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Multiple Taxation and Financial Performance of Manufacturing Firms Listed at The Nairobi Securities Exchange, Kenya

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Abstract

The performance of the manufacturing sector is affected by several factors, key among them being the high costs of doing business. Excessive taxation in the form of high tax rates, double, and multiple taxes are some of the challenges facing manufacturing industries. The main aim of this research was to analyze the influence of multiple taxes on the financial performance of manufacturing firms listed on the NSE. The following objectives were used to guide the study: to determine the influence of corporate tax on performance, to study the effect of excise duty on performance, to establish the effect of customs duty on performance, and to determine the moderating effect of firm size on the relationship between multiple taxes and financial performance of manufacturing firms listed on the NSE. This research adopted the agency theory, ability-to-pay theory, optimal taxation theory, and profit maximization theory. An explanatory research design was used, and the research philosophy was positivism. The study population was the 9 manufacturing firms listed on the NSE as of December 2021. Secondary data from listed manufacturing firms' annual financial reports from 2012 to 2021 was used in the study. Data was analyzed using Stata 20. Descriptive statistics like frequencies and percentages and inferential statistics like correlation and regression were generated. The dependent-independent relationship was shown using correlation coefficients. For hypothesis testing, panel regression was used. The results were presented in tables and figures with relevant interpretation and discussion. Every ethical consideration was followed. Corporate tax had no significant positive effect on financial performance ($p=0.947 > 0.05$). Results indicate a significant negative impact of excise duty on financial performance ($p=0.000 < 0.05$). The study found that customs duty significantly influenced financial performance ($p=0.022 < 0.05$). Firm size significantly affected the relationship between multiple taxes and financial performance, and its interaction with corporate taxes, customs duty, and excise duty affected ROE. It is recommended that managers of listed firms put proper procedures in place to enhance and increase their financial performance through corporate tax planning.

Keywords: *Multiple Taxation, Financial, Performance, Manufacturing Firms, Nairobi Securities Exchange*

1.0 Background to the Study

Manufacturing companies have played an important role in local and global economic development, contributing significantly to economic growth and innovation. The manufacturing sector has demonstrated consistent growth, particularly in developing economies, where it grows at a rate of 7.4% per year, compared to 2.7% in advanced economies (World Bank, 2019). Manufacturing is a key driver of economic development in developed countries, boosting productivity and innovation. Countries such as Indonesia, China, and India have emerged as global manufacturing leaders, highlighting the sector's importance in both advanced and emerging markets (Khalifa and Shafii, 2020). These nations demonstrate how manufacturing is critical to economic development and must be recognised as such by any state seeking to achieve long-term economic growth. The complexities of financial performance have prompted extensive research worldwide, focussing on the factors that influence it. Financial performance is the primary indicator of management effectiveness in profit-driven organisations, reflecting the gap between an institution's current and future status (Baba & Nasieku, 2016). It is affected by both internal and external shocks, making it a dynamic indicator of an organization's success. The pursuit of financial performance drives firms to expand in size, with the goal of achieving higher long-term benefits. This continuous drive for improvement is critical for businesses as they navigate the challenges posed by an ever-changing environment.

Many countries' economic development goals rely heavily on taxation, which generates the revenue required to fund development priorities such as infrastructure and public services. The challenge for African countries, in particular, is striking the right balance between a tax regime that is both business-friendly and capable of generating enough revenue to fund public services (Bird, 2018). Countries are attempting to integrate with the global economy in the age of globalisation, but this necessitates a careful examination of tax policies to ensure that adequate revenue is generated without stifling economic growth (Pfister, 2019). The debate over the impact of taxation on economic performance remains unresolved, with studies yielding conflicting results on whether taxation hinders or stimulates growth. In the United States, it has been argued that high federal taxes have a negative impact on the strength and size of the small business sector, reducing the number of new ventures and slowing the growth of existing businesses. However, during the postwar period, small businesses attracted significant capital, implying that the negative effects of high taxes on new ventures may be exaggerated. In Nigeria, the shift from agricultural to oil revenue has raised concerns about taxation's impact on economic performance, with oil accounting for more than 70% of total revenue (Adefeso & Tawose, 2015). The high reliance on natural resource revenues frequently creates governance challenges because domestic taxation generates less revenue.

Tax reforms are critical to Kenya's development process, as taxation is viewed as a tool for redistributing wealth and encouraging specific economic activities. Studies on Kenya's beer and tobacco sectors show that the government uses taxation to regulate production and generate revenue (Karingi & Wanjala, 2016; Kiringai, 2017). These studies show that low taxes can stimulate production and increase income by increasing tax revenue, whereas high taxes on products with low price elasticity, such as tobacco, can increase government revenue while having little effect on demand. Implicit taxes on the agricultural sector, such as excise duties on inputs, can raise production costs and harm the sector (Ronge, Njeru, & Ojwang 2015). The concept of multiple taxation, in which different authorities tax the same income or profit, remains contentious. Multiple taxation is frequently implemented through various taxes such as corporate tax, excise duty, and customs duty (Arachi & Alworth, 2016). The burden of multiple taxes can stymie business growth by lowering profitability, especially in industries

that already face significant financial challenges. Manufacturing firms listed on Kenya's Nairobi Securities Exchange (NSE) have struggled financially, owing in part to the high tax burden they face. The relocation of several multinational corporations from Kenya to other countries with lower tax rates demonstrates the challenges posed by Kenya's tax regime (KAM, 2018). The many taxes and fees imposed on manufacturing firms are thought to impede their financial performance, emphasising the need for a more supportive tax environment.

1.1 Statement of the Problem

Manufacturing firms have experienced performance challenges over the last two decades, including a trade deficit, a reduction in GDP, and the collapse of international manufacturing enterprises in Kenya (KAM, 2020). In Africa, Kenya was once the leading investment destination; however, due to recent stagnation in financial performance, international institutions have preferred other African countries like South Africa, Nigeria, and Egypt (Lee, Thomas, & Wilson, 2016). Some listed manufacturing firms have faced financial performance challenges, while others have collapsed. For instance, Eveready East Africa posted a loss of Ksh 34.7 million in 2021, while Unga Group reported a pretax loss of Ksh 16.7 million (NSE, 2021). Mumias Sugar, another manufacturing firm listed on the NSE, was placed under receivership in September 2019. In addition, the manufacturing sector's GDP has remained static at below 10% and, in some cases, has decreased due to seasonal changes. The financial performance challenges facing Kenya's manufacturing industry led to this survey. The research hypothesizes that the performance issues may be due to multiple taxes. The manufacturing industry has been most affected by numerous taxation measures implemented by the government. These taxes and levies include corporate tax, VAT, excise duty, customs duty, fire license, occupancy and safety permits, public health licenses, signage/branding licenses, among other taxes and fees (Mbugua, 2016). These taxes and levies have made it complex to operate a manufacturing business in Kenya. They have increased the cost of doing business, leading many investors to seek alternative destinations for their investments.

Moreover, other investors have closed their manufacturing operations in Kenya in favor of alternative markets, resulting in job losses, reduced foreign direct investment, lower market ratings, and decreased tax revenues. The relationship between multiple taxes and financial performance remains unclear. Adeniyi and Osazee (2018) conducted research on how multiple tax practices affect sustainable development among small-scale businesses in Lagos State. The survey presents a conceptual gap as it focused on sustainable development, which is a different concept from financial performance. Okolo et al. (2018) investigated how multiple taxation influences the investments of SMEs in Enugu State, Nigeria. This survey also presents a conceptual gap as financial performance was not taken into account and a methodological gap as it relied solely on primary data, highlighting the need for a complementary study. Nadeem et al. (2015) aimed to determine the effects of excise tax burden on the financial performance of listed companies in Malaysia. The survey presents a contextual gap as it focused on Malaysia, whose social and economic settings differ from Kenya’s. These studies were conducted in diverse contexts, and due to social and economic differences, their results cannot be generalized to manufacturing firms listed on the NSE. There remains a gap to be filled on whether multiple taxes on manufacturing firms affect their financial performance or not. This survey intends to establish how multiple taxes impact the financial performance of manufacturing entities listed on the NSE.

1.2 General Objective

The overall agenda of this survey was to assess how multiple taxes affects the financial performance of quoted manufacturing entities at the NSE.

1.2.1 Specific Objectives

The survey specifically intends to:

i. Establish how corporate tax affects the financial performance of manufacturing companies listed at the NSE.
ii. Seek ways in which custom duty affects the financial performance of the quoted manufacturing entities at the Nairobi securities exchange.
iii. Identify manner in which excise duty impacts the financial performance of manufacturing companies quoted at the NSE.
iv. To determine the moderating role of entity size concerning the association amidst multiple taxes plus financial performance of the manufacturing industries quoted at the NSE.

1.3 Research Hypotheses

The following null hypotheses were tested:

H_{01}: There is absence of notable effect of corporate tax on financial performance of the producing entities listed at the NSE.

H_{02}: There exists insignificant effect of custom duty on performance of the quoted manufacturing companies listed at the NSE.

H_{03}: There is no significant influence of excise duty on financial performance of manufacturing institutions quoted at the NSE.

H_{04}: There lacks notable moderating effect of firm size regarding the connection among multiple taxes plus financial performance of the quoted producing establishments at the NSE

2.0 Literature Review

The section entails the theoretical review, empirical review and conceptual framework showing the hypothesized correlation amidst the study variables.

2.1 Theoretical Framework

This covers assessment of practical theories which illustrates the relationship amidst multiple taxes and financial performance. The theoretical reviews addressed includes; agency theory, theory of ability to pay, theory of optimal taxation and the profit-maximization theory.

2.2.1 Agency Theory

This is the anchor theory of the present research. As described by Jensen and Meckling (1976) an ‘agent' is an individual trusted by another individual to work on their behalf. The principal-agent association have had challenges where the principals have no control on the actual actions of the agent (Moenga, 2015). Secret facts, opportunism plus sunk cost are the three elements capable of exacerbating the hardships caused by principal-agent association (Njau, 2016). Privy facts occur when agents have cognizance which the principal have no clue plus the agent has a chance of not revealing the knowledge to the principal, all other features held responsible. The impacts of hidden knowledge is permitting the agent in minimizing or ‘shirking' the efforts which negatively affects the principal. The Agency Theory has inferences concerning best practice of corporate governance structures of providing competitive advantages also productivity benefits to establishments therefore based on the convention that corporate governance is mandated in ensuring that agents act to the advantage of principal’s interests (Aimone & Butera, 2016).

All the same, there are inherent limitations of the agency theory. The agent experiences several hardships besides complications when discharging their responsibilities also assignment of the principal which are not swayed by the agency theory. Moreover, the suggested control techniques regarding the agency theory besides being expensive they are economically ineffective, reason being that the protection techniques of shareholders' interest may hinder implementation of restrict collective activities, strategic decisions, change investment plans including neglecting other stakeholder's interest, leading to reduced commitment towards economic value development (Segrestin & Hatchuel, 2011). The Agency Theory is thus applicable to this study due to its attempts in aligning the shareholders' interests alongside those of the government. By offering a conducive environment for doing a business, the profits of a firm are maximized and these leads to an increase in taxes collected. Multiple taxes on the other hand can discourage investments and this will lead to a decline in both financial performance and taxes collected.

2.1.2 Ability to Pay Theory

Mill (1848) founded this theory which suggests that government is supported as nearly as possible by citizens through contributions which is in proportion to their respective potentials in relation to revenue. The greater burden of taxation is beared by those in a better position of paying irrespective of whether it benefits them or not. Capability of paying is regarded as sacrifice. It states that public money ought to originate from him that hat in lieu of from him that hath not, Kendrick (1939). Additionally, Kendrick termed the normal and actually the main serious justification of potential in paying to being the grounds of deprivation. Paying taxes by the taxpayer is termed as a huge sacrifice. The taxpayer is obliged to turn the money over to the public treasury from where it is disbursed for social ends rather than expending it for his personal needs. The act of forgoing money earned to the state, is termed as sacrifice. Three theories of progressive taxation namely; the equal theory, equal-proportional theory also least-sacrifice theory have risen from the notion of sacrifice when connected to the theory of the reducing marginal utility of money. The Equal-sacrifice theory implies that, all taxpayers should bear an equal amount of sacrifice of paying taxes. The act of imposing the same amount of sacrifice to all taxpayers refers to the notion of equal sacrifice, (Brown, 1929). The concept of equal-proportional sacrifice states that all taxpayers ought to incur similar sacrifices that are proportional to their incomes. This version therefore shows insufficient equality of sacrifice. The sacrifice borne by the rich man when paying taxes is greater in comparison to that of the moderate man. However, it should not exceed his income. Thus, equality is not found in the quantity of sacrifice rather than in the proportion (Pigou, 1928). As shown by the theories of Equal in addition to Equal-proportional sacrifice, the rich alongside the poor are both taxed (Kaplow, 2020). None of the theories indicate a sign of bearing all the taxes upon any income group. The Least sacrifice Theory highlights that, the very rich individuals incomes' should be taxed first (Pigou, 1928). The rich would only be taxed after the income of the very rich is reduced to their levels. Later the moderate persons' income would only be taxed if the very rich's also the rich's incomes are at the same level after being reduced through taxation. Through the theory, high incomes are progressively eliminated via taxation.

2.1.3 Theory of Optimal Taxation

Assumption on the standard theory of optimal taxation as developed by Adam Smith (1776) a tax system opted should aim at maximizing a social welfare activity conditional upon a couple of limitations. Due to the notion behind optimal taxation, the social planner is treated as a utilitarian: meaning, the utilities of people in the society forms the basis of social welfare function. In its most overall analyses, a social welfare function is utilized in this literature i.e individual utilities nonlinear function. Through nonlinearity, the social planner opting for

instance, more equality in dispersion of utility is permitted. In this literature some surveys however have assumption that the average utility is the social planner's sole concern, suggesting linearity in individual utilities through a social welfare function.

In simplifying the challenge that the social planner is experiencing, the assumption that is often is that all individuals in the society have homogenous taste in terms of leisure besides consumption. At times the assumption of homogeneity is taken one further step with assumption that there are fully identical people populating the economy. Selecting a tax system which aims at maximizing the representative consumer's welfare is the core agenda of the social planner, having full insights that the consumer will embrace all incentives brought to the table by the tax system. According to some surveys of taxation, the assumption of a representative consumer could be a helpful simplification. Nevertheless, using a model with a representative consumer to draw policy conclusions, in some cases can result to major drawbacks (Mankiw, 2019). Ramsey (1927) and Mirrlees (1971) advance that selecting a tax system ought to be for purposes of maximizing the citizen's social welfare. The reason behind the theory of designing also implementing taxes is reducing distortions alongside inefficiencies in the market. The Equity principle, both Horizontal along with Vertical, is vertical, is vital during deliberations concerning a fair also optimal tax category. According to Horizontal Equity, fairness is payment of similar tax amounts for citizens with equal capacity of paying. On the other hand, Vertical Equity is payment of more taxes for citizens with higher ability-to-pay in comparison to those with lower ability-to-pay, provided the increase in tax level is reasonably considered.

2.1.4 Profit Maximization Theory

Being the theory's core advocators, Koetter (2004) highlighted that utilization of best yields including prize levels brings about optimal performance which maximizes return. The utilization of the theoretical model can be advantageous to a firm while also having an impact on customers when that organization decides to raise product pricing in order to maximize returns (Al-Hawar, 2019). The fundamental agenda of organizations according to traditional economics is maximizing profits. Hence, the basis of traditional ideas is on maximizing profit. It is termed as the most rational including productive business objective for the firm. Besides that, profit maximization aids in predicting business behavior in addition to other economic parameters impacts, like output besides pricing, within distinct market environments (Kaushik & Rahman, 2015). This theory is used to support the goal of determining how multiple taxes affects manufacturing firm financial performance in Kenya. Which is to state, the many notions of the theory would be utilized to better understand how manufacturing firms in Kenya perform financially. As a result, this research put the profit-maximization theory's numerous results to the test in order to determine whether manufacturing firms' financial performance is directly linked to multiple taxation.

2.2 Empirical Review

Multiple empirical studies have been performed in local also international level both in support of the nexus amid multiple taxes alongside financial performance, although the researches generate mixed results.

2.2.1 Corporate Taxes and Financial Performance

Ezugwu and Akubo (2019) undertook an investigation for analyzing the manner in which the profitability of Nigeria's manufacturing entities is influenced by high corporate tax rate. The population in focus comprised the opted 162 manufacturing establishments and 41 being the sample-size. The study adopted Taro Yamane sampling technique. In analyzing data plus examining the formulated hypothesis, several statistical tools such as regression model & tables were utilized. The findings of the analysis revealed the presence of a direct positive correlation

amidst corporate tax rate alongside realized profit. This survey was undertaken in Nigeria whose tax regime is distinguishable from Kenya's and therefore the generalization of the results to manufacturing entities quoted at the NSE is impractical. Omedore and Ogbonnaya (2018) undertook a survey purposed at identifying the corporate tax influences on profitability of banks in Nigeria. This study's specific aim was in establishing the degree at which the profit after tax of Nigeria's banks is affected by the organization corporate tax. A causal research model was adopted during the study while 12 out of 21 currently existing banks based on Authors' judgment alongside data availability was chosen to be the sample size. The second-hand information concerning profit after tax which was the dependent variable and company corporate tax which was the company corporate tax was the independent variable applied were extracted from the published accounts on the banks' websites. 2011-2016 was the time frame covered by the panel data adopted during this research. With the assistance of STATA version 20, data analyses were performed where multiple regression analysis including t-test were utilized. The survey findings showed that 3 banks possessed a substantial positive impact of company corporate tax on profit after tax and existence of a positive connection amidst firm corporate tax on profit after tax. Contrary, the other 9 banks unveiled negative including absence of effects of company corporate tax on profit after tax. This study discovers a contextual gap due to its focus on commercial banks whose nature of operations is different from manufacturing firms.

Kumi and Amaniampong (2018) examined how the profitability of listed mining institutions at then Ghana Stock Exchange was impacted by the corporate tax. ROA was applied as an emissary for profitability in opposition to corporate tax being the independent variable while dependent variables incorporated; firm size, liquidity, performance besides leverage. As indicated by regression outcomes, profitability is influenced negatively by corporate tax; while entity size correlates positively with liquidity plus profitability, performance also leverage has negative association with profit realized. The study presents a conceptual gap as performance was measured using share returns leaving a gap on how ROE is affected by corporate taxes. Raza (2016) in his survey intended to identify the influence of corporate tax and entity size regarding profit realization of manufacturing institutions quoted on Karachi Stock Exchange. Panel financial data was assembled using second-hand origin for a duration of 6 years from a sample of 65 manufacturing companies. In determining how the two independent variables which were corporate tax and entities' size affects the profitability, multiple regression analysis was adopted to produce results which are highly accurate. From the study findings, the conclusion was existence of an adverse correlation amidst corporate tax plus profitability whereas the size of the company including profitability were positively related. A contextual gap arises in this research due to its conduction in Pakistan whose taxation policy is different from Kenya.

2.2.2 Custom Duty and Financial Performance

Auyuba and Tanko (2018) performed a survey in Nigeria; and examine custom duty traits including profit realized by Nigeria's manufacturing industry, the secondary datum of chosen manufacturing entities which was sourced from the financial records was analyzed via regression analysis. As highlighted by Hausman specification test the panel outcome after controlling for random best fits the population while the Wald/Ch2 test rejected the fixed impact hypothesis. In proxy for performance was ROA whereas independent variables entailed; firm age, corporate tax also company size. Custom duty alongside company age as shown by the findings had positive plus notable impact on the profitability of quoted producing establishments whereas the profitability of producing entities was influenced by the firm Size significantly but negatively. This survey was carried out in Nigeria whose tax policy is

distinguishable from Kenya's hence generalization of results to manufacturing companies quoted at NSE is illogical.

Adebisi and Gbegi (2018) sought how performance of SMEs is impacted by multiple taxes, a survey of West African Ceramics Ajeokuta, Kogi State, Nigeria. Using survey design on a population of 91 staff and 74 samples determined statistically using Taro Yamani formula; the study found that multiple taxes negatively affects the SMEs' success plus a significant positive association amidst size of SMEs' along with potential in paying taxes. A uniform tax policy across the federation was recommended to favor Nigeria's SMEs and that during tax policies settings, government should factor in the SMEs' size. The study presents a conceptual gap as the custom duty effects regarding financial performance of firms was not addressed.

Rapuluchukwu et al. (2016) used Cameroonian organizations to probe how the firms' productivity is influenced by fiscal incentives. To compute the entities' productivity, the research utilized information gathered from World Bank Enterprise Survey for over 300 establishments. The unique measures of Enterprise Survey help in distinguishing the companies' beneficiary status from distinct clusters of fiscal incentives namely; export financing, profit tax exemption besides import duty exemption. The scholar was able to carry out an impact analysis with the aid of Propensity score matching mechanism due to presence of these measures at the company level. The outcomes highlighted a notable plus positive effect of firms' productivity which was advantaged by export financing including profit tax exemption. Although the significance of this variable was inconsistence during consideration of import duty exemption. Therefore, the survey supported the argument that the state's inclusion in the company ought to be aimed at recognizing yields rather than in support of procedures, hence offered a crucial feature for industrialization strategy. Through the research a methodological gap is created due to utilization of primary data. There is need for a different study utilizing secondary data to confirm the findings.

2.2.3 Excise Duty and Financial Performance

Chesire (2018) undertook a survey purposing at determining effects of excise tax on the profit realized from cigarette and alcohol manufacturing entities quoted at the NSE. These companies were only BAT and EABL. The survey utilized datum assembled from secondary sources that is the organizations' financial statement plus NSE handbook. A descriptive research model was employed. Datum was collected also analyzed with the aid of multiple regression where excise tax was the independent variable and net profit and liquidity as the control variables. The correlation results showed a negative association amidst excise tax alongside profitability. This meant that excise taxes led to reduction of entities' profitability under the study. The investigation paid attention to only two firms which might not be an emissary of the other 7 listed manufacturing firms at the NSE. Anand and Singh (2018) performed a survey to determine the effect of the pricing models of excisable goods regarding the financial performance of producing entities based in India. The survey formulated 4 hypotheses that were examined via t-statistic. The research utilized the opted firms' secondary datum that was obtained from their audited financial reports. The study findings indicated presence of a negative association amid pricing models plus financial performance of producing entities in India. Moreover, the probe indicated that most firms transfer the costs incurred on excise tax to the consumer with the aim of sharing the taxation burden while remaining profitable. The exercise of this research was in India whose tax policy is completely dissimilar to that of Kenya hence the generalization of results quoted manufacturing industries at the NSE is illogical.

Linegar and Walbeek (2018) conducted a study to determine how excise tax rates influences the increase on the price of cigarette in South Africa. Budget Reviews formulated by the National Treasury of South Africa was the source of data relating to excise tax rate per

cigarette. The study concluded that excise tax rates increase, causes increase in the prices of cigarette thus also has an impact on the producing firms. The performance of the survey was in South Africa where their tax policy is dissimilar to Kenya's thus it is impractical to generalize the results to quoted manufacturing entities at the NSE. In an investigation carried out by Munyoro, Chiinze and Dzapasi (2016) intended to identify the effects of excise duty rate on the profitability and growth of small manufacturing firms in Zimbabwe. A qualitative research mechanism positioned at the positivist philosophy was employed to aid in the research. Source of data was self-administered questionnaires applied during the research design involving a case study technique. The study findings indicate that excise tax rates have adversely affected the financial performance of small manufacturing industries in Zimbabwe. The survey presents a methodological gap as it utilized primary data. There is need for a different study utilizing secondary data to confirm the findings.

2.2.4 Multiple Taxation, Firm Size and Financial Performance

Adeniyi and Osazee (2018) conducted a research on how sustainable development amidst Small scale businesses based in Lagos State is affected by multiple tax regimes focusing on Lagos Island Local Government. The paper utilized the survey design approach through the administration of questionnaire to a sample-size of 250 participants judgmentally opted out of the target population. The hypotheses were analyzed using Multiple Regression technique. Results unveiled a significant correlation amid multiple tax burden alongside SMEs' performance variables. The paper recommends the establishment of proper organization aimed at managing multiple taxes issue in country. Firm size was not considered as a moderating variable between multiple taxes and financial performance. The current research considered the moderating impact of entity size. Okolo et al. (2018) investigated manner in which investments of SMEs in Enugu State, Nigeria is influenced by multiple taxes. A survey research design was applied on the population of eighty SMEs. In analyzing the primarily sourced data, simple frequencies/percentages were employed while ANOVA was used in assessing the research hypotheses. The survey unveiled an adverse effect amid multiple taxes plus SMEs performance. The recommendations based on the outcomes suggests that when government is imposing taxes there ought to be tax policy developed which factors in the enhancement of SMEs capital allowance. Firm size was not considered as a moderating variable between multiple taxes and financial performance. The current survey considered the moderating influence of institution size.

Shehzad, De Haan and Scholtens (2018) assessed the nexus amid size plus bank's profitability. A longitudinal research model was utilized during the investigation to determine relationships amid size alongside profitability. A panel data covering a timeline of fifteen years was utilized. The findings revealed that changes in profitability are subjected to the entity's growth in size. Consequently, the volatility of banks' profit depends on its size and profitability. Firm size was not considered as a moderating variable between multiple taxes and financial performance. The current study factored in moderating impact of entity size. Pagano (2018) assessed the link amid firm size distribution also profitability in European Countries. The study examined the industry level and size structure. Panel data was used for fifteen years. An exploratory research design was used, and a positive including robust association was established amidst the average size of a firm and its profitability. The results indicate that larger size fosters productivity and firm profitability. Firm size was not considered as a moderating variable between multiple taxes and financial performance. The current survey considered the moderating impact of corporate size.

2.4 Conceptual Framework

Below is a conceptual diagram, designed to show the anticipated association amid research variables. Independent variable entails; corporate tax, custom duty and excise duty. The

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dependent variable which the research intends to expound is financial performance that is served by return on equity as its proxy. Firm size measured as log total assets was the moderating variable

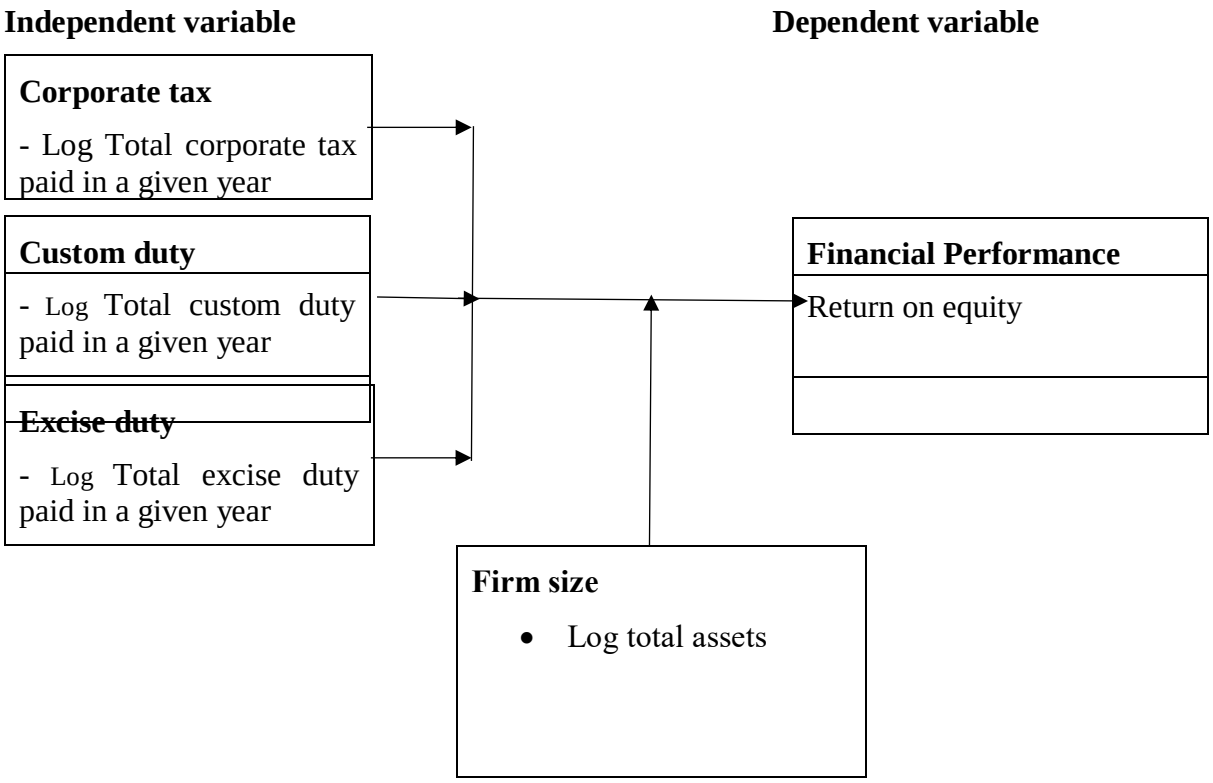

Figure 1: Conceptual Model

3.0 Research Methodology

The study followed a positivistic philosophy, focussing objective, measurable, and statistically quantifiable outcomes, as opposed to interpretivism, which allows for subjective interpretation. The study used an explanatory research design to investigate how multiple taxes affect the financial performance of manufacturers listed on the Nairobi Securities Exchange (NSE). The target population included all nine manufacturing entities listed on the NSE as of December 2021, and a census sampling technique was used due to the small population size. Financial performance was used as the dependent variable, with corporate tax, customs duty, excise duty, and firm size serving as independent and moderating variables. Data was collected from secondary sources over a ten-year period and analysed with Stata version 20. To ensure the reliability of the results, diagnostic tests such as normality, multicollinearity, heteroscedasticity, autocorrelation, and stationarity were performed, and the Hausman test was used to choose between fixed or random effects models.

4.0 Results and Discussions

The results are based on descriptive, diagnostic and inferential analysis. The descriptive analysis involved descriptive statistics including mean, standard deviation, minimum and maximum. The inferential analysis included the correlation and panel data regression analysis.

4.1 Descriptive Analysis

The objective of the descriptive analysis was to describe the properties of the data and to identify any unusual observations that may cause problems during inferential analysis. Thus, initial

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exploration of the data using simple descriptive tools was provided to describe and summarize the data generated for the study. The descriptive statistics of interest included mean, standard deviation, minimum and maximum as presented in table 1.

Table 1: Descriptive Statistics

	Corporate Tax	Excise Duty	Custom Duty	Firm Size	Financial Performance
N	90	90	90	90	90
Min	2.843	3.595	3.232	4.896	-1.2214
Max	6.538	6.639	6.17	7.94	0.3673
Mean	4.716	5.299544	4.90589	6.600582	0.040571
Std Dev	1.021838	0.823133	0.748264	0.823121	0.21751

Corporate tax was calculated as the total amount of corporate tax paid within a given year. Corporate ranged from 2.843 to 6.538 between 2018 and 2022. The distribution had a mean of 4.716 and standard deviation of 1.021838. Corporate tax had the least mean and highest standard deviation implying that the spread among the listed manufacturing firm was high, which also means some listed manufacturing firm paid very high corporate tax while others paid very low. Excise duty was calculated by finding the total amount of excise tax paid within a given year. Excise tax ranged from 3.595 to 6.639 between 2018 and 2022. The distribution had a mean of 5.299544 and standard deviation of 0.823133. Exercise duty had the highest mean and with second highest standard deviation implying that the spread among the listed manufacturing firm was moderate. Custom duty was calculated by finding the total amount of custom tax paid within a given year. custom duty ranged from 3.232 to 6.17 between 2018 and 2022. The distribution had a mean of 4.90589 and standard deviation of 0.748264. Custom duty had the second highest mean and with the lowest standard deviation implying that the spread among the listed manufacturing firm was moderate.

Firm size was calculated by finding the natural log of the total assets in a given year. Firm Size ranged from 4.896 to 7.94 between 2018 and 2022. The distribution had a mean of 6.600582 and standard deviation of 0.823121. There was moderate spread among the listed manufacturing firm in terms of total assets. In this study, financial performance was calculated by return on equity for that year divided by the net income and total shareholder's equity. Financial performance ranged from -1.2215 to 0.3673 between 2018 and 2022. The distribution had a mean of 0.0505 and standard deviation of 0.217. From the minimum return on equity, some listed manufacturing firms were making losses of more than 100% of their shareholder's equity.

4.2 Correlation Analysis

To explore the effect of multiple taxes on financial performance, a correlation analysis was conducted. The results of the correlation between multiple taxes and financial performance pertinent results are summarized in Table 2.

Table 2: Pearson Correlation Analysis

		Financial Performance	Corporate Tax	Excise Duty	Custom Duty
Corporate tax	Pearson Correlation	0.0821	1		
	Sig. (2-tailed)	0.4419			
	N	90			
Excise duty	Pearson Correlation	-0.7259	-0.1394	1	
	Sig. (2-tailed)	0.000	0.1901		
	N	90	90		
Custom duty	Pearson Correlation	-0.4963	-0.0797	0.525	1
	Sig. (2-tailed)	0.000	0.455	0.000**	
	N	90	90	90	
Firm size	Pearson Correlation	0.3411	0.0097	-0.3779	-0.38
	Sig. (2-tailed)	0.001	0.9279	0.0002**	0.0002**
	N	90	90	90	90

The results indicated that custom duty has a significant negative effect on the financial performance of listed manufacturing firms at NSE (r = -0.4963, P=0.0000). This indicates that a rise in custom duty would result into a significant decrease in financial performance in of listed manufacturing firms at NSE. The results are supported by Siddiqui and Siddiqui (2019) shows a negative relation between custom duties and profitability of automobile sector in a country. Okolo, Okpalaojiego and Okolo (2018) found a negative link between custom duty and financial performance of SMEs in Enugu State, Nigeria. Further, excise duty has a positive and significant on the financial performance of listed manufacturing firms at NSE (r =-0.7259, P=0.0000). This indicates that a rise in exercise duty would result into a significant decrease in financial performance in of listed manufacturing firms at NSE. These outcomes are in supported of Chesire (2018) who showed a negative association amidst excise tax alongside profitability. This meant that excise taxes led to reduction of entities' profitability under the study. Anand and Singh (2018) indicated presence of a negative association amid pricing models plus financial performance of producing entities in India.

Corporate tax has a positive and insignificant effect on the financial performance of listed manufacturing firms at NSE (r =0.0821, P=0.4419). This indicates that a rise in corporate tax would result into an insignificant increase in financial performance in of listed manufacturing firms at NSE. The results are supported by Ezugwu and Akubo (2019) revealed the presence of a direct positive correlation amidst corporate tax rate alongside realized profit. Iormbagah, Abiahu and Ibiam (2018) revealed that company corporate tax has a positive and significant effect on net income of listed manufacturing firms in Nigeria. Firm size has a positive and significant effect on the financial performance of listed manufacturing firms at NSE (r =0.3411, P=0.001). This indicates that an increase in firm size would result into a significant increase in financial performance in of listed manufacturing firms at NSE. These conclusions also concured with those of Terraza (2015) who researched on the connection allying the firm size of and performance of European manufacturing firms.

4.3 Multiple Linear Regression

The general objective of the study was to examine effect of multiple taxes on financial performance of listed manufacturing firms at NSE. The purpose of multiple linear regression was to establish the role of multiple taxes as block in regards to financial performance. Panel regression estimation was conducted in determining the effect of the explanatory variables on

the dependent variables. This is significant in determining the coefficients of the regression measures. Given the longitudinal nature of the observations, panel regression analysis became the most appropriate technique to be used. Table 3 below shows random effect of multiple linear regression.

Table 3: Regression Fixed Effect of Multiple Taxes on Financial Performance

Random-effects GLS regression	Number of obs	=	90
Group variable: FirmNo	Number of groups	=	9
R-sq:	Obs per group:		
within = 0.4302	Min	=	10
between = 0.7285	Avg	=	10
overall = 0.5417	Max	=	10
	Wald chi2(3)	=	77.5
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0

ROA	**Coef.**	**Std. Err.**	**Z**	**P>z**	**[95% Conf.**	**Interval]**
Corporate Tax	-0.00258	0.03857	-0.07	0.947	-0.07818	0.073013
Excise Duty	-6.37266	1.251212	-5.09	0.000	-8.82499	-3.92033
Custom Duty	-4.01878	1.755637	-2.29	0.022	-7.45977	-0.5778
_cons	3.63403	0.459064	7.92	0.000	2.734282	4.533779

The between R^2 is "How much of the variance between separate panel units does my model account for" The within R^2 is "How much of the variance within the panel units does my model account for" and the R^2 overall is a weighted average of these two. Since the study is interested in finding out dependent variable changes for each of the panel units (multiple taxes on financial performance), the study used R squared within. The result obtained from random effect model indicated that the multiple taxes accounted for 54.17% (R square=0.5417) of the variation in financial performance of listed manufacturing firms at Nairobi Securities Exchange, Kenya thus other variables not in the study model explains the difference (45.83%). The significance of the model was observed from the probability of the Chi2 which has a value of 0.0000 less than 0.05. This means that the variables used in the model have joint significance on the dependent variables. The study regression model as obtained from table above is as shown below.

$Y=3.63403-0.00258X_{1it}-6.37266X_{2it}-4.01878X_{3it}$

Y=Financial performance

X_1 = Corporate tax

X_2 = Excise duty

X_3 = Custom duty

Corporate taxes displayed a negative and insignificant effect on the financial performance of listed manufacturing firms at NSE. This is illustrated by the coefficient -0.00258 and the equivalent p value of 0.947. This suggests that a unit increase in capital taxes would lead to 0.00258 units decrease in the financial performance of listed manufacturing firms at NSE. The study's findings are supported by Kumi and Amaniampong (2018) who found out that profitability is influenced negatively by corporate tax. Similarly, Raza (2016) recorded existence of an adverse correlation amidst corporate tax plus profitability However, Omedore and Ogbonnaya (2018) showed that 3 banks possessed a substantial positive impact of company corporate tax on profit after tax and existence of a positive connection amidst firm corporate tax on profit after tax. Excise duty displayed a negative and significant effect on the financial

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performance of listed manufacturing firms at NSE. This is apparent by the coefficient -6.37266 and the equivalent p value of 0.000. This suggests that a unit increase in excise duty would lead to 6.37266units decrease in the financial performance of listed manufacturing firms at NSE. The outcomes were supported by Chesire (2018) who showed a negative association amidst excise tax alongside profitability. Anand and Singh (2018) indicated presence of a negative association amid pricing models plus financial performance of producing entities in India. Namiba (2016) also indicated that introduction of excise tax regulation has negatively affected the financial performance of Kenyan based oil industries. Custom duty revealed a negative and significant effect on the financial performance of listed manufacturing firms at NSE. This is affirmed by the coefficient -4.01878 and the equivalent p value of 0.000. This suggests that a unit increase in custom duty would lead to 4.01878 units decrease in the financial performance of listed manufacturing firms at NSE. The findings are adequately supported by Siddiqui and Siddiqui (2019) who showed a negative relation between custom duties and profitability of automobile sector in a country. Bing, Lili, Yan and Mohib (2018) also indicated that transferability of excise tax burden affects financial performance negatively. Nevertheless, the results were not supported by Rapuluchukwu, Belmondo, and Ibukun (2016) who highlighted a notable plus positive effect of firms' productivity which was advantaged by export financing including profit tax exemption.

4.5 Moderation Effect

Moderation was conducted under two steps as follows

Table 4: Moderation Effect, Step One

Random-effects GLS regression	Number of obs	=	90		
Group variable: FirmNo	Number of groups	=	9		
R-sq:	Obs per group:				
within = 0.4384	Min	=	10		
between = 0.7241	Avg	=	10		
overall = 0.5416	Max	=	10		
	Wald chi2(3)	=	75.51		
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.000		
ROA	**Coef.**	**Std. Err.**	**Z**	**P>z**	**[95% Conf. Interval]**
Corporate Tax	-0.00241	0.038396	-0.06	0.950	-0.07766 0.072845
Excise Duty	-6.24736	1.343716	-4.65	0.000	-8.881 -3.61373
Custom Duty	-4.13998	1.829899	-2.26	0.024	-7.72652 -0.55345
Firm Size	0.002077	0.002702	0.77	0.442	-0.00322 0.007373
_cons	3.604127	0.483881	7.45	0.000	2.655738 4.552516

The findings in Table 4 show an R-squared of 0.5416. This means that the variables used in the model explain 54.16% of the variations in financial performance of listed manufacturing firms at Nairobi Securities Exchange. While holding all factors constant, size of a firm had a coefficient of 0.002077 and p-value of 0.442. In view of this finding, it can be deducted that size of the firm is not an explanatory variable and this in turn allowed for the second step of the moderation to be done. Further, it has no effect on the significance level of independent variables.

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Table 5: Moderation Effect, Step Two

Random-effects GLS regression	Number of obs	=	90
Group variable: FirmNo	Number of groups	=	9
R-sq:	Obs per group:		
within = 0.5186	Min	=	10
between = 0.8377	Avg	=	10
overall = 0.6126	Max	=	10
	Wald chi2(7)	=	129.65
corr(u_i, X) = 0 (assumed)	Prob > chi2	=	0.000

ROA	**Coef.**	**Std. Err.**	**Z**	**P>z**	**[95% Conf. Interval]**	
Corporate Tax	-0.06121	0.044465	-1.38	0.169	-0.14835	0.025943
Excise Duty	28.84011	14.99829	1.92	0.054	-0.55601	58.23622
Custom Duty	-39.4196	15.46926	-2.55	0.011	-69.7388	-9.1004
Firm Size	0.001105	0.002666	0.41	0.679	-0.00412	0.006329
Corporate*Size	0.006811	0.003221	2.11	0.034	0.000499	0.013123
Excise*Size	-4.97468	2.094738	-2.37	0.018	-9.08029	-0.86907
Custom*Size	5.526749	2.254098	2.45	0.014	1.108798	9.944699
_cons	3.604127	0.483881	7.45	0.000	2.655738	4.552516

The results in Table 5 show R-squared of 0.6126 which means that all the variables in the model collectively explain 61.26 of the variations in financial performance of listed manufacturing firms. While holding all factors constant, the interaction between corporate tax and size of the firm had a coefficient of 0.006811 and p-value of 0.034. Based on the findings obtained, size of the firm has a significant moderation effect on the relationship between corporate tax and financial performance. Increase in firm size by a unit will make the effect corporate tax on financial performance to increase by 0.006811 units. Similarly, increase in firm size by a unit will make the effect custom tax on financial performance to increase by 5.5267 units. However, increase in firm size by a unit will make the effect excise tax on financial performance to decrease by 4.97468 units. The results are supported by Shehzad, De Haan and Scholtens (2018) who revealed that changes in profitability are subjected to the entity's growth in size. Pagano (2018) indicated that larger size fosters productivity and firm profitability.

4.6 Hypothesis Testing

The study tested four hypotheses to understand the effects of multiple taxes and firm size on the financial performance of manufacturing firms listed at the Nairobi Securities Exchange (NSE). The first hypothesis, which posited that corporate tax has no significant effect on financial performance, was supported by the data, showing a negative and insignificant relationship (β= -0.00258, p=0.947). The second hypothesis, regarding custom duty, was rejected as both correlation and regression analysis indicated a significant negative impact on financial performance (β= -4.01878, p=0.022). The third hypothesis, which tested the effect of excise duty, was also rejected, with results showing a significant negative impact (β= -6.37266, p=0.000). Finally, the fourth hypothesis examined the moderating role of firm size, revealing a significant moderating effect on the relationship between multiple taxes and financial performance, particularly increasing the effects of corporate and custom taxes while decreasing the impact of excise tax. These findings are supported by previous studies, highlighting the complex dynamics between taxation, firm size, and financial performance.

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5.0 Conclusion

The study concluded that multiple taxes influence the financial performance of manufacturing companies listed on the Nairobi Securities Exchange in a variety of ways. Each of the specific conclusions are as discussed.

The study concluded that corporate tax has an insignificant positive impact on the financial performance of NSE-listed manufacturing firms. An increase in corporate taxes would result in an insignificant improvement in financial performance. The study's findings established that corporate profit taxation, as an important component of fiscal policy, is a hotly debated topic with significant implications for both macroeconomic and microeconomic outcomes. However, the impact on financial performance is negligible. The initial null hypothesis was accepted. There are several possible explanations for this discovery. One possibility is that manufacturing firms in Kenya can pass on the cost of corporate tax to their customers, reducing the negative impact on financial performance. Another possibility is that manufacturing firms can use tax planning strategies to reduce their effective tax rate, thereby improving financial performance. Finally, the positive relationship between corporate tax and financial performance could be attributed to other factors, such as overall economic growth or tax collection system efficiency.

The study concluded that customs duties have a negative and significant impact on the financial performance of publicly traded manufacturing companies. The negative and significant coefficient implied that increasing customs duties would result in a significant decrease in financial performance due to increased production costs. There are several possible explanations for this discovery. First, customs duties raise the cost of importing raw materials and components, reducing the profitability of manufacturing companies. Second, customs duties can make it difficult for manufacturers to compete with imported goods, resulting in lower sales and profits. Third, customs duties can discourage foreign investment in the manufacturing sector, resulting in lower economic growth and job creation. Based on the linear and multiple regression results, the study concluded that excise duty has a significant negative impact on financial performance. An increase in excise duty would result in an increase in the price of manufactured goods, forcing consumers to switch to imported products and significantly reducing the financial performance of manufacturing companies listed firms. Excise duties are a tax levied on certain goods and services, including alcohol, tobacco, and fuel. They are intended to discourage the use of these goods, but they can also have a negative impact on the financial performance of companies that manufacture or sell them. The negative impact on financial performance can manifest in a variety of ways, such as lower profits, higher consumer prices, lower sales, or decreased market competitiveness. It is important to note that the impact of excise duty varies depending on the industry, the specific goods taxed, and the overall economic context.

The study concluded that firm size has a significant moderating effect on the relationship between multiple taxes and the financial performance of publicly traded manufacturing firms. As firm size increases, the effect of corporate tax, customs tax, and excise tax on financial performance decreases significantly. In this study, a moderating effect indicates that firm size influences the relationship between multiple taxes and financial performance. In other words, the impact of taxes on financial performance is not the same for all businesses; it is determined by their size. Larger businesses are better able to absorb the costs of multiple taxes, so their financial performance is less harmed. Larger firms may have more bargaining power with tax authorities, allowing them to negotiate lower tax rates or exemptions. Larger companies may have more resources to invest in tax compliance and planning, allowing them to reduce their

total tax burden. Larger companies may also have more diverse revenue streams, making them less susceptible to the negative effects of multiple taxes on a single product or service.

6.0 Recommendations

The following recommendations were made based on the study conclusions, as explained below:

Based on the findings of this study, managers of listed companies should implement proper procedures to improve and increase their financial performance through the use of corporate tax planning. Corporate tax planning that improves financial performance should be practiced by all enterprises, including publicly traded companies, because increased financial performance directly translates to increased shareholder value, which is a company's primary goal.

As a result, policymakers who determine the rate of customs duty on production units should exercise caution in order to improve the financial performance of manufacturers. Furthermore, to increase capabilities and encourage investors, the government should consider necessary tax breaks to improve the productivity and profitability of manufacturing firms listed on the NSE. According to the study's findings, the Kenya Revenue Authority should prioritise preventing the implementation of excise tax from negatively impacting manufacturing companies' financial performance. To improve the overall financial performance of the manufacturing industry, the government should review the excise tax regulations on a regular basis. It is recommended that publicly traded manufacturing firms hire tax experts to assist them with tax planning in order to reduce their net tax liability and improve their financial performance. This can be accomplished by engaging the services of tax professionals. Furthermore, they should increase the amount of their assets and ensure that those assets are used efficiently, which will reflect in the firms' output turnover.

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