EFFECT OF CORPORATE GOVERNANCE ON TAX PLANNING OF COMMERCIAL AND SERVICE FIRMS LISTED AT THE NAIROBI SECURITIES EXCHANGE

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DECLARATION

I, the undersigned, declare that this is my original work and has not been presented to any institution or university other than the University of Nairobi for examination.

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DEDICATION

This project is dedicated to my beloved wife Norah Njoki and our children Fifi Wanjiru and Ness Wanjiku for their support and encouragement during the study period.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
BTD	Book-Tax Difference
CEO	Chief Executive Officer
CMA	Capital Markets Authority
ETR	Effective Tax Rate
KRA	Kenya Revenue Authority
NSE	Nairobi Security Exchange
OECD	Organization for Economic Co-operation and Development
RDT	Resource Dependency Theory
VIF	Variance Inflation Factors
WGI	World Governance Index

ABSTRACT

In the recent past, research studies have been conducted that give a picture of why some companies avoid taxes more than others. The earliest studies point to characteristics of the firm as proxies for opportunities, incentives and resources for tax planning to explain why some companies more than others do avoid or minimizes tax liability. Recently studies conducted have expounded on this research area by investigating the role played by agency conflicts on corporate tax planning behavior. This research set to determine the how corporate governance influences corporate tax planning of commercial and service firms at the NSE. All 11 commercial and service organizations listed formed population of this work. Independent variants in this research were corporate governance operationalized as the size of the board members, independence of the team and the number of meetings. Control variables were profitability represented by return on equity per year, managerial ownership represented by the percentage of shares held by management and debt financing given by the ratio of total debt to total assets in an year. The response variable was corporate tax planning given by effective tax rate. A five year period, January 2014 and December 2018, was studied through gathering of secondary data. Descriptive research design method was employed while multiple linear regressions model was applied in analysis of the association between the variables. The data was analyzed by use of SPSS version 22. An R-Square value of 0.605 was produced from the study results which meant that a large percentage, 60.5%, of corporate tax planning of commercial and service organizations at the stock exchange can be explained by the six predictor variables as 39.5 of disparity of corporate tax planning rate was related to variables that were not part of this study. Findings of ANOVA highlight how F was important at the 5% level, showing p=0.000. Henceforth, this case showed that the model was appropriate in explaining the correlations between the differing variants. In addition, it was revealed that profitability had a significant effect on tax planning while board size, board independence, board meetings and managerial ownership produced negative but insignificant findings for this research work. Finally, debt financing produced positive and not statistically influence on corporate tax planning among commercial and service organizations listed at the NSE. This research recommends that strategies should be set to increase profitability of firms, because it has a statistically substantial influence on corporate tax planning among commercial and service firms at the NSE.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

While the implications of taxes remain an integral part of corporate decisions, management actions designed to reduce tax liabilities remain an integral part of corporate activity. Tax planning refers to how taxpayers organize their operations with the objective of achieving tax efficiency. It may be motivated by a number of factors but the repercussions of such actions can be either positive or negative (Desai & Dharmapala, 2009). Tax planning can cause implications such as managerial value-maximizing behavior or a greater potential for conflicting interests between managers and shareholders (Wang, 2012). In the recent past, research studies have been conducted that give a picture of why some companies avoid taxes more than others. The earliest studies point to characteristics of the firm as proxies for opportunities, incentives and resources for tax planning to explain why some companies more than others do avoid or minimizes tax liability (Rego, 2003). Recently studies conducted have expounded on this research area by investigating the role played by agency conflicts on corporate tax planning behavior.

There are several theories that back corporate governance. This study uses agency theory developed by Jensen and Meckling in (1976). The theory outlines the relationship between the agent and principal as one based on contrasting interests. Resource dependence theory initiated by Pfeffer and Salancik in (1978) highlights the importance of resources and strategic linkages as critical to the organization success and the organization should get a competitive edge by having a resourceful board of directors. In addition, stewardship theory developed by Donaldson (1991) explains how stewards should maximize the shareholder wealth by increasing the firm performance because by so doing their utilities are also maximized.

Several guidelines have been developed by the Capital Markets Authority (CMA) to encourage good practices in corporate governance by the listed public (CMA, 2017). Despite these guidelines, commercial and service firms at the NSE have faced governance issues in the recent past to a point of some closing shops. Such firms include Uchumi and Kenya Airways. In addition, the effective tax rate of the commercial and service companies quoted at the NSE varies from one firm to the other and from year to year and therefore this study will address whether the level of corporate governance in a firm influences it.

1.1.1 Corporate Governance

Iqbal (2015) mentioned that, corporate governance is a means that ensures business is fairly, efficiently and transparently conducted in order to achieve organization goals through effective practices and structures. Thus, corporate governance is the framework that ensures organizations are managed transparently and efficiently. Hulya (2016) defined corporate governance as a collection of links between a corporation’s management, the shareholders, and the board of the firm and other stakeholders. It is a platform where the corporation’s goals and objectives are formulated, implemented and their performance. Adam and Mehran (2003) described corporate governance as the mechanism where the stakeholders of an organization namely; creditors, employees, shareholders, society and the government can have oversight over the insiders and management to ensure that their interests are safeguarded.

Previous investigations surround the common assumption that a good corporate governance system will guarantee that resources are utilized in a proper manner. Empirical studies show that corporate governance has positive impact to both the international and local economy since it boosts the confidence in these markets (or companies). Additionally, it ensures responsibilities of both the board and management are well spelt out (Hulya, 2016). Compliance with legislation, together with fair judgment by management help in making good corporate decision and actions that benefit the business and other stakeholders. The result of a good corporate governance system is a stable corporate management together with an enhancement of the results to the shareholders and society in general (Mitton, 2004).

Studies by Phan (2013) and others agree that the key elements of corporate governance include; the structure and responsibilities of the board, pay, institutional directors' service roles, ownership by directors, enterprise freedom, membership accountability, institutionalized audit and links among shareholders together with financial reporting. Nations for example Germany, US and UK have formed and enacted governance models that address these elements. Formation of the World Governance Index (WGI) is evidence of interest by the World Bank in issues concerning corporate governance. The index made an assessment of the corporate governance performance of several nations based on the regulations, corruption and the rule of law (OECD, 2009).

1.1.2 Tax Planning

Vasanthi (2015) defines tax planning as the planning of an individuals' financial affairs without violating the law or as per the stipulated requirements. Complete privileges are to allow exemption of taxes, tax discounts, rebates, allowances, concessions, deductions, and other benefits or reliefs stipulated as per the Income Tax Act. The term tax planning is applied by taxpayers in the payment of the due taxes to tax agencies. This process entails elements such as the management of tax implications, understanding type of expenses subjective to tax under the current regulations, and effective planning of tax collection practices to ensure prompt payments. The application of the prevailing tax laws when handling tax related matters is a fundamental aspect with regard to tax (Desai & Dharmapala, 2009).

According to Loretz and Moore (2009), the competitive environment yields planning decisions, which are in line with the operational decisions of the firm. Needham (2013) noted that there are many methods employed for tax reduction purposes. For developed countries, the methods are well explained, although reliable and consistent data is not clearly available. For developing countries, these methods are not well understood. They consist of transfer pricing, profit shifting strategy intangibles' payments, shell holding companies, corporate debt equity, hybrid entities and tax rulings of specific companies.

According to several researchers, two procedures have been used to quantify tax planning. The first method is the book-tax difference (BTD) which is the difference between financial revenue and taxable revenue (Desai & Dharmapala, 2009). The second method is effective tax rate (ETR) which is the ratio of current income tax expense and income before tax (Bradshaw et al., 2013). The BTD measures both tax planning and earnings management while the ETR scheme only weighs tax planning. In this study, the focus will be on ETR which will represent tax planning as it has widely been used in operationalizing tax planning.

1.1.3 Corporate Governance and Tax Planning

A theoretical association exists between corporate governance and tax planning and has been explained by some theories such as the agency theory that predicts that tax planning is negatively influenced by corporate governance. For instance, Jensen and Meckling (1976) noted that the owners of the company can find comfort in the fact that the agents' actions will favor the owners provided that they are given appropriate incentives and they are appropriately monitored. The effect of this is that he role of the director is to monitor the actions of management who according to the stewardship theory has the fiduciary duty of making sure the interests of the shareholders are well guarded. Strict monitoring done by the shareholders will reduce the chances of earnings manipulation hence a negative impact of corporate governance on tax planning among companies.

Jesus and Emma (2013) noted that factors that negatively affect tax planning are insider shareholding, concentration of ownership, institutional investors, independence of the board and a greater number of board meetings. Family ownership, and size of board are positively related to earnings management. An existence of concentration of power (CEO duality) causes tax planning to increase while a nation with increased governance exhibits low tax planning practices (Bugshan, 2005). A study conducted among china's listed companies from 1999 to 2005recorded standard differences in tax planning methods among these firms (Liu and Lu 2007). The study results showed that companies with higher corporate governance levels had lower tax planning levels. Although the research findings could not explicitly exclude other explanations, it gave a strong suggestion that a notable portion of tax planning in China's listed firms could be explained by the conflicting interests between the controlling majority of the shareholders and the minority.

Marion et al. (2008) concluded that certain corporate governance practices limit tax planning. Such practices include the independent audit committee and independent-board requirements. The two practices have been linked to low performance adjusted discretionary accruals. Despite this, the conclusions of the empirical studies suggested that increase in executive shareholdings provides would provide an incentive to corporate tax planning. Jesus and Emma (2013) did an empirical test on the concentration of ownership and noted that after a certain point (35.1%) usage of tax planning increases. The empirical test also revealed that increased insider ownership reduces tax planning but after a certain point (14.1%) a reversal in the situation occurs together with an increase in manipulative practices by insiders.

1.1.4 Commercial and Service Firms Listed at the Nairobi Securities Exchange

The NSE which was instituted in 1954 and registered under the Companies Act in 1991, is an organized financial market where various securities of listed firms are issued, bought and sold by individual and institutions both local and foreign through the services of stockbrokers or dealers. The NSE is the fourth-largest in the sub-Saharan Africa's. It focuses in the exchange of securities issued by the Government and listed firms. It’s mandated to provide a trading platform for listed securities while at the same time overseeing its member. The NSE provides the main hub for trading in the secondary market. It provides a trading floor which though available, is not commonly in use after being replaced by the automated trading system. Through a wide area network, members trade at the comfort of their offices. The system is efficient, transparent and can handle large volumes of transactions at the same time (NSE, 2019).

Commercial and service sector refers to a category of enterprises that provide services to commercial and retail customers. There are currently 11 firms listed under this category namely: Express limited, Nation Media Group (NMG), Kenya Airways; Standard Group, TPS Eastern Africa, Scan Group, Uchumi Supermarket, Deacons, Sameer Africa, Longhorn Publishers and Nairobi business ventures (NSE, 2019). Commercial and service industry is important in growth and development of the Kenyan economy since it enables creation of employment opportunities, increasing the Gross Domestic Product (GDP) and proceeds from foreign exchange for the major period post-independence (UNCTAD, 2008). The contribution of these two sectors to the country's economy has been even larger, with a rise of 10 percent from 55 percent in 1980 to 65 per cent by 2006 in its share of total wage employment (CBK, 2014). The key contribution of the services segment to the Kenyan economy is very important to the trade balance. According to UNCTAD (2008), the annual export of services account for around 50% for period since 1980.

Commercial and service firms at the NSE are taxed differently since they also perform differently financially. Regardless of that, each firm has its own tax management practices and policies. In addition to that, the ownership structure of the various companies is diverse from state corporations, subsidiaries of foreign companies, local companies while others are privately owned but have sold some shares to the public including the government. The Tax Procedure Act, 2015, which came into operation on 19 January 2016, had the objectives to provision of uniform procedures for consistency and efficiency in organizing and implementing of tax laws, ensuring taxpayers comply with the regulations and effective and efficient collections of tax. The act, gives the KRA rights to reserve any person or company that appears to be structured for the purpose of evading taxation.

1.2 Research Problem

By separating ownership from control in public corporations conflicting interests between managers and shareholders are likely to arise (Berle & Means, 1932). A desirable structure of governance would assist in ensuring that resources of the firm would be utilized properly by management to benefit the absent owners and financial matters together with operational performance would be fairly presented in form of reports (Lin & Hwang, 2010). Following a series of high profile-corporations collapsing such as Enron and WorldCom in the US, Marconi in the UK and Royal Ahold in the Netherlands, a significant increase in the number of legislative requirements of corporate governance has been witnessed setting grounds for raised standards of corporate governance best practice (McConvill, 2005).

Commercial and service firms listed firms and other listed firms have faced a myriad of issues in the recent past that has brought about the debate on corporate governance practices among these firms. For example, the recently published massive losses and several court dispute cases of Kenya Airways and KenolKobil have shed a light on corporate governance issues (Mboka, 2017). Scandals involving poor corporate governance of the directors and managers have been reported in firms like Uchumi supermarkets, KenolKobil, the near collapse of Unga group, and the discovery of secret accounts by some CMC Motors directors (Madiavale, 2016). There is need to conduct a study on the commercial and service firms to investigate whether corporate governance has an effect on corporate tax planning.

Different empirical studies have been directed on how corporate governance impacts tax planning but the findings have been inconsistent, while some researchers find negative relationship (Lanis & Richardson, 2012) between the two; others report positive association (Lanis & Richardson, 2011; Chen et al., 2010). Consensus on how corporate governance practices affect tax planning has not been established. Some of the studies conducted only point out one aspect governance mechanism and several others overcame this shortcoming by having an aggregated governance score that incorporates many other elements of governance (Adjaoud & Ben-Mar, 2010). The resulting differences from these studies could be associated with development level of the capital markets in these economies.

In Kenya, studies on how tax planning and corporate governance relate have remained majorly unraveled empirically. In a nutshell, there has been paucity of research specifically focusing on listed firms in Kenya. Kariuki (2017) focused on how corporate tax planning affects financial performance of firms listed at the NSE while Aganyo (2014) focused on the effect of corporate tax planning on value of companies listed at the NSE. No efforts have been made on establishing whether corporate governance has an influence on corporate tax planning among listed firms which is the focus of the current study. Considering how corporate tax planning is a key issue in Kenya, and the mixed results from other studies outside Kenya, there is an existence of a gap the present study intended to bridge by examining; how does corporate governance affect tax planning among commercial and service firms listed at the NSE?

1.3 Research Objective

To determine how corporate governance influences tax planning of commercial and service firms listed at the NSE.

The specific objectives are:

i. To determine the effect of board size on tax planning of commercial and service firms listed at the NSE
ii. To establish the effect of board independence on tax planning of commercial and service firms listed at the NSE
iii. To establish effect of board meetings on tax planning of commercial and service firms listed at the NSE
iv. To determine the effect of profitability on tax planning of commercial and service firms listed at the NSE
v. To establish the effect of managerial ownership on tax planning of commercial and service firms listed at the NSE
vi. To establish effect of debt financing on tax planning of commercial and service firms listed at the NSE

1.4 Value of the Study

The study will enable a deeper comprehension into corporate governance theories and practices. The study will be an added contribution to the existing knowledge on how corporate governance affects corporate tax planning of firms and elaborate how these variables relate which will be beneficial to future research efforts. It will benefit Future researchers by enabling them to identify what has been studied and point out gaps that need further elaboration.

The study is beneficial to the commercial and service firms in understanding how corporate governance and tax planning are linked, which is essential to having a strong decision-making team with diverse opinions and capabilities needed to achieve financial success and to build trust among the stakeholders of a company. It is also important to private and public organizations that have implemented governance practices in Kenya because it provides them with knowledge on how to apply it in tax planning. It will also empower CEO’s and board directors of the private sector with knowledge and practices relating to corporate governance.

To the government and other policy makers, this study will be beneficial in aiding the formulation of policies and procedures that would steer commercial and service firms in adopting corporate governance mechanisms that would improve their efficiency which in turn will contribute to the sector performance. Understanding the link between tax planning and cooperate governance is expected to; demystify profit declaration and tax reporting by corporates, bring transparency in management of companies and enhance public confidence in public listed companies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter looks into theories that form the foundation of this study. In addition, previous research studies that have been done on this research topic and related areas are also discussed. The other sections of this chapter include determinants of tax planning, conceptual framework showing the association between study variables and a literature review summary.

2.2Theoretical Framework

This is a review of the relevant theories explains how corporate governance relates to tax planning. The theoretical reviews covered are agency theory, resource dependency theory and stewardship theory.

2.2.1 Agency Theory

This theory was established by Jensen and Meckling in (1976). The theory discusses agency relationship where a principal appoints agents to perform services on his behalf. Shareholders are usually represented by managers who act on their behalf with the key objective that is to maximize their wealth. This relation however is influenced by several factors. First, is the conflicting expectations of both the owners and the managers, the existence of information asymmetry amongst the principal and agent and the inability of the principal to ensure that agent acts in compliance to his/her wealth maximization goal(Jensen, 1986).

Therefore, these divergent behaviors of the agent results in to agency costs such as; allowances of board of directors who are appointed by the principal to oversight the actions of agent. The agency theory seeks to select a suitable corporate governance mechanism that seeks to regulate how the principal and agent relate in a way that ensures the alignment of the interests, thereby reducing the agency cost. However, there are problematic areas in endeavor of agency theory meeting its aim. The issue of risk aversion, moral hazard, earning retention and time horizon complicate the overall goal of the theory. For instance, the agent may make deliberate efforts to underperform contrary to the expectations of the terms of the contract (McOglan, 2001).

The theory support that corporate governance practices, are great tools in regulating the managerial interests (Zábojníková, 2016). According to the theory, some of the standards put in place to lower; this self-serving behavior of a manager is having a strong governance structure. Thus, in a bid to lower data asymmetry, there originates the essence of control structures like sub-boards having directors possessing skills such as independence, knowledge and exposure to safeguard from the self-centered goals of a given manager (Khalifa, 2018). The agency theory supports; the attributes of corporate governance are significant in managing, monitoring activity of agents, which is a strong contributor in aligning the interests of principals and agents.

2.2.2 Resource Dependency Theory

This theorem was authored by; Pfeffer (1973) and puts an emphasis on the role of boards in acquiring resources, rather than utilizing those resources. The theory posits that directors attempt to create a link between the organization and its other variables through co-opting the funds and assets required for survival (Siswanto & Fuad, 2017). RDT show how the other variables of a firm impact its features thus focusing on the co-reliance of companies with their extended surrounding. It looks to the major assumption that; a board does many duties including provision of the necessary assets, like work contracts, skills, exposure as well as professionalism (Amer, 2016).

Resource dependence theory as a management-based theory that focuses on a director's resource role covers some of the attributes of a board as well as the audit committees (Khalifa, 2018). The RDT indicates that the board plays a crucial role among the external resources and structure that is necessary to expound performance or presentation (Othman et al., 2014). The theory for instance posits that bigger committees are best suited since they carry along more exposure while still focusing on the external surroundings. However, it perceives the bigger committees as being a challenge in coordination of the members from the very close associations and arguments (Gurusamy, 2017).

RDT indicate that strong governance structures become the origin of sound advice and wisdom for a given board having the objective to harness the important assets to the company (Anis et al., 2017). The theory further argues that bigger boards are more ready to allocate increased assets and power to well give an output. Increased directors are a big source of varying opinions, exposure, education and knowledge to see to it efficient control (Madi, Ishak &Manaf, 2014). In this study, the RDT confirms that a board's provision of assets is heavily reliant upon its output financially, with these resources helping the firm reduce uncertainty and lower transaction costs, and ultimately aiding in the survival of the firm.

2.2.3 Stewardship Theory

It emanated from the scholarly works of Donaldson and Davis (1989) and suggests that these agents are working for the benefit of the shareholders as well as that of the organization, which is contrary to the theorem on agency that portrays agents to be self-interested as well as being individualistic (Bouaziz&Triki, 2012). It proposes that; the steward shall always perform their obligations with the interest of the owners in mind and thus eliminates the role of the board (Moses, 2019). It proposes that roles of executive agents are not those of a selfish opportunist. Rather, executive managers aim to perform a successful role as a good steward of corporate assets because of accountability (Othman et al., 2014).

It presumes assumes that; the agent is capable of combining all the interests of the different stakeholders and hence performing his responsibilities diligently to safeguard their assets and his decisions are to bring increased revenue for the owner in the long duration (Siswanto&Fuad, 2017). It goes ahead to acknowledge diverse non-financial benefits which encourage agents while influencing their decision making process. They are inclusive of; the requirement of being recognized and realization of a goal, approval for a good output and its extremely good operations, recognizing the authority as well as the work code of conduct (Amer, 2016). In this study, the stewardship theory suggests that; agents possess the same interests as the owners of the company, and as such, they have their careers being joined to the realization of the company’s aims, while their status are incorporated in its output as well as the benefits to the shareholders.

2.3 Determinants of Tax Planning

There are several determinants of tax planning by companies. These factors usually cut across almost all the sectors in the economy. They include corporate governance, firm size, managerial ownership, firm’s profitability and financial leverage. The factors are discussed as below.

2.3.1 Corporate Governance

A theoretical relationship between the two variables has been explained by theories such as; the agency theory predicts that corporate governance has a negative impact on tax planning. Jensen and Meckling (1976) noted that the owners of the company can find comfort in the fact that the agents' actions will favor the owners provided that they are given appropriate incentives and they are appropriately monitored. The effect of this is that the role of the director is to monitor the actions of management who according to the stewardship theory has the fiduciary duty of making sure the interests of the shareholders are well guarded. Strict monitoring done by the shareholders will reduce the chances of earnings manipulation hence a negative relationship between the two variables among companies.

Jesus and Emma (2013) noted that factors that negatively affect tax planning are insider shareholding, concentration of ownership, institutional investors, independence of the board, a greater number of board meetings. Family ownership and size of board are positively related to earnings management. An existence of concentration of power (CEO duality) causes tax planning to increase while a nation with increased governance exhibits low tax planning practices (Bugshan, 2005).

2.3.2 Financial Leverage

Managers sometimes practice tax management to avoid violating their debt covenants. Financial institutions may require assessing the tax practices of firms before giving them loans to determine their credit status. In past research, the impact of debt financing on tax planning is still a controversy. In one way, studies suggest that firms with high levels of debt are more likely to perform tax planning (Becker & Defond, 1998); (Sweeney, 1994) and (Watts & Mohrman, 1996). From the studies, there is evidence that high leveraged firms are positively associated with violating debt covenants in order to delay the default.

Contrary, Jensen (1986) argues that debt helps in reducing the opportunistic behavior of managers. Dechow and Richardson (2000) suggests that firms that have high accrual levels normally have low leverage. Likewise, managers of firms with high leverage are assumed to have low motivation to play around with earnings because their creditors are motivated by the debt services rather than accounting information.

2.3.3 Profitability

Accounting information published on the stock markets are highly relied on by the investors in the companies' evaluation. In that case, therefore, managers are encouraged to impact share costs (Degeorge et al. 2009). They are hence spurred to get to the required limits (Graham et al., 2005) especially when the accomplished profits are below the set target (Cornier et al., 2006). Managers are in most of the cases motivated to perform tax planning any time the result is close to zero in order to prevent losses. Consequently, the managers are motivated to manage taxes so that they can make the weakness invisible or less visible (DeAngelo et al., 2016).

Managers are motivated to increase earnings up to a certain point so that they can earn a bonus. According to Gaver et al., (1999) managers alter reported earnings so as to increase their compensation. Similarly, Khoshtinat and Khani (2003) in their findings, managers are willing to perform tax planning to get huge bonuses. This is because managers are promised to receive bonuses by the shareholders when the company perform well (Nurdiniah & Herlina, 2005). There exists a notable connection between profitability and tax planning.

2.3.4 Managerial Ownership

It is shown in a number of literatures that poor alignment between shareholders and management makes the managers to apply discretionary accruals especially particularly to hike compensation-based earning. According to Jensen (2014), it is assumed that the managerial discretion is increased by high stock valuation and that earning manipulation results to overvaluation process. The latter generate agency costs of over-valued equity. However, the managers' overconfident behavior hypotheses propose that managers do not intend to manipulate earnings (Roll, 2016; Malmendier & Tate, 2015).

A key differentiating feature between companies that are publicly owned and those that are privately owned is in management. There is little or no likelihood that public companies are managed by their owners. The reverse is true with private companies. Ownership in public companies is also dispersed and this brings about an increased demand for performance-linked pay for the management of public companies. A number of studies indicate that bonus contracts can be used as incentives to push for management of earnings (Fields et al., 2001). Several companies that are privately owned have external managers. A higher level of ownership in private companies by shareholders would increase the monitoring of management. The direct consequence of this would also be that such a move would render incentive contracts less useful.

2.4 Empirical Review

Research has been conducted both locally and internationally to support the relationship between corporate governance and tax planning, but these studies have yield contradicting results.

2.4.1 Global Studies

Jamei (2017) investigated how certain elements of corporate governance impacted tax avoidance among listed companies on the Tehran Exchange in the period between 2011 and 2015. In this instance the impact of corporate governance indices on tax avoidance was explored. A total of 104 listed companies were investigated. Analysis of the data collected was made using the Eviews software and to test the hypotheses, the multiple regression was used. According to the results, no notable relationship was established between number of board members, proportion of non-duty members, institutional ownership and tax avoidance. Additionally, no notable relationship was established between managerial ownership and tax avoidance. This study was conducted in a different context and therefore the findings cannot be generalized in the current context.

Putri et al., (2017) examined the effect of the characteristics of corporate governance on corporate tax planning among Indonesian listed firms. The contents of this paper included empirical studies together with a collection of data made through sampling procedures. The source of the secondary data was from the privatized governmental financial statement listed on the Indonesia Stock Exchange from 2011 to 2014. The results from the analysis showed that the proportion of independent board members did not yield an effect on the effective tax rate. Additionally, institutional investors had no impact on effective tax rates, and leverage yielded a positive impact on the effective tax rate. This study focused in a different context and therefore the findings cannot be generalized in the current context.

Salawu and Ededeji (2017) examined how corporate governance affects tax planning of non-financial listed Nigerian companies between 2004 and 2014. A selection of 50 companies was made covering a total of 10 sectors using the stratified sampling method. Analysis of data collected from audited accounts of the non-financial quoted companies in Nigeria and from Nigeria and Nigeria Stock Exchange Fact books. The data analysis was made using generalized method of moments. According to the results, effective tax rates had a positive and notable impact on firm value. The other variables such as leverage, liquidity, net working capital, growth opportunities and capital intensity showed a positive and notable impact on the firm value of the companies. This study treated corporate governance as a moderating variable while the current study treats it as the independent variable.

Dirk and Johanes (2017) did an analysis of how corporate governance impacts tax avoidance in Germany. A regression discontinuity design was used in a two-stage instrumental variable to utilize the extrinsic changes in the index membership around the DAX and MDAX threshold. They predicted that variations in corporate governance were because of the value-weighted composition of the market capitalization-based indexes. Their study results showed a notable discontinuity in the corporate governance characteristics level in the level at the cutoff. The largest MDAX firms showed stronger governance elements in comparison to the smallest DAX firms. Their analysis concluded that corporate governance characteristics have a drive-down effect on the effective tax rate for the DAX firms. This study used a different methodology and considered tax avoidance which is not synonymous to tax planning.

2.4.2 Local Studies

Mosota (2014) sought to establish how tax avoidance affects firms listed at the NSE fiscal performance. All the NSE’s 61 listed firms comprised the interest population.

The data comprised of the intangible assets of the firms, size, government shareholding, institutional shareholding and age. tax avoidance was depicted to positively impact the companies' fiscal performance. Moreover, company size contribute to the profitability of a company positively, companies' financial performance impacted negatively by leverage ratio, the performance of the firm is positively influenced by age while a positive relationship exists between the companies' fiscal performance and intangible assets. This study focused on different concepts compared to the ones adopted for the current study.

Iraya et al., (2015) sought to establish how corporate governance practices and earnings management for companies quoted at the NSE are related. A descriptive design was utilized. They selected a population consisting 49 companies that actively traded at the NSE between January 2010 and December 2012. The study used secondary quantitative data to analyze how corporate governance impacts earnings management. The data selected covered the period 2010 to 2012. From the study results, a unit increase in ownership concentration caused the level of earnings management to decline. A further unit increase subsequently caused the earnings management level to drop further. Additionally, a unit increase in board size will cause earnings management to decrease, a unit increase in board independence result to a drop in earnings management, a unit increase in board activity will cause a rise in earnings management and a unit increase in CEO duality will further increase the earnings management level. This study differs from the current study as it focused on earnings management while the current study focuses on tax planning.

Jerubet, Chepng'eno and Tenai (2017) studied the impact of board attributes on the quality of presenting financial information for organizations registered with NSE using an explanatory research structure. It gathered tertiary information of 46 firms from 2012 to 2014. Through regression analysis, the study found; size had a strong impact on the quality of presenting financial information and that its independence bore an adverse and significant impact upon the quality of presenting financial information. This study did not consider the influence of governance structures on tax planning.

Kariuki (2017) undertook a study to ascertain corporate tax planning effect on financial performance of Kenya's listed companies. All the NSE's 61 listed firms comprised the study population. A 5 years period on an annual basis (January 2012 to December 2016) was used to collect Secondary data. A descriptive cross-sectional design was employed by the study while analysis for the relationship between the variables was done using multiple linear regression model. The results revealed that corporate tax planning and liquidity produced values that were statistically substantial and positive for the study. Leverage produced values that were statistically substantial but negative while firm size was found to be insignificant statistically determinant of financial performance of Kenyan listed companies. This study looked at tax planning as the independent variable while the current study looks at it as the dependent variable.

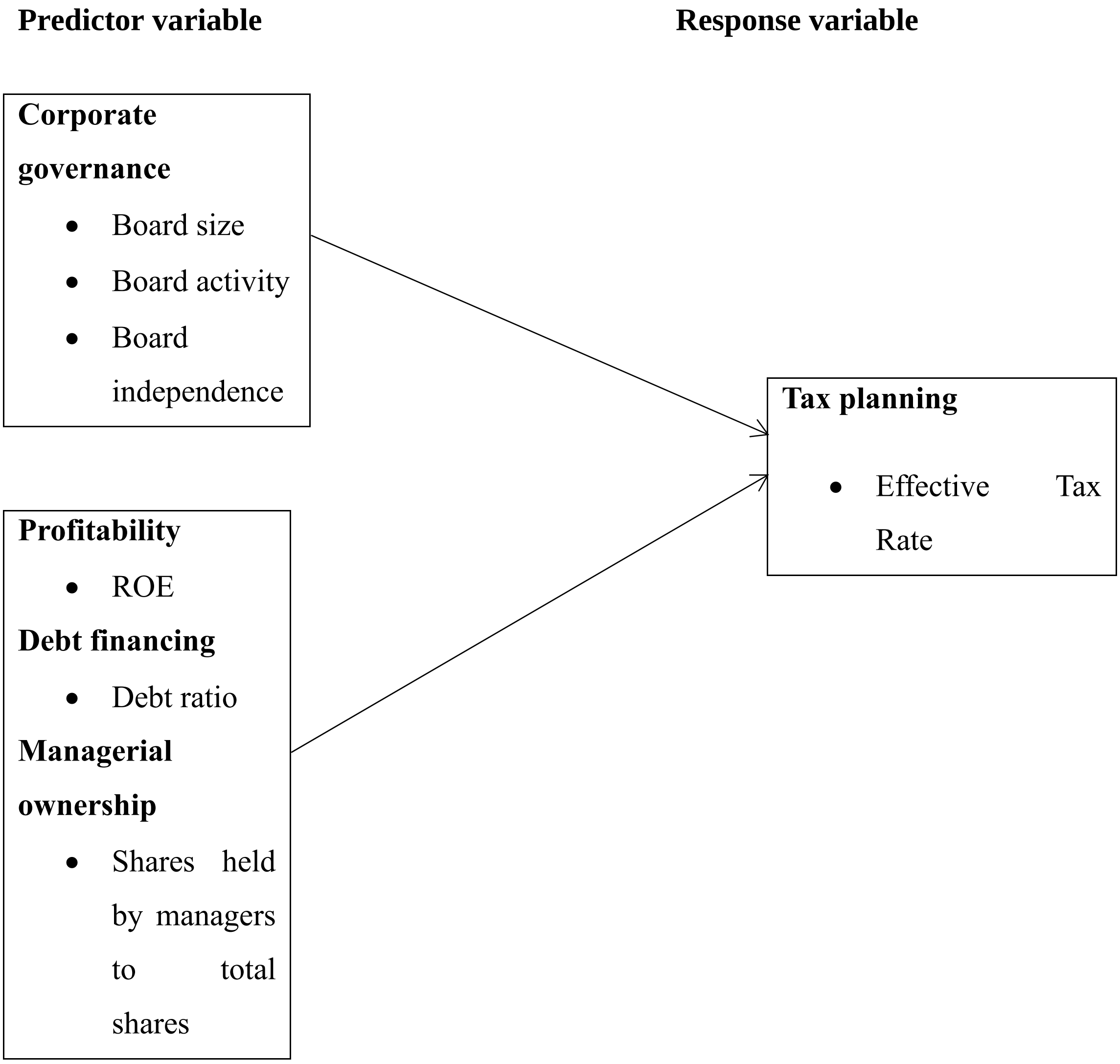
Were (2018) sought to establish the how corporate governance affects earnings management of the quoted firms at the NSE. The population of the study was all the 64 firms quoted at the NSE as at 31st December 2017. The descriptive cross-sectional research design was employed. The results revealed that board independence and board activity produced negative and statistically significant values for this study while firm size produced positive and statistically significant values for this study.

Board size and ownership characteristics were found to be non-statistically significant determinants of earnings management of firms at the NSE listing. This study considered influence of corporate governance on earnings management while the current study considers the effect of corporate governance on tax planning.

2.5 Conceptual Framework

The conceptual model below portrays the expected association between the study variables. The independent variable for the study were corporate governance with three measures. The board's size was given by the number of board members. Board activity will be the natural logarithm of the number of meetings held annually and board independence given by the quotient of the non-executive directors to the board of directors' number. The control variables were financial leverage, profitability and managerial ownership. Tax planning was the predictor variable that the study sought to explain and it was given by the effective tax rate.

Figure 2.1: The Conceptual Model



Control Variables

Source: Researcher (2019)

2.6 Summary of the Literature Review

A number of theories have explained the theoretically expected impact that corporate governance has on tax planning. The theories covered in this review are; agency theory, resource dependency theory and stewardship theory. Some of the key influencers of tax planning have also been explored in this section. A number of empirical studies have been conducted both internationally and locally on these two variables. The findings of these studies have also been explored in this chapter. From empirical review, it is evident that very few studies if any have focused on corporate governance and tax planning of commercial and service firms listed at the NSE. Therefore, this research sought to answer the following question: How does corporate governance influence tax planning of commercial and service firms listed at the NSE

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

In order to determine how corporate governance affects tax planning, a research methodology was necessary to outline how the research was carried out. This chapter has four sections namely; research design, data collection, diagnostic tests as well as data analysis.

3.2 Research Design

A research design is described as the method that is procedurally used by the researcher and that which enables the researcher to answer questions accurately, validly, objectively, and economically (Khan, 2008). The study employed a descriptive cross-sectional design to investigate how CG affects tax planning of firms. The researcher sought to find out the state of affairs, as they exist. The appropriateness of this design lies in the fact that the researcher is accustomed to the phenomenon that is being investigated but seeks to know more with respect to the nature of associations between the study variables. In addition, a descriptive research aims at providing a valid and accurate representation of the study variables and this helps in responding to the research question (Cooper & Schindler, 2008).

3.3 Population

According to Burns and Burns, (2008), a population is the sum of all observations made in reference to particular collection such people or events as described by an investigator (Burns & Burns, 2008). The population was the entire 11 listed commercial and service firms as at 31st December 2018 (see appendix I).

3.4 Data Collection

The source of secondary data was the published annual financial reports of the commercial and service firms listed at the NSE between January 2014 and December 2018 and captured in a data collection sheet. The reports were obtained from the CMA and individual firms annual reports. The end result was annual information on the predictor and the response variables for the 11 commercial and service firms quoted at the NSE.

3.5 Diagnostic Tests

The study undertook several diagnostics test to assess the applicability of the research structure. The study first assessed for normality, which through the Kolmogorov-Smirnov and Shapiro-Wilk tests of the residuals where in both tests, a non-important result (a p factor of greater than 5%) was deemed an indication for normality. The study was also assessed for Multicollinearity using the tolerance and the Variance Inflation Factors (VIF) where a tolerance figure of greater than 0.2 or a VIF or more than 10 was an indication of the presence of Multicollinearity. Additionally, the study assessed for serial correlation (autocorrelation) using the Durbin Watson test where a value of between 1.5 and 2.5 indicated that there exists no auto-correlation.

3.6 Data Analysis

The SPSS software version 23 was used in the analysis of the data. The researcher quantitatively presented the findings using graphs and tables. Descriptive statistics were employed to give a summary and an explanation of the variables of the study as observed among the firms. The results were presented using frequencies, percentages, measures of central tendencies and dispersion displayed in tables. Inferential statistics included Pearson correlation, multiple regressions, ANOVA and coefficient of determination.

3.6.1 Analytical Model

The regression model below was used:

$$Y= \alpha+ \beta_1X_1+\beta_2X_2+\beta_3X_3+ \beta_4X_4+ \beta_5X_5 + \beta_6X_6 +\varepsilon.$$

Where: Y = Tax planning as measured by effective tax rate which is current income tax expense divided by profit before tax on an annual basis. This has been used before in literature such as (Desai & Dharmapala, 2009). The effective tax rate varies from firm to firm and year to year based on the tax planning measures adopted

α =y intercept of the regression equation

β_1, β_2, β_3, β_4, β_5, β_6 =are the slope of the regression

X_1 = Board size given by the natural log of the total number of board members.

X_2= Board independence as measured by proportion of the non-executive directors in proportion to the total number of directors

X_3= Board activity as measured by the natural logarithm of the number of meetings held in an year

X_4= Profitability as measured by return on equity on an annual basis.

X_5= Financial leverage given by the ratio of total debt to total assets on an annual basis

X_6= Managerial ownership as given by proportion of common shares the management holds divided by cumulative common shares in issue

ε =error term

3.6.2 Tests of Significance

The researcher carried out parametric tests to establish the statistical significance of both the overall model and individual parameters. The F-test was used to determine how significant the model is in the study and this was obtained from Analysis of Variance (ANOVA) while a t-test was used to establish statistical significance of individual variables.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter aims to present analysis of collected data from the organizations' yearly reports to establish how corporate governance impacted corporate tax planning. Using descriptive statistics, correlation and regression analyses, findings were illustrated on tables as illustrated in the subsequent sections.

4.2 Response Rate

The 11 listed commercial and service firms at the NSE were the target population for the current research. Data obtained from the 11 firms meant that the response rate was at 100%. The researcher successfully acquired secondary data on corporate governance, managerial ownership, profitability, debt financing and corporate tax planning of the firms.

4.3 Descriptive Analysis

Measures of central tendency and dispersion statistics were used. Central tendency measured the extent to which the data on each variable were concentrated at a central point while dispersion measured the degree to which the data were spread out from the convergent point. The central tendency was measured by the mean while dispersion was measured by the standard deviation. The analysis was extracted from SPSS software for 5 years (2014 - 2018) for all the 11 firms in this study. The table below shows Minimum, Maximum, mean and standard deviation.

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tax planning	54	-.3634	2.9946	.237241	.4296296
Board size	54	4.000	18.000	9.37037	3.487424
Board Independence	54	.6250	.9091	.811776	.0848093
Board meetings	54	3.0000	8.0000	4.444444	1.0400774
Profitability	54	-3.9711	2.5167	-.083704	1.4002116
Debt financing	54	.0000	.8980	.232552	.2279455
Managerial ownership	54	.0020	8.7700	2.069370	2.1408349
Valid N (listwise)	54				

Source: Research Findings (2019)

4.4 Diagnostic Tests

Linear regression assumes insignificant Multicollinearity between pairs of variables. The data on corporate governance, managerial ownership, profitability and debt financing were tested for significant Multicollinearity. Variance inflation factors (VIFs) were used in this diagnosis. Table 4.2 shows the VIF test results.

According to Sapsford (2007) Multicollinearity is characteristic in data that cannot be eliminated completely but only ought to be as low as possible. According to Cooper and Schindler (2006) VIF values above 10.0 demonstrate significant Multicollinearity between pairs of variables. Table 4.2 shows that the variance inflation factors were 1.356, 1.382, 1.434, 1.982, 1.422 and 1.398 for board size, independence, meetings of the board, profitability, debt financing and managerial ownership respectively. This shows that there was no significant Multicollinearity in the variants since none of them was above 10.0.

Table 4.2: Multicollinearity Test for Tolerance and VIF

	Collinearity Statistics	
Variable	**Tolerance**	**VIF**
Board size	0.352	2.841
Board independence	0.360	2.778
Board meetings	0.646	2.513
Profitability	0.398	2.513
Managerial ownership	0.388	2.577
Debt financing	0.376	2.659

Source: Research Findings (2019)

Linear regression assumes that data was normally distributed. Two tests were used. The secondary data was not normal was the null hypothesis for the test. The researcher would reject it if the p-value recorded was greater than 0.05. Shown in table 4.3 are the results of the test.

Table 4.3: Normality Test

Corporate tax	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
planning	Statistic	Df	Sig.	Statistic	Df	Sig.
Board size	.178	54	.300	.881	54	.723
Board independence	.173	54	.300	.918	54	.822
Board meetings	.173	54	.300	.918	54	.822
Profitability	.175	54	.300	.874	54	.812
Managerial ownership	.174	54	.300	.913	54	.789
Debt financing	.176	54	.300	.892	54	.784

a. Lilliefors Significance Correction

Source: Research Findings (2019)

Both Shapiro-Wilk and Kolmogorov-Smirnova tests revealed that the research data was normally distributed by recording o-values more than 0.05 and hence rejecting the alternative hypothesis. The data was consequently considered fit to be used in conducting parametric tests like Pearson's correlation, regression analysis and ANOVA.

Autocorrelation exists where variable measures are influenced by its historical values which makes modeling complex. Autocorrelation is equally referred to as first order serial correlation. In this work, the Durbin Watson test was used to test autocorrelation. A durbin-watson statistic of 1.813 was within the acceptable range between 1.5 and 2.5 implied that the variable residuals were not serially related

Table 4.4: Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.778[a]	.605	.555	.2866529	1.813

a. Predictors: (Constant), Managerial ownership, Board Independence, Board meetings, Debt financing, Board size, Profitability
b. Dependent Variable: Tax planning

Source: Research Findings (2019)

4.5 Correlation Analysis

Correlation analysis measures the existing relations between the variants. It undertakes a Pearson correlation that measures the linear relationship of variants. Correlation of 1 showed a perfect positive correlation while of 0 or value close to zero shows no relationship or weak relationship respectively. -1 value, shows a negative perfect relationship and values close to it have strong negative relationship. The table 4.5 showed value of Pearson correlations for the variants.

As per the table, our interest is on how predictor variables relates to the response variant. The correlation of board size against corporate tax planning ratio is -0.0593 implying that board size exhibits a negative relation with corporate tax planning. The association is however not substantial. The independence of the board had a negative correlation with corporate tax planning. It showed that the more independent the board was, the less the corporate tax planning is. The association is however not significant. Board meetings exhibited negative and not significant association with corporate tax planning as shown by -0.063 and a p value greater than 0.05.

Profitability and managerial ownership showed a negative and significant association with corporate tax planning among commercial and service firms as evidenced by negative correlation coefficients and p values less than 0.05. Debt financing exhibited a positive relation with corporate tax planning as shown by 0.392. The correlation results further reveal that although the independent variables are related with one another, the association is not strong enough to show Multicollinearity.

Table 4.5: Correlation Analysis

		Tax planning	Board size	Board Independence	Board meetings	Profitability	Debt financing	Managerial ownership
Tax planning	Pearson Correlation	1						
	Sig. (2-tailed)							
Board size	Pearson Correlation	-.093	1					
	Sig. (2-tailed)	.502						
Board Independence	Pearson Correlation	-.041	.207	1				
	Sig. (2-tailed)	.770	.133					
Board meetings	Pearson Correlation	-.063	.032	-.098	1			
	Sig. (2-tailed)	.653	.819	.481				
Profitability	Pearson Correlation	-.748**	.019	-.036	.050	1		
	Sig. (2-tailed)	.000	.890	.795	.718			
Debt financing	Pearson Correlation	.392**	-.132	-.124	.233	-.316*	1	
	Sig. (2-tailed)	.003	.341	.372	.090	.020		
Managerial ownership	Pearson Correlation	-.526**	-.223	.044	.060	.516**	-.097	1
	Sig. (2-tailed)	.000	.106	.755	.669	.000	.484	

**. Correlation is substantial at the 0.01 level (2-tailed).
*. Correlation is substantial at the 0.05 level (2-tailed).
c. Listwise N=54

Source: Research Findings (2019)

4.6 Regression Analysis

So as to show how corporate governance related to the corporate tax planning of commercial and service firms listed at the NSE, the below model was employed.

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon$

A regression analysis was undertaken that had findings as stipulated below.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.778[a]	.605	.555	.2866529	1.813

a. Predictors: (Constant), Managerial ownership, Board Independence, Board meetings, Debt financing, Board size, Profitability
b. Dependent Variable: Tax planning

Source: Research Findings (2019)

In the model summary table, coefficient of determination that is denoted by R squared is given by 0.605. It shows the strength in which the model is able to forecast the dependent variable. The value indicates that 60.5% of the variations can be described in the model. The other 39.5% can only be described by other factors that are not present

Table 4.7: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5.921	6	.987	12.009	.000[b]
	Residual	3.862	47	.082		
	Total	9.783	53			

a. Dependent Variable: Tax planning
b. Predictors: (Constant), Managerial ownership, Board Independence, Board meetings, Debt financing, Board size, Profitability

Source: Research Findings (2019)

This model is established by matching the p value with the alpha value. The model is said to be insignificant when the value of P is higher than that of the alpha while the vice versa is true. The regression analysis is undertaken at 95 degrees of freedom which means the alpha value is 0.05. According to the table, p is shown as 0.000 that shows that it is less than the alpha value. We therefore conclude that the relationship between the constant variants and payout of dividends of firms listed is important.

To determine whether or not to reject the alternative hypothesis we compare the F statistic and the calculated value of F as shown in the table 4.7, if the calculated value is higher than existing, it will be rejected. According to the topic under study, the null hypothesis states that there is no effect of the selected independent variables on corporate tax planning of commercial and service firms listed. Calculated F value is 12.009 while the F statistic at an alpha of 0.05 and 6, and 54 degrees of freedom is 3.28. The value is greater which means we reject the null hypothesis. We therefore conclude that there is a substantial effect of selected variables on the tax planning of commercial and service firms.

Table 4.8: Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.485	.435		1.117	.270
	Board size	.001	.013	.006	.054	.957
	Board Independence	-.362	.500	-.071	-.724	.473
	Board meetings	-.030	.039	-.072	-.757	.453
	Profitability	-.267	.059	-.869	-4.528	.000
	Debt financing	.274	.200	.146	1.369	.177
	Managerial ownership	-.041	.038	-.206	-1.098	.278

a. Dependent Variable: Tax planning

Source: Research Findings (2019)

The coefficients β0 and β1 are given by; 0.485 and -0.267 respectively. The model therefore becomes

$Y = 0.485 - 0.267X_1$

Where,

Y = Corporate tax planning

X_1= Profitability

This model may therefore shows effect of any of independent variants on the corporate tax planning, when a variable is increased by 1 unit and all other variables are kept constant.

4.7 Discussion of Research Findings

The study undertook a linear regression model on data collected in determining how corporate tax planning of commercial and service organizations listed is influenced by corporate governance. Diagnostic test were first conducted on the data in order to determine presence of collinearity or presence of residuals in autocorrelations. Collinearity test undertaken showed that all variables had VIF values of less than 10 and therefore there was no collinearity among the variables. The Durbin Watson value was 1.813, less than 2.5 and therefore there were no residuals or autocorrelations that would imply error in the model.

There was 100% response rate and was enough for obtaining conclusions from findings of data. Pearson correlation indicated that although the three measures of corporate governance had a negative correlation with corporate tax planning, the association was not statistically significant. This meant that the stronger the governance structure, the more the corporate tax planning but this association is not statistically significant. Profitability and managerial ownership exhibited a negative and significant association with corporate tax planning of commercial and service firms listed at the NSE as evidenced by negative correlation coefficients and p values less than 0.05. Debt financing exhibited a positive association with corporate tax planning as shown by 0.392. The association is significant as shown by p value less than 0.05.

Regression analysis undertaken discovered that the model would predict 60.5% of variations in corporate tax planning of the firms. The other 39.5% however would be as a result of factors not in this model. The analysis showed that p value was less than the alpha value and therefore the relationship was significant. The calculated value of F was higher than F statistic leading to a rejection of the null hypothesis to be rejected. In conclusion the findings of the study were that there is a significant effect of the selected independent variables on corporate tax planning of commercial and service firms listed at the NSE.

The findings of the study support a study done by Putri et al., (2017) who examined the effect of the characteristics of corporate governance on corporate tax planning among Indonesian listed firms. The contents of this paper included empirical studies together with a collection of data made through sampling procedures. The source of the secondary data was from the privatized governmental financial statement listed on the Indonesia Stock Exchange from 2011 to 2014. The regression results showed that the proportion of independent board members did not yield an effect on the effective tax rate. Additionally, institutional investors had no impact on effective tax rates, and leverage yielded a positive impact on the effective tax rate.

The findings are also in agreement with Jamei (2017) who investigated how certain elements of corporate governance impacted tax avoidance among listed companies on the Tehran Exchange in the period between 2011 and 2015. In this instance the impact of governance indices on tax avoidance was explored. A sample of 104 companies listed on the stock exchange was selected. Analysis of the data collected was made using the Eviews software and to test the hypotheses, the multiple regression was used. According to the results, no notable relationship was established between number of board members, proportion of non-duty members, institutional ownership and tax avoidance. Additionally, no notable relationship was established between managerial ownership and tax avoidance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter 5 presents results from previous chapter, it conclusions, limitations encountered during study. It also recommends policies that policy makers can use to improve the expectations of firms at the NSE in regards to achievement of superior corporate tax planning. Additionally, the chapter gives recommendations for future study.

5.2 Summary

The objective of this study was to establish the influence of CG on corporate tax planning among commercial and service firms listed at the NSE. Corporate governance was operationalized in terms of board size, independence and number of board meetings while corporate tax planning was measured using the effective tax rate. From the results of regression, although the three measures of corporate governance had a negative influence on corporate governance, the influence was not statistically significant.

Other predictor variants in the model were profitability, managerial ownership and debts financing that were the control variables. Profitability had a substantial effect on corporate tax planning implying that profitable commercial and service firms are less likely to engage in corporate tax planning. Managerial ownership was also found to have a negative influence on commercial and service firms tax planning but the influence was not statistically significant while debt financing was found to have a positive but not statistically significant influence on corporate tax planning of commercial and service firms.

The study showed that the p value was below the alpha value of 0.05 at 0.000 implying that the overall model was statistically significant. The F statistic was also less than the calculated value of F at 12.009 as the critical F value was at 3.28. The results were applied to determine the significance of the relationship between the variables and whether or not to reject or accept the null hypothesis.

5.3 Conclusion

From the study, it can be concluded that although corporate governance has a negative effect on corporate tax planning, the effect is not statistically significant. Although board size, board independence and number of meetings held had a negative effect on corporate tax planning of commercial and service firms, the effect is not substantial and therefore cannot be used to influence corporate tax planning of organizations listed.

Regression model had a coefficient of determination (R Squared) of 60.5%, which means that the model could explain up to 60.5% of the variations of tax planning among listed commercial and service firms. Other variations in corporate tax planning represented by 39.5% are elaborated by outside factors. The model was substantial and we can therefore conclude that this model is fairly good in predicting corporate tax planning of listed commercial and service firms.

Profitability had a significant negative influence on corporate tax planning which shows that the more profitable a firm is, the less likely it is to conduct corporate tax planning and vice versa. Debt financing had a positive correlation with the payment showing that firms with more debt financing practice corporate tax planning more but this relationship was not statistically significant. Managerial ownership exhibited negative but not statistically significant influence on tax planning of firms.

This study is in agreement with Jamei (2017) who investigated how certain elements of corporate governance impacted tax avoidance among listed companies on the Tehran Exchange in the period between 2011 and 2015. In this instance the impact of governance indices on tax avoidance was explored. A sample of 104 companies was selected. Analysis of the data collected was made using the Eviews software and to test the hypotheses, the multiple regression was used. According to the results, no notable relationship was established between number of board members, proportion of non-duty members, institutional ownership and tax avoidance. Additionally, no notable relationship was established between managerial ownership and tax avoidance.

5.4 Recommendations

The study revealed that corporate tax planning is not influenced by corporate governance structures. This implies that commercial and service firms with strong corporate governance structures do not on average practice less corporate tax planning than firms with weaker governance structures. Therefore, the study recommends that policy makers should focus on other factors that influence corporate tax planning other than corporate governance as this has been evidenced to have an insignificant influence.

The findings of the study also showed that profitability has a negative and significant influence on corporate tax planning implying that the more profitable a firm is, the less likely it is to engage in corporate tax planning. The study recommends that a comprehensive assessment of listed commercial and service firm’s profitability should be undertaken to ensure the company is operating at sufficient levels of profitability as this will have a significant influence on corporate tax planning. I

The study also established the existence of negative relationships between managerial ownership and corporate tax planning. Thus, an increase in managerial ownership would on average result to a decline in corporate tax planning of commercial and service firms listed at the NSE. This study recommends that policy makers and shareholders should consider giving shares to managers as this would reduce incidences of tax planning.

5.5 Limitations of the Study

The period selected in this study was 5 years that is from 2014-2018. There is no proof that similar results will remain the same in future. More time would prove more reliable since it will include cases of major economic changes like recessions and booms.

The most significant limitation for this study was the quality of the data. It cannot be concluded with accuracy from this study that the findings are a true representation of the situation at hand. An assumption has been made that the data used in the study is accurate. Additionally, a lot of inconsistency in the measurement of the data was experienced due to the prevailing conditions. The study utilized secondary data contrast to primary information. It took into of commercial and service firms and not all factors because of the limit imposed by data availability.

To complete the analysis of the data, multiple linear regression model was used. Because of the limitations involved when using the model like erroneous and misleading results resulting from a change in variable value, it would be impossible for the researcher to generalize the findings with accuracy. In case of an addition of data to the functional regression model, the model may not perform as per the previous.

5.6 Suggestions for Future Research

Present study focused on CG and tax planning among listed commercial and service firms by relying on secondary data. A similar study that is based on primary data collected with tools such as detailed interviews and questionnaires conducted on all 11 commercial and service firms would be more appropriate in complimenting this research.

This study did not exhaust all the predictor variants affecting commercial and service organizations and therefore gives a recommendation that future studies be based on other variables such as age of the firm, growth opportunities, industry practices, political stability or any other macro-economic variable. Policy makers should be able to implement an appropriate tool to control corporate tax planning of these firms.

The study utilized data from recent five years since it was readily available. Subsequent studies may use a longer range of years like 10 years or 20 years which can be useful in complementing or disapproving the results. Other limitations are that it focused only on commercial and service firms. It is recommended that further studies focus equally on other institutions listed at the NSE. Lastly, due to the limitations of the regression models, further studies should adopt a different model in explaining the relationship between the variables for example use Vector Error Correction Model (VECM).

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APPENDICES

Appendix I: Commercial and Service Firms Listed at the NSE

1. Atlas Development and Support Services
2. Express Ltd
3. Kenya Airways Ltd
4. Longhorn Kenya Ltd
5. Nation Media Group
6. Scangroup Ltd
7. Standard Group Ltd
8. TPS Eastern, Africa (Serena) Ltd
9. Uchumi Supermarket Ltd
10. Deacons (East Africa)
11. Nairobi Business Ventures

Appendix II: Research Data Collection

Company	Year	Tax planning	Board size	Board Independence	Board meetings	Profitability	Debt financing	Managerial ownership
Express	2018	0.0780	4.000	0.7500	4.0000	-0.4419	0.8165	2.3400
	2017	0.0421	4.000	0.7500	4.0000	-0.5320	0.5144	2.2100
	2016	0.1347	5.000	0.8000	4.0000	-0.6320	0.5295	2.1100
	2015	0.2068	5.000	0.8000	4.0000	-0.4273	0.4197	1.9800
	2014	-0.0113	5.000	0.8000	4.0000	-0.4589	0.2391	1.8600
TPS	2018	0.2647	11.000	0.9091	3.0000	1.3364	0.2689	2.3400
	2017	0.5418	12.000	0.8333	4.0000	1.4313	0.2560	2.3400
	2016	0.6024	11.000	0.8182	6.0000	1.7857	0.2181	2.3200
	2015	-0.3301	11.000	0.8182	6.0000	-1.1581	0.1629	2.2800
	2014	-0.2468	13.000	0.8462	4.0000	1.2082	0.1247	2.3900
Scan Group	2018	0.3622	9.000	0.8889	4.0000	2.2212	0.0348	0.0940
	2017	0.3137	8.000	0.8750	4.0000	1.8382	0.0000	0.0870
	2016	0.3658	8.000	0.8750	4.0000	1.9161	0.0000	0.0980
	2015	0.4531	8.000	0.8750	4.0000	2.3102	0.0141	0.1020
	2014	0.3144	7.000	0.7143	4.0000	2.4079	0.0221	0.1090
Longhorn Publishers Limited	2018	0.3278	11.000	0.7273	4.0000	1.0026	0.2429	1.3200
	2017	0.2527	9.000	0.8889	4.0000	0.6576	0.1798	1.2800
	2016	0.2528	9.000	0.8889	4.0000	0.5112	0.2554	1.2700
	2015	0.2599	8.000	0.8750	4.0000	0.6627	0.0605	1.3400
	2014	0.3552	8.000	0.8750	4.0000	2.5167	0.0000	1.2900
KQ	2018	0.0040	13.000	0.8462	8.0000	-1.3029	0.6042	0.8730
	2017	-0.0005	11.000	0.8182	4.0000	-1.3635	0.6121	0.8770
	2016	-0.0048	13.000	0.8462	4.0000	-3.4882	0.8980	0.8920
	2015	0.1336	13.000	0.8462	5.0000	-3.9711	0.8117	0.8750
	2014	0.3043	13.000	0.8462	5.0000	-0.6497	0.5988	0.8390
Nation Media	2018	0.3162	18.000	0.8333	4.0000	0.0035	0.0000	3.4200
	2017	0.3293	18.000	0.8333	4.0000	0.0041	0.0000	3.4500
	2016	0.3134	18.000	0.8333	4.0000	0.0052	0.0000	3.7600
	2015	0.2127	17.000	0.8824	4.0000	0.0060	0.0030	3.8900
	2014	0.3215	17.000	0.8824	4.0000	0.0077	0.0057	3.9500
Standard Group	2018	0.3422	9.000	0.8889	6.0000	0.9720	0.2672	1.7600
	2017	0.2528	9.000	0.8889	8.0000	-0.6905	0.2726	1.7400
	2016	0.2633	8.000	0.6250	7.0000	0.6594	0.2747	1.6800

Company	Year	Tax planning	Board size	Board Independence	Board meetings	Profitability	Debt financing	Managerial ownership
	2015	0.2683	8.000	0.6250	7.0000	-0.9685	0.3414	1.7400
	2014	0.3237	8.000	0.6250	4.0000	0.7979	0.2206	1.6800
Sameer	2018	-0.0078	8.000	0.8750	4.0000	-0.4932	0.3769	1.5600
	2017	0.2325	8.000	0.8750	4.0000	0.0752	0.1996	1.5400
	2016	-0.3634	8.000	0.8750	4.0000	0.4558	0.2519	1.6200
	2015	2.9946	8.000	0.6250	4.0000	0.0057	0.1449	1.5700
	2014	0.2024	6.000	0.8333	4.0000	-0.0769	0.0000	1.6100
Atlas Developmnt	2018	0.3306	9.000	0.6667	4.0000	-0.7944	0.0225	0.0020
	2017	-0.0680	9.000	0.6667	4.0000	1.1864	0.0058	0.0020
	2016	0.2153	9.000	0.6667	4.0000	-1.0427	0.4094	0.0020
	2015	-0.1281	9.000	0.6667	4.0000	-0.7686	0.2166	0.0020
	2014	0.2840	9.000	0.6667	4.0000	-1.1810	0.3170	0.0020
Uchumi	2017	0.0000	9.000	0.8889	4.000	-1.1579	0.0000	1.6800
	2016	-0.0466	9.000	0.8889	4.000	-1.8852	0.0723	1.7200
	2015	0.0545	9.000	0.8889	4.000	-2.2781	0.0415	1.6900
	2014	0.1582	7.000	0.8571	4.000	0.3261	0.1184	1.6800
Deacons (East Africa) PLC	2018	0.2724	6.000	0.8333	4.000	-1.3462	0.0786	1.7100
	2017	-0.0221	6.000	0.8333	4.000	-2.6650	0.3178	8.7200
	2016	0.2823	6.000	0.8333	5.000	-1.2466	0.1621	8.7700
	2015	0.1967	6.000	0.8333	5.000	0.1458	0.2634	8.5200
	2014	0.3036	6.000	0.8333	5.000	0.0436	0.2897	8.7600