



Moderating Effect of Tax on Firms' Liquidity, Profitability and Share Returns of Agricultural Firms Listed at Nairobi Securities Exchange

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Authors' contributions

This work was carried out in collaboration between both authors. Both authors read and approved the final manuscript.

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ABSTRACT

The purpose of this research was to explore the moderating role of taxation on liquidity, profitability, and share returns of Agricultural Companies listed on the Nairobi Securities Exchange (NSE), Kenya. This study was underpinned by four theoretical frameworks to a scholarly foundation: Liquid Asset Theory, Agency Theory, Tax Clientele Effect Theory, and Capital Market Theory. It encompassed a complete survey of all seven firms within the agricultural sector of the NSE, covering the period from 2018 to 2022, and utilized secondary data collected through a data capture sheet. Initially, the research identified a significant impact of liquidity on the share returns of these agricultural firms before tax was considered as a moderating variable. It also found a significant influence of profitability on the share returns within the agricultural segment of the NSE. Upon integrating tax as a moderating variable, the research further confirmed a significant impact of liquidity on share returns. Additionally, it revealed a significant negative impact of profitability on the

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share returns in this sector. The findings indicated that taxation significantly moderates the relationship between liquidity, profitability, and share returns of agricultural firms on the NSE, Kenya, as evidenced by a 12% change in R2 following the inclusion of tax in the model. The outcomes of this study are anticipated to inform investment strategies in the stock market, enhance academic research, and pinpoint areas for future investigation. It is recommended that further research should be carried out on the Financial Indicators of Firms and Share Returns across all sectors of the NSE.

Keywords: Financial performance; taxation; share returns; liquidity; profitability.

1. INTRODUCTION

Returns on shares, also known as equity or stock returns, offer insights into the performance of a specific company's stock over a period [1]. These returns are a crucial measure of how publicly traded companies perform in major markets such as the United States, China, and United Kingdom. In the United States, the S&P 500 serves as the principal index, tracking the performance of the top 500 firms on the New York Stock Exchange (NYSE) and DAQ [2]. Similarly, the Shanghai Composite Index is the main index for the Shanghai Stock Exchange, assessing the performance of its largest companies. In the United Kingdom, the performance of the top 100 companies listed on the London Stock Exchange is measured by the Financial Times Stock Exchange 100 Index (FTSE 100) [3]. The returns on shares of these companies are meticulously analyzed by investors and analysts to gauge the economic health of the USA, China, and the UK. Share returns are indeed critical indicators of a company's performance and are closely monitored by investors, analysts, and stakeholders (Uyaebo, Atoi, & Usman, 2015). Similarly, in South Africa, the primary index of the stock market that measures the performance of the largest companies listed on the JSE is the FTSE/JSE Africa All Share Index (Russell, 2017).

Viewed from a Kenyan standpoint, the performance of agricultural enterprises listed on the primary stock exchange is heavily dependent on their share returns. Isaac (2022) notes that the Nairobi Stock Exchange (NSE) plays a pivotal role in the Kenyan economy, emphasizing that the share returns from these listed companies are crucial for the growth of the agricultural sector, a significant economic driver. Gerio, Egessa, and Alala [4] argue that these returns serve as a vital measure of both the agricultural sector's condition and the overall economic health of Kenya.

Olang, Akenga & Mwangi [5] underscore the importance of maintaining sufficient liquidity for agricultural firms listed on the Nairobi Securities Exchange (NSE) or other markets. Adequate liquidity is crucial for robust financial management. Insufficient liquidity can adversely affect share returns, as it could impair a company's ability to meet immediate financial commitments. This may lead to a decline in share value. Profitability is another essential aspect. It serves as a key indicator of a company's operational efficacy, efficiency, and overall financial stability, as highlighted by Kartikasari & Merianti [6]. In the agricultural sector on the NSE, the ability to forecast future performance makes profitability incredibly significant. Enhanced profitability often translates to improved investment returns, thereby increasing share returns. Various financial indicators measure profitability. These include net profit margin, return on equity (ROE), return on assets (ROA), and earnings per share (EPS). For investors, these metrics are indispensable tools for assessing a company's financial health and growth potential. Usually, higher ROE or ROA indicates strong investment returns. This can attract more investors and potentially elevate share prices.

Kakiya [7] defines leverage as the strategic use of borrowed capital by corporations to fund their operations, investments, or other initiatives. This can manifest in several ways, such as through acquiring loans, issuing bonds, or other debt mechanisms. The underlying principle of leverage is that a company borrows money anticipating that the profits from the funded ventures will surpass the costs of the loans, thus yielding a net gain for the shareholders. In the realm of agricultural companies on the NSE, leverage plays a crucial role as it influences both the financial stability and the growth prospects of the firm. Hirdinis (2019) discusses firm size from a financial analytical perspective, suggesting it could be measured either by the total assets a company holds or by its market capitalization. These metrics, while related, highlight different

facets of a company's financial health. For agricultural businesses on the NSE, the size of a firm is significant as larger companies often enjoy benefits such as economies of scale, easier access to capital, and greater market influence. The agricultural sector, as noted by Onyalo (2019, pp. 28-30), is vital to numerous economies, playing a key role in ensuring food security, providing employment, and fostering economic development. Companies within this sector that are listed on the NSE are evaluated based on several financial indicators including profitability, liquidity, and leverage. These metrics are indispensable for assessing their financial health. Additionally, the returns on shares are indicative of the financial benefits or risks that investors might face, making them crucial for both shareholders and prospective investors.

In academic research, there is a noticeable scarcity of studies exploring the impact of Resource-based theory, Capital Structure theory, Trade-off theory, Agency theory, and Tax Clientele Effect theory on the financial indicators and share returns of agricultural companies listed on the Nairobi Stock Exchange (NSE), Kenya. Furthermore, the use of panel data to examine these financial metrics and share returns in the same context is also limited. Given these gaps and the ongoing disagreements among scholars, there is a compelling justification for undertaking further research into the financial performance and share price outcomes of agricultural entities on the NSE.

2. RESEARCH OBJECTIVE

The study general objective is to analyze the moderating effect of tax on the relationship between firm financial indicators and share returns on agricultural firms listed at NSE, Kenya.

3. RESEARCH HYPOTHESIS

The null hypothesis H01: was started as tax does not have significant moderating effect on the relationship between firms' liquidity and profitability indicators and share returns on agricultural firms listed at NSE, Kenya.

4. LITERATURE REVIEW

4.1 Theoretical Review

4.1.1 Liquid asset theory of liquidity

Diamond and Dybvig (1983) opined that financial intermediaries are super important in keeping a

stash of cash to handle short-term stuff and reduce risk. The idea here is to use this theory but for companies listed on the Nairobi Securities Exchange (NSE) in Kenya. Past studies have shown that these companies keep a lot of cash handy to handle their duties. Using the Liquid Assets theory to check out how cash affects the stock returns of agricultural companies on the NSE seems like a good plan. This theory gives a solid way to see how managing cash in these companies can impact their stock returns.

4.1.2 Agency theory

According to Mitnick (1976) the Agency Theory is super key in corporate finance and governance. It talks about the connection between the managersthe agents) of a company and its shareholders (the principals) (Vitolla, Raimo & Rubino, 2020). It causes an agency problem where shareholders can't really watch over and run the actions of managers properly. According to the theory, managers' plans can lead to more profit and higher firm value and boost managers' equity ownership value (Kumala & Siregar, 2021). Applying the Agency Theory to our research on how profitability affects share returns of agricultural firms on the Nairobi Securities Exchange (NSE) in Kenya is super important and gives you cool insights. By looking at possible conflicts between the management team and shareholders, you can dig into some really important stuff.

4.1.3 Tax-clientele effect theory

In 1980, DeAngelo & Masulis [8] came up with the Tax-Clientele Effect Theory. This theory says that taxes can sway how investors act based on their tax status. And this can affect the share returns of companies [9]. The Tax-Clientele Effect Theory implies that the tax status of investors in agricultural firms at NSE, Kenya might shape their investment choices. And that could impact the share returns of these firms. In essence, the Tax-Clientele Effect Theory offers a solid framework to grasp how tax factors can influence shareholders' investment decisions, ultimately affecting share returns.

4.1.4 The capital market theory

The main scholars behind the Capital Market Theory are Sharpe (1964), Lintner [10], and Mossin (1966). The standard CAPM is a simple premium linear price model that tells us about investment risk in the stock market, linking

expected return and risk. According to this idea by spreading their investments, folks can say bye-bye to unnecessary risks and focus only on the necessary ones measured by beta. Everyone will have the same risky bundle but will play around with how much extra risk they want by adding or subtracting from the safe bundle. This theory will be super helpful for NSE's look into share returns from Agri-business companies.

4.2 Empirical Review

4.2.1 Profitability and share returns

Mwangi [11] investigated the effect of taxation on economic growth in Kenya. This study was guided by the endogenous growth theory and the optimal tax theory. In order to determine the impact of taxation on economic growth in Kenya, the study employed a longitudinal research design. Secondary data was used from 1970 to 2020, a 51-year period. Taxation, like interest rates, had a negative but insignificant impact on economic growth, according to the findings. This study was conducted in Kenya whereas the current study was conducted specifically among Agricultural Firms at the NSE on effect of taxation on shares returns, a gap filled by the analyzed data presented in chapter four.

Taxation policy implementation costs, macroeconomic factors & revenue collection in Kenya. That's what Ndirangu [12] delved into. The Rational Choice Theory, Adams Smith Canons of Taxation Theory, Allingham and Sandmo Theory, Stakeholders Theory, and even the Theory of Planned Behavior played a part in this extensive study. The research employed an informal quantitative design. Data? Gathered from the National Treasury and Kenya Revenue Authority spanning 26 years. Relying on time series data meant no sampling technique was necessary. Instead, focus was on costs from various taxation policies by KRA & National Treasury. Results from regression analysis showed something clear: Tax Enforcement Costs negatively impacted tax revenue collected by KRA in Kenya significantly. However, note this: while the previous study centered broadly on Kenya, the current focus shifts to Agricultural Firms at the NSE to understand taxation's effect on share returns. Chapter four presents data that fills this crucial gap.

Obongo [13] delved into factors affecting tax compliance among Kenyan investors in Export Processing Zones. Utilized theories included Tax Morale, Economic Compliance, Fiscal Exchange,

Social-Psychology, and Prospect Theory. The study was rooted in positivism. A cross-sectional survey design was employed; this method accurately captures respondents' similarities & differences. Interestingly, the study concluded that tax compliance levels among these investors remain low. It's important to note that while Obongo's research focused on Kenya's Export Processing Zones, our current study targeted Agricultural firms at the NSE. We aimed to examine the effect of taxation on share returns—a crucial gap now addressed in chapter four's analyzed data. This evidence provides a comprehensive understanding of the issues at hand. Our findings underscore significant deviations from earlier results.

Mabinda [14] conducted a comprehensive investigation into the factors shaping the investment perceptions of managers from firms listed on the Nairobi Securities Exchange in Kenya. Notably, these perceptions form a crucial component of every business's strategic planning. Success in new projects profoundly promotes company development, effectiveness & growth. Conversely, failure in company projects adversely affects efficiency, posing a risk to future sustainability. The study utilized the EGLS randomized approach, which demonstrated positive impacts on cash flow, business risk, and financial leverage. Additionally, portfolio income exhibited a statistically significant positive influence on corporate investment visibility. This examination focused on firms listed at NSE Kenya. In contrast, the current study zeroes in specifically on Agricultural Firms at NSE regarding the impact of taxation on share returns—a research gap adeptly addressed by the data analyzed and presented in chapter four. Erin & Kewei [15] explored a related domain by examining the ramifications of tax expense on aggregate stock returns for US companies. They sourced weighted NYSE/AMEX/Nasdaq/Area index monthly stock data from the Centre for Research in Securities Prices (CRSP), covering the 1977Q1-2015Q4 period. Their findings reveal that aggregate tax expense, aggregate earnings management, aggregate tax avoidance & future aggregate performance possess significant explanatory power over stock returns. This underscores the multifaceted dynamics involving tax expenses and overall financial performance across differing markets & timeframes. Studying these elements further solidifies our understanding of stock market reactions within various fiscal landscapes and regulatory environments.

Putri, Dewi, and Deni (2021) explored how profits affect share prices using the company's money setup in a study about car companies in Indonesia. They gathered data from documents and used Path Analysis to see the connection with a 95% confidence level. Profits were found using Return on Equity (ROE) and money setup was found using Debt-to-Equity Ratio (DER). They looked at all companies on the Indonesia Stock Exchange (BEI) from 2013 to 2017. The results showed that profits and money setup don't hurt stock returns, but profits do impact it straight up. This impact isn't clearly significant. The research was done in Indonesia and didn't cover the link between profits and share returns of agriculture companies on the Nairobi Stock Exchange (NSE), which this study addresses.

Dewi, Dewa, Anak, and Gede (2021) did some research on Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) to see how they can predict stock returns of companies on the Indonesian Stock Exchange (IDX). They looked at data from 83 out of 105 companies using some observation techniques. From 2013 to 2017, they checked how NPM, ROA, and ROE related to stock price changes (stock returns). Turns out, both ROA and NPM had a big positive impact on stock returns. But guess what? ROE didn't really do much. This study focused on Indonesia only and didn't cover how profits connect to share returns for agricultural firms on the Nairobi Stock Exchange (NSE), Kenya.

4.2.2 Liquidity and share returns

Mogusu, Nkari & Wabire [16] conducted an in-depth analysis on the impact of liquidity risk on shareholders' wealth of commercial banks listed at the NSE. They employed a descriptive research design. The focus was on eleven commercial banks consistently listed at the NSE from 2013-2019. Due to the small population, a census was undertaken to gather data from these eleven banks. Data collection was performed using a checklist. This data stemmed from published financial statements & the Banking survey publications over a span of seven years, from 2013 to 2019. The analysis utilized simple & multiple regression methods with assistance from SPSS version 25.0. Hypotheses were tested using t-statistics at a 5% significance level. The research concluded that liquidity risk negatively impacts shareholders' wealth, indicated by a regression coefficient of -0.556 with a p-value of 0.023. Banks maintaining

higher liquidity benefit from improved cash flow, allowing them to seize investment opportunities, thus enhancing shareholders' value. Consequently, it is imperative for commercial banks to devise strategies to mitigate this risk. This study targeted Kenyan commercial banks in comparison to another study focused on the Nairobi Security Exchange (NSE). The presented results address this gap effectively.

Musembi [17] did a study to determine the influence of liquidity risk factors on financial performance of listed commercial banks at Nairobi Securities Exchange in Kenya. Descriptive research design was used. The target population of the study was 11 listed commercial banks at the NSE. Primary data was collected using a questionnaire. The study adopted stratified random sampling and found that liquidity risk positively affects performance. This study adopted a dependent variable which was performance whereas this current research employed shareholders' wealth as dependent variable. Similarly, this study did not use any moderating variable while the current study used operational efficiency as a moderating variable on the relationship between financial risk and shareholders' wealth of listed commercial banks.

Korir [18] conducted a study on the role of liquidity in Kenyan banks' financial performance using only secondary data. The research entailed census sampling of forty-four commercial banks that were operational at that time and applied descriptive research design as well as Ordinary Least Squares regression methodology for six years to examine the relationship between liquidity and performance based on financial approach. Results demonstrated strong positive correlation between liquidity and financial outcome with conclusions indicating a beneficial effect by boosted bank performances. Meanwhile, an empirical study carried out by Gweyi et al., (2018) zeroed in on Kenya's deposit-taking SACCOs investigating how Liquidity affects their outcomes. While findings showed evidence-backed positivity upon taking risks due to insufficient cash reserves among such societies had negative consequences according to existing subject matter analyses; leaders could mitigate these issues via sufficient liquid resources availability otherwise lacking investment opportunities may mean inefficiencies arising within organizations over long periods invested – especially when proper monitoring including primary source occurrence are

generally absent from some studies undertaken formerly or concurrently which is not case here given collected data was sourced mainly through published banking reports thus yielding comparatively different results than those seen previously amongst non-commercial institutions like SACCOS locally operating.

Waweru and Oribu [19] found that by December 2017, the Development Bank of Kenya had a negative liquidity position exceeding the legal threshold at 21.6%. The National Bank of Kenya also faced financial challenges with total deposit liability standing at -5.5% and core capital to total assets averaging -7.9% in late 2017 resulting in an alarming profit drop of Kshs. 21.97 billion for NBK as recorded in early-2018 (decrease by up to roughly -84%). Their research showed that meeting requirements such as liquidity ratio ($\beta=0.345$), cash reserve ratio ($-\beta=-0.008$) loan deposit ratio requirement ($-\beta-0.020$), or even capital adequacy ratio ($\alpha .032$) was associated with positive predictions towards commercial bank's performance within Kenyan market. Overall findings emphasize on fulfillment maintenance required for improving any weak areas ensuring optimal benefits while formulating banking policies [20,21].

5. METHODOLOGY

This study used a simple census design to see how taxes influence the link between a company's finances & how much its shares make on Agricultural companies at NSE, Kenya. All seven (7) targeted farms were on the NSE list between 2018 and 2022. Financial performance was measured by Returns on Asset (ROA). Current liability and current asset showed the financial liquidity. Taxes' impact on company finances and share returns for agribusinesses at NSE, Kenya was looked at in this study [22,23] was tested using the following model:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + ITE(\beta_3 X_{3it} + \beta_4 X_{4it}) \epsilon_{it}$$

Where;

ITE = Moderating variable (Income Tax Expense)

Y = Share return

β_0 = refers to the autonomous constant, X1 = Liquidity;

X2 = Profitability;

6. RESULTS AND DISCUSSION

6.1 Effect of Liquidity and Profitability on Share Returns

The results in Table 1 demonstrate the impact of liquidity and profitability on share returns for NSE-listed firms in the Agriculture Segment. The data revealed a strong correlation, as evidenced by an R2 value of 0.278 - indicating that this information contributed to approximately 28% of overall share return outcomes. Moreover, with a p-value of 0.0054, there was further confirmation that both liquidity and profitability had significant effects on these returns. Notably, our study identified specific impacts related to each factor: firstly—in relation to listed agriculture firms' shares'—liquidity demonstrated an impactful effect ($\beta = 70.728, p=0.021$), meaning higher levels led directly (by some multiple) to increased rates across typical trade positions or transactions per unit time (also known as inventory). Secondly, —racking up another impressive finding—profitability showed more modest yet considerably effective influence on share-returns changes among Ag tech businesses listed at the Nairobi Securities Exchange segment under question ($\beta = 25.947, p=0.013$); thusly —a single rise within profit margins could trigger substantial upward adjustments multiplied significantly [24,25].

Table 1. Effect of liquidity and profitability on share returns

| Source | SS | df | MS | Number of obs | 35 | |
|-----------|---------|-----------|------------|---------------|------------|-----------|
| Model | 4716.04 | 2 | 2358.02103 | F (2, 32) | 6.17 | |
| Residual | 12223.6 | 32 | 381.986088 | Prob > F | 0.0054 | |
| | | | | R-squared | 0.2784 | |
| | | | | Adj R-squared | 0.2333 | |
| Total | 16939.6 | 34 | 498.223438 | Root MSE | 19.544 | |
| s_returns | Coef. | Std. Err. | t | P>t | [95% Conf. | Interval] |
| liquidity | 70.728 | 29.06289 | 2.43 | 0.021 | 11.52859 | 129.927 |
| profit | 25.947 | 9.814546 | 2.64 | 0.013 | 45.9384 | 5.9552 |
| _cons | 28.513 | 24.32346 | 1.17 | 0.25 | 78.05781 | 21.0327 |

Source: NSE Data (2023)

Table 2. The moderating effect of tax on firm financial indicators and share returns

| Source | SS | df | MS | Number of obs | | 35 |
|-----------|-----------|-----------|------------|---------------|------------|-----------|
| Model | 6790.041 | 3 | 2263.34701 | F (3,31) | | 6.91 |
| Residual | 10149.556 | 31 | 327.405028 | Prob > F | | 0.0011 |
| | | | | R-squared | | 0.4008 |
| | | | | Adj R-squared | | 0.3429 |
| Total | 16939.597 | 34 | 498.223438 | Root MSE | | 18.094 |
| s_returns | Coef. | Std. Err. | t | P>t | [95% Conf. | Interval] |
| liquidity | 59.27299 | 27.28873 | 2.17 | 0.038 | 3.617262 | 114.929 |
| profit | 25.79601 | 9.086541 | -2.84 | 0.008 | 44.32814 | 7.26389 |
| tax | 9.91016 | 3.65473 | 2.53 | 0.017 | 1.74425 | 1.66419 |
| _cons | -25.87944 | 22.54303 | -1.15 | 0.26 | -71.85626 | 20.0974 |

Source: NSE Data (2023)

Table 3. Changes in R²

| Narration | R-Square | Adjusted R-Square |
|------------------------------|-------------|-------------------|
| Before Introduction of Tax | 0.28 | 0.2333 |
| After Introduction of Tax | 0.40 | 0.3429 |
| Deference in R-Square | 0.12 | 0.11 |

6.2 The Moderating Effect of Tax on Firm Financial Indicators and Share Returns

Table 3 presents the changes in R Square and F Statistics before and after interaction of moderating factor tax and the Firm Financial Indicators. The R² before the introduction of tax as a moderator variable was 28%, when tax was introduced as a moderator variable, the R² increased to 0.4008 representing 40% increase. The study therefore established a huge change in the R square of 12% and F statistics of 6.91 after the introduction of tax as a moderating factor in the regression compared to R² of 28 and F Statistics of 6.17 before the introduction of tax as a moderator. The finding therefore indicated the tax had a moderating effect on the relationship between liquidity, profitability and share returns of the Agricultural Firms listed at NSE. Specifically, there was change in the β coefficient between liquidity and share returns of the Agricultural Firms listed at NSE when tax was introduced as a moderator variable from $\beta = 70.728$ to $\beta = 59.273$ after the introduction of tax as a moderator. In real world, this finding indicated that when tax is increased, it reduces liquidity and by extension reduces the share returns of the Agricultural Firms listed at NSE. Further, there was slight change in the β

coefficient between profitability and share returns of the Agricultural Firms listed at NSE when tax was introduced as a moderator variable from $\beta = 25.947$ to $\beta = 25.796$ after the introduction of tax as a moderator. In real world, this finding indicated that when tax is increased, it slightly reduces profitability and by extension reduces the share returns of the Agricultural Firms listed at NSE [26].

The finding is corroborated by Mwangi [11] who established that taxation, like interest rates, had a negative but insignificant impact on economic growth. Further the finding is supported by Ndirangu [12] who established that tax enforcement Costs had a negative and significant impact on tax revenue collected by KRA in Kenya. The study checked if tax affects the financial health and stock performance of agricultural firms at NSE, Kenya. They used a fixed effects regression model to see if the relationship was important. The null hypothesis was tested: Tax doesn't really change how financial health affects share returns for these firms in Kenya. But guess what? Tax actually plays a big role in how health affects share returns. Once tax comes into play, everything changes. This is supported by a study from Erin and Kewei [15] who found that taxes do impact stock returns a lot.

7. CONCLUSION OF THE STUDY

The study established that the introduction of tax changed the relationship between liquidity, profitability Indicators and Share Returns the Agricultural Firms listed at NSE. This finding therefore, made the researcher to conclude that tax had a moderating effect on the relationship between liquidity, profitability and share returns of the Agricultural Firms listed at NSE. Specifically, there was change in the β coefficient between liquidity and share returns of the Agricultural Firms listed at NSE. The null hypothesis H_{05} : Tax does not have significant moderating effect on the relationship between liquidity, profitability and share returns on agricultural firms listed at NSE, Kenya was rejected. This is an indication that tax had a significant moderating effect on the relationship between liquidity, profitability and share returns of the Agricultural Firms listed at NSE, Kenya.

8. RECOMMENDATIONS OF THE STUDY

First off, considering the current evidence that underscores the key roles of liquidity & profitability on shares returns of firms. The Capital Market Act CAP 485A promotes investor participation in the stock market. However, there is a pressing need to assess this Act by analyzing liquidity trends among firms in the Agricultural Sector at NSE. This will help inform amendments to boost the liquidity possibilities of these entities. Prudence in managing debt must also be reconsidered to ensure that these firms maintain their financial stability & can meet obligations.

According to the study, management of non-financial firms listed on the NSE should advocate for shareholders to reinvest their earnings instead of consuming them as dividends. It's clear that retained earnings significantly influence financial expansion, seen through earnings per share growth. Importantly, retained earnings are a cost borne by equity holders but are an internal source readily available. In addition, retentions surpass external equity as they come with fewer costs, do not lead to ownership dilution, and are favorably viewed because stakeholders perceive these firms as holding promising investment opportunities. Given the limited financing options available to firms, there's a strong preference for retaining more

earnings and reinvesting them into operations—particularly when viable investment prospects are present.

9. POLICY, PRACTICE AND THEORETICAL IMPLICATIONS OF THE FINDINGS REFERENCES

Based on the findings, the study has an important implication that tax policies have a profound impact on the financial performance and market returns of agricultural firms listed at the NSE, necessitating careful consideration by policymakers, investors, corporate managers, and researchers. Adjusting tax rates or implementing tax incentives could influence the liquidity and profitability of these firms, thereby affecting investor returns. Researchers might refine existing financial models to incorporate tax as a moderating variable, leading to more accurate predictions of firm performance and investor returns.

DISCLAIMER (ARTIFICIAL INTELLIGENCE)

Author(s) hereby declare that NO generative AI technologies such as Large Language Models (ChatGPT, COPILOT, etc) and text-to-image generators have been used during writing or editing of manuscripts.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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