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Taxation Practices and Financial Performance of Steel Manufacturing Firms in Nairobi County, Kenya

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Abstract

Steel manufacturing firms in Kenya operate in a capital-intensive and highly competitive environment in which taxation can affect compliance costs, investment decisions, cash flows and profitability. This study examined the relationship between four dimensions of taxation practice—tax compliance practices, tax governance practices, tax incentive utilisation and tax technology adoption—and financial performance among steel manufacturing firms in Nairobi County. A positivist, cross-sectional explanatory survey design was used. The study targeted all 33 steel manufacturing firms identified through the Kenya Association of Manufacturers database and obtained responses from all 33 designated finance managers or officers, giving a 100% response rate. Data were collected through a structured questionnaire and analysed in SPSS Version 29 using descriptive statistics, Pearson correlation and multiple linear regression. Financial performance was operationalised in the administered questionnaire through six Likert-scale statements concerning profitability and returns generated from the firms' asset base. The regression model was statistically significant, $F(4, 28) = 41.998$, $p < .001$, with $R = .926$, $R^2 = .857$ and adjusted $R^2 = .837$. Tax compliance practices ($B = 1.870$, $\beta = 1.990$, $p < .001$), tax incentive utilisation ($B = .408$, $\beta = .625$, $p = .017$), and tax technology adoption ($B = .595$, $\beta = .676$, $p = .008$) were positively associated with financial performance. Tax governance practices were not statistically significant ($B = .084$, $\beta = .140$, $p = .258$). The findings indicate that compliance capability, effective use of legitimate tax incentives and tax technology are important dimensions of taxation management within the sampled firms, while formal tax governance arrangements did not demonstrate an independent statistical association with performance after the other dimensions were considered. The study recommends stronger integration of tax planning with financial decision-making and deeper integration of tax technologies with accounting and reporting systems.

Keywords: Taxation practices; tax compliance; tax governance; tax incentives; tax technology; financial performance; steel manufacturing; Kenya

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1. Introduction

Financial performance is central to the sustainability, investment capacity and competitiveness of manufacturing firms. Return-oriented measures are particularly relevant to steel manufacturers because the sector requires substantial investment in plants, machinery and other fixed assets. The original study conceptualised financial performance around returns generated from the asset base. The empirical instrument, however, measured the construct through respondents' assessments of profitability, asset utilization and returns, rather than through a separately reported audited ROA series. This distinction is important for interpreting the evidence and is retained in this revised manuscript.

The international steel industry has faced persistent demand weakness, excess capacity and pressure on profitability. The OECD (2026) reports that global steel demand contracted for a fourth consecutive year in 2025 and that excess capacity remained a major structural concern. Similar pressures are evident in Africa, where underutilised production capacity, import competition and high operating costs continue to constrain domestic steel producers. In Kenya, the manufacturing sector has experienced a long-run decline in its contribution to GDP, while manufacturers have reported pressure from operating costs, taxation and competition from imports (Kimolo et al., 2024; Kenya National Bureau of Statistics, 2025).

The Kenyan steel subsector is particularly exposed to these pressures. The thesis reports that steel mills were operating at about 36% of installed capacity, against installed capacity of approximately 4.2 million tonnes, while imports substantially exceeded exports in 2025. Industry evidence also identifies unpredictable tax policies among the pressures affecting competitiveness. These conditions make taxation practices relevant beyond the amount of tax payable: the way firms comply with tax obligations, govern tax matters, use legitimate incentives and employ digital tax systems may affect administrative costs, cash-flow management and investment decisions.

Prior studies provide evidence that taxation can be associated with firm performance, but the evidence is not uniform and often concerns broad manufacturing populations or individual taxation dimensions. Kavetsa (2025), for example, examined corporate tax compliance among Kenyan manufacturing firms, while Karimi and Wanjohi (2024) examined tax incentives among manufacturing firms in Nairobi City County. Technology studies have largely focused on small enterprises and tax-compliance outcomes rather than financial performance (Otieno et al., 2025; Ouso et al., 2025). Governance studies have also frequently examined tax avoidance, tax aggressiveness or governance generally rather than the direct relationship between tax-governance practices and financial performance. The resulting gap is therefore contextual and conceptual: limited evidence jointly examines these four taxation dimensions among steel manufacturing firms in Nairobi County.

This study addressed that gap by examining tax compliance practices, tax governance practices, tax incentive utilisation and tax technology adoption simultaneously in the steel manufacturing context. The study was guided by the Resource-Based View (RBV), which treats organisational capabilities as potential sources of differences in firm performance (Barney, 1991; Wernerfelt, 1984), with supporting taxation theories used to explain the individual dimensions.

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2. Literature Review and Hypotheses

2.1 Theoretical perspective

The Resource-Based View provided the overarching framework. RBV conceptualises firms as bundles of heterogeneous resources and capabilities that can produce performance differences when they are valuable, difficult to imitate and effectively organised (Barney, 1991; Wernerfelt, 1984). In the present study, taxation management is treated as an organisational capability rather than merely a statutory obligation. The ability to maintain compliant tax processes, establish effective tax oversight, identify and use legitimate incentives, and deploy tax technology may reduce avoidable costs and improve the efficiency with which organisational resources are deployed. The thesis appropriately notes that RBV has been criticised for its static character and possible tautology; this limitation is addressed here by treating taxation practices as organisational processes and capabilities rather than assuming that any practice is valuable simply because it is associated with performance.

Four supporting theories sharpen the mechanisms. Economic Deterrence Theory (Allingham & Sandmo, 1972; Becker, 1968) explains tax compliance through the expected costs and benefits of non-compliance. Agency Theory (Jensen & Meckling, 1976; Ross, 1973) provides a basis for considering board oversight, internal policies and accountability in tax decisions delegated to management. Optimal Taxation Theory, associated with Ramsey (1927) and Mirrlees (1971), explains the rationale for allowances and incentives intended to influence investment and reduce distortions. Fiscal Exchange Theory (Cowell & Gordon, 1988) highlights the relationship between taxpayers and the state and the role of administrative systems and service quality. Together, these perspectives support the expectation that different taxation capabilities may have different relationships with firm performance.

2.2 Empirical evidence and hypotheses

2.2.1 Tax compliance practices and financial performance

Evidence reviewed generally suggests a positive association between tax compliance and firm outcomes, although enforcement costs can offset some benefits. Kavetsa (2025) found that punitive enforcement could undermine manufacturing-firm performance, while Dwitayanti and Armaini (2024) reported a positive relationship between tax compliance and financial performance among Indonesian manufacturing firms. Aheebwa et al. (2025) similarly reported better outcomes among tax-compliant SMEs in Uganda. These studies support the expectation that accurate and timely compliance can reduce penalties, interest and tax-related disruption. However, most evidence is outside the steel subsector and some studies rely on self-reported performance. The present study therefore tests the relationship within the capital-intensive steel-manufacturing context.

H1: Tax compliance practices are significantly associated with financial performance of steel manufacturing firms in Nairobi County.

2.2.2 Tax governance practices and financial performance

Tax governance concerns board oversight, internal tax policies, allocation of responsibility, risk assessment and accountability. Beasley et al. (2021) found that stronger board risk oversight was associated with lower tax uncertainty and tax burden among U.S. firms, while Akims et al. (2023)

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reported associations between corporate-governance attributes and profitability among listed Kenyan manufacturing and allied firms. However, these studies do not directly establish whether tax-specific governance independently predicts financial performance among privately held steel manufacturers. The current study addresses that contextual and conceptual limitation.

H2: Tax governance practices are significantly associated with financial performance of steel manufacturing firms in Nairobi County.

2.2.3 Tax incentive utilisation and financial performance

Tax incentives can lower the effective cost of investment and support reinvestment in productive assets. Karimi and Wanjohi (2024) found significant relationships between several tax incentive categories and financial performance among manufacturing firms in Nairobi City County. Oduori et al. (2024) reported a positive relationship between VAT incentives and performance among EPZ agro-processing firms, while Oluwagbemiga (2024) found positive effects of tax incentives among listed Nigerian manufacturing firms. These findings support the expectation that the ability to identify, claim and use legitimate incentives can improve financial outcomes, although eligibility and sectoral differences may influence the magnitude of benefits.

H3: Tax incentive utilisation is significantly associated with financial performance of steel manufacturing firms in Nairobi County.

2.2.4 Tax technology adoption and financial performance

Digital tax systems can reduce transaction costs, improve record accuracy and facilitate timely filing and reporting. Otieno et al. (2025) found that eTIMS adoption improved transparency and formalisation among Kenyan micro and small enterprises, although it also introduced digital-literacy and compliance burdens. Ouso et al. (2025) identified perceived benefit, security and trust as important determinants of electronic tax-invoice adoption in Nairobi. Bellon et al. (2022), using a quasi-experimental design in Peru, found that electronic invoicing increased reported sales, purchases and VAT liabilities. These studies establish plausible mechanisms but leave limited evidence concerning financial performance in capital-intensive steel manufacturing.

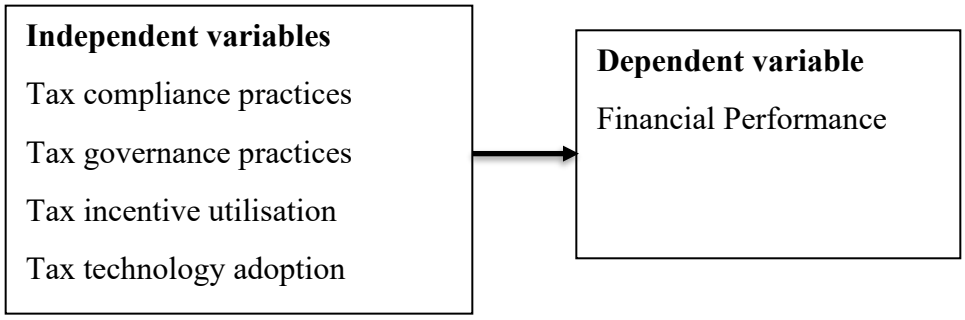
H4: Tax technology adoption is significantly associated with financial performance of steel manufacturing firms in Nairobi County.

2.3 Conceptual framework

The conceptual model specifies four independent variables and one dependent construct. Tax compliance practices are represented by filing and remittance timelines, tax-return accuracy and voluntary disclosure. Tax governance practices are represented by board oversight, internal tax policies and accountability. Tax incentive utilisation covers investment deductions, EPZ/SEZ incentives, capital allowances and R&D incentives. Tax technology adoption covers eTIMS, iTax and automation. Financial performance is measured through six questionnaire items concerning profitability and returns from assets.

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Figure 1
Conceptual framework



Source: Author's conceptualization based on the study framework.

3. Methodology

The study adopted a positivist philosophy and a deductive approach. A cross-sectional explanatory survey design was used because the study sought to examine associations among measurable taxation practices and financial performance without manipulating the variables. The design provides a snapshot of the firms during the study period and does not support strong causal claims.

The target population comprised 33 steel manufacturing firms in Nairobi County identified through the Kenya Association of Manufacturers database. The financial manager or officer responsible for financial and taxation matters in each firm was the respondent, while the firm constituted the unit of analysis. Because the population was small and manageable, a census approach was used. All 33 questionnaires were returned, producing a 100% response rate.

Data were collected through a structured, self-administered questionnaire. The four taxation constructs each contained eight Likert-scale items, rated from 1 (strongly disagree) to 5 (strongly agree). Financial performance was measured by six Likert statements addressing satisfactory profits from assets, effective asset utilisation, profitability relative to total assets, competitive returns on assets, the contribution of asset management to profitability, and maintenance of satisfactory returns on total assets. This is the operationalisation supported by the actual questionnaire in the thesis; therefore, the revised article does not represent the dependent variable as an independently verified audited ROA ratio.

Content and construct validity were assessed through expert review by supervisors and specialists in taxation, finance and research methodology. The thesis also reports KMO and Bartlett tests and principal component analysis for the four taxation constructs. Reliability was assessed using Cronbach's alpha in SPSS Version 29. Descriptive statistics comprised frequencies, percentages, means and standard deviations. Pearson correlation and multiple linear regression were used for inferential analysis. The regression model was specified as:

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$$FP = \beta_0 + \beta_1 TC + \beta_2 TG + \beta_3 TI + \beta_4 TT + \varepsilon$$

where FP = financial performance; TC = tax compliance practices; TG = tax governance practices; TI = tax incentive utilisation; TT = tax technology adoption; β_0 = constant; β_1–β_4 = regression coefficients; and ε = error term.

Ethical procedures included institutional approval, NACOSTI research authorisation, permission from participating firms, informed consent, voluntary participation, confidentiality and secure handling of commercially sensitive information.

4. Results

4.1 Response rate and reliability

All 33 targeted respondents returned usable questionnaires, yielding a 100% response rate. The reliability results reported are presented below.

Table 1
Response Rate and Reliability of the Research Instruments

Construct	Items	Cronbach's α	Interpretation
Tax compliance practices	8	.771	Acceptable
Tax governance practices	8	.774	Acceptable
Tax incentive utilisation	8	.718	Acceptable
Tax technology adoption	8	.764	Acceptable

All four taxation constructs exceeded the .70 threshold reported in the study, indicating acceptable internal consistency for the questionnaire scales.

Table 2
Construct Validity Results

Construct	KMO	Bartlett χ^2	df	p	PCA variance retained
Tax compliance practices	.604	117.284	28	<.001	55.871%
Tax governance practices	.773	118.302	28	<.001	55.166%
Tax incentive utilisation	.681	166.678	28	<.001	62.507%
Tax technology adoption	.632	135.497	28	<.001	58.932%

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The KMO statistics ranged from .604 to .773, exceeding the minimum threshold of .50 reported in the thesis, while Bartlett's tests were statistically significant for all four constructs. PCA indicated that three components with eigenvalues above 1 accounted for between 55.166% and 62.507% of variance across the constructs. These results provide evidence that the questionnaire items contained sufficient interrelationships for the exploratory construct assessment undertaken in the thesis.

4.3 Descriptive results

Table 3

Descriptive Statistics for Taxation Practices and Financial Performance

Taxation construct	Key indicators	M	SD
Tax compliance practices	Filing/remittance timelines; return accuracy; voluntary disclosure	3.54	1.039
Tax governance practices	Board oversight; internal policies; accountability	3.80	.926
Tax incentive utilisation	Investment deductions; EPZ/SEZ; capital/R&D allowances	3.81	.932
Tax technology adoption	eTIMS; iTax; automation	3.96	.925

Tax technology adoption had the highest overall mean (M = 3.96, SD = .925), followed by tax incentive utilisation (M = 3.81, SD = .932) and tax governance practices (M = 3.80, SD = .926). Tax compliance practices recorded the lowest mean (M = 3.54, SD = 1.039), indicating comparatively greater variation in compliance practices. At item level, timely filing of tax returns had the highest compliance mean (M = 4.00), whereas disclosure of previously omitted tax information had the lowest (M = 3.26). For governance, board oversight recorded the highest mean (M = 4.05), while accountability for tax-compliance errors recorded the lowest (M = 3.43). For incentives, applying EPZ/SEZ incentives when eligible had a mean of 4.02, while general use of applicable EPZ/SEZ incentives recorded 3.61. For technology, use of iTax to access tax information recorded the highest mean (M = 4.12), while use of digital systems to maintain tax records recorded the lowest (M = 3.82).

4.4 Multiple regression results

Table 4

Taxation Practices and Financial Performance

Model	R	R^2	Adjusted R^2	SE
1	.926	.857	.837	.21009

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The regression model showed a strong overall association between the four taxation-practice constructs and the financial-performance measure (R = .926). The model accounted for 85.7% of the observed variance before adjustment and 83.7% after adjustment. Given the cross-sectional design, this should be interpreted as variance accounted for in the sample rather than evidence that taxation practices causally determine financial performance.

Table 5
ANOVA Results for the Regression Model

Source	SS	df	MS	F	p
Regression	7.415	4	1.854	41.998	<.001
Residual	1.236	28	.044		
Total	**8.650**	**32**			

The overall regression model was statistically significant, $F(4, 28) = 41.998$, $p < .001$, indicating that the set of four taxation-practice variables was jointly associated with financial performance.

Table 6
Regression Coefficients for Taxation Practices and Financial Performance

Predictor	B	SE	β	t	p	Decision
Constant	.048	.330	—	.147	.884	—
Tax compliance practices	1.870	.409	1.990	4.567	<.001	Reject H1 null
Tax governance practices	.084	.072	.140	1.156	.258	Retain H2 null
Tax incentive utilisation	.408	.160	.625	2.543	.017	Reject H3 null
Tax technology adoption	.595	.209	.676	2.845	.008	Reject H4 null

The estimated regression equation was $FP = 0.048 + 1.870TC + 0.084TG + 0.408TI + 0.595TT + \varepsilon$. Tax compliance, tax incentive utilisation and tax technology adoption had positive statistically significant coefficients, whereas tax governance did not. The standardised coefficient for tax compliance ($\beta = 1.990$) is unusually high for a multiple regression coefficient and should be verified against the original SPSS output and raw dataset before submission. The thesis does not provide

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sufficient diagnostic statistics to independently determine whether this value reflects multicollinearity, suppression, coding or another estimation issue.

5. Discussion

5.1 Tax compliance practices

Tax compliance practices were positively associated with financial performance and had the largest reported standardised coefficient. This result is consistent with the thesis evidence showing that timely filing was the strongest compliance practice and with prior studies linking effective compliance to lower penalties, interest and administrative costs (Kavetsa, 2025; Dwitayanti & Armaini, 2024). The finding is also consistent with Economic Deterrence Theory because timely and accurate compliance can reduce the expected financial cost of non-compliance. However, the relatively lower scores for timely remittance, maintenance of accurate records and voluntary disclosure indicate that compliance is not uniformly strong across all dimensions. For steel manufacturers operating under cost pressure, improving the weaker elements of compliance may therefore be more useful than focusing only on filing deadlines.

5.2 Tax governance practices

Tax governance practices were not statistically significant in the multivariate model despite recording a relatively high descriptive mean. This is an important finding rather than evidence that governance is unimportant. It indicates that, after tax compliance, incentives and technology were considered simultaneously, the measured governance practices did not make a statistically distinguishable independent contribution to the financial-performance outcome. The result differs from evidence associating broader governance characteristics with profitability (Akims et al., 2023) and from Beasley et al. (2021), who linked board risk oversight with tax uncertainty and tax burden. One plausible interpretation is that formal board oversight and internal policies may be widespread across the firms and therefore show limited variation. Another is that governance may influence performance indirectly through compliance, risk management or technology rather than through a direct relationship. Because the current design is cross-sectional, these mechanisms should be treated as explanations requiring further testing rather than causal conclusions.

5.3 Tax incentive utilisation

Tax incentive utilisation was positively and significantly associated with financial performance. The result is consistent with Karimi and Wanjohi (2024), who reported significant relationships between tax incentives and manufacturing-firm performance in Nairobi City County, and with evidence from Uganda and Nigeria indicating positive relationships between tax incentives and firm outcomes (Aheebwa et al., 2025; Oluwagbemiga, 2024). The descriptive results show relatively strong use of investment deductions and capital allowances, which is particularly relevant to steel manufacturers because the subsector is asset intensive. The lower score for general EPZ/SEZ utilisation also indicates that incentive benefits may depend on eligibility and access rather than mere policy availability.

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5.4 Tax technology adoption

Tax technology adoption was positively and significantly associated with financial performance. The finding extends evidence from Kenyan SMEs showing that eTIMS can improve transparency and formalisation (Otieno et al., 2025) and complements quasi-experimental evidence that electronic invoicing can change firms' reported transactions and tax liabilities (Bellon et al., 2022). The high descriptive mean for iTax use and eTIMS invoicing suggests that digital tax systems are already embedded in many firms' tax processes. The lower score for digital record maintenance indicates an opportunity to deepen integration between tax platforms and internal accounting, inventory and reporting systems rather than treating eTIMS and iTax as stand-alone compliance tools.

6. Conclusion and Implications

The study demonstrates that taxation practices are significantly associated with financial performance among the 33 steel manufacturing firms covered by the study. Tax compliance practices, tax incentive utilisation and tax technology adoption showed positive statistically significant relationships with the financial-performance measure, whereas tax governance practices did not show a statistically significant independent relationship. The results suggest that taxation management is not a single-dimensional activity: different capabilities appear to have different empirical relationships with firm performance.

For practice, financial managers should integrate tax planning into broader financial decision-making, strengthen timely remittance and tax-record accuracy, systematically identify eligible investment and capital allowances, and integrate eTIMS and iTax with internal accounting and reporting systems. For policymakers, the findings support continued efforts to make legitimate incentives accessible and tax administration digitally efficient. The non-significant governance result cautions against assuming that formal governance structures alone will improve performance; attention should instead be given to how governance mechanisms translate into operational tax capabilities.

7.0 Recommendations

The study recommends that steel manufacturing firms strengthen their tax compliance and documentation systems in response to changes in the Finance Acts. The relatively moderate findings relating to accurate tax records, complete financial information, and timely tax remittance suggest that further improvements are necessary. Finance and tax departments should maintain updated compliance calendars, undertake pre-submission reviews, and reconcile tax records with accounting records before filing returns. This is particularly important given the increasing use of electronic tax administration.

The study recommends that steel manufacturing firms maximize legitimate investment deduction and capital allowance opportunities provided under the prevailing tax legislation. Given the capital-intensive nature of steel manufacturing, management should assess every qualifying investment in machinery, buildings, and production equipment to determine the applicable tax deductions and allowances. KRA provides for investment deductions on qualifying manufacturing buildings and machinery, while its current guidance also specifies capital allowance treatment for manufacturing assets.

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The study recommends that steel manufacturing firms integrate tax planning into strategic financial decision-making by regularly reviewing changes in the Finance Act and other tax legislation and conducting periodic tax health checks. This would enable firms to identify eligible deductions, capital allowances, and tax incentives, strengthen tax compliance, minimize avoidable tax costs, and enhance financial performance.

The study further recommends investment in tax technology and integration of eTIMS, iTax, and internal accounting systems. This recommendation is particularly relevant given the continued digitization of Kenya's tax administration and amendments affecting electronic tax systems. The findings showed relatively high adoption of iTax and eTIMS among the steel manufacturing firms. Firms should therefore move beyond basic compliance with these platforms and integrate them with accounting, invoicing, inventory, and financial reporting systems. Such integration can improve the accuracy and timeliness of tax information, facilitate reconciliation, and strengthen audit trails.

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