded rationality (Simon, 1997), he also said that decisions are not only based on rationality but also on other dimensions like intuition, participation, and political behavior, which are relevant to organizations in decision-making.

This theory posits that effective tax planning positively influences financial performance. Reduced tax burdens lead to increased cash flows, enhanced profitability, and an improved return on investment, ultimately contributing to the financial health of manufacturing firms. Effective tax planning strategies can lead to cost savings, improved cash flow, and increased profitability. By leveraging incentives,

deductions, and credits, manufacturing firms can minimize their tax burdens, allowing for more resources to be allocated to core business activities. According to Maydew and Shackelford (2005), successful tax planning aligns with the broader corporate strategy of a manufacturing firm. It considers not only the short-term financial gains but also the long-term sustainable and growth objectives, ensuring a harmonious balance between tax optimization and strategic goals. The major aspect of tax planning involves maintaining a complaint with tax regulations to mitigate risks. Noncompliance can lead to penalties and reputational damage, and it underscores the importance of a comprehensive tax strategy.

The relationship with financial performance in manufacturing is evident, as effective tax planning can contribute to increased profitability by minimizing tax liabilities. Companies may strategically allocate resources, choose favorable jurisdictions, or leverage tax incentives to enhance their bottom line. Understanding and applying tax planning theories enable manufacturing firms to navigate the complex tax landscape, resulting in improved financial outcomes and a competitive edge in the market. Effective tax planning can positively impact financial performance by preserving more earnings for reinvestment or distribution to shareholders. In conclusion, this tax planning theory serves as a foundation for understanding how effective tax administration practices impact the financial performance of manufacturing firms. It provides a lens through which we can analyze the intricacies of tax planning and its multifaceted influence on the economic success of entities.

#### Agency Theory

This is an economic theory that views the firm as an asset of contracts among self-interested individuals. An agency is created when a person (the principle) authorizes another person (the agent) to act on his or her behalf. The theory was proposed by Ross and Barry and is about the relationship between agents or principals and the control of delegation (Mitnick, 2019). Ross introduced the study of agency in terms of problems of compensation contracting; an agency was seen in essence as an incentive problem. Mitnick introduced the now common insight that institutions from around the world evolve to deal with an agency in response to the essential performance of agency relationships.

This theory, in the context of manufacturing firms, examines how managers, as agents, make decisions that impact financial performance on behalf of the owners. In manufacturing firms, shareholders delegate decision-making authority to managers to run daily operations. However, a misalignment of interest may occur, as managers may prioritize personal goals over shareholder interests. Agency theory explains the behavior of a firm from the perspective of various contracts between different parties. Shareholders who contribute funds for a firm to operate are not regarded as the owners of the firm. They are the risk-takers for the firm. In the real world, the managers of the firm obtain funds from investors who believe they have the ability to use the funds effectively and efficiently to generate profit for the firm. The managers sign contracts that identify the activities they should engage in and specify the way in which profit is allocated between managers and investors. Since it is very difficult to describe future contingencies, the contracts signed by managers are difficult to implement (Shleifer &

Vishny, 1997).

Consequently, managers obtain the right to make decisions that go beyond what is stipulated in their contracts. It is human nature to make decisions that are favorable to themselves and do not have little benefit to shareholders interests. And by doing so, it brings in the problems of principle and agency (Ross, 1973; Fama and Jensen, 1983). The value of a firm cannot be fully exploited if the necessary incentives or proper monitoring aren't effective enough to stop the managers from only maximizing their own benefit. Principals and agents hold different amounts of information (one has more information than the other, who is an agent), so it is hard for the principle to follow the agent's behavior. Agency theory helps companies figure out how to handle information and deal with risks by looking at the relationship between owners and managers (Eisenhardt, 1989).

Monitoring mechanisms, like performance metrics and executive compensation structures, are implemented to align managerial actions with shareholders' interests and enhance financial performance. These aim to align the interests of managers and shareholders, fostering a more efficient and profitable operation of manufacturing firms. A well-designed agency relationship minimizes conflicts, leading to better overall corporate governance and financial outcomes for manufacturing firms.

## 2.2 Empirical review

Several studies have examined the effects of tax administration practices on the financial performance of manufacturing firms in Kenya. A study by Ngure (2018) found that industrialization culminates in the sustenance of the productivity of firms over a period of time. It implies a value addition to the factor input and its efficiency, where additional input should yield more firm output. It is expected that with increasing industrialization, the cumulative effect will be seen in the creation of jobs, sustained growth, and economic diversification. More so, it brings about increased household consumption through improvements in the value of prices and product efficiency and the development of other primary sectors.

A study by Mutisya and Muturi (2019) adopted an explanatory research design based on a time series of 32 years, starting from 1985 to 2016. A secondary time data series was used in the study. The result showed that investment deduction allowances had a positive and significant effect on foreign direct investment in Kenya. Also, industrial building allowances had a positive and significant effect on foreign direct investments. The study recommends that there is a need for the government to enlighten the general public about the capital allowances given to FDIs and those extended to local firms. Also, incentives should be short-term strategic designed for specific firms to attract FDIs.

A study by Desai and Dharmapala (2009) found that the estimates indicate the effect of tax avoidance on firms's values is a function of governance, as predicted by an agency perspective on corporate tax avoidance. Instrumental variable estimates based on exogenous changes in tax regulation yield larger overall effects and reinforce the basic results, as do several robustness checks. The results show that the simple view of corporate tax avoidance as a transfer of resources from the state to shareholders is incomplete given the agency theory given the agency problem.

A study by Dabla and Cleary (2020) found that tax compliance costs tend to be disproportionately higher for small and young businesses. They examined how the quality of tax administration affects firm performance for a large sample of firms in emerging markets and developing economies. Using information from the Tax Administration Diagnostic Assessment Tool. It showed that better tax administration attenuates the productivity gap of small and young firms relative to larger and older firms, a result that is robust to controlling for other aspects of tax policy and of economic governance, alternative definitions of small and young firms, and measures of the quality of tax administration.

A study by Oladipo et al (2022) found that tax compliance is a major contemporary debate surrounding corporate taxation in the business world. The tax avoidance issue, which remains an ethical problem for companies, has been a general concern in developed and developing countries alike. It examined the influence of tax fairness on the tax compliance behavior of listed manufacturing companies in Nigeria. The study found that there is a significant level of tax compliance among the listed manufacturing companies in Nigeria. The study also shows that the corporate taxpayer's perception of fairness has a significant impact on corporate taxpayers' willingness to pay taxes and tax knowledge. Significantly influenced tax compliance. Based on tax knowledge, the study recommends that tax authorities must improve the knowledge of taxpayers and tax collection agents through programs, initiatives, and training on tax awareness.

A study by Edward (2012) focuses on the effectiveness of tax mitigation strategies on tax savings by manufacturing firms based in the industrial area of Nairobi. It revealed how effective the tax mitigation strategies available to manufacturing firms are at creating tax savings. The research was conducted through the collection of both primary and secondary data from the manufacturing firms. A descriptive research design was adopted. It was found that claiming capital allowances was not only the most effective strategy for mitigating tax but also the most widely known among the finance officers. The others—tax education, use of debt in capital structure, and intelligent sourcing—were found to be ineffective in creating significant tax savings. On intelligent sourcing, most firms cited the lengthy procedures involved as the reason for ineffectiveness in creating tax savings. Therefore, the strategies laid down by the government in the ITA for creating tax savings were found to be ineffective, consequently contributing very little tax savings, and thus the manufacturer's claim that the tax regime is oppressive is valid and requires the government to address it.

Kurawa and Saidu (2018) examined the effect of company income tax on the financial performance of listed consumer goods companies in Nigeria from 2006–2016. Data for the study was collected from the annual reports and accounts of the companies, and regression analysis was used as a technique for data analysis. The study finds that there is an insignificant negative relationship between corporate tax and financial performance, using return on assets as a measure. Age and risk, however, exhibit a positive but not significant relationship with ROA. Size, on the other hand, shows a positive and significant relationship with performance, confirming prior expectations. The study recommends that to improve the financial performance of listed Nigerian consumer goods, the services of tax experts are needed to

engage in legal tax planning like transfer pricing or structuring intra-company debt in order to reduce the net tax payment. By doing so, the net income after tax will increase, which in turn increases financial performance. Gatsi, Gadzo, and Kportorgbi (2013) examined the effect of corporate income tax on financial performance. A study by Nondo and Haabazoka (2024) found that tax system characteristics, particularly equality, diversity, convenience, simplicity, and security, have a beneficial impact on tax administration efficacy.

### 3. Methodology

This review paper employs a meticulous and thorough methodology to consolidate existing literature on tax administration practices and their influence on the financial performance of manufacturing firms. Beginning with an exhaustive search across various databases and sources, including Google Scholar, JSTOR, and EconLit, relevant articles and publications are identified using specific keywords and criteria. Subsequently, a stringent screening process is applied to select articles that meet predetermined inclusion criteria, ensuring the relevance and reliability of the literature. Extracted data from chosen articles undergoes a comprehensive analysis, enabling the synthesis of key findings and identification of overarching themes. Through critical examination and interpretation, the review provides a comprehensive overview of the current understanding in the field, highlighting both strengths and limitations of existing literature. Finally, the synthesized findings are incorporated into a coherent narrative framework, which undergoes peer review and revision to uphold quality and objectivity. Overall, this systematic approach ensures a robust and thorough review of tax administration practices and their impact on manufacturing firms' financial performance.

### 4. Results and Discussion

Tax planning theory, as proposed by Hoffman (1961), highlights the strategic decision-making process undertaken by firms to legally minimize tax liabilities while maximizing after-tax profits. This theory acknowledges the existence of loopholes in the tax system and emphasizes the importance of optimizing tax outcomes within the bounds of legal obligations. Effective tax planning strategies enable manufacturing firms to enhance cash flows, profitability, and return on investment, thereby contributing to their financial health and competitiveness.

In the realm of tax planning theory, the concept of bounded rationality, as elucidated by Herbert Simon (1944), is pertinent. Simon's theory suggests that human decision-making is rational but limited by cognitive constraints, such as information asymmetry and cognitive biases. In the context of tax planning, firms must navigate these limitations by considering various dimensions of decision-making, including intuition, participation, and political behavior. By recognizing the bounded nature of rationality,

firms can develop more nuanced tax strategies that align with their broader corporate objectives.

Agency theory, on the other hand, provides insights into the principal-agent relationship within manufacturing firms. In this theory, managers act as agents entrusted with decision-making authority on behalf of shareholders (principals). However, conflicts of interest may arise as managers prioritize personal goals over shareholder interests. Agency theory underscores the importance of monitoring mechanisms, such as performance metrics and executive compensation structures, to align managerial actions with shareholder interests and enhance financial performance.

Several studies have investigated the impact of tax administration practices on the financial performance of manufacturing firms, particularly in Kenya and Nigeria. Ngure (2018) emphasized the positive effects of industrialization on firm productivity, job creation, and economic diversification. Mutisya and Muturi (2019) highlighted the significant influence of investment deduction and industrial building allowances on foreign direct investment (FDI) in Kenya, recommending strategic incentive design for attracting FDIs. Desai and Dharmapala (2009) found that tax avoidance affects firm value, indicating the importance of governance in tax decision-making. Dabla and Cleary (2020) focused on the disproportionate tax compliance costs for small businesses, emphasizing the role of tax administration quality in mitigating productivity gaps. Oladipo et al (2022) explored the relationship between tax fairness and compliance behavior among Nigerian manufacturing companies, advocating for taxpayer education to improve compliance. Edward (2012) evaluated tax mitigation strategies in Nairobi, revealing the effectiveness of capital allowances and highlighting deficiencies in other approaches. Kurawa and Saidu (2018) analyzed the impact of corporate tax on financial performance in Nigeria, recommending the engagement of tax experts for legal tax planning to enhance financial outcomes. These studies collectively contribute to understanding the intricate relationship between taxation policies, firm behavior, and economic performance in the manufacturing sector.

#### Practical Implications:

**Tax Planning Strategies for Financial Health:** The findings suggest that manufacturing firms can strategically minimize tax liabilities while maximizing after-tax profits through effective tax planning strategies. By optimizing tax outcomes within legal boundaries, firms can enhance cash flows, profitability, and return on investment. Implementing robust tax planning practices can thus contribute significantly to the financial health and competitiveness of manufacturing firms, enabling them to thrive in dynamic economic environments.

**Consideration of Bounded Rationality in Tax Planning:** The concept of bounded rationality underscores the importance of recognizing cognitive constraints in tax decision-making processes. Manufacturing firms must navigate information asymmetry and cognitive biases by incorporating various dimensions of decision-making, including intuition, participation, and political behavior, into their tax strategies. By acknowledging the bounded nature of rationality, firms can develop more nuanced tax approaches that align with broader corporate objectives, leading to more effective and sustainable tax planning outcomes.

**Enhancing Principal-Agent Alignment:** Agency theory highlights the principal-agent relationship within manufacturing firms and the potential conflicts of interest that may arise between managers and shareholders. To mitigate these conflicts, firms should implement robust monitoring mechanisms, such as performance metrics and executive compensation structures, to align managerial actions with shareholder interests. By enhancing principal-agent alignment, manufacturing firms can improve financial performance and foster trust and transparency within the organization.

**Policy Implications for Tax Administration Practices:** Insights from studies on tax administration practices in Kenya and Nigeria offer valuable policy implications for policymakers and regulators. The positive effects of industrialization on firm productivity and economic diversification underscore the importance of implementing policies that support industrial growth and job creation. Strategic incentive design for attracting foreign direct investment, as recommended by Mutisya and Muturi (2019), can stimulate economic development and enhance competitiveness in the manufacturing sector. Moreover, initiatives to improve tax administration quality, enhance taxpayer education, and streamline compliance processes can mitigate productivity gaps and foster a fair and conducive tax environment for businesses.

**Strategic Tax Planning for Financial Performance Enhancement:** Studies examining the impact of corporate tax on financial performance highlight the significance of engaging tax experts in legal tax planning to optimize financial outcomes. By leveraging tax mitigation strategies, such as capital allowances, manufacturing firms can create significant tax savings and improve net income after tax. Moreover, recommendations for enhancing tax fairness, compliance behavior, and tax knowledge underscore the importance of government-led initiatives, such as taxpayer education programs and training on tax awareness, to promote a culture of compliance and foster economic growth.

Overall, the practical implications derived from these studies emphasize the importance of strategic tax planning, policy interventions, and stakeholder collaboration in driving financial performance and economic development

in the manufacturing sector. By leveraging insights from empirical research, policymakers, regulators, and industry stakeholders can formulate evidence-based strategies to address challenges and capitalize on opportunities in the ever-evolving tax landscape.

## 5. Conclusions

In conclusion, the literature review has shed light on the intricate relationship between tax administration practices and the financial performance of manufacturing firms in Kenya. Taxation plays a pivotal role in shaping the economic landscape, influencing investment decisions, industrial growth, and overall economic stability. The theoretical frameworks of tax planning and agency theory provide valuable insights into how firms navigate the complexities of tax regulations and governance structures to optimize their financial outcomes.

Tax planning theory, as proposed by Hoffman (1961), underscores the strategic decision-making process undertaken by firms to legally minimize tax liabilities while maximizing after-tax profits. Effective tax planning strategies enable manufacturing firms to enhance cash flows, profitability, and return on investment, contributing to their financial health and competitiveness. However, the bounded rationality inherent in decision-making, as elucidated by Herbert Simon (1944), highlights the importance of considering various dimensions of decision-making, such as intuition and political behavior, in developing tax strategies aligned with broader corporate objectives.

Agency theory provides insights into the principal-agent relationship within manufacturing firms, emphasizing the need for monitoring mechanisms to align managerial actions with shareholder interests and enhance financial performance. The delegation of decision-making authority from shareholders to managers introduces the potential for conflicts of interest, underscoring the importance of governance structures in ensuring accountability and transparency in tax decision-making.

Empirical studies examining the impact of tax administration practices on manufacturing firms in Kenya and Nigeria have yielded valuable findings. These studies have highlighted the significant influence of tax incentives, investment deductions, and industrial building allowances on firm behavior and economic performance. Moreover, they have underscored the disproportionate tax compliance costs for small businesses and the importance of tax fairness in promoting voluntary compliance among taxpayers.

Based on the findings of the literature review, several recommendations can be made to enhance the financial performance of manufacturing firms in Kenya:

**Streamlining Tax Administration Practices:** The government should consider streamlining tax administration practices to reduce compliance burdens for

manufacturing firms, particularly small and medium-sized enterprises (SMEs). Simplifying tax filing procedures and providing clear guidance on tax regulations can help alleviate the compliance challenges faced by firms.

**Enhancing Taxpayer Education:** There is a need for increased taxpayer education initiatives to improve awareness and understanding of tax laws and regulations among manufacturing firms. By enhancing tax literacy, firms can make informed decisions regarding tax planning and compliance, ultimately contributing to improved financial performance.

**Strategic Incentive Design:** Governments should consider strategic incentive design to attract foreign direct investment (FDI) and stimulate industrial growth. By offering targeted incentives, such as investment deductions and tax holidays, policymakers can incentivize firms to invest in key sectors and contribute to economic development.

Investment in Governance and Monitoring

**Mechanisms:** Enhancing governance structures and monitoring mechanisms within manufacturing firms can help mitigate agency conflicts and promote transparency in tax decision-making. By implementing performance metrics and executive compensation structures aligned with shareholder interests, firms can enhance financial performance and accountability.

**Engagement of Tax Experts:** Manufacturing firms should consider engaging tax experts to develop and implement effective tax planning strategies. By leveraging the expertise of tax professionals, firms can navigate the complexities of tax regulations and optimize their tax outcomes, leading to improved financial performance.

Overall, by implementing these recommendations, manufacturing firms in Kenya can navigate the challenges of tax administration practices and enhance their financial performance, ultimately contributing to sustainable economic growth and development.

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