# EFFECT OF TAX INCENTIVES ON FINANCIAL PERFORMANCE OF MANUFACTURING INDUSTRIES IN NAIROBI COUNTY, KENYA

**OBED MOGESI BUNDI**

**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTS AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE POSTGRADUATE DIPLOMA TAX ADMINISTRATION, JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY (JKUAT).**

**2019**

## DECLARATION

This research is my original work and has not been presented for a post graduate diploma in any other academic or non-institution

Signature: …….....…. Date: …….....……

**OBED MOGESI BUNDI**

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This research project has been submitted for examination with my approval as the Supervisor

Signature: …….....…. Date: …….....……

**Dr. Marion Wekesa, PhD**

## DEDICATION

The study is dedicated to my parents for their support, prayers, encouragement and for being patient to see me go through my academic struggle thus realizing my long dream. God bless them abundantly.

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## ACRONYMS AND ABBREVIATION

| | |
|---|---|
| **FDI** | Foreign Direct Investment |
| **GDP** | Gross Domestic Product |
| **GOK** | Government of Kenya |
| **IEA** | Institute of Economic Affairs |
| **IBA** | Industrial Building Allowances |
| **IDA** | Investment Deduction Allowances |
| **KAM** | Kenya Association of Manufacturers |
| **KRA** | Kenya Revenue Authority |
| **OECD** | Organization for Economic Cooperation and Development |
| **ROA** | Return on Asset |
| **ROE** | Return on Equity |
| **ROI** | Return on Investments |
| **ROS** | Return on Sale |
| **SME** | Small Medium Enterprise |
| **UNCTAD** | United Nations Conference |
| **UNIDO** | United Nation Industrial Development Organization |
| **VAT** | Value Added Tax |

## DEFINITION OF TERMS

| | |
|---|---|
| **Financial Performance** | The level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. |
| **Tax Incentive** | May take different structures. In the Kenyan case, it takes the form of holiday on tax, allowances on investment, tax credits as well as accelerated depreciation |
| **Investment** | the investing of money or capital in order to gain profitable returns, as interest, income, or appreciation in value. |
| **Manufacture** | the process of converting raw materials, components, or parts into finished goods that meet a customer's expectations or specifications |
| **Tax** | a sum of money demanded by a government for its support or for specific facilities or services, levied upon incomes, property, sales, etc. |
| **Capital Allowance** | is the amount which a business can deduct from the overall corporate or income tax on its profits |
| **Tax Rate** | is the percentage at which an individual or corporation is taxed. The tax rate is the tax imposed by the federal government and some states based on an individual's taxable income or a corporation's earnings |
| **Tax Exemption** | is a monetary exemption which reduces taxable income. Tax exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items. |

## ABSTRACT

The primary purpose of this research was to determine the effect of tax incentives on financial performance of manufacturing industries. Tax incentives are presumed to play a significant role in attracting producers in developing nations in particular. In advanced nations, the same has been empirically proven. However, study is in its infancy phase in developing nations. This research concentrated on the effect of investment allowance, reduction of tax rated and tax exemption incentives on financial performance of manufacturing industries. The study adopted a descriptive survey research design. The study targeted all the 566 manufacturing industries operating in the Nairobi County where 85 manufacturing firms were sampled. Primary data was collected using structured questionnaires and analysed through Statistical Package for Social Sciences version 24. Descriptive and inferential statistics were used for analysis. Descriptive statistics which described the population were mean, standard deviation and percentages while inferential statistics were correlations and regression analysis. A multivariate regression model was adopted to establish the effect of tax incentives on financial performance. The results of the study showed that capital allowance incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County ($B = 0.204$; $t = 2.425 < 1.96$; P-Value $= 0.019 < 0.05$) ; tax rate incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County ($B = 0.491$; $t = 8.298 < 1.96$; P-Value $= 0.000 < 0.05$) and tax exemption incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County ($B = 0.772$; $t = 9.290 < 1.96$; P-Value $= 0.000 < 0.05$). The study findings led to the conclusion that capital allowance incentive is important in enhancing financial performance of manufacturing firms in Nairobi and that an increase in capital allowance incentives leads to a significant increase in financial performance of manufacturing firms in Kenya. The study also concludes that tax rates incentives are important in improving financial performance of manufacturing firms in Kenya and that an increase in tax rate incentives leads to a significant increase in financial performance of manufacturing firms in Kenya. The study also concludes that tax exemption incentives play a significant role in improving financial performance of manufacturing firms in Kenya and that an increase in tax exemption incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

### 1.1.1 Global Perspective

The idea about tax has been a concern about worldwide significance as it influences each economy regardless about national contrasts (Oboh *et al*., 2012). Charge change are intended to guarantee that there may be rearrangements from claiming charge system, tending to the value inquiry in the dissemination of expense burden, fortifying expense administration, guaranteeing income sufficiency Furthermore swaying or disheartening particular activities, however actualizing assessment changes to help this objective for a Perfect charge framework bring stayed a test (Gitau *et al*., 2014).

James (2010) focuses out that arrangement makers utilize both tax and non-tax incentives on draw investment crosswise over their outskirts. He also finishes up that those economy's speculation atmospheres will be discriminating of the adequacy of assessment incentives. Administrations offer regulate alternately backhanded venture incentives on support employment, urge those advancement of the private segment and move forward their focused position to today's worldwide economy. Throughout as long as twenty years, incentives clinched alongside numerous regards have get a paramount arrangement device around of a lot of people administrations on increment their stake about speculation so as will pick up the consideration from claiming possibility moguls and on sit tight aggressive with different nations putting forth incentives (Gitau et al, 2014).

It need been archived that there need constantly been warmed examinations Concerning illustration on whether, what's more to what extent, those administrations could Also ought further bolstering utilize the charge framework for arrangement objectives other than raising

duty income. Raising duty income will be a way and regulate objective of Kenya's expense system, subsequently striking the fitting offset done gathering the ever expanding contending needs. It is those attentions of the last that need seen those administration of Kenya, in other governments, Present expense incentives for those conviction that levy may be a proper arrangement instrument flying On attracting ventures (Institute about monetary Affairs, 2012).

United Nation Conference Trade and Development (UNCTAD) characterizes expense incentives as whatever incentives that diminish those assessment load from claiming whatever gathering in place with actuate them with put resources into specific tasks or parts. They would exceptions of the all assessment administration Furthermore might include, decreased assessment rates on profits, assessment holidays, bookkeeping tenets that permit accelerated devaluation and passing convey advances for assessment purposes, furthermore diminished levies looking into foreign equipment, components, furthermore crude materials, or expanded levies on protect those local business sector.

Those investigation discoveries of Ironkwe and Peter (2015) also subside shown that worth included duty (VAT) affected negatively on the fiscal execution for agribusinesses however the sway is from claiming inconsequential esteem. In view of the findings, the study recommended that agribusinesses ought to attempt to stay with fitting hotspot documents for every one transaction to effective VAT operations Furthermore that the legislatures if guarantee that best possible assessment motivating force plan might have been planned What's more completely executed will push those development of agribusinesses, in Nigeria.

### 1.1.2 Kenya Perspective

The Kenya Revenue Authority (KRA) characterizes expense motivation Similarly as a procurement that grants At whatever representative or action positive position states that veer off starting with those typical procurements of the charge enactment. Mutua (2011) characterized charge impetus Likewise a deduction, avoidance or exclusion starting with charge

obligation advertised Likewise a allurement to captivate in An specified speculation movement. Those practically predominant duty incentives over Kenya take those manifestations for venture allowances, assessment credit, extraordinary budgetary zones, diminished duty rates and expense exception. Particular assessment incentives advertised incorporate capital allowances, money market incentives, EPZ profits Also expense remissions for fares (Githaiga, 2013).

The tax incentives are in form of tax holidays, initial capital allowances, withholding tax exemption, Value Added Tax (VAT) reductions, income tax rates reductions, and preferential tax rates, carry forward losses and import duty exemptions (Mayende, 2013). The importance of tax incentives in attraction of internationally mobile capital differs with the jurisdiction of the study and the methodology used in drawing conclusions (Munongo et al., 2017). Tax reduction is the most important reason that encourages investors to invest offshore because it allows them to improve their economic and financial performance. (Hedia *et al.,* 2011).

Liargovas and Skandalis (2008) indicated fiscal execution concerning illustration the level for execution of a benefits of the business in a specified period of time, communicated as far as in general benefits and misfortunes throughout that run through. Assessing the fiscal execution of a benefits of the business permits decision-makers should judge the comes about of business methodologies what's more exercises done objective fiscal terms. A subjective measure from claiming how great a firm might utilize advantages starting with its essential mode of business Furthermore produce incomes (Evans et al., 2016).

Onyango (2015) contended that there would huge numbers different approaches with measure monetary performance, anyhow every one measures ought further bolstering be made clinched alongside amassed. The prevalent proportions that measure authoritative execution might be summarized Likewise productivity and growth: return once stake (ROA), profit with respect to venture (ROI), return for equity (ROE), give back ahead deal (ROS), income growth, business shares, stock price, offers growth, liquidity What's more operational effectiveness (Mainelli &

Giffords, 2010).

The study of the relationship between tax incentives and the performance of the firms, has known as a peak during these last decades. As a tool of government policy, tax incentives can be adopted to attract investors who want to increase the profitability of their businesses to promote investment. Tax incentives gives boundless points of interest will SME. Those significant duty incentives allowed on business endeavor need aid in the structure of money remittances which include: IDA, IBA and Wear and tear. Clinched alongside Kenya, the capital remittances qualified to in the quite a while would be deducted from those in general corporate charge risk. Those charge incentives along these lines open entryways to business endeavor will report higher profit after (Onyango, 2015).

Philips (2010) observed that tax incentives will not only generate employment but will motivate the self-employed to incorporate into limited liability companies. This will lead to improved profitability of the firm. Tax incentives are widely used by governments around the world to attract private investment in preferred industries, including tourism. Incentives are often granted to offset actual or perceived differences in the cost of doing business in different political jurisdictions whether the cost differences arise from tax differences or from differences in transportation, labor, or other costs.

Philips (2010) watched that assessment incentives won't best produce employment yet will inspire those independently employed should fuse under restricted risk organizations. This will prompt progressed profitability of the firm. Tax incentives need aid generally utilized by legislatures around the world to attract private investment in favored industries, including tourism. Incentives need aid frequently allowed on counterbalance genuine alternately observed contrasts in the expense of working together in different political locales if those expense contrasts emerge starting with assessment contrasts alternately from contrasts On transportation, labor, or other costs.

The Government offers tax incentives to new or expanding business enterprises in order to encourage the private sector to increase their investments as well as attracting more private business entrepreneurs into the economy (Mayende, 2013). Incentives raise those profit on capital thereby making investment attractive, thus expansion productivity of the firm. There would be different sorts for monetary incentives. These incorporate legislature procurement of The following market interest loans, duty alleviation through the utilization of credits, deductions or abatements, regulate grants for land and facilities, and taxpayer financed work force training for targeted organizations and commercial enterprises (Bronos & McDonald, 2008).

Kenya has a large manufacturing sector serving both the local market and export to the east Africa region. As stated by kenya association of Manufacturer (KAM, 2018), there more than 700 registered members who are arranged as large, medium, and little scale Manufactures, Likewise the individual manufacturing organizations for a turnover between ten million and twenty million shillings. Medium scale manufacturer range in turnover between twenty million and two hundred and fifty million shillings. Furthermore, large scale manufacturers have turnovers in excess of two hundred and fifty million Kenya shillings.

KAM argues that the manufacturing sectors faces a number of challenges. These include high cost of production affects both investment decision and competitiveness of Kenya products; illicit trade characterized by counterfeit or untaxed goods and inadequate government support for local produce. Since manufacturing firms are business entities that participate in the production process of a nation, they are critical members of the economy. Their survival and success requires a sustained focus on critical issues such as policy advocacy, business services, networking and coalitions locally, regionally and globally. Their leadership toward this goal is therefore, paramount.

## 1.2 Statement of the Problem

The researchers who recommend tax incentives contend that it prompts higher rates from claiming give back with respect to both equities Furthermore benefits and that frees up A percentage income to make reinvested in the business (Bronos & McDonald, 2008). With expanded globalized economies portrayed by stiff competition, there may be therefore An need for aggressive Tax systems, a strategy meant during stronghold for commercial enterprises including manufacturing business along these lines Concerning illustration with make exchanging point.

However, in spite of the exert settled on the government, there may be at present a considerable measure from claiming sickly business done in Kenya and this has cause a considerable measure about concern of the legislature. As stated by (John, 2013) some of the issue confronting manufacturing enterprises are incorporate feeble, aggressive ranking, insufficient legislature support, difficulties and unfavorable working surroundings because of unlucky deficiency for reserve with back capital activities similar to expansions. Another real issue confronting manufacturing enterprises thereby obstructing its improvement is the issue of excessive taxation in the form of high tax rate, double and multiple taxation.

Despite taxation structures a standout amongst the significant hotspot for income on government, it might influence manufacturing organizations negatively though not legitimately connected and administered. Thus, higher tax rates serve similarly as disincentive to organizations for financing and development as, it abandons organizations for squealer cash to reinvest. This inevitably discourages productivity, investment What's more also, those level from claiming yield toward manufacturing industry (Van & James, 2010). Should the tax incentive gap persist, the better financial performance of manufacturing industry goal in Kenya may be difficult to achieve. A need therefore arose to investigate the effects of Capital allowance, |tax rate and tax exemption on financial performance of manufacturing industries in

Kenya.

Investigations need been carried out globally: Evans *et al.* (2016) did a study on The Effect of Tax Payment on the Performance of SMEs: The Case of Selected SMEs in Ga West Municipal Assembly in Ghana. The study aimed to explore the managers/ executive officers' perception of the tax system in Ghana on the profitability of their businesses and was concluded that taxes imposed on small and medium enterprises impact their growth in terms of profits in different was.

Mayende (2013) Examined The Effects of Tax Incentives on Firm Performance: Evidence from Uganda. It was discovered that firms with tax incentives perform better in terms of gross sales and value added than their counterparts. Hedia, Amira, Jameleddine, and Jaleleddine (2011) Assessed The Impacts of Tax Incentives on Corporate Financial Performance: The Case of the Mechanical and Electrical Industries Sector in Tunisia. The result observed that tax incentives is granted by the government so as to stimulate investment and promote exports as the motor of the Tunisian economy.

None of the studies known to the researcher have investigated the effect of tax incentive on the financial performance of manufacturing industries in Nairobi County. This interrogation subsequently endeavors to a solution for the Emulating research inquiry: What is the effect of tax incentive on the financial performance of manufacturing industries in Nairobi Kenya?

## 1.3 Objectives of the Study

### 1.3.1 General Objectives

To establish the effect of tax incentives on financial performance of Small Medium Enterprise in Nairobi County Kenya

### 1.3.2 Specific Objective

i. To determine the effect of Capital Allowance on financial performance of manufacturing industries in Nairobi Kenya.
ii. To ascertain the effect of tax rates on financial performance of manufacturing industries in Nairobi Kenya.
iii. To examine the effect of Tax exemption on financial performance of manufacturing industries in Nairobi Kenya.

## 1.4 Research Questions

i. What is the effect of Capital Allowance on financial performance of manufacturing industries in Nairobi County Kenya?
ii. What is the effect of tax rates on financial performance of manufacturing industries in Nairobi County Kenya?
iii. What is the effect Tax exemptions on financial performance of manufacturing industries in Nairobi County Kenya?

## 1.5 Signification of the Study

The research is expected to be useful to the Kenyan government, policy makers, legislature and regulatory bodies such as the Kenya Revenue Authority. This gives proposals of the administration on the could be allowed territories that oblige improvement, to make those system additional relevant Furthermore additional engaging of the users.

To the investors and citizens, this study provides an insight into Tax incentives and their effects on manufacturers. Investors needs to establish business strategies putting into consideration the long term effects and consequences of their decisions on the business and the economy. It is necessary to educate potential investors and citizens so as to encourage support and compliance for good macroeconomic policies.

The study is expected to help the existing written works on the function of tax incentives, its benefit and how it contributes to improve financial performance of the firm. The research is expected to also improve the hypotheses identified with assessment incentives and the experimental investigations. Researcher interested in this area could utilize the discoveries and the study as a base to further investigate.

### 1.6 Scope of the Study

This study confined itself to the population of registered manufacturers located in Nairobi region. It confined itself to effect of tax incentives in the financial performance of manufacturing industries within this area and providing recommendations according to the findings.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

This chapter presents the review of literature. In academic research, literature review is an imperative discussion that facilitates uncovering of past work and knowledge in research study. The chapter covers theoretical framework, empirical literature on tax incentive, various aspects of financial performance, empirical review and the summary of the literature review.

## 2.2 Theoretical review

This part covered the theories that support the relationship between the tax incentives and financial performance. These theories are; Benefit theory and Agency Theory.

### 2.2.1 Neoclassical Investment Theory

Jorgenson introduced the neoclassical investment theory which suggests that firms will continue to accumulate capital as long as the costs of doing so are less than the benefits. Since firms experience decreasing returns from additional capital, they will stop when the present value of returns from capital equals the present value of costs (Munongo *et al.*, 2017). Since the before-tax rate of return on capital is viewed as a cost of capital, lower tax rates reduce the cost of capital and increase the investment in more capital stock. The neoclassical investment theory thus suggests that tax incentives encourage growth of established firms through reinvestments and also lures new investments since it reduces the cost of capital. (Van & James,

2010)

Onyango (2015) focuses out that there is other purported benefit of tax incentives, for example, such that typical indicating effects and the requirement will adjust to insufficiency in the investment administration elsewhere. Procurement for venture incentives may be in the manifestation for

whichever assessment alleviation or money awards. Universal knowledge indicates that such incentives assume best  a minor part done investment choices. Organizations aggravate speculation choices dependent upon a number factors including projections of future demand, assurance over future legislature policy, prevailing premium rates and moves by contenders. Over general, they see incentives Similarly as 'nice on have' Be that not bargain breaking. Yet incentives stay An mainstream strategy for both produced and creating nations. (James, 2010).

### 2.2.2 Benefit Theory

Nisar (2014) Illustrates that in this theory, the state ought further bolstering demand charges ahead people as stated by those profit gave for them. The All the more profits an individual infers starting with the exercises of the state, the more he ought to pay of the legislature. This guideline need been subjected will extreme feedback on the Emulating grounds: Firstly, On the state supports a certain association the middle of the profits gave and the reductions inferred. It will a chance to be against the essential rule of the charge. A tax, concerning illustration we know, is necessary commitment constructed of the open powers with help the liabilities of the legislature and the procurements about all profit. There may be no immediate quid ace quo on account of a assessment.

Secondly, the vast majority of the use incurred Toward those state may be for the general profit for its citizens, it will be not could reasonably be expected to gauge those benefit enjoyed by a particular individual consistently. Thirdly, on we apply this standard in practice, At that point poor people will must pay those heaviest taxes, in view they profit more starting with those benefits of the state. Though we get All the more starting with poor people by method for taxes, it will be against the guideline for justice? (Neumark *et al.*, 2013)

Benefit taxation is a system in which individuals are taxed according to the benefits they receive from public expenditures. Under the benefit principle, taxes are seen as serving a purpose similar to that of prices in private transactions; that is, they help determine what

activities the government undertakes as well as who pays for them. If this principle could be implemented, resource allocation would be directly responsive to the wishes of citizens as consumers of public services, not just as voters (Nisar, 2014).

One important reason for examining the feasibility of financing public expenditures through benefit taxation is the demands made on the revenue structure by the growth of expenditures. They concluded that, benefit taxation cannot be seen as a principle of taxation distinct from ability-to pay taxation. Any differences between the two are consequences of informational restrictions and not representative of some fundamental distinction. Equal absolute sacrifice taxation is different even with complete information it is more restrictive than the other two when consumers are not identical (Neumark *et al.,* 2013).

### 2.3 Conceptual Framework

Conceptual framework as a visual or written product that explain either graphically or in a narrative, the main things to be studied, the key factors, concepts or variables and the presumed relationship among them. It is therefore a model used in research to outline possible courses of action or to present a preferred approach to an idea or thought. A conceptual framework is very important in any research study being undertaken. It shows the relationship between the dependent variables and the independent variable.

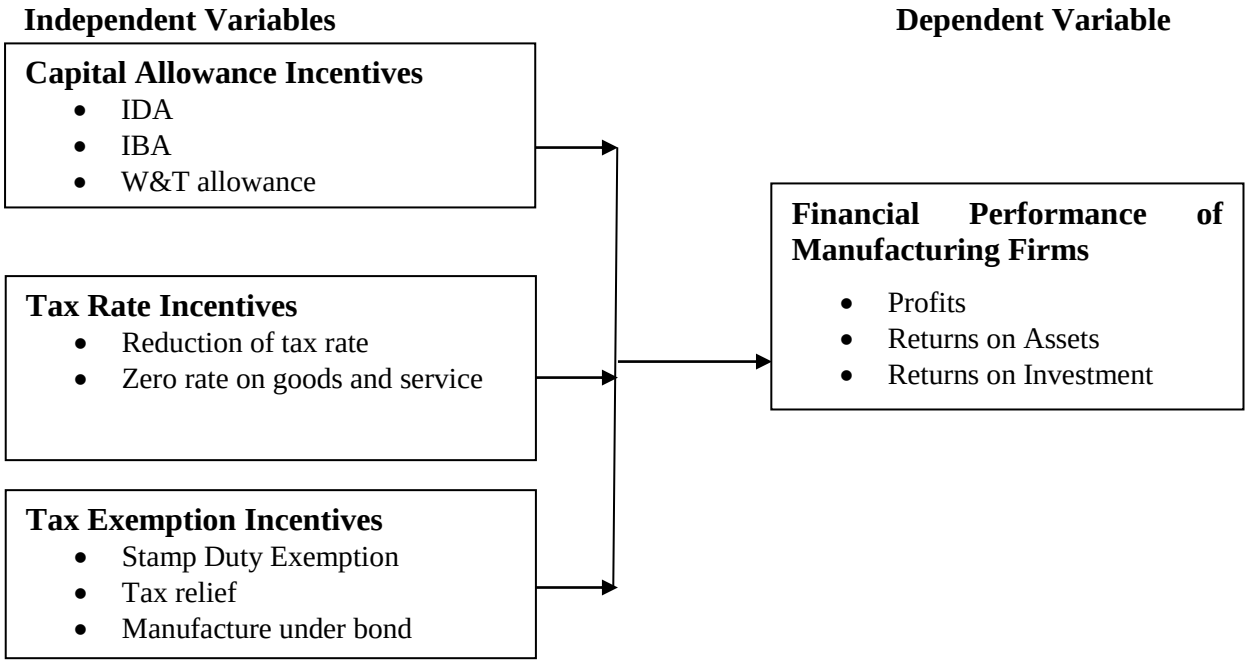


**Figure 2.1 : Conceptual Framework**

## 2.4 Empirical Review

### 2.4.1 Capital Allowance

Zwick and Mahon (2016) evaluated the impact for impermanent assessment incentives on firm gear execution. This examine utilized two scenes about investment boost Also a difference-in-contrasts technique should ponder those impact from claiming charges ahead investment what's more entryway it differed crosswise over organizations. Examining information In excess of 120,000 organizations it might have been discovered that reward deterioration required a significant impact a head speculation. Those consider shown methodological exploration holes which suiting those decision of the technique in the current consider.

The study by Zwick and Mahon (2016) utilized a difference-in-differences technique to accomplish its targets. The study likewise concentrated with respect to brief assessment incentives and the execution from claiming gear. The present consider deviated from the decision about the individual's variables and centered on a number of assessment incentives versus fiscal execution about manufacturing commercial enterprises. This might have been Previously, a endeavor with fill those existing applied learning hole from this consider toward Zwick Also Mahon (2016).

An investigation by Rosenberg Furthermore Marron (2015) concentrated with respect to startup and additionally imaginative organizations so as with inspect the alterations by tax strategies looking into venture incentives. The study concurred for different secret word investigations Furthermore built that broadly changing assessment rates were forced Toward existing strategies on the speculations that were conveyed out in separate commercial enterprises and additionally distinctive exercises that favoring debt in equity. It might have been just as noted that the existing approaches Additionally forced those powerful expense rates by top pick pass recipient substances again enterprises. The cost of capital was well lowered by the targeted tax incentives for some specific businesses such as those that invested in intellectual property,

startup organization as well as small enterprise.

Oghoghomeh (2014) same time surveying agribusiness tax incentives in Nigeria originated dependent upon with the suggestion that because of absence of sufficient trusts achieved. Absence of capacity will acquire that's only the tip of the iceberg subsidizes starting with the money markets, incentives ought be meant In small and developing agribusinesses. Therefore the required results may not be attained by reducing tax rates or even introducing tax holidays More viable measures for example, such that forthright subsidizing from speculation expense credits were thusly found should a chance to be All the more important on agribusiness in Nigeria.

Oghoghomeh (2014) study utilized primary information gathered toward utilization of questionnaires which were semi organized previously, manifestation. This gathered both quantitative and qualitative information. Those gathered information might have been breaking down utilizing spellbinding routines which might have been a significant system utilized. The contemplate centered ahead little What's more medium Undertakings operating in the agri-business division. Those certainties that there will be a relevant contrasts prompted a require should concentrate on an additional sector, manufacturing segment should secure those impact of the same duty incentives around execution. More so, the examine might have been directed over Nigeria. Those present investigation centered with respect to three assessment incentives What's more their impact on manufacturing commercial enterprises operating clinched alongside Kenya thus Concerning illustration will fill those applied Furthermore connection learning holes.

For Kenya, Githaiga (2013) searched with investigate the influence of tax incentives on performance of firms listed at the NSE. The fundamental center from claiming this contemplate might have been on the taking after variables that incorporated the impact of wear Furthermore shred remittances looking into attracting inflows about FDI under those organizations recorded during NSE, those effect for financing deductions for fascination for FDI of the organizations and also mechanical fabricating deductions guided at attracting FDI inflows under every one the individuals organizations recorded at the NSE Throughout those contemplate period. Those study made utilization of time arrangement information that might have been gathered for speculations and also expense incentives starting with An example about 10 organizations recorded at the NSE between A long time 2008–2011.

The discoveries of the investigation uncovered a solid relationship between wear and tear allowance and FDI inflows. Streamlined fabricating deductions and speculations deductions were discovered should bring no noteworthy association with FDI inflows. Those consider by Githaiga (2013) demonstrated planned deliberations should join assessment incentives with fiscal execution. The current study is built more on the work by Githaiga (2013). There might have been a concentrate on an alternate situated about assessment incentives.

### 2.4.2 Tax rates

Investigation that has been led by Devereux et al. (2015) centered once corporate tax incentives and additionally firm performance. This investigation utilized information that was from private assessment form information that was joined with the information from fiscal explanations for a board from claiming organizations in the UK that were in operation between the monetary A long time 2001/2002 - 2009/2010. The examination of the consider was dependent upon that private expense form information in the UK by company-level. There were involved kinks in the corporate assessment rate calendar that prompted the variety in the company's minor charge rates that in this manner furnished the heading identity number methodology

John (2013) directed an investigation on the effects of corporate income tax on financial performance of listed manufacturing firms in Ghana. The information technique of the investigation that might have been embraced might have been board information that secured 10 recorded manufacturing organizations in the nation that were in operation to a time from claiming 7 a long time. Those experimental examinations might have been concentrated on the impact around monetary execution of corporate salary charge. Those discoveries of the contemplate shown that corporate salary charge Furthermore fiscal execution are essentially negatively related. In contrast, a number of variables that included firm ‘s size, period of the firm and also those Growth of the firm indicated a huge certain relationship of the fiscal execution of the firm to the time secured in the consider.

Klemm and van Parys (2009) tried with create the viability of assessment incentives for attracting FDI and if charge incentives are utilized within contending to FDI. They utilized information looking into tax incentives from 40 Latin American, Caribbean and African nations for the period 1985-2004. They applied panel econometric techniques in their study and concluded that lower tax rates are important in FDI attraction. Their use of spatial panel econometrics aided their second finding that tax holidays as well as lower corporate taxes are used in tax competition for FDI. These studies took data from countries across the globe which do not belong to a specific region. The conclusions show divergent views on the effectiveness of tax incentives on FDI attraction.

Djankov, Ganser, Mclesh, Ramadho, and Shleifer (2009) in partnership with Price water house Coopers conducted a survey of 85 countries. The survey used effective corporate rates which were applied in 2004 for the sampled countries. It emerged that corporate tax rates have an adverse impact on gross investment, FDI and entrepreneurship. Corporate taxes were found to attract investment in the manufacturing sector but not in the services sector.

In the east African region, Action Aid International (2012) concentrated around establishing tax incentives advertised by east Africa states affected on the execution of the organizations in the locale. Those investigations might have been termed a race of the bottom. As stated by those study, Kenya procurement from claiming charge incentives might have been and only the expense rival "around the organizations from claiming parts of the east Africa Community (EAC). A number of tax incentives might have been introduced by Kenya. Thats only the tip of the iceberg maintained person that provided for organizations corporate salary charge occasion that endured for 10 years and also introduced them tax exemption that came about starting with import obligations in the send out preparing Zones. The import duties were broadened on raw materials as well as excise duty and VAT.

Wachira (2011) determined the benefits and effectiveness of tax avoidance strategies adopted by Kenya Airways. A descriptive survey was carried out and current data was used. A semi structured questionnaire was applied as the data collection tool that involved both open and closed format questions. The study adopted a Case study of Kenya Airways. The respondents of the study were the Tax manager and the supporting officers in Kenya Airways tax department. Data was analyzed using descriptive statistics and the findings showed that Kenya Airways considered various tax options in order to take full advantage of all available tax deductions, both business and personal. Further KQ implemented strict measures to avoid tax evasion that is the reduction of tax through deceit, subterfuge, and concealment.

### 2.4.3 Tax Exemption

Clinched alongside Denmark, a study by Copenhagen economics (2008) centered around Value Added Tax incentive on products on products in the European union part states vis a is the interest for such products What's more services, the costs of the merchandise and services, and also how that translated of the creation of the merchandise and administrations What's more extreme Frisbee its impact with respect to occupation. Those consider built that those

progressions in the rate of value added tax were in the long run passed down of the shoppers of the merchandise. Whether there were high tax rates, the shoppers finished dependent upon paying All the more for the goods, an instance in act might have been An 10% expand in the quality included charge ahead periodicals in the Italian business sector Also that prompted a 14% expansion in the last bargain of the same item.

In the connection about China, Gourdon et al. (2014) established how frequent changes in value added tax were related to performance of exports in the Chinese economy. A timer series data methodology was considered for this study and the data used for this ponder and the information utilized were purely optional progressions in the worth included rebates were created with altogether Also positively influence the volume exported outside those nation on the study period. As far as magnitude, a one percent expand done esteem included value added tax was discovered to help a seven percent expand in the volume of export outside China.

The comparison with the present study reveals conceptual research gap since the study by Gourdon *et al* (2014). kept tabs on changes in value added tax and performance of export. The current research looks more at tax incentives and their effect on financial performance of manufacturing industries in Nairobi county Kenya. The research by Gourdon et al (2014) was also conducted in china hence uncovering a relevant gap because of those contrasts in the status of the economies of the two nations. It was hence Subsequently not conceivable to examine the finding of the study of Gourdon et al (2014) of the Kenyan setting. The present investigation hence focused on tax incentives and financial performance of manufacturing industry

Ironkwe and Peter (2015) directed an investigation pointed at investigating the impact of value added tax incentive on corporate financial performance of quoted companies. Agribusinesses cited in the Nigerian stock trade truth book of 2009 were viewed as similarly as those populations for this examine. The population components incorporate the general Managers,

Head Accountants, money Managers, Chief internal Auditors, External Auditors, and tax managers of the chosen organizations. What added up to forty (42) respondents were viewed as for this consideration

The study findings of Ironkwe and Peter (2015) shows that value Added Tax (VAT) affected negatively on the financial performance of agribusinesses though the effect will be for inconsequential esteem. In light of the findings, those contemplate prescribed that agribusinesses should endeavor to keep documents about the sum transactions to productive VAT operations and that the legislatures should ensure proper tax incentive plan is designed and fully implemented to promote growth of agribusiness, in Nigeria.

**2.5 Critique of the existing literature relevant to the study**

Munongo *et al.,* (2017) identify two sources of revenue loss due to tax incentives. Firstly, tax incentives discourage other investments in favor of the incentive-receiving projects hence revenue is lost from the foregone projects. Secondly, revenue is lost since businesses will improperly claim incentives and in some instances shift income from taxable activities to those that fall under tax incentives thereby avoiding tax. Government tax provision comes with associated costs in enforcing the tax laws and ensuring that parties comply. Tax incentives are difficult to administer and enforce which leads to huge losses in revenue to governments that operate them.

Tax incentives give bureaucrats the opportunity to engage in corrupt and rent-seeking activities. This is prevalent in cases where tax incentives give the authorities discretion to determine which projects qualify for incentives and which do not. Corruption is high with tax incentives, due to direct links between investors and government authorities who use their discretion in implementing tax incentive (Munongo, Akandi, & Robinson, 2017).

The empirical findings show that tax incentives lead to significant corruption. The study employed a large cross- section of European countries and two-stage least square analysis to reach the conclusion (Zelekha & Sharabi, 2012).

Klemm and Van Parys (2009) Sought to establish the effectiveness of tax incentives in attracting FDI and whether tax incentives are used in competing for FDI. They used data on tax incentives from 40 Latin American, Caribbean and African countries for the period 1985-

2004. They applied panel econometric techniques in their study and concluded that lower tax rates are important in FDI attraction. Their use of spatial panel econometrics aided their second finding that tax holidays as well as lower corporate taxes are used in tax competition for FDI. These studies took data from countries across the globe which do not belong to a specific region. The conclusions show divergent views on the effectiveness of tax incentives on FDI attraction.

Oghoghomeh (2014) while assessing agribusiness tax incentives in Nigeria came up with the recommendation that due to lack of enough funds brought about by lack of ability to borrow more funds from the capital markets, incentives should be aimed at small and growing agribusinesses. Therefore the required results may not be attained by reducing tax rates or even introducing tax holidays. More effective measures such as upfront funding from investment tax credits were therefore found to be more relevant to agribusiness in Nigeria.

Oghoghomeh (2014) study utilized primary data collected by use of questionnaires which were semi structured in form This gathered both quantitative What's more qualitative information. The gathered information was investigated utilizing spellbinding systems which was a major system utilized. The study concentrated SMEs ventures operating in the agri-business segment. The reality that there is a relevant contrasts prompted a requirement to concentrate on an additional sector, manufacturing division on build those impact of the same assessment incentives ahead execution. All the more so, the investigation were done at Nigeria. The current

research concentrated on three assessment incentive and their effect on financial performance of manufacturing enterprises in Nairobi county, Kenya so as to fill the conceptual and context knowledge gaps.

### 2.6 Summary

From the expositive expression review, those experimental discoveries bring delineated blended comes about from those experimental investigations directed in distinctive parts other than those manufacturing commercial enterprises (Kimeu, 2013). The above hypotheses have shown that there exists a sure relationship between tax incentives and financial performance of firms. In spite of investigations have been done in this area in the local setting: (Kimeu, 2013), (Wachira, 2011) and (Githaiga, 2013) "among others, in the locality. None of the studies have investigated the effects of tax incentives on the financial performance in the manufacturing industries. This study therefore sought to find an answer to the research question.

### 2.7 Research gaps

From the previous researches, it is seen that most of the studies conducted in the manufacturing sector have focused more on factors influencing the growth and development of manufacturers in Nairobi and other towns. Also, researches have been conducted concerning the entrepreneur's characteristics and on how they affect growth of manufacturing industries. Whereas this is important, an understanding is required on the effects of Tax incentive on financial performance of manufacturing industry in Nairobi County. This is because the future sustainability of manufacturing industry is largely the result of these factors (Klemm & Van Parys, 2009; Oghoghomeh, 2014; Githaiga, 2013).

Consequently, manufacturing is a rapidly growing sector and is the one which supports the economy of the country. In spite of its importance, no known studies have been conducted in the recent years the effects of Tax incentive on financial performance of manufacturing industry in Nairobi County. Finally, this study was conceived and reflects on findings of previous

studies on the subject of manufacturing industry and their effect on performance. By focusing on manufacturers and the effects of Tax incentive on financial performance of manufacturing industry in Nairobi County, the study not only built on our knowledge of manufacturers but also adds value on aspects which have previously not attracted adequate attention.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The chapter discussed the procedures used in the study. Research design, target population, the sample size and sampling method, data collection method, validity and reliability, data collection procedure and data analysis have been presented.

## 3.2 Research Design

According to Kathori (2008), "research design is a plan, structure and strategy of investigation to obtain answers to research question and control variance." The study adopted a descriptive survey research design. The design was meant to describe the respondents view and opinions on the variable of the study. Through this design the study was able to establish the effects of tax incentives on financial performance of manufacturing industries.

## 3.3 Target Population

The study targeted all the manufacturing industries operating in the Nairobi County. Kenya Association of Manufacturers records 2019 indicated that there was a total of 566 manufacturing firms operating in Nairobi County under Food and Beverages, Chemical and Allied, Plastics and Rubber, Metal and Allied, Paper and Paper Board, Building Construction and Mining, Energy, Electrical and Electronics, Fresh Produce, Leather and Footwear, Motor Vehicle and Accessories, Pharmaceutical and Medical Equipment, Services and Consultancy, Textiles and Apparels and Timber , Wood and Furniture subsectors. The entire population was considered for this study as shown in Table 3.1.

**Table 3.1 Target Population**

| Number | Sub Sector | Population | Percentage |
|---|---|---|---|
| 1 | Food and Beverages | 117 | 21 |
| 2 | Chemical and Allied | 48 | 8 |
| 3 | Plastics and Rubber | 46 | 8 |
| 4 | Metal and Allied | 58 | 10 |
| 5 | Paper and Paper Board | 45 | 8 |
| 6 | Building Construction and Mining | 25 | 4 |
| 7 | Energy, Electrical and Electronics | 26 | 5 |
| 8 | Fresh Produce | 10 | 2 |
| 9 | Leather and Footwear | 5 | 1 |
| 10 | Motor Vehicle and Accessories | 34 | 6 |
| 11 | Pharmaceutical and Medical Equipment | 15 | 3 |
| 12 | Services and Consultancy | 81 | 14 |
| 13 | Textiles and Apparels | 38 | 7 |
| 14 | Timber , Wood and Furniture | 19 | 3 |
| | **Total** | **566** | **100** |

Source: KAM (2019)

### 3.4 Sample Size and Sampling Frame

#### 3.4.1 Sampling Frame

Sampling frame refers to a list of the target units from which a sample can be obtained (Smith, 2015). For this study, the sampling frame was a list of all the 566 manufacturing firms operating in Nairobi County as indicated in Appendix III.

#### 3.4.2 Sample and Sampling Technique

The study used stratified random sampling because the target population was heterogeneous (Different subsectors). In this technique, a population is stratified first and then random sampling is done. Stratification is done when members of a target population are divided into homogeneous groups before sampling. After the members have been put into homogenous groups, they are randomly picked using the simple random sampling. This process is preferred because no element of the population is left out. The strata are collectively exhaustive. Sampling error is reduced if the procedure is used (Mugenda, 2008).

Before sampling, the sample size was determined using Yamane (1957) formula at an error term of 10% as shown. The use of a formula to determine a sample size when the target population is above 200 is justified by Flick (2015) ; Smith (2015) and Mugenda (2008).

$$n = \frac{N}{1 + N (e)^2}$$

Where n is the sample size, N is the target population, e is the error term (10%).

$$n = \frac{566}{1 + 566 (0.1)^2}$$

n = 85 Manufacturing firms.

After determination of the sample size, the 85 manufacturing firms were proportionately stratified into the 14 sub sectors as shown in Table 3.2.

**Table 3.2 Sample Size**

| Number | Sub Sector | Population | Sample Size |
|---|---|---|---|
| 1 | Food and Beverages | 117 | 18 |
| 2 | Chemical and Allied | 48 | 7 |
| 3 | Plastics and Rubber | 46 | 7 |
| 4 | Metal and Allied | 58 | 9 |
| 5 | Paper and Paper Board | 45 | 7 |
| 6 | Building Construction and Mining | 25 | 4 |
| 7 | Energy, Electrical and Electronics | 26 | 4 |
| 8 | Fresh Produce | 10 | 1 |
| 9 | Leather and Footwear | 5 | 1 |
| 10 | Motor Vehicle and Accessories | 34 | 5 |
| 11 | Pharmaceutical and Medical Equipment | 15 | 2 |
| 12 | Services and Consultancy | 81 | 12 |
| 13 | Textiles and Apparels | 38 | 6 |
| 14 | Timber , Wood and Furniture | 19 | 3 |
| | **Total** | **566** | **85** |

### 3.5 Data Collection Instruments

The study used quantitative primary data collected using a questionnaire. According to Quinlan, Babin, Carr and Griffin (2019), data is said to be primary if it is collected first-hand by inquirer for a determinable purpose. The questionnaire was structured and had likert scale questions to capture quantitative data which was suitable in descriptive and inferential analysis.

### 3.6 Data Collection Procedure

Smith (2015) defines data collections as the process of gathering and measuring information on targeted variables in an established systematic fashion, which then enables one to answer relevant questions and evaluate outcomes. A questionnaire was used to collect data through drop and pick method. This method was adopted because the respondents were busy and needed time to fill the questionnaires. A period of two weeks was allocated for the process to be a success. Before the data collection process began, an introduction letter was obtained from the university and used for introductory purposes.

### 3.7 Pilot Testing

A pilot study was conducted to establish the validity and reliability of data collection instruments (Weber, 2017). The questionnaires were pre-tested on a pilot set of 8 respondents for comprehension, logic and relevance. These 8 respondents make 9% of the sample size which is in line with Flick (2015) that between 1% and 10% can be used in a pilot. The 8 questionnaires were issued to manufacturing firms which were not included in the main survey.

#### 3.7.1 Reliability of the Research Instrument

Reliability is the degree of consistency with which the instrument measures an attribute. It further refers to the extent to which independent administration of the same instrument yields the same results under comparable conditions (Smith, 2015). Reliability analysis was used to assess internal consistency among the variables of study. The reliability of the study measures

was assessed by computing Cronbach's Alpha coefficient for all items in the questionnaire and the overall assessment was given (Lewis, 2015). A Cronbach Alpha threshold of 0.7 was adopted for this study as the threshold.

### 3.7.2 Validity of the Research Instrument

Validity shows the extent to which the instrument for data collection does what it was supposed to do (Taylor, Bogdan & DeVault, 2015). A valid questionnaire is reliable and can collect the information for which it was constructed to collect. This study established content validity of the questionnaire by relooking at the questions and sharing the same opinion with that of the supervisor.

## 3.8 Data Analysis and Presentation

The Statistical Package for Social Sciences (SPSS) version 24 was utilized for analysis. The information handling and examination was finished bearing in mind the objective of the research. Descriptive and inferential statistics were used for analysis. Descriptive statistics which described the population were mean, standard deviation and percentages while inferential statistics were correlations and regression analysis. A multivariate regression model was adopted to establish the effect of tax incentives on financial performance as shown below:

$$Y = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \varepsilon$$

Where

Y= Financial Performance, $\beta_0$=Constant, $\beta_1$ $\beta_2$ $\beta_3$ = Beta Coefficients, $\varepsilon$ = Error Term, $X_1$= Capital Allowance $X_2$ = Tax rates and $X_3$ = Tax Exemption

### 3.10 Measurement of the Variable

The section presents operationalization of the study variables.

**Table 3.3 Operationalization of the Study Variables**

| Variable | Type | Indicators | Source | Scale | Analysis Method |
|---|---|---|---|---|---|
| Capital Allowance | Independent Variable | • IDA<br>• IBA<br>• W&T allowance | Zwick and Mahon (2016)<br>Marron (2015) | 5 point Likert Scale | • Regression analysis<br>• Correlation analysis |
| Tax Rate | Independent Variable | • Reduction of tax rate<br>• Zero rate on goods and service | Devereux *et al*. (2015)<br>John (2013) | 5 point Likert Scale | • Regression analysis<br>• Correlation analysis |
| Tax Exemption | Independent Variable | • Stamp Duty Exemption<br>• Tax relief<br>• Manufacture under bond | China, Gourdon *et al.* (2014)<br>Gourdon *et al* (2014). | 5 point Likert Scale | • Regression analysis<br>• Correlation analysis |
| Financial Performance | Dependent Variable | • Profits<br>• Returns on Assets<br>• Returns on Investment | Onyango (2015) | -5 point Likert Scale | • Trend Analysis |

# CHAPTER FOUR

# DATA ANALYSIS, FINDINGS AND DISCUSSION

## 4.1 Introduction

The chapter contains data analysis and presentation of the study results. The chapter presents the findings, explanation and discussion. The demographic, descriptive, correlation and regression results have been presented in the chapter.

## 4.2 Response Rate

The study targeted a total of 85 manufacturing firms and hence an equal number of questionnaires were administered. The results on response rate are provided in Figure 4.1.

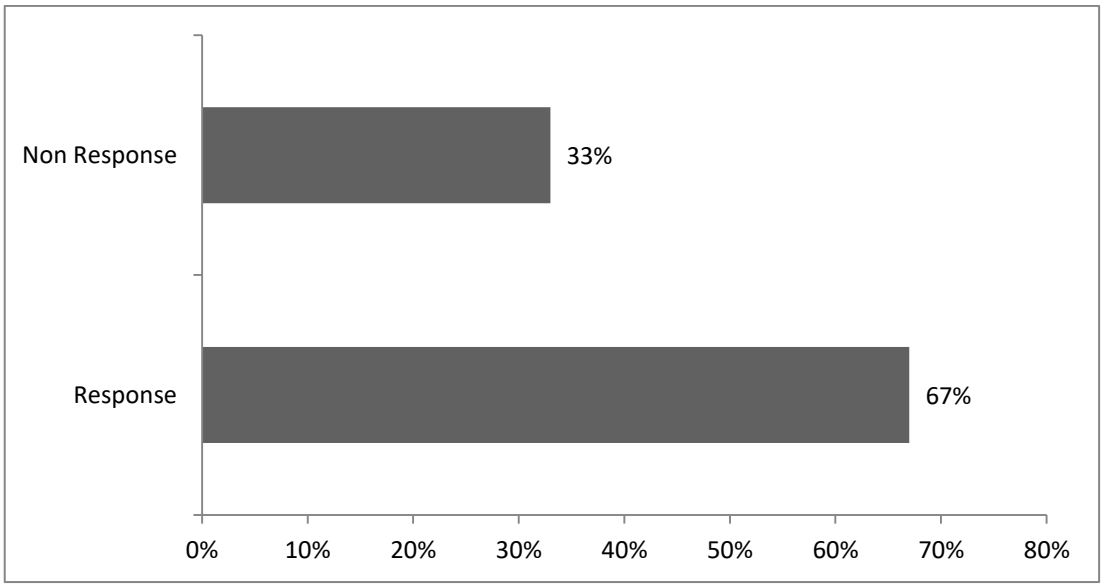


**Figure 4.1 Response Rate**

Based on the results in Figure 4.1, it was established that out of the number, a total of 57 questionnaires were responded to which gave a response rate of 67%. This response rate is considered satisfactory based on the argument by Kothari (2004) that a response rate above 50% is satisfactory for a survey.

### 4.3 Pilot Test Results

A pilot study was carried out to determine reliability of the questionnaires. The pilot study involved 8 respondents from manufacturing firms which were not considered in the main survey. The results are presented in Table 4.1.

**Table 4.1 Pilot Test Results**

| Scale | Cronbach's Alpha | Number of Items | Decision |
|---|---|---|---|
| Capital Allowance | 0.774 | 5 | Reliable |
| Tax Rates | 0.783 | 5 | Reliable |
| Tax Exemption | 0.756 | 5 | Reliable |
| Financial Performance | 0.764 | 5 | Reliable |

Based on the data from the 8 respondents, reliability analysis was conducted and the findings showed that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7. The Cronbach coefficient for Capital Allowance was 0.774,tax rates had 0.785, tax exemption had 0.756 and financial performance had 0.764 which were greater than 0.7.

### 4.4 Demographic Results

The demographic factors such as how long has the Firm had operated, respondent’s position, highest level of education and work experience were established and presented in Table 4.2.

**Table 4.2 Demographic Results**

| Demographic Factor | Category | Frequency | Percentage |
|---|---|---|---|
| | Less than 5 Years | 6 | 11% |
| | 6 to 15 Years | 19 | 34% |
| Duration of Firm's Operation | More than 15 Years | 31 | 55% |
| Position | Tax Accountant | 20 | 35% |
| | Chief Accountant | 5 | 9% |
| | Finance Manager | 22 | 38% |
| | Senior Manager | 10 | 18% |
| Level of Education | College | 12 | 21% |
| | University | 45 | 79% |
| Work Experience | Below 5 Years | 10 | 17% |
| | 5 to 10 Years | 24 | 42% |
| | More than 10 Years | 23 | 41% |

The demographic results in Table 4.2 indicates that up to 55% of the manufacturing firms which participated in the study had operated for a period more than 15 years, 34% had operated for a period 6 and 15 years and 11% had operated for a period below 5 years. The findings imply that majority of the manufacturing firms had operated in the country for a long period of time and hence they were aware of the tax incentive programmes in the country.

The study targeted tax accountant, chief accountant, finances manager or senior manager of the manufacturing firms to respond to the questionnaire on matter of tax incentives and financial performance. The majority of the respondents, 38% were finance managers, 35% were tax accountants and the rest were either senior managers or chief accountants. This implies that those who participated in the study participated in finance activities and hence had information

required on tax incentives and financial performance of the manufacturing firms.

In regard to the level of education, the results indicated that 79% of the respondents had a university level of education while 21% had a college level of education. This however implies that the respondents had a high intellectual capacity and could be able to read and understand the questions in order to give reliable results.

The results presented in Table 4.2 also established that 42% of the respondents had a work experience between 5 and 10 years, 41% had a work experience of more than 10 years while those who had a work experience below 5 years were 17%. These findings imply that majority of the respondents had institutional knowledge and understood matters of finance and tax incentives being sought since they had worked in their respective firms for more than 5 years.

### 4.5 Descriptive Statistics

Descriptive findings were used to establish the mean and standard deviation of the responses on the Likert scales used in the study. A scale of 1 to 5 was used in the study. The study weighed the rating and presented the average response per statement. The standard deviation was also presented to indicate the variations in the responses.

#### 4.5.1 Descriptive Statistics of Capital Allowance

The first objective of the study was to determine the effect of Capital Allowance on financial performance of manufacturing industries in Nairobi Kenya. Respondents rated statements on Capital Allowance on a scale of 1 to 5. This section presents the mean response and the standard deviation. The findings are presented in Table 4.3.

**Table 4.3 Descriptive Statistics of Capital Allowance**

| Statement | Mean | Standard Deviation |
|---|---|---|
| Investment allowance is key to manufacturing industry survival in Kenya | 3.67 | 1.46 |
| The profitability of manufacturing industries in Kenya is enhanced by capital allowance incentives | 4.42 | 1.24 |
| Investment allowance incentive is directly related to financial Performance in Kenya. | 3.35 | 1.26 |
| Investment allowance incentive ensures quick acquisition of manufacturing industries operating capital | 4.05 | 1.36 |
| Investment allowance incentives is related to the share of profits by manufacturing industries in Kenya | 2.88 | 1.39 |
| **Average** | **3.67** | **1.34** |

The results in Table 4.3 indicate that majority of the respondents agreed that investment allowance is key to manufacturing industry survival in Kenya (M = 3.67; SD = 1.46), the profitability of manufacturing industries in Kenya is enhanced by capital allowance incentives (M = 4.42, SD = 1.24) and that investment allowance incentive is directly related to financial Performance in Kenya (M = 3.35; SD = 1.26). It was also established that the respondents agreed that Investment allowance incentive ensures quick acquisition of manufacturing industries operating capital (M = 4.05; SD = 1.36) but neither agreed nor disagreed that investment allowance incentives is related to the share of profits by manufacturing industries in Kenya (M = 2.88; SD = 1.39).

Overall, there was an agreement that capital allowance incentives are important in improving financial performance of manufacturing firms in Nairobi (Overall Mean = 3.67). The standard deviation was also small implying that there was a small variation in the responses (Overall SD = 1.34).

### 4.5.2 Descriptive Statistics of Tax Rates

The second objective of the study was to ascertain the effect of tax rates on financial performance of manufacturing industries in Nairobi Kenya. Respondents rated statements on tax rates on a scale of 1 to 5. This section presents the mean response and the standard deviation. The findings are presented in Table 4.4.

**Table 4.4 Descriptive Statistics of Tax Rates**

| Statement | Mean | Standard Deviation |
|---|---|---|
| Reduction of tax rate incentives increases profitability of manufacturing industries in Kenya | 3.89 | 1.40 |
| Reduction of Tax rate incentives lead to increase in the wages or salaries offered by manufacturing industries in Kenya | 3.37 | 1.55 |
| Reduction of tax rate incentives leads to increase in share of profits by manufacturing industries. | 3.89 | 1.44 |
| Reduction of tax rate incentives ensure quick stabilization of manufacturing industries in Kenya | 3.88 | 1.42 |
| Reduction of tax rate incentives encourages manufacturing industries to continue operating in Kenya. | 3.75 | 1.53 |
| **Average** | **3.76** | **1.47** |

The results in Table 4.4 indicated that majority of the respondents agreed that reduction of tax rate incentives increases profitability of manufacturing industries in Kenya (M = 3.89; SD = 1.40), reduction of tax rate incentives leads to increase in share of profits by manufacturing industries (M = 3.89; SD = 1.44) and that reduction of tax rate incentives ensure quick stabilization of manufacturing industries in Kenya (M = 3.88; SD = 1.42). There was also an agreement that reduction of tax rate incentives encourages manufacturing industries to continue

operating in Kenya (M = 3.76; SD = 1.47) but neither an agreement nor disagreement on whether reduction of tax rate incentives lead to increase in the wages or salaries offered by manufacturing industries in Kenya (M = 3.37; SD = 1.55).

Overall, there was an agreement that tax rate incentives are important in improving financial performance of manufacturing firms in Nairobi (Overall Mean = 3.76). The standard deviation was also small implying that there was a small variation in the responses (Overall SD = 1.47).

### 4.5.3 Descriptive Statistics of Tax Exemption

The third objective of the study was to examine the effect of Tax exemption on financial performance of manufacturing industries in Nairobi Kenya. Respondents rated statements on tax exemption on a scale of 1 to 5. This section presents the mean response and the standard deviation. The findings are presented in Table 4.5.

**Table 4.5 Descriptive Statistics of Tax Exemption**

| Statement | Mean | Standard Deviation |
|---|---|---|
| Tax exemption incentive leads to increase in the total sales by manufacturing firms in Kenya. | 4.18 | 1.17 |
| Exemption from paying VAT on export services lead rapid expansion of manufacturing industries in Kenya | 4.51 | 0.95 |
| Manufacturing industries operating in Kenya would shut down when Tax exemption incentive is withdrawn | 3.49 | 1.32 |
| Tax exemption incentive affects the share of profits by manufacturing industries | 3.28 | 1.47 |
| Tax exemption incentive encourages more Manufacturing industries to be established and continue operating in Kenya | 3.63 | 1.38 |
| **Average** | **3.82** | **1.26** |

The results presented in Table 4.5 indicates that majority of the respondents agreed that tax exemption incentive leads to increase in the total sales by manufacturing firms in Kenya (M = 4.18; SD = 1.17), exemption from paying VAT on export services lead rapid expansion of manufacturing industries in Kenya (M = 4.51; SD = 0.95) and neither agreed nor disagreed that manufacturing industries operating in Kenya would shut down when Tax exemption incentive is withdrawn (M = 3.49; SD = 1.32). The respondents also neither agreed nor disagreed that tax exemption incentive affects the share of profits by manufacturing industries (M = 3.28; SD = 1.47) but agreed that tax exemption incentive encourages more manufacturing industries to be established and continue operating in Kenya (M = 3.63; SD = 1.26).

Overall, there was an agreement that tax exemption incentives are important in improving financial performance of manufacturing firms in Nairobi (Overall Mean = 3.82). The standard deviation was also small implying that there was a small variation in the responses (Overall SD = 1.26).

### 4.5.4 Financial Performance of Manufacturing Firms

The study established the range of net profits of the manufacturing firms on a five year period between the year 2013 and 2017. The results are presented in Table 4.6.

**Table 4.6 Range of Net Profits (2013 – 2017)**

| **Years** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|
| Below 5 Million | 3% | 0 | 0 | 0 | 2% |
| 5 Million – 20 Million | 19% | 15% | 12% | 12% | 21% |
| 21Million – 40 Million | 44% | 54% | 41% | 35% | 47% |
| Above 40 Million | 34% | 31% | 47% | 53% | 30% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** |

The results in Table 4.6 established that in the year 2013, 78% of the manufacturing firms recorded profits above Kshs. 21 Million. In the year 2014, a higher number, 85% of the manufacturing firms recorded profits above Kshs. 21 Million compared to 2013. In the year 2015, 88% of the manufacturing firms recorded profits above Kshs. 21 Million, 88% recorded profits above Kshs. 21 Million in the year 2016 but in the year 2017, only 77% managed profits above Kshs. 21 Million. These statistics imply unsteady trends in the financial performance of the manufacturing firms in Nairobi County between 2013 and 2017.

The study also asked the respondents to rate statements on financial performance on a scale of 1 to 5. The results are presented in Table 4.7.

**Table 4.7 Descriptive Statistics of Financial Performance**

| Statement | Mean | Standard Deviation |
|---|---|---|
| Investment allowance incentives affect the financial performance of manufacturing industries in Kenya | 3.60 | 1.49 |
| Reduction of tax rate incentives affect the financial performance of manufacturing industries in Kenya | 3.61 | 1.51 |
| Tax exemption affect the Financial performance of manufacturing industries in Kenya | 3.18 | 1.49 |
| Tax incentives has enabled manufacturing firms to manage their costs | 3.68 | 1.55 |
| Tax incentives has enabled manufacturing firms to employ more people | 3.11 | 1.41 |
| **Average** | **3.44** | **1.49** |

The results in Table 4.7 indicated that the respondents agreed that investment allowance incentives affect the financial performance of manufacturing industries in Kenya (M = 3.60; SD = 1.49), reduction of tax rate incentives affect the financial performance of manufacturing industries in Kenya (M = 3.61; SD = 1.51) and neither agreed nor disagreed that tax exemption affect the financial performance of manufacturing industries in Kenya (M = 3.18; SD = 1.49).

The respondents also agreed that tax incentives has enabled manufacturing firms to manage their costs (M = 3.68; SD = 1.55) but neither agreed nor disagreed that tax incentives has enabled manufacturing firms to employ more people (M = 3.11; SD = 1.49).

### 4.6 Correlation Analysis

The study used correlation to indicate the strength of the association between tax incentives and financial performance of manufacturing firms in Kenya. A Pearson correlation coefficient was used in the study. The results are presented in Table 4.8.

**Table 4.8 Correlation Analysis**

| | | Capital Allowance Incentives | Tax Rate Incentives | Tax Exemption Incentives | Financial Performance |
|---|---|---|---|---|---|
| Capital Allowance Incentives | Pearson Correlation | 1 | | | |
| Tax Rate Incentives | Pearson Correlation | .668** | 1 | | |
| | Sig. (2-tailed) | 0.000 | | | |
| Tax Exemption Incentives | Pearson Correlation | .426** | .332* | 1 | |
| | Sig. (2-tailed) | 0.001 | 0.012 | | |
| Financial Performance | Pearson Correlation | .717** | .793** | .726** | 1 |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | |
| | N | 57 | 57 | 57 | 57 |

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

The results in Table 4.8 indicate that capital allowance incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya (r = 0.717, P-Value = 0.000, < 0.05). This implies that an increase in capital allowance incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

It was also established that tax rate incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya (r = 0.793, P-Value = 0.000, < 0.05). This implies that an increase in tax rate incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

The results also showed that tax exemption incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya (r = 0.726, P-Value = 0.000, < 0.05). This implies that an increase in tax exemption incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

### 4.7 Regression Analysis

The study used a regression model to establish the effect of tax incentives on financial performance of manufacturing firms. The model summary, ANOVA and model coefficients of the multivariate regression model are presented below. Table 4.9 indicates the model summary.

**Table 4.9 Regression Model Summary**

| R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|
| .940 | 0.883 | 0.876 | 0.4418173 |

Predictors: (Constant), Tax Exemption Incentives, Tax Rate Incentives, Capital Allowance incentives

The results in Table 4.9 indicate that the multivariate regression model linking tax incentives to financial performance of manufacturing firms had an overall R value of 0.940 which indicates a strong relationship between tax incentives and financial performance. The results also indicate that Tax Exemption Incentives, Tax Rate Incentives and Capital Allowance incentives account for up to 88.3% of the variation in financial performance of manufacturing firms ($R^2$ = 0.883) and the remaining percentage (11.7%) is accounted for by other factors. The model fitness of the regression model was also established and presented in Table 4.10.

**Table 4.10 Regression Model ANOVA**

| | **Sum of Squares** | **df** | **Mean Square** | **F** | **Sig.** |
|---|---|---|---|---|---|
| Regression | 78.044 | 3 | 26.015 | 133.27 | .000 |
| Residual | 10.346 | 53 | 0.195 | | |
| Total | 88.39 | 56 | | | |

Dependent Variable: Financial Performance

Predictors: (Constant), Tax Exemption Incentives, Tax Rate Incentives, Capital Allowance incentives

The results in Table 4.10 suggested that that the multivariate regression model linking tax incentives to financial performance of manufacturing firms was significant (F = 133.27 , P-Value = 0.000, < 0.05) at 5% level of significance. This implies that the regression model linking tax incentives to financial performance of manufacturing firms was a good fit in predicting the outcome. To test the objectives, the results for the model coefficients were established and presented in Table 4.11.

**Table 4.11 Regression Model Coefficients**

| | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | **B** | **Std. Error** | **Beta** | **t** | **Sig.** |
| (Constant) | -2.079 | 0.312 | | -6.668 | 0.000 |
| Capital Allowance Incentive | 0.204 | 0.084 | 0.16 | 2.425 | 0.019 |
| Tax Rate Incentive | 0.491 | 0.059 | 0.526 | 8.298 | 0.000 |
| Tax Exemption Incentive | 0.772 | 0.083 | 0.484 | 9.290 | 0.000 |
| **Dependent Variable: Financial Performance** | | | | | |

**Regression Equation**

$Y = 0.204 (X_1) + 0.491 (X_2) + 0.772(X_3) - 2.079$

Where

Y= Financial Performance, $X_1$= Capital Allowance $X_2$ = Tax rates and $X_3$ = Tax Exemption

The regression equation indicates that tax incentives have a positive effect on financial performance of manufacturing firms in Nairobi County. All the three types significantly affect financial performance.

The results in Table 4.11 showed that capital allowance incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County ( B = 0.204 ; t = 2.425 < 1.96 ; P-Value = 0.019 < 0.05). The findings imply that a unit increase in capital allowance incentive leads to an increase in financial performance of manufacturing firms by 0.204 units.

The results in Table 4.11 also showed that tax rate incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County ( B = 0.491 ; t = 8.298 < 1.96 ; P-Value = 0.000 < 0.05). The findings imply that a unit increase in tax rate incentive leads to an increase in financial performance of manufacturing firms by 0.491 units.

It was also established that as shown in Table 4.11 that tax exemption incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County ( B = 0.772 ; t = 9.290 < 1.96 ; P-Value = 0.000 < 0.05). The findings imply that a unit increase in tax exemption incentive leads to an increase in financial performance of manufacturing firms by 0.772 units.

## 4.8 Discussion of Findings

The section explains the findings and gives its implications. Furthermore, the findings are provided per objective and compared to existing empirical literature.

### 4.8.1 Effect of Capital Allowance on Financial Performance of Manufacturing Industries

The first objective of the study was to determine the effects of Capital Allowance on financial performance of manufacturing industries in Nairobi Kenya. Correlation findings indicate that capital allowance incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya (r = 0.717, P-Value = 0.000, < 0.05). Regression findings also showed that capital allowance incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County (B = 0.204; t = 2.425 < 1.96; P-Value = 0.019 < 0.05). This implies that an increase in capital allowance incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

The findings are consistent with Zwick and Mahon (2016) who evaluated the impact for impermanent assessment incentives on firm gear execution and Githaiga (2013) who investigated the influence of tax incentives on performance of firms listed at the NSE and revealed a positive effect.

### 4.8.2 Effect of Tax Rates on Financial Performance of Manufacturing Industries

The second objective of the study was to ascertain the effects of tax rates on financial performance of manufacturing industries in Nairobi Kenya. The correlation findings indicate

that tax rate incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya (r = 0.793, P-Value = 0.000, < 0.05). The regression results indicated that tax rate incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County (B = 0.491; t = 8.298 < 1.96; P-Value = 0.000 < 0.05). This implies that an increase in tax rate incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

The findings are consistent with Devereux *et al*. (2015) which centered on corporate tax incentives and firm performance and John (2013) who investigated the effects of corporate income tax on financial performance of listed manufacturing firms in Ghana and established a positive effect.

### 4.8.3 Effect of Tax Exemption on financial performance of Manufacturing Industries

The third objective of the study was to examine the effects of Tax exemption on financial performance of manufacturing industries in Nairobi Kenya. Correlation findings indicate that tax exemption incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya (r = 0.726, P-Value = 0.000, < 0.05). Regression results indicated that tax exemption incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County (B = 0.772; t = 9.290 < 1.96; P-Value = 0.000 < 0.05). This implies that an increase in tax exemption incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

The study findings are consistent with Gourdon *et al*. (2014) who established how frequent changes in value added tax were related to performance of exports in the Chinese economy and Ironkwe and Peter (2015) who investigated the impact of value added tax incentive on corporate financial performance of quoted companies and established a positive relationship.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents a summary of the findings, conclusions and provides policy recommendations. The conclusions relate directly to the specific objectives. The summary of findings guided conclusions of the study. Areas of further study are also suggested in this section.

## 5.2 Summary of Findings

### 5.2.1 Capital Allowance Incentive

Regarding capital allowance incentive the correlation findings indicated that capital allowance incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya. Regression findings also showed that capital allowance incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County which implies that an increase in capital allowance incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

### 5.2.2 Tax Rate Incentives

On tax rates incentives, the correlation findings indicated that tax rate incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya The regression results indicated that tax rate incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County which implies that an increase in tax rate incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

### 5.2.3 Tax Exemption Incentives

Regarding tax exemption incentives, correlation findings indicate that tax exemption incentives have a positive and significant effect on financial performance of manufacturing firms in Kenya. Regression results indicated that tax exemption incentive has a positive and significant effect on financial performance of manufacturing firms in Nairobi County which implies that an increase in tax exemption incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

## 5.3 Conclusion

The study findings led to the conclusion that capital allowance incentive is important in enhancing financial performance of manufacturing firms in Nairobi and that an increase in capital allowance incentives leads to a significant increase in financial performance of manufacturing firms in Kenya. The study also concludes that tax rates incentives are important in improving financial performance of manufacturing firms in Kenya and that an increase in tax rate incentives leads to a significant increase in financial performance of manufacturing firms in Kenya. The study also concludes that tax exemption incentives play a significant role in improving financial performance of manufacturing firms in Kenya and that an increase in tax exemption incentives leads to a significant increase in financial performance of manufacturing firms in Kenya.

## 5.4 Recommendations

Based on the findings that capital allowance incentive is important in enhancing financial performance of manufacturing firms in Nairobi, the study recommends policy makers at the treasury and Kenya Revenue Authority to ensure more capital allowance on the manufacturing industries in order to turnaround the current poor trends of performance of these firms. Some of the incentives to consider are IDA, IBA and W & T allowance.

Since it was established that tax rates incentives leads to a significant increase in financial performance of manufacturing firms in Kenya, the study recommends the ministry of treasury and the Kenya Revenue Authority to improve the policy on tax rate incentives and offer more of this incentive in order for the manufacturing firms to improve their performance. There is a need to focus on reduction of tax rate and zero rate on goods and service.

The study also recommends based on the findings that tax exemption incentives play a significant role in improving financial performance of manufacturing firms in Kenya. The study recommends the policy makers at the Kenya Revenue Authority and the Ministry of Treasury to relook at the existing tax exemption incentives and allocate more of the same to manufacturing firms so as to enhance their financial performance. Some of the tax exemption incentives to focus on are Stamp Duty Exemption, Tax relief and Manufacture under bond.

## 5.5 Suggestions for Further Research

The study findings indicated that Tax Exemption Incentives, Tax Rate Incentives and Capital Allowance incentives account for up to 88.3% of the variation in financial performance of manufacturing firms and the remaining percentage (11.7%) is accounted for by other factors. Other studies can be conducted to establish the other factors which affect financial performance of manufacturing firms. Some of these factors can be the economic situation of the country, political stability and availability of capital. The study also focused on manufacturing firms in Nairobi County, there may be a need for future studies to focus on the entire set of manufacturing firms licensed at KAM so as to compare the findings. There is also a need to focus on a specific sub sector instead of the entire 14 sub sectors for an in-depth analysis.

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## APPENDICES

### Appendix I: Introduction Letter

OBED MOGESI BUNDI,

Jomo Kenyatta University of Agriculture and technology,

School of Business, Department of Economics, Accounts and Finance,

P.O. Box 49720 – 00100

Nairobi.

Dear Respondent,

**RE: RESEARCH DATA COLLECTION**

I am a postgraduate student at student in Jomo Kenyatta University of Agriculture and Technology taking Postgraduate Diploma in Tax Administration. I am kindly requesting to be allowed to seek information in relation to **EFFECT OF TAX INCENTIVES ON FINANCIAL PERFORMANCE OF MANUFACTURING INDUSTRIES IN NAIROBI COUNTY, KENYA**. This study is being carried out in partial fulfillment of the course.

The information provided will STRICTLY be used for academic purposes and will be highly treated in confidence. No publication, if any shall be made without prior approval from the respondent(s). Under no instance will your name be mentioned in the report. Further CONFIDENTIALITY is guaranteed through coding of the findings.

Attached please find a questionnaire that will be used to collect data that will be used in the research. Your assistance will be highly appreciated.

Yours truly,

OBED MOGESI BUNDI

**Appendix II: Questionnaire**

The question has statement regarding effect of tax incentive on financial performance of manufacturing industries in Nairobi Kenya. Kindly take few minutes to complete the questionnaire as guided. Your responses will be handled confidentially and ethically.

Thank you for agreeing to participate in this academic study.

**SECTION A: DEMOGRAPHIC DATA**

1. **How long has the Firm Operated?**

   Less than 5 Years ( )
   6 to 15 Years ( )
   Over 15 Years ( )

2. **What is your Position?**

   Tax Accountant ( )

   Chief Accountant ( )

   Finance Manager ( )

   Senior Manager ( )

3. **What is your Highest Level of Education?**

   College ( )

   University ( )

4. **What is your Work Experience in the Manufacturing Sector?**

   Less than 5 Years ( )
   5 to 10 Years ( )
   More than 10 Years ( )

**SECTION B: CAPITAL ALLOWANCE**

This section aims at determining the effect of investment allowances on financial performance of manufacturing industries in Kenya. Please indicate your level of agreement or disagreement with the statements on capital allowance on a scale of 1 to 5 as shown.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Investment allowance is key to manufacturing industry survival in Kenya | | | | | |
| 2 | The profitability of manufacturing industries in Kenya is enhanced by capital allowance incentives | | | | | |
| 3 | Investment allowance incentive is directly related to financial performance in Kenya. | | | | | |
| 4 | Investment allowance incentive ensures quick acquisition of manufacturing industries operating capital | | | | | |
| 5 | Investment allowance incentives is related to the share of profits by manufacturing industries in Kenya | | | | | |

**SECTION C: TAX RATES**

This section aims at determining the effect of tax rate on financial performance of manufacturing industries in Kenya. Please indicate your level of agreement or disagreement with the statements on tax rate on a scale of 1 to 5 as shown.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Reduction of tax rate incentives increases profitability of manufacturing industries in Kenya | | | | | |
| 2 | Reduction of Tax rate incentives lead to increase in the wages or salaries offered by manufacturing industries in Kenya | | | | | |
| 3 | Reduction of tax rate incentives lead to increase in share of profits by manufacturing industries. | | | | | |
| 4 | Reduction of tax rate incentives ensure quick stabilization of manufacturing industries in Kenya | | | | | |
| 5 | Reduction of tax rate incentives encourage manufacturing industries to continue operating in Kenya. | | | | | |

**SECTION D: TAX EXEMPTION**

This section aims at determining the effect of tax exemption on financial performance of manufacturing industries in Kenya. Please indicate your level of agreement or disagreement with the statements on tax exemption on a scale of 1 to 5 as shown.

| No | Statement | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 1 | Tax exemption incentive leads to increase in the total sales by SMEs in Kenya. | | | | | |
| 2 | Exemption from paying VAT on export services lead rapid expansion of manufacturing industries in Kenya | | | | | |
| 3 | Manufacturing industries operating in Kenya would shut down when Tax exemption | | | | | |
| 4 | Tax exemption incentive affects the share of profits by manufacturing industries | | | | | |
| 5 | Tax exemption incentive encourages more Manufacturing industries to be established and continue operating in Kenya | | | | | |

## SECTION E: FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS

This section aims at determining the respondents view on financial performance of manufacturing industries.

1. Indicate the range of net profit that your firm has achieved in the last 5 years

| Years | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Below 5 Million | | | | | |
| 5 Million – 20 Million | | | | | |
| 21Million – 40 Million | | | | | |
| Above 40 Million | | | | | |

2. Please indicate your agreement or otherwise with the following statements using the following Likert scale.

| **No** | **Statement** | **Strongly disagree** | **Disagree** | **Neutral** | **Agree** | **Strongly agree** |
|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **4** | **5** |
| 1 | Investment allowance incentives affect the financial performance of manufacturing industries in Kenya | | | | | |
| 2 | Reduction of tax rate incentives affect the financial performance of manufacturing industries in Kenya | | | | | |
| 3 | Tax exemption affect the Financial performance of manufacturing industries in Kenya | | | | | |
| 4 | Tax incentives has enabled manufacturing firms to manage their costs | | | | | |
| 5 | Tax incentives has enabled manufacturing firms to employ more people | | | | | |

## Appendix III: Registered Manufacturing Firms in Nairobi

| **Energy, Electrical & Electronics** | **Energy, Electrical & Electronics** | **Building and construction** |
|---|---|---|
| Aquila Development Co. Ltd. | Synergy Lubricant Solutions Ltd | African Diatomite Industries |
| Assa Abloy East Africa | Vivo Energy | Alpha Grain Millers Ltd. |
| Aucma Digital Technology africa Ltd | **Chemicals and Allied** | Athi River Mining Ltd |
| Biogas Power Holdings EA Ltd | Basco Products K Ltd | Bamburi Cement Limited |
| Centurion Systems Ltd. | Bayer East Africa Ltd. | Boyama Building Materials |
| East African Cables Ltd. | Beiersdorf East Africa Ltd | Carton Manufacturers Ltd. |
| Holman Brothers (E.A) Ltd | Blue Ring Products Ltd | Deluxe Inks Ltd |
| Ibera Africa Power EA Africa | BOC Kenya Limited | Flamingo Tiles (Kenya)Limited |
| Kenwest Cables Ltd | Buyline Industries Ltd | Glenn Investments Ltd C/O The Mehta Group Ltd |
| Kenya Petroleum Refineries Ltd | Canon Chemicals Ltd. (Formerly United Chemicals Ltd.) | Homa Lime Co. Ltd |
| Kenya Power Co. Ltd | Carbacid CO2 Ltd. | International Green Structures Manufacturing Kenya Limited |
| Libya Oil Kenya Limited | Central Glass Industries Ltd. | Kay Salt Ltd |
| Manufacturers & Suppliers (K) Ltd | Chrysal Africa Ltd. | Kemu Salt Packers Productions Ltd |
| Metlex International Ltd | Chryso Eastern Africa Ltd. | Kenya Builders & Concrete Ltd |
| Metsec Cables Ltd | Coral Paints Ltd. | Kisumu Concrete Products |
| Muhoroni Briquette Co. Limited | Crop Nutrition Laboratory Services Ltd | Koto Housing Kenya Ltd |
| Nationwide Electrical Industries Ltd | Crown Paints (Kenya) Ltd | Krystalline Salt Ltd |
| Oilzone (East Africa) | Darfords Enterprises Ltd | Kurawa Industries Ltd |
| Optimum Lubricants Ltd | Desbro Kenya Limited | Malindi Saltworks Ltd |
| Patronics Services Limited | Diversey Eastern & Central Africa Ltd. | Orbit Enterprises Ltd |
| Philips East Africa Limited | Eastern Chemicals Industries Ltd. | Pearl Industries Ltd |
| Powerex Lubricants Limited | Evonik East Africa | Pride Enterprises Ltd |
| Protel Studios | Galaxy Paints Coating Co. Ltd. | Reliable Concrete Works Ltd |
| Repelectric (K) Ltd | H.B. Fuller Kenya Limited (Formerly Continental Products Ltd) | Sandblasting & Coating |
| Rich Enviro Fuels Limited (Formerly Karan Biofuel) | Haco Tigerbrands East Africa Ltd | Savannah Cement Ltd |
| Roka Industries Ltd | Henkel Polymer Company Ltd | Skylark Construction Ltd |
| Siera Cables | Highchem East Africa Ltd | Space and Style Ltd |
| Socabelec (EA) Ltd | IMCD Kenya Ltd (Formerly Chemicals and Solvents (EA) Ltd) | Tana River Quarrying Ltd. |
| Solinc East Africa Limited (Formerly Ubbink East Africa) | Interconsumer Products Ltd. | Tile & Carpet Centre |
| Sollatek Electronics (Kenya) Limited | Jumbo Matress Industries Ltd | Vallem Construction Ltd |
| Steam Plant Ltd | Kanku Kenya Limited | Wareng Ndovu Enterprises 2005 Ltd |

| **Food and Beverages** | **Food and Beverages** | **Food and Beverages** | **Food and Beverages** |
|---|---|---|---|
| Africa Spirits Ltd | Czarnikow Sugar (EA) Ltd | Luma Stores & Supplies Enter. Ltd | Pwani Oil Products Ltd |

| | | | |
|---|---|---|---|
| Afrimac Nut Company | Danone Baby Nutrition Africa and Overseas | Mafuko Industries Ltd | Rafiki Millers Ltd. |
| Agri Pro-Pak Limited | Del Monte Kenya Ltd | Mama Millers Limited | Razco Limited |
| Agricultural & Veterinary Supplies Ltd (Agrivet) | Diamond Industries Ltd. | Manji Food Industries Ltd | Sahara Venture Capital Company Ltd |
| Alliance One Tobacco (K) Ltd | Doinyo Lessos Creameries Ltd. | Mayfeeds Kenya Ltd | Sameer Agriculture & Livestock (Kenya) LTD |
| Almasi Beverages Ltd | DPL Festive Ltd. | Melvin Marsh International | SBC Kenya Limited |
| Alpha Fine Foods Ltd. | Dutch Waters Ltd. | Menengai Oil Refineries Ltd | Selecta Kenya Gmbh & Co. .KG |
| Alpine Coolers Ltd. | East African Breweries Ltd. | Meru Greens Horticulture Ltd | Sigma Supplies Ltd |
| Aquamist Ltd. | East African Sea Food Ltd. | Meru Water & Sewerage Services | Simply Foods Ltd |
| Bakex Millers Ltd | Eastern Produce Kenya Ltd (Kakuzi) | Milly Fruit Processors Ltd | South Nyanza Sugar Company |
| Bidco Africa Ltd | Eldoret Grains Ltd. | Mini Bakeries (Nbi) Ltd | Spice World Ltd |
| Bio Food Products Limited | Elekea Ltd. | Mjengo Limited | Stawi Foods and Fruits Limited |
| Brava Foods | Elle Kenya Ltd. | Monwalk Investment Ltd | Sweet Rus Limited |
| Breakfast Cereal Company K Ltd (Formerly Weetabix) | Equator Bottlers Ltd. | Morani Limited | Trufoods Ltd |
| Broadway Bakery Ltd | Erdermann Co. (K) Ltd. | Mount Kenya Bottlers Ltd | Umoja Flour Mills Ltd |
| Brookside Dairy Ltd | Europack Industries Limited | Mzuri Sweets Ltd | Unga Group Ltd |
| Buffalo Millers | Excel Chemicals Ltd | Nairobi Bottlers Ltd | United Millers Ltd |
| Bulto Foods Ltd. | Farmers Choice Ltd | Nairobi Flour Mills Ltd | Valley Confectionery Ltd |
| Bunda Cakes Feeds Ltd | Frigoken Ltd | NAS Airport Services Ltd | Valuepak foods |
| Bunge East Africa Limited | General Mills East Africa Ltd. | Nestle Kenya Ltd | Vava Coffee Ltd |
| Butali Sugar Mills Ltd | Giloil Company Ltd. | Njoro Canning Factory (Kenya) Ltd | Vinepack Ltd |
| C. Dormans Ltd. | Global Fresh Ltd | Norda Industries Ltd | W. E. Tilley (Muthaiga) Ltd |
| Candy Kenya Ltd | Global Tea Commodities (K) Ltd. | Olivado EPZ Limited | Winnie's Pure Health |
| Capel Food Ingredients | Gonas Best Ltd. | Palmhouse Diaries Ltd | Wrigley Company (E.A.) Ltd |
| Capwell Industries Ltd. | Grain Bulk Handlers | Patco Industries Limited | Xpressions Flora Ltd |
| Centrofood Industries Ltd. | Green Forest Foods Ltd. | Pearly LLP | Zheng Hong (K) Limited |
| Chemelil Sugar Company Ltd. | Happy Cow Ltd. | Pembe Flour Mills Ltd | |
| Coastal Bottlers Ltd. | Highlands Mineral Water Co. Ltd | Premier Food Industries Limited | |
| CoffTea Agencies | Honey Care Africa | Pride Industries Ltd | |
| Crown Beverages LTD | Italian Gelati & Food Products Ltd | Promasidor (Kenya) Ltd | |
| **Fresh Produce** | **Metal and Allied** | **Metal and Allied** | **Metal and Allied** |
| Big Flowers Ltd | Cook N Lite Ltd. | Nalin Steel Works | Welding Alloys Ltd |
| Flamingo Horticulture Kenya Limited | Corrugated Sheets Ltd. | Nampak Kenya Limited | Wire Products Limited |
| Fontana Limited | Crystal Industries Ltd | Napro Industries Limited | Zenith Steel Fabricators Ltd |
| Fresh Produce Exporters Association of Kenya | Devki Steel Mills Ltd | Narcol Aluminium Rolling Mills Ltd | **Motor VehicleAssembly** |
| From Eden | Doshi & Company Hardware | Ndume Ltd | Alamdar Trading Company Ltd |
| Groove Ltd. | East Africa Spectre Ltd. | Orbit Engineering Ltd | Associated Battery |

| | | | |
|---|---|---|---|
| | | | Manufacturers E.A. Ltd |
| Kenya Horticultural Exporters (1977) | East African Foundry Works (K) Ltd. | Palak International Limited | Associated Vehicle Assemblers Ltd |
| Mahee Flowers Limited | Easy Clean Africa Ltd. | Patnet Steel Makers Manufacturers Ltd | Associated Vehicle Assemblers Ltd |
| Maridadi Flowers | Elite Tools Ltd. | Prime Steel Limited | Auto Ancilliaries Ltd |
| Rainforest Farmlands Kenya | Fine Engineering Works Limited | Red Oak Limited | Auto Industries Ltd |
| Red Lands Roses Ltd | Friendship Container Manufacturers Ltd | Sheffield Steel Systems Ltd | Auto Springs Manufacturers Ltd |
| Salim Wazarani Kenya Company | Greif Kenya Ltd. | Silverspread Hardwares Ltd | Banbros Ltd |
| **Leather and Foot Wear** | GZI Kenya Ltd | Soni Technical Services Ltd | Bhachu Industries Ltd |
| Alpharama Ltd. | Heavy Engineering Ltd. | Southern Engineering Co. Ltd | Choda Fabricators Ltd. |
| Athi River Tanneries Ltd | Hobra Manufacturing Ltd | St Theresa Industries Kenya Limited | Chui Auto Spring Industries Ltd. |
| Bata Shoe Company Kenya Ltd. | Insteel Limited | Standard Rolling Mills Ltd | Cica Motors |
| Budget Shoes Ltd | Iron Art Ltd | Steel structures Ltd | Dalcom Kenya |
| C & P Shoes Industries Ltd | Kab Kam Enterprises Ltd | Steelmakers Ltd | Dodi Autotech |
| Leather Industries of Kenya Limited | Kaluworks Limited | Steelwool (Africa) Ltd | General Motors East Africa Ltd. |
| **Metal and Allied** | Kens Metal Industries Ltd | Sufuria World Limited | Handa (K) Ltd |
| Allied East Africa Ltd | Kenyon Limited | Tarmal Wire Products Ltd | Honda Motorcycle Kenya Ltd |
| Alloy Steel Castings Ltd. | Khetshi Dharamshi & Co. Ltd | Tensiles EA Ltd | Igo Holdings Ltd. |
| Apex Steel Ltd. (Rolling Mill Division) | Kitchen King Ltd | Tononoka Rolling Mills Ltd | Kenya Vehicle Manufacturers Limited |
| Ashut Engineers | Mabati Rolling Mills Limited | Tononoka Steel Ltd | Kibo Africa Ltd (formerly Koneksie Ltd) |
| ASL Ltd. | Marine Crafts & Boat Repairs | Top Steel Kenya Limited | King Finn Kenya Ltd |
| ASP Company Ltd. | Mecol Limited | Towertech Africa Limited | Labh Singh Harnam Singh Ltd |
| Atlantic Ltd | Metal Crowns Limited | Varomotech Limited | Load Trailers |
| Blue Nile Wire Products Ltd | Mitsubishi Corporation Nairobi Liaison Office | Vicensa Investments Ltd | Makindu Motors Limited |
| Burn Manufacturing USA LLC | Modulec Engineering Systems Ltd | Vivek Investments Ltd | Master Fabricators Ltd |
| City Engineering Works Ltd. | Nails & Steel Products Ltd | Warren Enterprises Ltd | Megh Cushion Industries Ltd |
| **Motor VehicleAssembly** | | | |
| Mobius Motors Kenya Ltd | **Paper & Board** | **Paper & Board** | **Pharmaceutical & Medical Equipment** |
| Mutsimoto Motor Company | Digital Hub Ltd. | Regal Press Kenya Ltd | Universal Corporation limited |
| Passion Profit Limited | Dodhia Packaging Ltd. | Rodwell Press Ltd | Vetcare Kenya Limited |
| Pipe Manufacturers Ltd | East Africa Packaging Industries Ltd. | Sintel Security Print Solutions Limited | **Plastics & Rubber** |
| R.T. (East Africa) Limited | East African Paper Mills | Skanem Interlabels Nairobi Limited | ACME Containers Ltd. |
| Ruidu (Kenya) Company Linited | Economic Industries | Standard Group Ltd | Africa PVC Industries Ltd |
| Scania East Africa Limited (Merged with Kenya Grange Vehicles) | Elite Offset | Statpack Industries Ltd | Afro Plastics (K) Ltd |
| Simba Caetano Formula Limited | Ellams Products | Taws Limited | Betatrad K Ltd |
| Sohansons Ltd | English Press Ltd. | Tetra Pak Ltd | Bobmil Industries Ltd |

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| Springtech (K) Ltd | Euro Packaging Ltd | The Print Exchange Ltd. | Brush Manufacturers Ltd. |
| Theevan Enterprises Ltd | Franciscan Kolbe Press | Twiga Stationers & Printers Ltd | Cocorico Investments Ltd. |
| Toyota Kenya Ltd | General Printers Ltd. | Uneeco Paper Products Ltd | Complast Industries Ltd. |
| Toyota Tshusho East africa Limited | Green Pencils Ltd. | United Bags Manufacturers Ltd | Coninx Industries Ltd. |
| Transtrailers Limited | International Paper & Board Supplies Ltd | **Pharmaceutical & Medical Equipment** | Dune Packaging Ltd. |
| Turaco Limited | Juja Pulp & Paper Ltd | Africa Cotton Industries | Elgon Kenya Ltd. |
| Varsani Brakelinings Ltd | Kartasi Industries Ltd | Alpha Medical Manufacturers Ltd. | Eslon Plastics of Kenya Ltd |
| **Paper & Board** | Kenafric Diaries Manufacturers Ltd | Autosterile East Africa Limited | Finlay Brushware Ltd |
| Adpack International Limited | Kenya Stationers Ltd | Benmed Pharmaceuticals Limited | Five Star Industries Ltd |
| Allpack Industries Ltd. | L.A.B International Kenya limited | Biodeal Laboratories Ltd | Flair Kenya Ltd |
| Anvi Emporium Limited | Manipal International Printing Press Ltd | Biopharma Ltd | General Plastics Ltd. |
| ASL Packaging Limited | Mega Pack (K) Ltd | Cosmos Pharmaceutical Ltd. | Jumbo Quality Products |
| Associated Paper Stationery Ltd | Modern Lithographic (K) Ltd | Dawa Limited | Just Plastics Limited |
| Avery Dennison Kenya Limited | Nation Media Group Ltd | Elys Chemicals Industries Ltd. | Kamba Manufacturing (1986) Ltd |
| Bags Balers Manufacturers Ltd | National Printing Press Limited | Glaxo Smithkline Kenya Ltd. | Kenpoly Manufacturers Ltd |
| Boxpack Limited | Ndalex Digital Technology | KAM Industries Limited | Kenrub Ltd |
| Cartubox Industries | Paperbags Limited | Medisel Kenya Ltd | Kentainers Ltd |
| Cempack Solutions Limited | Pressmaster Ltd | Medivet Products Ltd | Kenya Suitcase Manufacturers Limited |
| Chandaria Industries Ltd. | Printing Services Ltd | Pharm Access Africa Ltd | King Plastic Industries |
| Colour Labels Ltd. | Printpak Multi Packaging Ltd | Questa Care Ltd | L.G. Harris & Co. Ltd |
| Colourprint Ltd. | Punchlines Ltd | Regal Pharmaceuticals Ltd | Laneeb Plastic Industries Ltd |
| D. L. Patel Press (Kenya) Limited | Ramco Printing Works Ltd | Revital Healthcare (EPZ) Ltd | Mombasa Polythene Bags Ltd |
| **Plastics & Rubber** | **Plastics & Rubber** | **Services & Consultancy** | **Services & Consultancy** |
| Nairobi Plastics Ltd | Zaverchand Punja Ltd | Ernst & Young | Mainport Training and Inspection Kenya Limited |
| Nakuru Plastics | **Services & Consultancy** | Esat African Tea Trade Association (EATTA) | Marubeni Corporation |
| Packaging Industries Ltd | AAM Resources | Flexi Personnel | Meghraj Capital Limited |
| Packaging Masters limited | African Banking Corporation | GE East Afrika Services Ltd. | Mitsui & Co Europe PLC |
| Plastic Electricons | Africote Ltd | Greenbell Communications | Mount Elgon Orchards Limited |
| Plastics & Rubber Industries Ltd | Agricultural Employer Association | GS1 Kenya | Muriu Mungai & Company |
| Polyblend Limited | Alexander Forbes Risk and Insurance Brokers | GSChemical & Allied Sector Kenya | Negawatt Ltd |
| Polyflex Industries Ltd | Ascent Capital Advisory Services LLP | IDB Capital Limited | NIC Bank Limited |
| Polythene Industries Ltd | Askadoc | Ikapamedia East Africa | Novastar Ventures LLP |
| Premier Industries Ltd | Basf East Africa | Industrial & Commercial Development Corporation | Oloidien Estate & Engineering Limited |
| Prosel Ltd | BlueKey Software | Industrial Promotion | Oraro & Company |

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| | Solutions K Limited | Services | Advocates |
| Pyramid Packaging Ltd | Bold Limited | Insight Management consultants Ltd | Origicheck Company Limited |
| Safepak Limited | Brand ID Technologies EA Ltd | Institute of Packaging Professionals | Panal Freighters Ltd |
| Sameer Africa Ltd | Broadband Communications Networks Limited | International Energy Technik Ltd. | PKF Consulting |
| Sanpac Africa Ltd | Broadcast Solutions International Ltd | International Supply Chain Solutions Ltd | Polucon Services (K) Ltd |
| Shiv Enterprises (E) Ltd | Bureau Veritas Kenya | Intersoft Ltd | Premier Training Services Ltd |
| Signode Packaging Systems Ltd | Capital Colors Creative Designers Ltd. | Intertek International Ltd | Raiser Resource Limited |
| Silafrica Kenya Ltd (Formerly Sumaria Industries) | Ceven Ltd. | Intertek Testing Services (EA) PTY Ltd | Rentco East Africa Limited |
| Silpack Industries Limited | CFL Advocates | Intraspeed Arcpro Kenya Limited | Rodl & Partners Limited |
| Silver Coin Imports Limited | Chase Bank | Josper Occupational Health & Safety | Rongai Workshop & Transport Limited |
| Solvochem East Africa Ltd | Citigroup Kenya | Kaizen Institute Africa | Rural Electrification Authority |
| Springbox Kenya Ltd | Cityscape Trends Services Ltd. | Kenya Human Right Commission | Safaricom Limited |
| Styroplast Limited | Commercial Bank of Africa | Kenya Maritime Authority | Scales & Software (K) Limited |
| Super Manufacturers ltd | Compulynx Ltd. | Kenya Ports Authority | Siemens Ltd Kenya |
| Supreme Poly Pack (K) Ltd | Consumer Options | Knights and Apps Limited | Sierra Flora |
| Techpak Industries Ltd | CosmoSol Ltd. | Kuza Project | Spectrum Network Ltd |
| Treadsetters Tyres Ltd | Danish Cleantech Group | Lean Energy Solutions Ltd | Sproxil East Africa |
| Umoja Rubber Products Ltd | Deloitte & Touche | Louis Dreyfus Kenya Ltd | Standard Chartered Bank (K) Ltd |
| Uni-plastics | East African Development Bank, Country Office Kenya) | Lynxbits Global Limited | Stanlib Kenya Limited |
| Vectus Kenya Ltd | East African Tea Trade Association | Magnate Ventures ltd | Strategic Value Ltd |
| **Services & Consultancy** | **Textiles & Apparel** | **Timber, Wood & Furniture** | |
| Stratostaff EA Ltd | Kamyn Industries Limited | African Retail Traders | |
| Tally Solutions Kenya Ltd. | Kapric Apparels EPZ Ltd | Budget Furniture Ltd. | |
| The Copy Cat Ltd | Kavirondo Filments Ltd | Comply Industries Ltd. | |
| The Helios Group | Kenya Shirts Manufacturers Company Ltd | Economic Housing Group Ltd. | |
| TMS Consultants | Kenya Trading EPZ Ltd | Elburgit Enterprises Ltd. | |
| Transoceanic Project Development Kenya Ltd | Leena Apparels Ltd | Fine Wood Works Ltd | |
| Tricepts Management Solutions | Manchester Outfitters Limited | Furniture International Limited | |
| Umati Capital (Kenya) | Mega Apparel Industries (EPZ) Ltd | GreenPot Enterprises | |
| Unumed Limited | Mega Garment Industries Kenya (EPZ) | Kenya Wood Products Limited | |
| Viscar Industrial Capacity Ltd | Midco Textiles (EA) Ltd | Marvel Lifestyle Ltd | |
| Warrior Insight Limited | Mills Industry Ltd | Match Masters Ltd | |
| Wotech Kenya Limited | Mombasa Apparels | Newline Ltd | |
| Zaki LLC | New Wide Garments Kenya EPZ LTD | Panesar's Kenya Ltd | |

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| **Textiles & Apparel** | Oriental Mills Ltd | PG Bison Ltd |
| Adpack Limited | Panah Limited | Rai Plywoods (Kenya) Ltd |
| Africa Apparels EPZ Ltd | Royal Garment Industries EPZ Ltd | Rosewood Furniture Manufacturers Ltd |
| Alpha Knits Ltd. | Simba Apparel EPZ Ltd | Savanah Saw Mills |
| Ashton Apparel EPZ Ltd | Soko EPZ Ltd | Shah Timber Mart Ltd |
| Bedi Investments Ltd. | Spin Knit Limited | Shamco Industries Ltd |
| Brilliant Garments EPZ Ltd | Spinners & Spinners Ltd | Shayona Timber Ltd |
| Chalange Industries | Squaredeal Uniforms Centre Ltd | Timsales Ltd. |
| Dharamshi & Co. Ltd | Summit Fibres Ltd | Turea Ltd |
| Ethical Fashion Artisans EPZ Ltd | Sunflag Textile & Knitwear Mills Ltd | Woodmakers (K) Ltd |
| Fantex (K) Ltd | Tarpo industries | Woodtex Kenya Ltd |
| Global Apparels Ltd. | Teita Estate Ltd | |
| Gone Fishing | Thika Cloth Mills Ltd | |
| Hanitex (EPZ) Ltd | TSS Spinning And Weaving Ltd | |
| Hantex Garments EPZ Limited | United Aryan (EPZ) Ltd | |
| Hela Intimates EPZ LTD | Vaja's Manufacturers Limited | |
| Insight Kenya | Wildlife Works (EPZ) Ltd | |