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Impact of Board Independence Efficiency in Corporate Tax Planning Among Commercial and Services Firms Listed at the Nairobi Securities Exchange, Kenya

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Abstract

Corporate tax essentially provides revenue for governments globally, as well as a tool for achieving a variety of fiscal goals. Corporation tax, on the other hand, is a considerable burden for businesses, influencing crucial business choices. Understanding the elements that influence corporate tax planning is crucial not only for businesses, but also for states as well as other regulators. The study assessed board of directors impact on corporate tax planning. The distinct goal included exploring the usefulness of board independence on corporate tax planning. The study was anchored on Tax planning, Stewardship Theory and Resource dependency Theory. The time scope was from 2015-2020. Secondary data was collected from NSE using data collection sheet. The study was examined using panel regression techniques. Various diagnostic test like stationarity, multicollinearity, heteroscedasticity and Hausman test were utilized. Standards with an ethical bent were adequately upheld. Evidence from the findings showed that board independence insignificantly affected commercial and services traded businesses tax planning at NSE negatively. The study recommends that board members should be allowed complete independence to assist them in the performance of their tax planning duties. As tax planning involves the services of experts, it is necessary for the best hands to be employed by the firms. This would allow for effective rate determination and avoid unnecessary conflict of interest within the stakeholders of these firms.

Keywords: *Board Independence, Efficiency, Corporate Tax, Planning, Commercial and Services Firms Listed, Nairobi Securities Exchange*

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1.0 Background of The Study

Among the basic contributors of revenue for governments, corporate tax contributes immensely to it, particularly in developing countries where unconventional income streams are limited (Crivelli, Mooij & Keen, 2016). Countries have imposed legislative corporate tax levies in which are paid by firms to accomplish organizational strategic goals (Crivelli *et al*., 2016). Corporate tax has a significant impact on investment choices made by businesses (Osebe, Kirui & Naibei, 2019). Budgetary control, financing decisions, and profitability are only a few of the financial choices that are influenced by corporate income tax. Corporate income tax has a favorable connection with financial performances of enterprises registered on Nairobi Securities Market, according to Nekesa, Namusonge and Makokha (2017), implying that corporate tax has an impact on crucial corporate choices. Taxes are a substantial additional cost for businesses and their proprietors, reducing the availability of cash for profitability. Shareholders like tax planning efforts because they enhance both earnings after taxes and cash available (Tijjani, 2019). Tax planning has been regarded as the most effective method of decreasing tax liabilities while adhering to regulatory requirements. This can be accomplished by utilizing varied tax rates in various locations and pecuniary activity, as well as taxation motives offered by tax regulations (Tijani & Peter, 2020).

The number and structure of board members are referred to as board composition. In worldwide interest among researchers, composition of the board has largely revolved around the board structure, the number coming from external executive directors, and CEO duality. It has been suggested that board composition has at least three main components: autonomy, competency, and procedure. In this study, the assessment of governing body is a part drawn out of the subject, it is also part of the technique that owners have to correct the situation to the greatest extent feasible and, through checking, coordinate the activities of top management with those shareholders that lie at the external of the operations. Due to the governing body being a key factor of governing of any corporate, it is definite that its structure has to be available to respond to the primary function it has been designed: administrating and managing, ignoring self-interested supervisory behavior, and offering guidance to decision makers to improve business operations (Borlea, Achim & Mare, 2017).

1.1 Statement of The Problem

Corporate tax is a component of business strategies that aims to reduce a company’s taxable burden while increasing revenue and investors benefits higher after-tax returns through tax planning. Corporate tax planning has been widely lauded as a solution to the accountability problem caused by shareholder and management split. According to Crivelli *et al.*, (2016), the directors' board has a responsibility to safeguard the interests of shareholders. Osebe *et al.* (2019) agree, that the board’s job is to safeguard firm shareholders through overseeing management, and that the board’s efficacy in doing so is determined by its makeup. But when the board possesses a knowledge imbalance between its managements and owners it is believed that executives are going to operate inside their individual interest, resulting in an adverse impact on the company’s tax and thereafter its value.

With hardly any hesitation, corporate tax adherence is crucial to every country’s spending guideline. It is because the corporate entities obtain or pay most tax revenues. Poor nations rely on tax income as a share of total tax revenue far beyond relatively high nations. According to

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ICPAK (2016), tax revenue accounts with over 90% of Kenya's revenue stream, which accounts for more than forty-five percent of all tax revenue and includes income tax.

Kenya has recently seen a rising budget deficit and increasing state debt, both of which have raised concerns amongst legislators and the public at large. According to estimates from the Kenyan Central Bank, the from 1.3 trillion Kes in 2011 to more than 4.5 trillion in 2012, the nation's national debt grew 2017 to 6.7 trillion Kes in 2020. According to the same estimates, the fiscal shortfall has risen from 156 billion Kenyan shillings in 2011 to a high of startling the 737 billion in 2017, to 3.1 trillion in 2020 (International Budget Partnership, 2020). Corporate tax comprises of different forms, the company tax, which is 30 percent of all local companies in Kenya, tax rate from foreign companies is 37.5 percent. The capital gain taxation is 5 percent of the net gain, main allowances deductions and tax credits 10-50 percent (expenses incurred wholly and exclusively to generate taxable income are deductible). Empirical studies found conflicting findings and displayed research gaps that this study sought to fill.

1.2 Research Objective

To investigate the impact of board independence efficiency in corporate tax planning among commercial and services firms listed at the NSE Kenya.

2.0 Literature Review

The literature review was done in sections.

2.1 Theoretical Framework

Tax planning theory, stewardship theory and resource dependency theory were utilized in carrying out this study. Tax planning hypothesis which opined that business utilize their corporate profits for other purposes and not state related was introduced by Hoffman in 1961. Due to the complex aspect of tax systems, tax technicalities are unavoidable, allowing people to capitalize from tax situations. It was emphasized that tax planning entails businesses taking lawful steps to decrease their tax bill through utilizing legal loopholes. The theory further holds the view that businesses can minimize tax income to a bare limit so as never to impair accounting income. As a result, a company would be allowed to gain from tax planning despite discrepancies of the law. Thus, tax planning needs to be adaptable enough to meet tax law modifications, individualized requirements of taxpayers, and a scalable tax solution that incorporates gift taxes, corporate and income tax and capital gains. It also suggested that a tax strategy ought to be capable of resolving competing concerns among the concerned parties while also being diligent in order to account for expected tax responsibilities.

Initiated by Donaldson and Davis (1989), the Stewardship theory holds that board members function with respect to improving the wellbeing of shareholders and also the corporation. It recommends that the steward constantly performs their duties with the proprietors' best interests in heart, therefore eliminating the board's responsibility (Moses, 2019). It asserts that executive agents' roles are not those of a self-serving opportunistic. Instead, executive managers strive to succeed as competent stewards of business assets since they are held accountable (Othman 2014).It is assumed that the agent is competent of balancing the demands of various shareholders and, as a result, fulfilling the tasks carefully to protect their interests, and that these choices will result in higher income for the proprietor over time (Siswanto & Fuad, 2017). It continues however to recognize a variety of non-rewards that motivate workers

Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 10||Issue 5||Page 96-105 ||August||2026|
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while impacting their knowledge. They include the need to be acknowledged and the achievement of a target, acceptance for a great response and its superior processes, leadership recognition, and the workplace way of behaving (Amer, 2016). The stewardship hypothesis states that agents have the same goals as the company's proprietors, and as a result, their careers are linked to the achievement of the company's goals, and their reputation is reflected in the company's performance as well as the advantages to shareholders. The idea is crucial to the investigation since it outlines the duties of the governing body.

Pfeffer (1973) proposed resource dependency theorem, which emphasizes the function of boards in gaining assets instead of employing such assets. Executives seek to make a relationship amongst the company as well as other factors by co-opting the cash and assets essential for sustainability, according to the notion (Siswanto & Fuad, 2017). RDT examines how a firm's other variables influence its characteristics, concentrating on the co-dependence of businesses with their wider environment. It is assumed that the board has several responsibilities, notably providing vital assets such as employment contracts, talents, experience, and efficiency (Amer, 2016).As a management philosophy emphasizing on the resource function of a director, resource dependence theory encompasses several of the characteristics of a board and also independent auditors (Khalifa, 2018). According to the RDT, between several alternative outlets and structure required to develop efficiency or representation, the board serves a critical role (Othman et al., 2014). Larger committees, for example, are better suitable, according to the hypothesis, because members convey so much awareness even while focused on the external environment. Nonetheless, it sees larger boards as a problem relating to coordinating associates from extremely organizations that are close and resolving disagreements (Gurusamy, 2017).Strong governance frameworks, according to RDT, become the source of excellent guidance and expertise for a particular board with the goal of harnessing the company's significant assets (Anis et al., 2017). The argument holds that larger boards seem to be more likely to devote additional resources and influence in order to produce a good result. Additional directors provide a valuable supply of diverse perspectives, expertise, skills, and insights to provide effective control (Madi, Ishak & Manaf, 2014). The RDT reveals in this investigation that asset allocation by the board of directors is significantly dependent on its financial productivity, using these assets in assisting the organization in lowering the level of uncertainty and lowering financing expenses, and eventually assisting in achieving.

2.2 Empirical Literature Review

Lanis and Richardson (2011) investigated the composition of board and company taxation activity. Results discovered an adverse but significant connection amidst the number of distinct directors and the bold tax structure in a survey of 32 firms. To put it another way, the more independent board members there are, the unlikely the company is to contribute in activities targeted at decreasing effective tax rates. Despite its short sample size, this study provides overview of the link existing between board independence and effective tax rates. The study was carried out using ordinary least square method, this study used panel regression analysis. Ribeiro (2015) used 704 non-financial enterprises from the London Stock Exchange to investigate the factors of productive taxation proportion utilizing firm-specific and corporate governance. The amount of distinct governing-executive and the efficient corporation taxation proportion have the results (ECTR) indicating a favorable and significant connection. Capital intensity, leverage, independent directors, and R&D were used as control parameters in the previous research, but this study is going to employ other variables.

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Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 10||Issue 5||Page 96-105 ||August||2026|
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Osebe, *et al.*, (2019) research aimed to look into the effect of governing corporate entity on efficient company taxation proportion amidst Kenyan registered enterprises between 2011 and 2017. They used size of the board, distinct board, diversification of gender of the board, and company proprietorship framework as independent variables. A longitudinal study technique was utlized in the investigation. A sample of 40 companies was chosen at random among Kenya's 67 publicly traded companies. The results of the study reveal that board's sizes, independency, and diversification of gender all have a favorable as well as substantial impact on effectual levy percentage. Ownership structure, contrastingly, possess a adverse and considerable impact on productive levy percentage. As a result, the research indicates that company governing has a considerable effect on productive levy proportions among Kenyan registered companies, as well as advises policymakers, stakeholders', and company directors to take this into account whenever formulating tax policies and decisions. The study time scope is between 2011 and 2017, but this study time scope is between 2015 and 2020 and also the study looked at 40 listed companies, this study's aim is to cover the commercial and service firms.

2.3 Conceptual Framework

Independent Variables

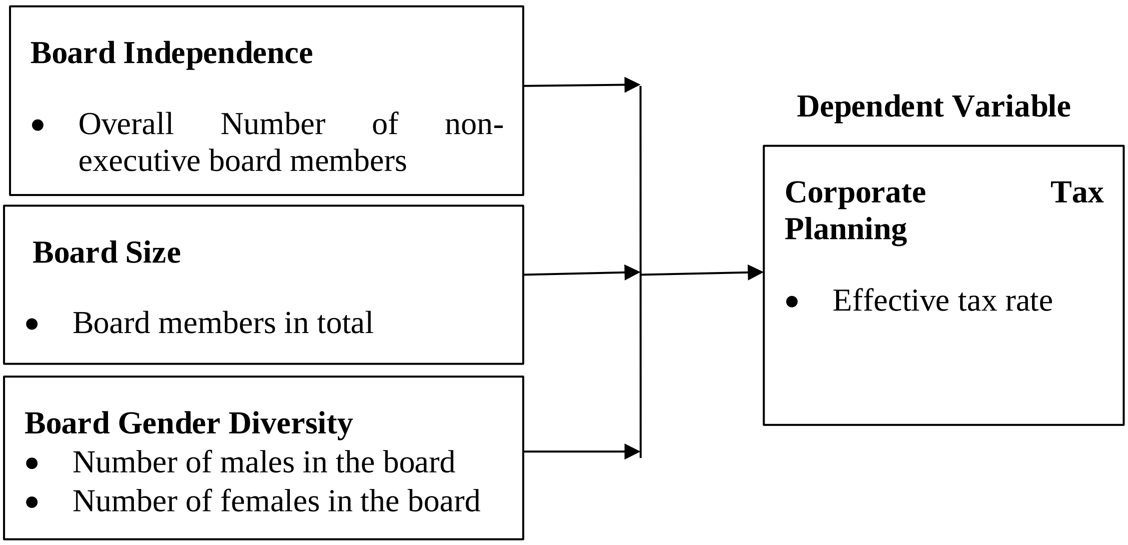

Figure 1: Conceptual Framework

3.0 Research Methodology

A research strategy is the framework employed by the researcher in order to properly, correctly, and objectively answer questions and cost-effectively (Mugenda & Mugenda, 2013). The investigation employed a descriptive research design to investigate the impact that the board of directors has on corporation tax preparation. The researcher was interested in learning about the current condition. This design is good because the researcher is accustomed despite the investigation into the fact, wants to learn more about the nature of the relationships among the study's parameters (Cooper & Schindler, 2008). Population, based on the research by Burns and Burns (2008), is considered as the aggregate of all data taken in regards to a certain group of individuals and situation as stated through the investigation (Burns & Burns, 2008). The demographic for this research included 13 publicly traded commercial and service firms as of December 31, 2021. The model reveals a strong link between the research variables. This effect of board of directors and company tax planning Kenya was empirically established. The mathematical model incorporates data from CMA that was used to reach the study's result. This is written as follows:

$CTP_{it} = \beta_O + \beta_1 BI_{it} + \beta_2 BS_{it} + \beta_3 BGD_{it} + \varepsilon_{it}$

Where:
CTP: Corporate Tax Planning
BI: Board Independence
BS: Board Size
BGD: Board Gender Diversity
t: period of time
i: Firm
ε: Error term
$\beta_1, \beta_2, \beta_3$ = Coefficients

4.0 Finding and Discussion

The results and findings of the study are presented and analyzed in the sections that follow. Each section provides a structured summary of the empirical outcomes, highlighting the key statistical relationships and their implications in relation to the study objectives.

4.1 Descriptive Statistics

Table 1: Descriptive Statistics

Variable	Tax Planning	Board Independence	Board Size	Board Diversity
Obs	52	52	52	52
Mean	3.3808	5.0392	9.75	0.1846
Std. Dev.	7.3483	2.1067	3.1365	0.1114
Min	0	2	4	0
Max	47.2460	10	16	0.4

Table 1 displays the descriptive data, which for tax planning have 3.3808 as the average and 7.3483 as the standard deviation. The average result for tax planning ranges from 0 to 47.2460, with 0 being the lowest and 47.2460 being the highest values. This implies that the commercialized and services enterprises traded at the securities market in Kenya, had relatively significant variances in their tax planning strategies. Board independence had an average and standard deviation of 5.0392 and 2.1067, respectively, with minimum and maximum values of 2 and 10. The findings show that there is little variance in the board's independence across Kenya's listed commercial and service companies.

Moreover, board size was determined to have a median value of 9.75 and a deviation from the mean of 3.1365. The standard deviation revealed that, in comparison to independence of the board, the tax planning of publicly traded commercialized and services companies differs only significantly. For lowest and greatest values, the numbers 4 and 16 were noted. Also, the mean and standard deviation for board gender diversity were 0.1846 and 0.1114, respectively. The results showed that the minimum and highest values of the mean and standard deviation are 0 and 4, respectively. The board gender diversity of the commercial and service listed firms' tax

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Journal of Finance and Accounting
Volume 10||Issue 5||Page 96-105 ||August||2026|
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planning does not considerably differ from one another, according to the standard deviation value.

4.2 Regression Analysis

Research hypotheses were evaluated in the study using a dependable random effect regression model. On the Nairobi Stock Exchange's list of commercial and service companies, the panel regression model was the most accurately representation of the effectiveness of the board of directors efficiency in tax planning of commercial and service listed firms at NSE. Whereas in large part, the fact that both cross sectional and time series data are aspects that are enveloped in panel data measurements, thus, Samples from panel analysis may have larger sizes than those from time series and cross-sectional data. (Creswell, 2006). Table 2 displays the findings of the study's hypothesis testing at the 5% level of significance.

Table 2: Regression Results

Financial Performance	Coef.	Robust Std. Err.	z	P>|z|	[95% Conf.	Interval]
Board Independence	-0.2351	0.3371	-0.70	0.486	-8959542	0.4257476
Board Size	0.6887	0.3518	1.96	0.050	-0.0008222	1.378261
Board Gender Diversity	-1.3773	9.6864	-0.14	0.887	-20.36233	17.60767
_cons	-2.6433	5.1686	-0.51	0.609	-12.77372	7.487079
R^2	0.3150					
Wald chi2 (4)	8.04					
Prob> chi2	0.0453					

The regression equation is given as follows depending on the regression's outcomes, which are displayed in Table 4.7:

$$CTP_{it} = -2.6433 - 0.2351BI_{it} + 0.6887BS_{it} - 1.3773BGD_{it} + \varepsilon_{it}$$

Where:

CTP: Corporate Tax Planning

BI: Board Independence

BS: Board Size

BGD: Board Gender Diversity

ε: Error term

The findings as illustrated on Table 2 depict that the board independence has a negative and insignificant impact on commercial and services traded businesses tax planning at the NSE. That is indicated by the β-value of -0.2351 and a corresponding p-value of 0.486. This illustrates a percentage increase in the independence of the board would results in 0.2351%

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Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 10||Issue 5||Page 96-105 ||August||2026|
Email: info@stratfordjournals.org ISSN: 2616-4965

reduction in tax planning by companies that are quoted on the NSE under commercial and services. Particularly, board size indicated a positive coefficient of (0.6887) which has statistically significant (0.050) effect on Kenya's commercial and services traded enterprises at the NSE tax planning. This implies that board size increase by 1% would lead to an increase of 0.6887% in commercial and service firms traded at the NSE tax planning. Board diversity showed that an increase of 1% would amount to a reduction in Kenya's commercial and service firms' tax planning by 1.3773%. This outcome is further validated by a negative (β = -1.3773) coefficient and insignificant (ρ = 0.887) effect of board diversity on commercial and service firms registered at NSE tax planning in Kenya.

Based on the outcome of the direct random effect model, the Wald Chi-Square of 8.04, that has a matching p-value of 0.0453, was used to assess the model's significance. This shows that the model of direct random effect matched the analysis to examine board of directors efficiency in corporate tax planning amongst services and commercial enterprises registered on the Nairobi Securities Market. The conclusion suggests that the model had a good fit, further suggesting that board independence, diversity and size jointly determine tax planning of commercial and service businesses traded in Nairobi Stock Market. Additionally, an R2 of 31.50% demonstrates the extent of changes in commercial and service firms' tax planning that is attributed to board of directors' efficiency. Tax Planning would decline in the absence of board of directors' efficiency, as shown by a constant value of -2.6433.

5.0 Conclusions

The investigation's objective majorly sought how effective board of directors' efficiency is on tax planning among the listed commercial and service firms at the NSE, Kenya. With particular reference to the survey, the effect of board independence was determined on registered services and commercial enterprises with NSE tax planning. Discovery from the investigation noted that registered services and commercial enterprises with NSE tax planning was insignificantly affected by board independence in Kenya. Conclusively, board independence does not act as a significant mechanism for which the efficiency of the board can determine registered commercial and services NSE firms tax planning.

6.0 Recommendations

Suggestions emanating from this investigation were in view of what the explanatory variables' outcome was. Indication from the survey noted that board independence insignificantly has a direct effect on registered services and commercial enterprises with NSE tax planning. With reference to this, it is advised that the board members should be allowed complete independence to assist them in the performance of their tax planning duties. This would allow for effective rate determination and avoid unnecessary conflict of interest within the stakeholders of these firms.

Concerning the report of the investigation on the impact of board of directors efficiency on registered services and commercial enterprises with NSE tax planning, further investigation can be conducted on agriculture firms listed at the NSE. Other studies can be conducted to determine why board independence is insignificant on registered services and commercial enterprises with NSE tax planning.

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Stratford Peer Reviewed Journals and Book Publishing
Journal of Finance and Accounting
Volume 10||Issue 5||Page 96-105 ||August||2026|
Email: info@stratfordjournals.org ISSN: 2616-4965

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