

**THE RELATIONSHIP BETWEEN OWNERSHIP STRUCTURE AND
TAX AVOIDANCE OF COMPANIES LISTED AT THE NAIROBI
SECURITIES EXCHANGE**

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D61/61222/2013**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

OCTOBER 2014

DECLARATION

This research project is my original work and has not been submitted for examination in any other University.

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ACKNOWLEDGEMENTS

My appreciation goes to the many people who in different and varied ways helped me in the development and completion of this project.

My special thanks go to my supervisor, Mr Herick Ondigo, Chairman of the Department of Finance and Accounting, who so generously and tirelessly gave his time and energy and professionally contributed to the development and completion of this project.

I owe a great deal of gratitude to my family members for their unfailing moral support throughout my period of study and for understanding and appreciating the demand of the course in terms of time and resources. It is my hope that their sacrifice has finally paid off.

I'm also grateful to my colleague and classmate Joash Ratemo for encouraging me and running the race with me from the start to the end.

To all other people who in one way or another assisted me or contributed to the development and completion of this project, your willingness to help is itself inspirational. To you all, I am deeply and sincerely grateful.

DEDICATION

I dedicate this research project to my family members. To my dad, Everest Otieno, you did not labor in vain. To my mother, Damarys Otieno your teachings and ceaseless support is always cherished. To my daughters Yna and Yvette you are the pillar that I will always lean on, this project would not have been successfully completed without your enormous support, love and patience.

ABSTRACT

Taxes are a significant cost to a firm. Therefore, tax avoidance is beneficial to shareholders (Chen, Chen, Cheng and Shevlin 2010). However, in state owned enterprises (SOEs), taxes are an implicit dividend to the controlling shareholder. Thus, less tax avoidance actually benefits the controlling shareholder. Ownership structure may therefore affect the level of tax avoidance. Further, a recent report by the KRA claims that most of the multinational firms in Kenya, some of which are listed at the NSE, collude with the large accounting firms in Kenya to avoid paying some taxes (Irungu, 2013). Thus, tax avoidance is a subject of interest for this study given the claims by the KRA. This study examined whether variation in firms' corporate governance mechanisms, more specifically the ownership structure, explains differences in their level of tax avoidance in Kenya. The study aimed at establishing the relationship between ownership structure and tax avoidance of companies listed at the Nairobi Securities Exchange. In order to do this, the research was designed as a descriptive study where relationships were tested. The population comprised of all the 61 companies listed at the NSE. All the 61 listed firms formed the sample of the population. Secondary data collected from the NSE Secretariat, respective company websites and the Africa Financials website was used in the study. Data was then analysed using descriptive analysis and regression analysis. The findings of the study are that ownership structure does not significantly influence tax avoidance as the effects of state ownership, foreign ownership and institutional ownership on tax avoidance were insignificant at 5% level. On the other hand, ROA positively influences tax avoidance while Tobin q and previous year's loss has a negative influence on tax avoidance. The model accounts for 13% of the variance in tax avoidance and it was fit to explain the relationship between ownership structure and tax avoidance. The study makes a number of recommendations for both policy and practice. The study recommends that in terms of policy, ownership structure is irrelevant in explaining tax avoidance and therefore it should not be considered by policy makers in the quest to reduce instances of tax avoidance. Instead, policy makers should focus on the financial performance of firms as the best indicator of tax avoidance. From the results, firms that had higher ROAs were likely to record higher effective tax rates. Lastly, the results of the study also have important implications to listed firms and any other companies in Kenya that pay corporate taxes. In their quest to pay lower effective tax rates, they should understand that their ownership structure is irrelevant and therefore concentrate on legal avenues to manage their tax burdens.

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LIST OF ABBREVIATIONS

BTD	Book-Tax Difference
CMA	Capital Markets Authority
ETR	Effective Tax Rate
GAAP	Generally Accepted Accounting Principles
KA	Kenya Airways
KRA	Kenya Revenue Authority
NSE	Nairobi Securities Exchange
PP&E	Property Plant & Equipment
SOE	State Owned Enterprise

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Conventional wisdom argues that because taxes are a significant cost to a firm, tax avoidance is beneficial to shareholders (Chen, Chen, Cheng and Shevlin 2010). However, in state owned enterprises (SOEs), taxes are an implicit dividend to the controlling shareholder. Thus, less tax avoidance actually benefits the controlling shareholder of SOEs and reflects an implicit expropriation of wealth from other shareholders. Ownership structure may therefore affect the level of tax avoidance.

There are a total of 61 listed companies in Kenya at the moment. Some of these companies trade beyond Kenya and differ in their tax liabilities. A recent report by the Kenya Revenue Authority (KRA) claims that most of the multinational firms in Kenya, some of which are listed at the NSE, collude with the large accounting firms in Kenya to avoid paying some taxes (Irungu, 2013). Thus, tax avoidance is a subject of interest for this study given the claims by the KRA. Given that Kenya is one of the developing countries in the world with a plan to reach a middle-income economy by 2030, taxes are the major sources of revenue for the Government and therefore it is of interest to examine the issue of tax avoidance by large corporations in Kenya.

1.1.1 Ownership Structure

Ownership structure is like the hard core of corporate governance, a firm's "owners," is those persons who share two formal rights: the right to control the firm and the right to appropriate the firm's profits, or residual earnings which in theory, could be separated and held by

different classes of persons Hansmann (2000). Ownership structure can be broadly classified into two distinct group or views for purposes of definition as explained below.

The first view defines ownership structure as different types of equity such as A share, B share, outstanding share or allotment transfer (Zhou, 1999). A second view defines ownership structure according to its “ownership”, that is, state shares, state-owned legal person shares, legal person shares, institutional owners, among others. This view sees ownership structure like the shareholder structure which refers to equity ratio occupied by various shareholders (Wu, 2003).

According to Gursoy & Aydogan (2002), the concept of ownership structure can be defined along two dimensions: ownership concentration and ownership mix. The former refers to the share of the largest owner and is influenced by absolute risk and monitoring costs (Pedersen & Thomsen 1999), while the latter is related to the identity of the major shareholder. The later view is the one taken in the present study. Ownership structure is therefore defined in this study as different classes of shareholders in a firm. These structures may include state ownership, institutional ownership, foreign or domestic ownership, among others.

1.1.2 Tax Avoidance

Tax avoidance is the use of legal methods to modify an individual's financial situation in order to lower the amount of income tax owed. Tax avoidance can be exogenous or endogenous. Exogenous tax avoidance refers to avoidance of tax by resorting to transactions or structures for their own sake, that is, to transactions and structures that are independent of other economic activity of the taxpayer (Zoe & John 2010). Exogenous avoidance typically involves taxpayers participating in tax shelters that generate losses to set off against ordinary income or that otherwise produce fiscal effects that reduce tax payable on such income.

Endogenous tax avoidance refers to avoidance that is affected by adjusting transactions and structures that the taxpayer was proposing to enter, or have already entered, in any event. Endogenous avoidance ordinarily involves avoidance in the context of some other transaction or structure, most commonly a business or estate planning structure (Zoe & John, 2010).

According to Sonja (2002) tax avoidance reduces the present value of tax payments and generally increases the after-tax rate of return to investors in a firm. Graham (2003) noted that taxes affect financing choices, organizational form and restructuring decisions, payout policy, compensation policy and risk management decisions. A strong positive feedback effects between corporate tax avoidance and the structure of corporate governance may exist such that increased levels of tax enforcement may raise firm value, despite the firm's increased tax payments (Desai, Dyck and Zingales, 2004) Corporate tax avoidance not only entails distinct costs, but these costs may actually outweigh the benefits to shareholders (Graham et al., 2004).

Sonja (2002) also argued that multinational corporations have opportunities to avoid income taxation by locating operations in low-tax rate countries, by shifting income from high-tax locations to low-tax locations, by exploiting differences between the tax rules of different countries, and by taking advantage of tax subsidy agreements with host countries. Economies of scale and scope can significantly affect a firm's ability to reduce its tax burden through tax avoidance. Firms with higher levels of pre-tax income and more extensive foreign operations are able to reduce their worldwide tax burdens through tax planning activities. Holding firm size constant, firms with greater pre-tax income are likely to avoid more income taxes than firms with less pre-tax income, since firms with greater income have lower costs of tax avoidance. Manzon and Plesko (2002) argue that profitable firms can make more efficient use of tax deductions, credits, and exemptions relative to less profitable firms, resulting in greater

book-tax differences. Firms with greater pre-tax income should have greater incentives and resources to engage in tax planning.

According to Gupta and Newberry (1997) tax avoidance can be measured using the average generally accepted accounting Principles (GAAP) effective tax rate (ETR). Average GAAP ETR is the ratio of the total tax expense and the pre-tax income. Tax avoidance can also be measured using the Book-tax difference (BTD) method (Desai and Dharmapala, 2009). BTD is the difference between the pre – tax income and the estimated taxable income (Desai and Dharmapala, 2009). BTD can be raised either through earning management (the manipulation of financial statements and the increase opportunistic financial income) or tax avoidance (deliberately decreasing taxable income). Another measure is the Contingent Tax Liability Reserve (Lisowsky, 2012). This is the management’s judgment of potential future tax losses. It is calculated as the difference between current tax expense, tax benefit from Stock Options and total taxes after credits

1.1.3 Effect of Ownership Structure on Tax Avoidance

Few papers directly examine the link between corporate governance and more specifically, ownership structure, and tax avoidance. Minnick and Noga (2010) investigate whether several measures of corporate governance are associated with a variety of proxies intended to capture firms’ level of tax avoidance, but find little evidence that governance is associated with avoidance. Desai and Dharmapala (2006) report the surprising result that firms that are poorly governed but where managers have high levels of equity incentives engage in less tax avoidance. They interpret this result as evidence that tax avoidance and managerial rent extraction are complementary activities, which implies that the level of a firm’s tax avoidance is increasing in the strength of its corporate governance. Rego and Wilson (2012) find that firms at which managers have high risk-taking equity incentives engage in more tax

avoidance. However, they fail to find any evidence that governance mechanisms—other than executives' equity incentives—affect this relation.

In a concurrent paper, Robinson et al. (2012) examine the association between tax avoidance and audit committee financial expertise. They report evidence that audit committee financial expertise is generally positively associated with tax planning, but that this association is negative where they deem tax planning to be risky (i.e., aggressive). Overall, the few papers that examine the relationships between corporate governance and tax avoidance have produced results that are quite mixed.

The link between ownership structure and tax avoidance has been studied by a number of scholars but such studies are still few. Most of the studies in this area have been done in China and examine mostly how state ownership affects tax avoidance of firms (Bradshaw, Liao & Ma, 2013). In their study, Bradshaw et al. (2013) found that state owned enterprises (SOEs) have less tax avoidance than non-state owned enterprises. State owned enterprises were found to make tax decisions that favour controlling shareholders but costly to the minority shareholders. Jian, Li & Zhang (2012) also studied how state ownership affects tax avoidance in China and found that SOEs avoid less tax than non-SOEs. The study found a negative relationship between state ownership and tax avoidance and this is more pronounced in large firms than in small firms. The negative relationship was also found to be weaker among firms with concentrated non-state ownership.

1.1.4 Nairobi Securities Exchange

The NSE has undergone three phases in its development. As outlined and discussed by Ngugi (2003), these phases are the initiation stage, the formalization stage and the revitalization/restructuring stage. The initial stage was mainly characterized by dominations

of foreign investors in share trading and spontaneous growth. The formalization stage saw the adoption of a self-regulatory framework with efforts to increase the participation of local citizens in share trading especially in the post-independence period. This is also the period when the Government adopted a controlled policy regime and implemented tax policies that penalized share returns more than returns from other financial assets. Further, the Nairobi Stock Exchange which had served as a regional market among the East African states lost its market share with the break-up of the East African Community. Partially because of these developments, the stock market was characterized by a state of dormancy during this phase. This gave way to the revitalization stage where efforts were made to strengthen the institutional infrastructure and also to enhance the policy environment in order to facilitate growth of the stock market.

The NSE currently has 61 firms listed on it in 11 sectors (see Appendix 1). These sectors are agricultural (7 companies), commercial and services (9 companies), telecommunication and technology (1 company), automobiles and accessories (4 companies), banking (11 companies), insurance (6 companies), investment (3 companies), manufacturing and allied (9 companies), construction and allied (5 companies), energy and petroleum (5 companies), and growth enterprise market segment (1). The other two sectors are fixed income securities market segment which lists preference shares and bonds (NSE, 2014).

These companies have varied ownership structures. Some are foreign owned while others are purely domestic. Others have a mixture of both. There are some that are state owned with the Government of Kenya having majority shares. These include Kenya Commercial Bank, Kenya Electricity Generating Company, National Bank of Kenya, Kenya Airways, Mumias Sugar Company, among others. The regulations issued by the Capital Markets Authority (CMA) in 2002 as regards ownership structure provided for new foreign investors'

regulations where the locals have 25% minimum reserve of the issued share capital with the balance 75% becoming a free float for all classes of investors. This applies to IPOs and GOK privatizations (Ngugi, 2003). These varied ownership structures in these listed firms offers an opportunity for an empirical examination of how they affect tax avoidance in Kenya.

1.2 Research Problem

There has been a recent surge in research that seeks to understand the sources of variation in tax avoidance (Hanlon and Heitzman, 2010). The benefits of tax avoidance can be economically large (Scholes et al., 2009) and tax avoidance can be a relatively inexpensive source of financing (Armstrong et al., 2012). However, aggressive tax avoidance may be accompanied by substantial observable (e.g., fines and legal fees) and unobservable (e.g., excess risk and loss of corporate reputation) costs. Although understanding the factors that influence managers' tax avoidance decisions is an important research question that has broad public policy implications, relatively little is known about why some firms appear to be more tax aggressive than others.

With the revelation by the Kenya Revenue Authority that multinational firms have avoided paying taxes to the tune of Sh. 8 billion having colluded with the large audit firms in Kenya (Irungu, 2013), it is interesting to investigate what influences tax avoidance of listed firms in Kenya. Tax avoidance may be influenced by a number of factors but the present study investigates the role of ownership structure of listed firms on their levels of tax avoidance. As other studies have found that non-government owned firms tend to avoid tax more than the government-owned firms, an investigation of the effect of ownership structure on tax avoidance for listed firms at the NSE is useful for purposes of policy recommendations and theory of tax avoidance.

Prior studies on the effect of ownership structure on tax avoidance have focused on how state ownership affects tax avoidance (for example, Bradshaw et al., 2013; Jian, et al., 2012). Both studies found a negative relationship between state ownership and tax avoidance in China. In Kenya, studies on tax avoidance are generally limited. Some of them include Wachira (2011) who surveyed tax avoidance and incentives schemes adopted by Kenya Airways. Owiti (2012) examined the effects of tax planning strategies on tax savings on manufacturing firms in Nairobi and found that the tax planning strategies were ineffective in contributing to tax savings. To the knowledge of the researcher, no specific study has been carried out in Kenya on how ownership structure affects tax avoidance. There is therefore a gap in literature which the present study seeks to bridge. This study therefore examines whether variation in firms' corporate governance mechanisms, more specifically the ownership structure, explains differences in their level of tax avoidance in Kenya. The following research question will be answered: what is the relationship between ownership structure and tax avoidance among listed companies in Kenya?

1.3 Research Objective

To examine the relationship between ownership structure and tax avoidance among listed firms at the NSE.

1.4 Value of the Study

This study is important to the theory of tax avoidance as it assesses how ownership structure affects tax avoidance in Kenya. This will add onto the growing body literature on how governance structures influence tax avoidance strategies in organisations.

This study also contributes to the practice of tax management in organisations. The results of this study will aid managers in various organisations with various ownership structures on how their tax planning policies are influenced by their ownership structures.

Further, this study will inform policy makers especially the Capital Markets Authority and the Kenya Revenue Authority on how ownership structures affect tax avoidance in large corporations. This will guide in policy formulation by both agencies.

Researchers, students, and other academicians will also find this study a valuable source of information on how ownership structure affects tax avoidance. Thus, future studies can be based on the present study especially by taking advantage of the limitations of the present study and the recommended future research directions.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of literature. The first section reviews the theoretical literature where different theories of tax avoidance and other relevant theories are discussed. The second section presents an empirical review where prior studies on ownership structure and tax avoidance are reviewed. The third section is the summary of the chapter.

2.2 Theoretical Review

A number of theories are reviewed here and their relevance to the present study explained. These theories are agency theory, resource based view and institutional theory. These theories explain both the tax avoidance behaviour of firms and the role of ownership structure.

2.2.1 Agency Theory

Agency theory suggests that the firm can be viewed as a nexus of contracts between resource holders (Agrawal & Knoeber, 1996). An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents. The primary agency relationships in business are those between stockholders and managers; and between debt holders and stockholders. These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals.

This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship. Accordingly, agency theory has emerged as a dominant model in the financial economics literature, and is widely discussed in business ethics texts. Agency theory in a formal sense originated in the early 1970s, but the concepts behind it have a long and varied history (Bowie & Edward, 1992).

The principal-agent model suggests that managers are less likely to engage in strictly profit maximizing behaviour in the absence of strict monitoring by shareholders (Prowse, 1992; Agrawal & Knoeber, 1996). Therefore, if owner-controlled firms are more profitable than manager controlled firms, it would seem that concentrated ownership provides better monitoring which leads to better performance. This may also explain why in some firms managers will choose to avoid tax more than in others.

2.2.2 Resource Based View

Resource Based View (RBV) holds that firms can earn sustainable super-normal returns if and only if they have superior intangible resources that are protected by some form of isolating mechanism preventing their diffusion throughout industry. According to Wernerfelt (1984) & Rumelt (1984), the fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Barney, 1991; Peteraf, 1993).

Essentially, these valuable resources become a source of sustained competitive advantage when they are neither perfectly imitable nor substitutable without great effort (Barney, 1991).

In a nutshell therefore, to achieve these sustainable above average returns, the firm's bundle of resources must be valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991). The extent to which external and internal factors affect managerial discretion will depend on, among other factors, the manager's locus of control, perception of discretion and the amount of power that people perceive the manager to possess.

Foreign shareholders are endowed with good monitoring capabilities, but their financial focus and emphasis on liquidity results in them unwilling to commit to a long-term relationship with the firm and to engage in a process of restructuring in case of poor performance. These shareholders prefer strategies of exit rather than voice to monitor management (Aguilera & Jackson, 2003). Consequently, foreign shareholders are postulated to have a moderate impact on firm performance. Domestic shareholders possess characteristics that represent the worst of both worlds. Their financial focus leads to short-term behavior and a preference for liquid stocks while their domestic affiliation often results in a complex web of business relationship with the firm and other domestic shareholders (Claessens et al., 2000; Dharwadkar et al., 2000). Therefore, these shareholders are expected to have a negative influence on firm performance. Thus, tax avoidance behaviour of some firms may be explained by the RBV theory as studies have shown that large firms may avoid more tax than small firms especially in non-state owned firms.

2.2.3 Institutional Theory

Institutional theory emphasizes the influence of socio-cultural norms, beliefs and values, regulatory and judicial systems on organizational structure and behaviour. Institutions regulate economic activities through formal and informal rules as a basis for production, exchange and distribution (Khanna & Palepu, 2000). In addition to these features, emerging economies are characterized by greater imperfections in the markets for capital, products and

managerial talent. These lead to so called institutional voids - a situation when specialized intermediaries who typically provide these services in developed economies are absent (Khanna & Palepu, 2000). It presents an opportunity for some firms, which have the necessary resources and capabilities to bridge these institutional voids.

Business groups are particularly well suited to provide the necessary welfare enhancing functions to plug these institutional voids because of their superior ability to raise capital, train and rotate managerial talent among group firms, and use common brand names in marketing their products. On the downside, though, some of these institutional voids and ineffective protection of minority shareholder and creditor rights lead to greater entrenchment by controlling shareholders resulting in conditions ideally suited for expropriation of disadvantaged stakeholders. The institutional theory may therefore also explain why some firms avoid taxes more than others (Khanna & Palepu, 2000).

2.3 Determinants of Tax Avoidance

Generally, a number of factors tend to affect tax avoidance as several other studies have examined and determined. Some of the factors examined in this study are ownership structure, size of the firm, profitability, and capital intensity and structure.

2.3.1 Ownership Structure

The ownership structure as a determinant of tax avoidance has also received a lot of attention from scholars. Studies have therefore been performed to examine how various ownership structures such as state ownership, foreign ownership or institutional ownership affect tax avoidance. For instance, Bradshaw et al. (2013) found that state owned enterprises have less tax avoidance than non-state owned enterprises. Jian, Li & Zhang (2012) found a negative

relationship between state ownership and tax avoidance and this is more pronounced in large firms than in small firms. The negative relationship was also found to be weaker among firms with concentrated non-state ownership.

2.3.2 Firm Size

Using a non-ETR measure of tax avoidance, Wilson (2009) found a positive relation between tax shelter participation (as a proxy for particularly aggressive tax planning) and firm size. Yet other studies identify a negative relation in line with the political power or clout theory, assuming that large firms have greater resources for lobbying and more sophisticated tax planning activities (Porcano, 1986). Still others find no association between ETRs and firm size (Mills, Erickson and Maydew, 1998). Richardson and Lanis (2007) test the association between firm size and ETRs in an Australian setting. For a sample of publicly-listed firms over the period from 1997-2003, the authors find results in line with the political power theory and posit a significant negative association between firm size, measured as the natural logarithm of total assets (at book value), and ETRs.

2.3.3 Profitability

Gupta and Newberry (1997) were among the first to investigate the association between GAAP ETRs and multiple firm-level characteristics. Multivariate results derived from micro-level panel data show that ETRs are significantly associated with a number of other firm characteristics besides size, e.g. firm profitability. Profitability is commonly measured as either return on assets or cash flow from operations. The basic argument is that more profitable firms arguably have a greater incentive to reduce their tax burden as compared to firms that are less profitable (Dunbar, Higgins, Phillips, and Plesko, 2010).

Graham, Hanlon, Shevlin & Shroff (2013) analyzed survey responses from nearly 600 corporate tax executives to investigate firms' incentives and disincentives for tax planning. The study found that financial accounting incentives play a role. For example, 84% of publicly traded firms responded that top management at their company cares at least as much about the GAAP effective tax return (ETR) as they do about cash taxes paid and 57% of public firms say that increasing earnings per share is an important outcome from a tax planning strategy.

2.3.4 Capital Intensity and Structure

Other fundamental characteristics that, starting with Gupta and Newberry (1997), have been reasonably assumed and shown to be associated with tax avoidance are a firm's asset mix (e.g. capital intensity) and capital structure (i.e. leverage), which are common controls in many subsequent cross-sectional panel studies. Capital intensive firms (with high levels of property, plant & equipment; PP&E) are usually expected to have more tax planning opportunities (Dyreg et al., 2008) and the change in property, plant, and equipment (Δ PP&E) is associated with cash tax benefits related to accelerated depreciation (Gallemore and Labro, 2013).

2.4 Empirical Review

This section reviews various studies on ownership structure and tax avoidance. Both international and local studies on ownership structure and tax avoidance have been reviewed.

2.4.1 International Evidence

Lim (2011) examined the impact of tax avoidance on the cost of debt and its interaction effect with shareholder activism. Using Korean firms, the study found a negative relationship

between tax avoidance and cost of debt, supporting the trade-off hypothesis. Further tests reveal that the negative relationship becomes stronger when the level of institutional ownership is high and even stronger after 1998 when the shareholder rights of institutional investors were strengthened. It suggests that managerial opportunism hypothesis has an additional explanation for tax avoidance activities.

Kholbadalov (2012) studied whether there is any relationship between corporate tax avoidance and the cost of debt, and whether the level of institutional ownership moderates this relationship, with two hypotheses tests on sample of 110 listed firms in the main board of Bursa Malaysia during the year 2005 – 2009. The study found that there is no significant effect of institutional ownership on the relationship between tax avoidance and cost of debt, meaning that the level of institutional ownership does not impact on the relationship between tax avoidance and the cost of debt, regardless the level institutional ownership is high or low.

A study by Jian et al. (2012) examined how the state ownership affects firms' tax avoidance. Using a proprietary dataset of actual tax filings of firms in China, the study found evidence that SOEs avoid tax to a less extent than non-SOEs. The negative effect of the state ownership on tax avoidance was stronger among bigger firms and is weaker among firms with concentrated non-state ownership. Overall, the results suggested that the executives at SOEs have incentives to please the government through generous tax payments, and that these incentives are curbed by the monitoring of concentrated non-state ownership.

Bradshaw et al. (2013) examined the effect of ownership structure on tax avoidance using evidence from agency cost of state ownership in China. Using a sample of publicly traded companies in China, the study found that SOEs exhibit significantly higher income tax rates than do non-SOEs, consistent with less tax avoidance. Overall, the findings suggested that SOEs make tax decisions favorable to the controlling shareholder but costly to the minority

shareholders, and the state utilizes SOE managers' career concerns to promote the minimization of tax avoidance.

In a recent study, Armstrong, Blouin, Jagolinzer, & Larcker (2014) examined the relationship between corporate governance, incentives, and tax avoidance. Using quantile regression, the study found a positive relation between the financial sophistication and independence of boards and tax avoidance in the lower tail of the tax avoidance distribution, but a negative relation in the upper tail of the tax avoidance distribution. However, the study found no relation between corporate governance and tax avoidance at either the conditional mean or median of the tax avoidance distribution. These results suggest that corporate governance tends to decrease extremely high levels of tax avoidance and increase extremely low levels of tax avoidance, which may be symptomatic of over- and under-investment, respectively, by managers.

2.4.2 Local Evidence

Studies in Kenya have not directly linked ownership structure and tax avoidance but a few studies have been conducted on ownership structure as well as tax avoidance in Kenya. For instance, Njoka (2010) in her study on the effect of ownership structure on corporate performance found that generally ownership structure affects significantly corporate performance. More specifically, ownership concentration does not have any impact on firm's performance, in addition to independent ownership, which has a negative impact on profitability and as a result on performance. Moreover, it is stated that weak corporate governance leads to poor corporate performance.

Wachira (2011) surveyed tax avoidance and incentives schemes adopted by Kenya Airways. The main objective of the study was to determine the benefits and effectiveness of tax

avoidance strategies adopted by Kenya Airways. The findings of the study show that Kenya Airway comprehensively looks at various tax options in order to take full advantage of all available tax deductions, both business and personal. Implementing tax avoidance strategies has been done by changing one's tax residence to a tax haven and adopting the double taxation treaties as applied in other countries. However the study reveals that employees in KA do not use legal avoidance of personal taxation but instead separate legal entity to which one's property is donated is created.

A study by Kamau, Ngui and Mutiso (2012) singled out Tax avoidance and evasion as one of the major factors influencing creative accounting practice in Kenya. Data was randomly collected from thirty six accountants working for various companies in Kenya. The results of the study established that tax avoidance and evasion is indeed one of the major factors contributing to practice of creative accounting among companies in private sector in Kenya. Creative accounting is carried out with an objective of making the company appear to be financially stronger or weaker depending on the management's aspirations. This practice is considered professionally unethical in Kenya even though in some countries it's permitted by law.

Owiti (2012) examined the effects of tax planning strategies on tax savings on manufacturing firms in Nairobi. The study found that claiming capital allowances was not only the most effective strategy for mitigating tax but also the most widely known among the finance officers. The others: tax education, use of debt in capital structure and intelligent sourcing were found to be ineffective in creating significant tax savings. On intelligent sourcing, most firms cited lengthy procedures involved as the reason for ineffectiveness in creating tax savings. Therefore, the strategies laid down by the government in the ITA for creating tax savings were found to be ineffective and consequently contributing very little tax savings,

and thus the manufacturers claims that the tax regime is oppressive is valid and requires the government to address it.

Kiruri (2013) sought to investigate the effects of ownership structure on bank profitability in Kenya. Primary data was obtained through a questionnaire that was structured to meet the objectives of the study. The study used annual reports that are available from their websites and in the Central bank of Kenya website. The study found that ownership concentration and state ownership had negative and significant effects on bank profitability while foreign ownership and domestic ownership had positive and significant effects on bank profitability. The study concluded that higher ownership concentration and state ownership lead to lower profitability in commercial banks while higher foreign and domestic ownership lead to higher profitability in commercial banks.

2.5 Summary of Literature Review

The literature review has examined three main theories that explain the tax avoidance behaviour of firms and how ownership structure is influential in firm decisions including those that involve tax avoidance. The theory that best fits the present study is the agency theory which credits management for decisions involving tax avoidance on behalf of shareholders.

A number of determinants of tax avoidance have also been examined. These include ownership structure, capital intensity and structure, firm size, and profitability. These have been shown to influence tax avoidance in a number of ways. Further, it has been shown that they have been used as control variables in tax avoidance studies and therefore important for the present study. It is also worthy to note that their effects on tax avoidance has been mixed.

The empirical review has pointed out some international and local studies that have examined the determinants effect of ownership structure on tax avoidance in organisations. The review has shown that studies have found mixed results. Others find negative relationship while others find no relationship at all.

It is also clear from the literature review that no study has been undertaken in Kenya on how tax avoidance is affected by ownership structure but a few studies have examined tax avoidance practice in organisations in Kenya. This presents a gap in literature that the present study seeks to explore.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology adopted in this study. The chapter describes the research design, the population, data collection process, and data analysis model and techniques adopted for the study.

3.2 Research Design

This is a descriptive research design. A descriptive study is one in which information is collected without changing the environment (Monsen and van Horn, 2008). Sometimes these are referred to as “correlational” or “observational” studies. This design was selected because the study seeks to find a relationship between ownership structure and tax avoidance. As Monsen and Van Horn (2008) noted, a descriptive research can be used to propose an association. The present study has proposed an association between the two variables.

3.3 Population

The population of this study was all the companies listed on the NSE. There were 61 firms listed on the NSE in 11 different sectors as shown in Appendix 1 (NSE, 2014). Since the number of listed firms in Kenya was not so large and the study sought to come up with a descriptive model on the relationship between ownership structure and tax avoidance, all the 61 firms formed the sample. Thus, this was a census study of all the listed firms in Kenya.

3.4 Data Collection

This study used secondary data. The focus was the annual reports of the listed companies. The data was sourced from the NSE Secretariat, respective company websites, and The African Financials website. The data was collected on the variables of interest for the 5 year period beginning 2009 to 2013. This period was enough to provide data that was in the analysis. Tax avoidance data was gathered from the financial statements by looking at the current tax expense and the pre-tax income. Tax avoidance was then calculated as defined in Table 3.1. Ownership structure data was also gathered from the annual reports by looking at the shareholder information section of the reports.

3.5 Data Analysis

The data collected was panel data and was therefore analysed using panel regression techniques. A Hausman test was conducted to determine whether a fixed effects model regression or a random effects model regression analysis was appropriate for the analysis. This method tests the null hypothesis that the preferred model is random effects vs. the alternative the fixed effects (Green, 2008). This was aided by STATA 12. If the probability of χ^2 is less than 5% (that is, significant), then fixed effects model is usually recommended. Descriptive statistics was used to analyse data. This provided the mean and standard deviation of the variables in the study.

3.5.1 The Analytical Model

A regression model was evaluated to investigate the relationship between ownership structure and tax avoidance of companies listed at the NSE. Given the prior models used by other scholars who have studied ownership structure and tax avoidance, this study model was a

replication with a slight modification of a model adopted by Bradshaw et al. (2013) to come up with the following analytics model:

$$TA = \alpha + \beta_1SOE + \beta_2FOR + \beta_3INST + \beta_4SIZE + \beta_5ROA + \beta_6LEV + \beta_7TQ + \beta_8PPE + \beta_9LagLOSS + \epsilon$$

The dependent variable is tax avoidance (TA) measured as the effective tax rate. The independent (ownership structure) variables are state ownership (SOE), foreign ownership (FOR) and institutional ownership (INST). The control variables are size of the firm (SIZE), return on assets (ROA), leverage (LEV), Tobin's Q (TQ), property plant and equipment (PPE) and lagged loss (LagLOSS). The model also controls for the effects of industry and year. These variables are defined under 3.5.2 below.

3.5.2 Operationalization of the Variables

The table below discusses how the aforementioned variables can be operationalized.

Table3.1

Variable	Definition	Measurement Scale
<i>TA</i>	Is the effective tax rate measured as current income tax expense divided by pre-tax income	Ratio
<i>SOE</i>	An indicator variable equal to one if a firm is controlled by the state, and zero otherwise. The controlling owner is defined as the one who controls an absolute majority of voting rights, or holds enough voting rights to have de facto control	Dummy
<i>FOR</i>	An indicator equal to 1 if a firm is foreign owned and zero otherwise.	Dummy
<i>INST</i>	Institutional ownership measured by percentage shares owned by institutional shareholders among the top 10 shareholders	Ratio
<i>ROA</i>	Operating income divided by total assets at the end of the year	Ratio
<i>SIZE</i>	The natural logarithm of the book value of total assets at the end of the year	Ratio
<i>LEV</i>	Total liabilities divided by total assets at the end of the year	Ratio
<i>TQ</i>	Tobin's Q, the sum of market value of equity and book value of liabilities at the end of the year, divided by the book value of total assets at the end of the year.	Ratio
<i>PPE</i>	The net book value of fixed assets divided by total assets at the end of the year.	Ratio
<i>LagLOSS</i>	An indicator variable equal to one if the firm reports a loss in the prior fiscal year, and zero otherwise	Dummy

Source: Researcher (2014)

3.5.3 Tests of Significance

A correlation and a multiple regression analysis were carried out to test the relationship between ownership structure and tax avoidance. A correlation matrix shows the interrelationships within the variables under study. This helped show any serial correlations. A multiple regression analysis was then carried out. ANOVA and F-test show the fitness of the model used in the study. The coefficients show how each of the variables influence tax avoidance. The results of significance were interpreted at 5% level of significance. Both p-values and t-tests were interpreted.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study. The analysis in this study is based on data collected from 48 listed firms in Kenya. This is 79% of the sample the study intended to study. Of the 61 firms listed on the NSE, some did not have the annual reports for the entire 5 years with the CMA or on their websites and they were therefore not included in the sample. Some had been suspended from trading and therefore the data for some of the years were missing. There are a total of 240 observations used in the present study covering five years from 2009 to 2013. The chapter is organised as follows: the next section presents the results of the study while section 3 is the discussion of results.

4.2 Findings

This section presents the results of the study. The section is organised as follows. The first part presents the descriptive results followed by correlation and regression results

4.2.1 Descriptive Statistics

Table 4.1 shows the descriptive results on the variables used in the study. The results show the mean, median, minimum, maximum, standard deviation, and observations.

Table 4.1: Descriptive Statistics

	TA	SOE	FOR	INST	SIZE	ROA	LEV	TQ	PPE	LAGLOSS
Mean	0.25	0.25	0.40	7.60	16.11	0.07	0.58	0.42	0.38	0.06
Median	0.29	0.00	0.00	8.00	16.31	0.05	0.59	0.42	0.32	0.00
Maximum	2.23	1.00	1.00	10.00	25.67	0.34	1.52	0.96	1.00	1.00
Minimum	-2.14	0.00	0.00	0.00	8.79	-0.30	0.04	0.00	0.00	0.00
Std. Dev.	0.27	0.43	0.49	2.25	2.69	0.08	0.23	0.23	0.32	0.24
Observations	240	240	240	240	240	240	240	240	240	240

Source: Research Findings

The mean tax expense for the firms surveyed was 25% with a standard deviation of 27%. The mean number of institutional investors among the top 10 shareholders was 7.6 with a standard deviation of 2.25. Leverage averaged 0.58 with a standard deviation of 0.23 while Tobin q averaged 0.42 with a standard deviation of 0.23. PPE averaged 0.38 with a standard deviation of 0.32. A further analysis revealed that 11 firms (or 23%) had state ownership or were fully owned by the state. The results also show that 19 firms (or 40%) were foreign owned.

4.2.2 Correlation Results

Table 4.2 shows the correlation results for the independent variables used in the study. A correlation analysis was done to examine the correlations among the independent variables. This was done in order to determine any serial correlations between the independent variables.

Table 4.2: Correlation Matrix

	SOE	FOR	INST	SIZE	ROA	LEV	TQ	PPE	LAGLOSS
SOE	1.000	-0.369	0.298	0.184	-0.062	-0.004	-0.010	0.162	0.009
FOR	-0.369	1.000	0.123	-0.131	0.218	-0.137	0.120	0.039	-0.068
INST	0.298	0.124	1.000	0.031	0.053	0.204	-0.217	-0.147	-0.107
SIZE	0.184	-0.131	0.031	1.000	-0.291	0.337	-0.374	-0.197	0.038
ROA	-0.062	0.219	0.053	-0.291	1.000	-0.416	0.519	0.185	-0.137
LEV	-0.004	-0.138	0.204	0.337	-0.416	1.000	-0.924	-0.463	0.054
TQ	-0.011	0.121	-0.217	-0.374	0.519	-0.924	1.000	0.525	-0.062
PPE	0.162	0.040	-0.147	-0.197	0.185	-0.463	0.525	1.000	0.097
LAGLOSS	0.010	-0.068	-0.107	0.038	-0.137	0.054	-0.062	0.097	1.000

Source: Research Findings

As shown in Table 4.2, except for the correlation between leverage and Tobin q, none of the other independent variables were highly correlated. Thus, it can be said that most of the independent variables were not serially correlated.

4.2.3 Regression Analysis

This section presents the regression analysis results. Table 4.3 therefore shows the summary results for both pooled OLS and Random Effects model.

Table 4.3: Regression Analysis

Variable	Pooled OLS Model	Random Effects Model
Constant	0.497587 (0.0449)	0.497587 (0.0513)
SOE	0.000376 (0.9938)	0.000376 (0.9940)
FOR	0.019616 (0.6260)	0.019616 (0.6359)
INST	-0.007306 (0.4063)	-0.007306 (0.4198)
SIZE	0.002705 (0.7011)	0.002705 (0.7092)
ROA	1.001205 (0.0004)	1.001205 (0.0005)
LEV	-0.202768 (0.3047)	-0.202766 (0.3187)
TQ	-0.503707 (0.0284)	-0.503707 (0.0332)
PPE	0.102473 (0.1209)	0.102473 (0.1318)
LAGLOSS	-0.283319 (0.0001)	-0.283319 (0.0002)
R^2	0.127153	0.127153
Adjusted R^2	0.092998	0.092998
F	3.722837 (0.00020)	3.722837 (0.00020)

Source: Research Findings

Both the pooled OLS and random effects models show the same results in terms of the relationship between the independent variables and tax avoidance. As shown in Table 4.3, state ownership had a positive effect on tax avoidance but it was not significant, $p > 0.05$. The results show that foreign ownership had a positive effect on tax avoidance but the effect was not significant, $p > 0.05$. Institutional ownership had a negative but insignificant effect on tax avoidance, $p > 0.05$.

The results also show that size of the firm had a positive but insignificant effect on tax avoidance, $p > 0.05$. Return on assets had a positive and significant effect on tax avoidance, $p < 0.05$. The results also reveal that leverage had a negative but insignificant effect on tax avoidance, $p > 0.05$. Tobin q had a negative and significant effect on tax avoidance, $p < 0.05$. Further, PPE had a positive but insignificant effect on tax avoidance, $p > 0.05$. LagLoss had a negative and significant effect on tax avoidance, $p < 0.05$.

4.2.4 ANOVA Results

Analysis of Variance (ANOVA) is usually performed through an F-test to show whether a model is fit or not. In this study, an F-test result was produced for each of the model as shown in Table 4.4.

Table 4.4: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.80922	100	.251909	3.722837	.000220
Residual	.2612175	140	.000		
Total	16	240			

Source: Research Findings

From the results, the F-statistic was 3.7 and significant, $p = 0.0002$. This means that the model was fit to explain the relationship between ownership structure and tax avoidance. From the R² results, the model explained 12.7% of the variance in tax avoidance. This suggests that ownership structure explained very little of the variance in tax avoidance.

4.3 Interpretation of the Findings

The aim of this study was to examine the relationship between ownership structure and tax avoidance. A five year period data in relation to tax avoidance and ownership structure were used to carry out the analysis. Data was gathered from the financial statements. The data collected was analysed using regression techniques.

From the regression results, R² is 0.1271 implying that the model explained 12.7% of the variance in tax avoidance. This suggests that ownership structure explained very little of the variance in tax avoidance. More specifically, three variables were used to proxy ownership structure: state ownership, foreign ownership, and institutional ownership. Other explanatory variables investigated on how they relate tax avoidance were return on assets, size of the firm, leverage, Tobin q, PPE, and previous year's loss.

Further, the results from the correlation analysis showed that ownership structure had no relationship with tax avoidance.

The study identified a positive but insignificant relationship between state ownership and tax avoidance. State ownership was measured as a dummy variable with all those companies in which government has some stake denoted as 1 and 0 otherwise. Thus, state ownership does not influence tax avoidance. State ownership may not therefore provide any tax benefits to listed firms in Kenya.

There was a positive but insignificant correlation between foreign ownership and tax avoidance. Foreign ownership was measured as a unitary variable of 1 if a company is controlled by foreign investors and 0 otherwise. Therefore, foreign ownership does not influence tax avoidance in Kenya. Foreign ownership may not therefore provide listed firms in Kenya with corporate tax benefits.

A Correlation analysis for the institutional ownership and tax avoidance did not identify significant relationship. Institutional ownership was measured as the number of institutional investors in top 10 largest shareholders in each of the companies selected. The study revealed that institutional ownership had a negative but insignificant effect on tax avoidance. This means that institutional ownership does not affect tax avoidance in Kenya. Institutional ownership does not therefore offer listed firms in Kenya any significant tax benefits.

Other factors investigated on how they affect tax avoidance were return on assets, size of the firm, leverage, Tobin q, PPE, and previous year's loss. The results showed that size of the firm had a positive but insignificant relationship with tax avoidance. This means that tax avoidance is not influenced by size of the firms listed on NSE. Size of the firms listed on the NSE may not therefore offer firms any tax benefits.

The study also revealed that company performance measured by return on assets had a positive and significant relationship with tax avoidance. This suggests that tax avoidance for the listed firms in Kenya is influenced by the performance of a firm in terms of return on assets. Specifically, a 1% increase in ROA leads to a 1% rise in taxes paid. Thus, firms that have higher ROAs are unlikely to avoid taxes.

The results showed that leverage had a negative but insignificant relationship with tax avoidance. This shows that leverage does not influence tax avoidance in Kenya and therefore the leverage ratios of listed firms may not offer them any tax advantages in terms of corporate tax savings.

The study found that Tobin q had a negative and significant relationship with tax avoidance. This shows that firm performance as measured by Tobin q influences tax avoidance of listed firms in Kenya. Specifically, a 1% increase in Tobin q leads to a 0.5% decline in tax rates. Thus, firms are likely to avoid more tax by having higher Tobin q ratios.

The study found that PPE had a positive but insignificant relationship with tax avoidance. Thus, tax avoidance for listed firms in Kenya is not influenced by the levels of PPE. This means that firms are unlikely to get any significant tax benefits through their PPE ratios.

The study revealed that LagLoss had a negative and significant relationship with tax avoidance. This shows that tax avoidance is influenced by whether a firm made a loss the previous year or not. More specifically, a previous year's loss leads to a 0.28% decline in taxes paid by the firm the current year.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of research findings, the conclusions of the study, the recommendations for policy and practice, limitations of the study, and suggestions for further research.

5.2 Summary

The study sought to examine the relationship between ownership structure and tax avoidance. Secondary data from 48 listed companies at the NSE were collected from 2009 – 2013. A total of 240 observations were used in the analysis.

The descriptive results show that the mean effective tax rate was 25%. The average number of institutional investors among top 10 shareholders was 7.6. The results show that 23% of the firms had state ownership while 40% were foreign-owned. The correlation analysis showed that among the independent variables, only Tobin q and leverage were highly correlated.

The results showed that ownership structure did not significantly influence tax avoidance as the effects of state ownership, foreign ownership and institutional ownership on tax avoidance were insignificant at 5% level. On the other hand, the results showed that ROA positively influenced tax avoidance while Tobin q and previous year's loss had a negative influence on tax avoidance. The model accounted for 13% of the variance in tax

avoidance and it was fit to explain the relationship between ownership structure and tax avoidance.

5.3 Conclusion

The study concludes that ownership structure does not affect tax avoidance for listed firms in Kenya. This means that state ownership, foreign ownership and institutional ownership do not have a significant impact on the tax savings of listed firms. Firms are therefore unlikely to avoid taxes based on the ownership structure of the firm. This is important for firms as it is inconsistent with the institutional theory as regards tax avoidance.

The study also concludes that tax avoidance is influenced by ROA, Tobin q, and previous year's loss. The financial performance of an organisation is therefore a significant predictor of tax avoidance for listed firms in Kenya. Firms with higher ROAs are likely to pay higher effective tax rates. Firms with higher Tobin q ratios are likely to avoid more taxes as they pay lower effective tax rates. Further, firms that make losses are more likely to avoid taxes as they pay lower effective tax rates.

5.4 Recommendations for Policy and Practice

The study makes a number of recommendations for both policy and practice. First, the study recommends that in terms of policy, ownership structure is irrelevant in explaining tax avoidance and therefore it should not be considered by policy makers in the quest to reduce instances of tax avoidance. This is important to the Kenya Revenue Authority

which has in the past insisted that multinational firms in Kenya are avoiding taxes through their subsidiaries.

Secondly, the study recommends that policy makers should focus on the financial performance of firms as the best indicator of tax avoidance. From the results, firms that had higher ROAs were likely to record higher effective tax rates. Thus, firms recording higher ROAs while paying less effective tax rates should be better candidates for further scrutiny by the Kenya Revenue Authority. On the other hand, firms with higher Tobin q ratios and those that make losses are likely to pay lower effective tax rates. Thus, KRA should investigate further any firms that have lower Tobin q ratios and make profits annually while recording lower effective tax rates.

Thirdly, the results also have important implications to listed firms and any other companies in Kenya that pay corporate taxes. In their quest to pay lower effective tax rates, they should understand that their ownership structure is irrelevant and therefore concentrate on legal avenues to manage their tax burdens.

5.5 Limitations of the Study

The number of firms used in the analysis was only 48 firms out of the intended 61 firms. This was because the data for the remaining firms was unavailable for some of the periods in the study and therefore they were not included in the sample. This limited the effective sample dataset to 240 observations. However, this sample is adequate to generalise to the population of interest.

While the model used was fit to explain the relationship between ownership structure and tax avoidance, the model only accounted for 13% of the variance in tax avoidance. This means that a number of variables were not included in the study. Given the limitations of time and data, more variables could not be included. But the fact that the model was fit shows settles the model limitations.

The data used was for a five year period from 2009 to 2013. This was because most of the firms did not have their annual reports extending beyond the five year period. While this limited the number of observations per company to only five per variable, it was more recent and therefore reliable in estimating the parameters. This can be considered adequate as it was enough to achieve the objective set out in the study.

5.6 Suggestions for Further Research

More studies need to be done in this area. Specifically, there is need to improve on the data by including more listed firms in order to improve the reliability and applicability of the results. If possible, all the listed firms should be surveyed and for a longer period of time of about ten years or more.

Studies should also be done in this area by including more ownership structure variables in the model and testing how they influence tax avoidance. For instance, the effect of family ownership can be tested. Further, the effect of block ownership, board ownership, and disperse ownership on tax avoidance should be investigated.

Some firms have their subsidiaries in other countries and may therefore use such subsidiaries to avoid taxes. While in the present study foreign ownership was studied, it

would be important in the future to examine whether firms with subsidiaries pay lower effective tax rates in Kenya than those without subsidiaries outside Kenya.

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APPENDICES

Appendix 1: Companies listed at the NSE as at 25th June 2014

Sector 1: Agricultural

1. Eaagads Ltd
2. Kapchorua Tea Co. Ltd
3. Kakuzi
4. Limuru Tea Co. Ltd
5. Rea Vipingo Plantations Ltd
6. Sasini Ltd
7. Williamson Tea Kenya Ltd

Sector 2: Commercial and Services

8. Express Ltd
9. Kenya Airways Ltd
10. Nation Media Group
11. Standard Group Ltd
12. TPS Eastern Africa (Serena) Ltd
13. Scangroup Ltd
14. Uchumi Supermarket Ltd
15. Hutchings Biemer Ltd
16. Longhorn Kenya Ltd

Sector 3: Telecommunication and Technology

17. Safaricom

Sector 4: Automobiles and Accessories

18. Car and General (K) Ltd

19. CMC Holdings Ltd

20. Sameer Africa Ltd

21. Marshalls (E.A.) Ltd

Sector 5: Banking

22. Barclays Bank Ltd

23. CFC Stanbic Holdings Ltd

24. I&M Holdings Ltd

25. Diamond Trust Bank Kenya Ltd

26. Housing Finance Co Ltd

27. Kenya Commercial Bank Ltd

28. National Bank of Kenya Ltd

29. NIC Bank Ltd

30. Standard Chartered Bank Ltd

31. Equity Bank Ltd

32. The Co-operative Bank of Kenya Ltd

Sector 6: Insurance

33. Jubilee Holdings Ltd

34. Pan Africa Insurance Holdings Ltd

35. Kenya Re-Insurance Corporation Ltd

36. Liberty Kenya Holdings Ltd

37. British-American Investments Company (Kenya) Ltd

38. CIC Insurance Group Ltd

Sector 7: Investment

- 39. Olympia Capital Holdings Ltd
- 40. Centum Investment Co Ltd
- 41. Trans-Century Ltd

Sector 8: Manufacturing and Allied

- 42. B.O.C Kenya Ltd
- 43. British American Tobacco Kenya Ltd
- 44. Carbacid Investments Ltd
- 45. East African Breweries Ltd
- 46. Mumias Sugar Co. Ltd
- 47. Unga Group Ltd
- 48. Eveready East Africa Ltd
- 49. Kenya Orchards Ltd
- 50. A.Baumann CO Ltd

Sector 9: Construction and Allied

- 51. Athi River Mining
- 52. Bamburi Cement Ltd
- 53. Crown Berger Ltd
- 54. E.A.Cables Ltd
- 55. E.A.Portland Cement Ltd

Sector 10: Energy and Petroleum

- 56. KenolKobil Ltd
- 57. Total Kenya Ltd

58. KenGen Ltd

59. Kenya Power & Lighting Co Ltd

60. Umeme Ltd

Sector 11: Growth Enterprise Market Segment

61. Home Afrika Ltd

Source: Nairobi Securities Exchange Website (June 2014).

Appendix 2: Outputs from Eviews

Dependent Variable: TA
Method: Panel Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SOE	0.000376	0.048401	0.007772	0.9938
FOR	0.019616	0.040199	0.487983	0.6260
INST	-0.007306	0.008781	-0.831972	0.4063
SIZE	0.002705	0.007037	0.384332	0.7011
ROA	1.001205	0.276511	3.620856	0.0004
LEV	-0.202768	0.197110	-1.028704	0.3047
TQ	-0.503707	0.228346	-2.205895	0.0284
PPE	0.102473	0.065820	1.556860	0.1209
LAGLOSS	-0.283319	0.071701	-3.951407	0.0001
C	0.497587	0.246711	2.016881	0.0449
R-squared	0.127153	Mean dependent var		0.251909
Adjusted R-squared	0.092998	S.D. dependent var		0.275288
S.E. of regression	0.262175	Akaike info criterion		0.201165
Sum squared resid	15.80922	Schwarz criterion		0.346192
Log likelihood	-14.13980	Hannan-Quinn criter.		0.259600
F-statistic	3.722837	Durbin-Watson stat		3.024245
Prob(F-statistic)	0.000220			

Dependent Variable: TA
Method: Panel EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.497587	0.253952	1.959370	0.0513
SOE	0.000376	0.049822	0.007550	0.9940
FOR	0.019616	0.041379	0.474068	0.6359
INST	-0.007306	0.009039	-0.808249	0.4198
SIZE	0.002705	0.007243	0.373373	0.7092
ROA	1.001205	0.284627	3.517608	0.0005
LEV	-0.202768	0.202896	-0.999371	0.3187
TQ	-0.503707	0.235048	-2.142995	0.0332
PPE	0.102473	0.067752	1.512467	0.1318
LAGLOSS	-0.283319	0.073805	-3.838734	0.0002

Effects Specification

	S.D.	Rho
Cross-section random	0.000000	0.0000
Idiosyncratic random	0.269870	1.0000

Weighted Statistics

R-squared	0.127153	Mean dependent var	0.251909
Adjusted R-squared	0.092998	S.D. dependent var	0.275288
S.E. of regression	0.262175	Sum squared resid	15.80922

F-statistic	3.722837	Durbin-Watson stat	3.024245
Prob(F-statistic)	0.000220		

Unweighted Statistics

R-squared	0.127153	Mean dependent var	0.251909
Sum squared resid	15.80922	Durbin-Watson stat	3.024245

Appendix 3: Time Frame

Activities												
Planning												
Writing Research proposal and Tentative Design												
Improving Study Design												
Data Collection												
Data Analysis												
Writing report 1 st Draft												
Writing report 2 nd Draft												
Submission												
	May 2014	June 2014	June 2014	June 2014	June 2014	July 2014	July 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014

Appendix 4: Research Budget

NO	ITEM	Unit Cost	Total
1	Data Gathering Instruments		
	Ruled papers	10@ 500	5,000
	Packet of pencils	5@200	1,000
	Duplicating Papers	10@300	3,000
	Typing charges		1,000
	Photocopy	2000pages@10	20,000
2	Collection of Data		
	Fare	5 people@2000	10,000
	Allowances	5@ 10000	50,000
	Meals	10@500	5,000
	Hall hire	3@3000	6,000
	Car hire	5@10000	50,000
3	Preparation of Report		
	Data coding	1@40000	40,000
	Photocopies	2000@2	4,000
	Binding	10@2000	20,000
	Contingencies	10000	10,000
	Total Cost		270,000