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PREDICTABLE TAX SYSTEMS: A KEY DRIVER OF BUSINESS PERFORMANCE IN LIQUOR MANUFACTURERS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

There are notable challenge faced by liquor manufacturers in Kenya in the instability and unpredictability of tax policies. KAM reports that fluid policies create business distortions that hurt business competitiveness and profitability. This study examined how predictable tax systems are drivers of business performance in liquor manufacturers in Nairobi city county in Kenya. The study was grounded on institutional theory. The study was underpinned by pragmatist philosophy and with an explanatory research design. The study gathered primary data quantitatively and qualitatively. Quantitative data were collected using a semi-structured questionnaire. Interviews with open questions captured qualitative data. Expert review checked validity; Cronbach's alpha tested reliability. A census guided respondent selection. Quantitative data came from 164 liquor-firm participants. Qualitative data were gathered from the chief executive officer or the topmost senior employee of 19 firms and 4 members of the secretariat of the Alcohol Beverages Association of Kenya. Data were analyzed with descriptive stats, correlation, and regression. Results showed that predictable tax systems ($p = 0.001$) was significant in driving business performance. Qualitative data were analyzed thematically through coding, theme development, and narration. The triangulated data showed that CEOs and ABAK officials agreed with most of the quantitative findings that the predictability of tax systems is a critical policy issue through which other taxation policies affect business performance. The study therefore concluded that predictable tax systems are critical to the performance of liquor manufacturers; however, these are considered holistically to ensure that all effects are addressed effectively. The research recommends that policymakers should improve the predictability of taxation policies to lessen the tax burden, improve compliance, and facilitate efficient resolutions of tax disputes, thereby creating an enabling environment for effective business performance.

Key words: *Predictable Tax Systems, Business Performance and Liquor Manufacturers*

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INTRODUCTION

Businesses anchor economies and societies. They fuel growth, drive social progress, and support founders and workers (Global Change, 2024). Their core aim is to trade goods and services (Wirtz *et al.*, 2015; Manyika *et al.*, 2021). In doing so, they create jobs, supply needed products, and boost national growth (Knusten, 2021). SMEs dominate globallyabout 80% of firms, 99% of all businesses, and over 50% of jobs (World Bank, 2022). In emerging markets, they add roughly 40% of GDP (Global Change, 2024).

In OECD nations, firms corporations, partnerships, and sole traders generate about 72% of GDP. The results of these businesses create over US$44 trillion, showing the increasing importance of business. According to Mulya (2024), businesses are needed for the prosperity of nations, leading to improved income, employment, and better standards of living. According to the Global Entrepreneurship Monitor report on Global Entrepreneurship, businesses are essential for societal health and wealth, are an engine for economic growth, promote innovation needed to exploit more opportunities, and productivity, and create value through employment and products (GEM Global, 2024). Business is seen as central to global challenges, from achieving SDGs to coping with shocks like COVID-19 (WTO, 2024).

Access to financing for business operations is recognized as a crucial success factor for the majority of enterprises (Ngo & Nguyen, 2022). Taxation (certainty and predictability) is also among the factors that influence the success of a business (OOECD, 2013). Legal and regulatory frameworks (business operationalization) (Gizaw *et al*., 2023). Other factors, including political stability (frequent change of governments and unrest), technological adaptation, globalization, market orientation, entrepreneurship orientation, and leadership support, are among the critical factors to the performance of businesses across the globe (Davidsson *et al*., 2002; OECD, 2022).

In Africa, businesses play a similar role to those that are at the global level. The majority of employment in both formal and informal sectors is mainly done by businesses. According to the World Bank (2022), these employment opportunities are mostly created by the SMEs. SMEs provide about 80% of jobs across 57 countries, with over 65 million firms, formal and informal (World Bank, 2020). In Sub-Saharan Africa, roughly 44 million MSMEs exist, most at the lower tier (Runde *et al.,* 2021). However, as there are millions of SMEs in Africa, their growth and role in the economy are yet to be fully utilized, capitalized on, and felt in the economic change and development desired (Pramono *et al.,* 2021).

A predictable tax system can also help firms gain a competitive edge since they can understand the tax landscape and the investment incentives available (Zhang & Song, 2022). Leveraging opportunities such as tax breaks, tax credits, and allowable deductions, firms can position themselves to beat competitors in the same industry (Jacob & Schutt, 2019). For instance, liquor manufacturers can find themselves in better positions to offer competitive prices, innovate new products, and expand their market share without fearing any fluctuations in the tax environment caused by unstable tax laws. As witnessed in Kenya, the taxation system in the liquor industry has undergone frequent revisions with each new annual financial law, which constantly affects excise duties and corporate income tax rates (KAM, 2021). This uncertainty by each new Finance Act can create significant business consequences for manufacturers, particularly the small and medium enterprises, who may lack additional resources to adapt to these frequent taxation policy changes (KIPPRA, 2022).

In Kenya, businesses are mostly occupied by small and medium enterprises, with few falling under the large business category. MSMEs add about 40% to GDP (Oxfam, 2023). Kenya hosts 7.41 million, with 5.85 million informal and 1.56 million formal (KNBS, 2016). They form 98% of all firms and generate 30% of new jobs each year (MSEA, 2021). Based on Kenya's quarterly gross domestic product report, the expansion of the GDP by 4.6% in the second quarter of 2024 was contributed to by agriculture, forestry and fishing, real estate, financial services, insurance activities, wholesale and retail, and other sectors, including accommodation and food services, and information and communication services (KNBS, 2024).

However, according to the African Development Bank's (AfDB) Economic Outlook, the performance of Kenya, based on several metrics, contracted, which equally affected business across several sectors. For instance, the shilling depreciated by over 24% in 2023, and non-performing loans increased to 13.6% due to rate hikes and public sector debt arrears owed to contractors (Africa Development Bank (AfDB), 2024). Business performance has been experiencing a decline due to the private sector (businesses) sentiments and political protests, leading to a poor business environment, and affecting several other factors in the economy (World Bank, 2024). Even though Kenya is among the top business competitors in Africa, there has been a decline in business performance, particularly in the manufacturing sector, registering 7.8% of the GDP from 2022 to date (KNBS, 2023; Kenya Association of Manufacturers (KAM), 2024).

KIPPRA notes that alcohol makers have long faced heavy sales and excise taxes, shaped by an inconsistent excise system over time (KIPPRA, 2020). Nairobi City County, being the capital and economic hub of Kenya, has numerous liquor manufacturers distributed along large-scale and small artisanal distilleries. There is a total of 55 companies licensed to manufacture alcoholic drinks in Kenya, the majority being in Nairobi and its adjacent counties (KRA, 2024; GoK, 2024). Fewer companies fall under the category of large-scale manufacturers, and the majority are within small and medium enterprises.

The Kenya Association of Manufacturers' report, based on the Manufacturing Priority Agenda, manufacturing businesses face numerous challenges arising from regulatory burdens, specifically from the administrative burdens and compliance costs imposed by the government. These burdens include labor laws, tax regulations, and other legal obligations that make it very difficult for SMEs and large manufacturers to compete effectively (KAM, 2024). On average, it costs between KES 1.2 -2.2 million to obtain the requisite regulatory licenses for businesses in food and beverage manufacturing (KAM, 2024; Kenya Revenue Authority (KRA), 2023).

The other notable challenge faced by liquor manufacturers in Kenya is the instability and unpredictability of tax policies. KAM reports that fluid policies create business distortions that hurt business competitiveness and profitability. For instance, the introduction of 16% Value Added Tax (VAT) on plant and machinery shows a decline in imports in Kenya, with an increase in neighboring countries Uganda and Tanzania (KAM, 2024). Other challenges facing manufacturers include an influx of illicit and substandard liquor products. This leads to unfair competition, loss of business, and reduced ability to pay taxes to the government (Mwangi, 2021). It remains evident that business performance is severed in the presence of these challenges and hence it is critical to assess specifically the effect of tax compliance rate, tax burden ratio, predictable tax system, and tax dispute resolution effectiveness as one of the avenues to improve business environment for liquor manufacturers and increasing government revenue raising ability (Shah *et al*., 2013; Smajli *et al*., 2024).

Statement of the Problem

The business performance of liquor manufacturers faces burdensome taxation policies that due to high excise taxes, high ethanol excise duty and complex regulatory requirements have led to proliferation of counterfeit and illicit alcoholic products in the market, which consequently affect the manufacturers' profitability, reinvestment, innovation and expansion in Kenya (Watima, 2021; Mwaniki, 2022; Oguso *et al*., 2025). These taxation policies and regulatory requirements, compared to those of the neighboring countries, are much higher; for instance, excise duty on beer per liter is KES 142, KES 83, and KES 59 in Kenya, Uganda, and Tanzania, respectively, while spirits are charged KES 253, KES 48, and KES 219 in that order (Omondi, 2024).

Studies in this area include Musyoka et al. (2023) on stakeholder engagement and liquor underperformance, Kipchumba et al. (2022) on unrecorded alcohol in Kakamega and Uasin-Gishu, and Samuel & Murigi (2024) on leadership costs as a survival tool against competition and counterfeit products. While Muruiki and Felistus (2023) evaluated the innovation strategy on the product and operational performance of Kenya Breweries Limited. These studies on liquor manufacturers across Kenya did not consider that taxation policies have a cause-and-effect influence on the business performance of liquor manufacturers. Thus, this study filled these

gaps by investigating the effect of taxation policies, including high excise duties, which escalate production costs, forcing manufacturers to raise prices, consequently, leaving consumers, especially those in low-income areas, to increasingly turn to easily accessible and affordable illicit and counterfeit alcohol alternatives, collectively affecting the business performance of liquor manufacturers.

LITERATURE REVIEW

Empirical Review

Business Performance of Liquor Manufacturers

Su (2020) analyzed China's liquor industry using financial reports and series methods. The research findings suggested that the industry was becoming more stable and standardized over the years. Operating cash flow to net profit reached about 1.04 points in the last 10 years of the analysis, with a compound annual growth rate of about 18.7% for the past 20 years. Even though the study posited growth in the liquor industry, the contextual scope was limited to China, which is a developed economy. Still, the study used time series analysis to present the findings. These gaps, therefore, provided an opportunity for this study to fill the contextual and methodological gaps identified.

Ameyibor, Anabila, and Saini (2021) examined brand positioning and performance of alcohol firms in Ghana, with brand equity as the mediator. The respondents were sampled from 196 staff of alcoholic beverage firms across the country using a judgmental sampling technique. Data was tested with structural equation modeling and partial least squares. Results showed brand positioning boosted performance, with brand equity mediating the link for Ghana's liquor firms. The study was limited by variables to effectively predict the performance of liquor manufacturers. This study filled this gap in measuring business performance, not only from a single construct but also from other critical factors that affect business performance, especially taxation policies.

Cele, Msosa, and Ntshangase (2023) studied CRM's effect on South Africa's beer trade. Using a quantitative cross-sectional design, they sampled 172 liquor outlets in Durban. Findings showed customer satisfaction with trading, ordering, delivery, and information flow, though the study lacked broad theorization. Some outliers and antecedents of performance, whose metrics are not necessarily monetary (sales), could have been omitted. This study widened the concept of performance beyond single metrics and investigated both monetary and non- monetary performance metrics.

Muriuki and Makhamara (2023) sought to understand the nexus between innovation strategy on product and the operational performance of KBL, in Nairobi City County, Kenya. Diffusion of innovation theory and Porter's generic competitive theory anchored the study. A total of 382 employees responded to the questionnaire, which was then descriptively and inferentially analyzed using linear regression through SPSS. The research findings suggested that product innovation was significantly and positively related to operational performance. The study was, however, limited to KBL only, and it also focused on operational performance only. It was important to narrow this weakness by investigating performance across various functions, including sales, operations, finance, and revenue. Inclusion of more firms broadened insights into the performance of liquor manufacturers

Predictable Tax Systems and Business Performance

Francis *et al.* (2019) reviewed audit files to see if tax planning affects forecast accuracy. Firms invested more in tax planning, but analysts' earnings and tax predictions became less precise. Heavy auditor tax services increased volatility and reduced persistence of rates and earnings. Greater tax planning added complexity, making forecasts harder. This is worsened when tax policies keep changing every year for liquor manufacturers. It was therefore critical to assess this phenomenon in the Kenyan context and among liquor manufacturers who seem constantly faced with unpredictable taxation.

Zhang *et al*. (2022) studied information sharing in cross-border e-commerce under tax uncertainty. They built a game-theory model to examine why retailers share data with overseas manufacturers. The study's findings revealed that when quality elasticity is elevated, the e-retailer disseminates information willingly; but, with medium quality elasticity, information is provided only if the likelihood of a high tax rate falls below a specific level. E-retailers shared information frequently with manufacturers under high tax uncertainty to mitigate the adverse effect of tax fluctuations. Tax uncertainty, which includes negative predictability and tax fluctuation, is negative for business performance; however, liquor manufacturers could be affected differently. Hence, tax predictability or lack thereof was investigated within an industry that is susceptible to constant tax fluctuations and uncertainty.

Chen *et al.* (2023) examined tax uncertainty and innovation in China. Results showed uncertainty hindered innovation, tightened financing, and reduced transparency. Stronger regional systems, stricter enforcement, and digital change helped limit these negative effects. Tax uncertainty alone cannot be sufficient in predicting corporate innovation output, and hence this role of taxation policies on a firm's innovative performance was investigated within an unpredictable taxation policies diverse business environment.

Ciconte *et al.* (2023) examined tax contingencies as predictors of future cash outflows. Reviewing UTBs, they found these unwind into tax payments within five years, showing managers can forecast liabilities with accuracy. These results tied to firms that manage earnings through tax accounts, face shocks in reporting, fail to factor detection risk, and practice ex-ante tax avoidance. France experiences a high level of business transparency, income declaration, taxation openness, and public accessibility. These are privileges that local manufacturers do not have. It was therefore beneficial to assess how predictability or lack thereof affects these firms' ability to plan their cash outflows and mitigate risks associated with fluctuating taxation regulations.

Theoretical Framework

The research was underpinned on the Institutional Theory, supported by Laffer Curve Theory, and RBV Theory. Institutional Theory assumes that business entities are institutions that are influenced by environmental players, the regulatory environment, which tend to borrow ideas and practices from each other, thereby learning to adopt and adapt to changes in the business environment as a result of taxation policies.

Institutional Theory

Institutional Theory originates from the contributions of sociologists like Max Weber (1904-1905), but it was fully articulated and disseminated by Philip Selznick throughout the 1940s and 1950s (Scalabrino et al., 2019). The primary tenets of the theory assert that corporates and individuals are significantly shaped by the institutional environment, encompassing laws, regulations, conventions, and cultural ideas (Sahin & Mert, 2022). Ebrahim and Koh (2021) contend that adherence to institutional standards bolsters the organization's social and legal legitimacy. Organizations within the same sector often converge over time due to coercive, mimetic, and normative factors, such as unresolved taxation issues (Kauppi, 2022).

The theory explains how firms adapt to taxation shifts in business environments. New policies, regulations, health norms, and cultural behaviors can reshape operations and strategies, influencing performance (Baah, 2020; Oware & Mallikarjunappa, 2020; Ebrahimi & Koh, 2021). The adoption of health policies may be driven by institutional control of the production and consumption of alcohol, but counterproductively allows for an influx of illicit and counterfeit products (Yadegaridehkordi *et al*., 2022; Wangare, 2024). Taxation policies, including compliance rate, burden ratio, and predictable systems, work in various institutional contexts (Sahin & Mert, 2022; Basri *et al*., 2023). It explains why dynamic capabilities existing in institutions facilitate various levels of performance despite business environmental constraints, such as tax disputes, and how firms can use precedence to overcome any dispute stalemate (Kauppi, 2022).

Therefore, this theory explained how taxation policies shaped the environment in which liquor manufacturers operate by responding to compliance, allocating enough resources to shoulder the tax burden, responding to

available dispute resolution mechanisms, and contributing towards policy direction in relation to predictable tax systems for tax planning.

METHODOLOGY

Research Philosophy

The research was underpinned by the pragmatist research philosophy. Pragmatism focuses on resolving practical concerns and is particularly relevant when research seeks to tackle real-world challenges (Yiaueki, 2023). Taxation policies and business success are tangible and may be studied more effectively through a pragmatic lens. Pragmatism underscores the relevance of research to practical policy matters, rendering the philosophy especially pertinent to this study, which sought to elucidate taxation policies and their effects on business performance, with potential applicability to other unexplored domains of knowledge (Katzav, 2023).

Research Design

This research utilized an explanatory research design aimed at explaining why phenomena occur and predicting future occurrences (Meyer & Meissel, 2023). The design allowed for data gathering at a single point in time. Explanatory design also explains the relationships between variables, intending to understand cause-and-effect dynamics. It seeks to answer the reasons behind the occurrence of the influence one phenomenon has over the other.

Target Population

The research's target population was liquor manufacturers based in Nairobi City County, Kenya. The study targeted the entire 41 licensed manufacturers in Nairobi City County from 2020 to 2025.

Sampling Technique

The research utilized a census. The choice of population census was informed by the smaller number of liquor manufacturers. This was also meant to maximize the response for proper analysis of the relationships between the tested variables.

Research Instruments

Quantitative data were obtained utilizing a semi-structured feedback form. The choice of a questionnaire was based on its strength to accommodate standardized data collection, allow respondents to fill it out on their own, and allow respondents to be objective. Analyzing questionnaire data is straightforward due to numerous well-developed statistical methods (Cresswell & Poth, 2023). Further, the study collected qualitative data using an interview schedule based on the study variables. The interview schedule was divided into five parts as per Appendix A3. An interview guide is ideal when in-depth opinion is required without losing focus (Cresswell & Poth, 2023). Interviews were, however, conducted physically at the ideal respondent's location and time.

Data Collection Procedure

Quantitative data were gathered utilizing a semi-structured survey which was not generated into a Google Form, and then the link was not shared with the respondents to enhance research objectivity and reach of the instrument, because the respondents were sensitive to unexplained data collection in the industry, and therefore were more confident with physical data collection. An introduction on the intent of the collection of data accompanied each questionnaire that introduced the respondents to the study.

Data Analysis and Presentation

Descriptive Statistics were analyzed using means and standard deviations to summarize demographic data and responses across all Likert-scale items (Taherdoost, 2022). Inferential statistics were analyzed using Hypothesis testing, Pearson Correlation, Multivariate Regression Model, ANOVA, Student t, and Fisher's tests to determine the model's significance while examining the connection between taxation policies and business

performance at a 5% significance level. Data was displayed in frequency tables and figures, percentages, and the resultant model.

The study adopted a simple linear regression model to analyze the relationship between the study variables. The model was further represented as:

$Y=\beta_0 +\beta_1 X_1 +\varepsilon$

Whereby;

Y=business performance (outcome variable)

β_0 =constant

β_1=regression coefficients

X_1 - predictable tax systems (predictor construct)

ε – error term (error term; it considers all the possible factors that possibly affected the outcome variable, though not captured in the model)

Hypotheses were tested utilizing a simple regression analytical model and equations for hypotheses extracted as indicated in Table 1.

Table 1: Hypothesis Testing and Analytical Models

Null Hypothesis (H_0)	Statistical Test	Test Threshold
H_{01}: Predictable tax systems have insignificant effect on business performance.	Regression Equation $\mathbf{Y = \beta_0 + \beta_1 X_1 + \varepsilon}$ Y = Business performance (Dependent variable) X_1 = Predictable tax systems (Independent variable) β_0 = Constant β_1 = regression coefficient ε = error term	When the tested $p \leq p=0.05$, the research rejects the null hypothesis When the test $p \geq p=0.05$, the research fails to reject the null hypothesis

All hypotheses were tested at a 95% confidence level ($\alpha=0.05$). Statistical significance was determined by p-values, and the strength of connection was interpreted utilizing standardized β coefficients and R^2 values.

The qualitative data was analyzed thematically through coding and theme development with the aid of excel sheet. Coding used an open coding approach, followed by axial and selective coding for theme identification. Narration was thereafter used to report the qualitative findings. The qualitative analysis strengthens the quantitative findings through deeper insights into the contextual and experiential dimensions of tax policy impacts on the performance of businesses. Interpretation was done using plain text supported by empirical and other extant literature.

FINDINGS AND DISCUSSIONS

Response Rate

The respondents were liquor manufacturers' employees based in Nairobi City County, Kenya. The study administered the questionnaire to a total of 164 respondents, of whom 130 responded. 23 respondents were obtained for the interviews out of the target of 45 interviewees.

Descriptive Statistics

Descriptive statistics were conducted to generally identify the behavior of each variable on the outcome variables. Descriptive statistics in this study included mean, percentages, frequency, standard deviations, and

skewness as per Taherdoost's (2022). This was presented in the form of frequency tables, percentages, means, and standard deviations for each of the tested relationships of the study variables.

Predictable Tax Systems and Business Performance

The study sought to establish the effect of predictable tax systems on business performance. The findings of the study are summarized in Table 2.

Table 2: Predictable Tax Systems and Business Performance

		SD		D		N		A		SA		Mean	Std. Dev.
Statements	N	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**		
Our business has experienced too many tax policy revisions that have affected our business in recent years.	130	6	4.6	20	15.4	34	26.2	44	33.8	26	20.0	3.5	1.1
My company has suffered challenges with keeping up with frequent tax policy updates, making it hard to comply.	130	0.0	0	7.0	5.4	10	5.7	36.0	28	40.0	31.2	3.1	0.9
Our company cannot conduct long-term tax planning due to too often changes in taxation policies.	130	7.0	5.4	16	12.3	20.0	28	40.0	30.8	47	36.2	3.7	1
We struggle to adjust our operations due to frequent tax regulations amendments.	130	10	7.7	11	8.5	15	11.5	50	38.5	31	23.8	3.9	1.0
Our business operations have been significantly impacted by recent tax policy changes.	130	8	6.2	7	10.0	12	9.2	37	28.5	21	16.2	3.3	1.1
Our financial planning has suffered constant disruptions due to the magnitude of tax reforms in recent years.	130	5	3.8	15	11.5	21	16.2	37	28.5	37	28.5	3.8	1.0
Average	**130**											**3.6**	**1.0**

Field Data (2025)

On the statement that the business has experienced too many tax policy revisions that have affected it over the recent years, 44 (33.8%) of the respondents were in concurrence and 26 (20.0%) strongly agreed, while 20 (15.4 %) disagreed and only 6 (4.6 %) were in strong disagreement while 34 (26.2 %) were neutral. This statement recorded a mean of 3.5 and deviation of 1.1 suggesting a moderate agreement with some variation in responses. This implies that frequent tax policy changes are perceived by many firms as a factor influencing their business environment. On the statement that the company has suffered challenges with keeping up with frequent tax policy updates, making it hard to comply, the statement recorded 36 (28%) respondents who agreed and 40 (31.2%) who strongly agreed while 7 (5.4%) did not agree that the company suffered

challenges with keeping up with frequent tax policy updates making it hard to comply and 34 (26.2%) were neutral. The statement recorded a mean of 3.1 and a variation of 0.9 indicating moderate agreement with relatively consistent responses. This implies that frequent tax policy updates create compliance challenges for liquor manufacturing firms, as businesses must constantly adjust their procedures to remain compliant with evolving regulations. The company cannot conduct long-term tax planning due to too often changes in taxation policies recorded 40 (30.8%) who agreed and 47 (36.2%) strongly agreed while 7 (5.4%) and 16 (12.3%) strongly disagreed and disagreed respectively and 10 (5.7%) chose to be neutral. With a mean of 3.7 and a variation of 1.0 demonstrating strong concurrence among respondents. This suggests that frequent changes in taxation policies create uncertainty, making it difficult for firms to engage in effective long-term financial and tax planning. On the business struggling to adjust operations due to frequent tax regulations and amendments, it was pointed by 50 (38.5%) who were in agreement and 31 (23.8%) were in strong agreement of the statement, 10 (7.7%) strongly disagreed and 11 (8.5%) disagreed while 15 (11.5%) were neutral. The respondents felt that they struggled to adjust operations due to frequent tax regulations amendments with a mean of 3.9 and a variation of 1.0 indicating that many firms experience operational challenges when tax regulations are frequently amended. This suggests that frequent regulatory adjustments may disrupt established operational processes and require additional administrative efforts. The business operations have been significantly impacted by recent tax policy changes, the statement recorded 37 (28.5%) were in agreement and 21 (16.2%) strongly agreed, 8 (6.2%) strongly disagreed and 7 (10.0%) disagreed while 12 (9.2%) chose to be neutral. The statement recorded a mean of 3.3 and a variation of 1.1 suggesting moderate variability in responses. This implies that while many firms acknowledge the operational effects of tax policy changes, the extent of these effects may vary depending on firm size, management capacity, and adaptability to regulatory changes. The financial planning has suffered constant disruptions due to the magnitude of tax reforms in recent years, statement recorded responses by 37 (28.5%) who agreed and 37 (28.5%) strongly agreed, 5 (3.8%) strongly disagreed and 15 (11.5%) did not agree while 21 (16.2%) remained neutral. With a mean of 3.8 mean and a variation of 1.0, it indicates that tax reforms are perceived to disrupt financial planning among liquor manufacturing firms. This suggests that firms may face difficulties forecasting costs, revenues, and investment decisions when tax policies change frequently.

Further, respondents opined that changes in tax policies may occur once a year and that the communications from Kenya Revenue Authority are usually clear but do not allow any flexibility, hence putting the businesses in tough conditions. In most cases, the taxes are very sudden without any consultations to the taxpayers, and this limits the business's growth. Some of the suggestions made to ensure that taxes payable by businesses are constantly predictable were provisions of tax bills and getting them as early as one year before they are passed as an act, as this will help organizations to prepare to adjust to the new changes. The tax systems are not very predictable, hence challenging the business, but there should be prior communications of tax bills across all communication channels to reach all business owners in time. The respondents also suggested that there is need for public participation in the formulation of the tax systems where their input also counts in the acts of parliament when passed.

The interview findings were that there was at least twice or once a year, where there were observed changes in tax policies that affected the industry. The predictability of excise or corporate tax policies in Kenya was not pointed out as a common thing; some businesses highlighted frequent and significant tax changes that affected strategic planning due to high sums owed to the tax authority. In conclusion, the tax reforms do not, in many cases, reflect adequate stakeholder consultation and transparency, and come out compulsorily. Kenya’s tax system ought to be collaborative with stakeholders, and in doing so, it needs to include the views of the business, hence making it business-friendly.

A string and consistent theme across interviews was the importance of tax predictability for budgeting, investment planning, and long-term contracts. CEOs emphasized that stable tax policies enable firms to

forecast costs and manage possible business risks effectively. The interview sought to establish the experience of the respondents with the predictability of tax systems in Kenya. Respondent LIM17 said that,

> *"Our major problem in this manufacturing sector is the unpredictability of taxation systems, which is made worse by annual changes that are brought about by finance bills and acts. These acts constantly increase taxes, produce new tax brackets and systems, and generally disorient our business strategies".*

Respondents further expressed concern over frequent amendments to tax laws, rates, and administrative procedures. Such changes were reported to disrupt operations and delay investment decisions. Respondent LIM9 commented that,

> *"This issue of adjusting tax rates and administrative procedures constantly disrupts our business strategies and plans because we can foretell the implications of these taxes on our businesses due to frequent and uncommunicated changes". Consequently, investing in expansionary business priorities is equally challenging because we have to factor in the unpredictability of taxation systems in Kenya.*

Therefore, based on these responses, it was considered that frequent adjustment of tax rates disrupts business operations since costs and other resources have to be adjusted to cater for the newer implications that new rates bring to business. Further, with such adjustments, room for expansion, and reinvestment becomes slim thus affect the overall performance.

Interview participants indicated among other issues emerging that were sought by the interviewer that predictable tax systems improve voluntary compliance and reduce disputes by enabling trust between firms and tax authorities. Respondent LIM10 and LIM13 concurred that,

> *"As businesses corporates, our mandate is to pay taxes as the law requires and we do not want to engage in any disputes with the tax authorities, however, to minimize conflicts and business disruptions while promoting voluntary compliance, we must be able to know and understand applicable taxes in our industry without alterations within at least three years".*

Thus, it was adduced that predictability of tax systems strengthens the effectiveness of other taxation policy dimensions, reinforcing its central role within the taxation framework.

The above findings agree with Chen *et al*. (2023), who investigated tax uncertainty and corporate innovation output with evidence from China. Findings showed that tax uncertainty significantly hinders corporate innovation, leading to corporate financing constraints, and equally affects information transparency. The regional economic system, enhanced tax enforcement, and digital transformation can mitigate the adverse effects of tax uncertainty on corporate innovation.

Also, Ciconte *et al.* (2023 who assessed the predictive ability of tax contingencies for future income tax cash outflows, were supported. The findings showed that UTBs fully unwind as cash tax payments over 5 subsequent years, showing that the firm's managers can accurately predict and incorporate their tax expectations of future tax liabilities. These findings were further associated with firms that suspiciously manage their earnings through tax accounts, have plausible exogenous shocks for tax reporting, are unable to impound detection risk into their earnings reserves, and engage in relative ex-ante tax avoidance practices.

Business Performance of Liquor Manufacturers

The research sought to understand business performance as measured by factors such as sales, rate of growth, production capacity, and market expansion. The findings of the analysis are presented in Table 3.

Table 3: Business Performance of Liquor Manufacturers

		SD		D		N		A		SA		Mean	Std. Dev.
Statements	N	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**	**F**	**%**		
Our business has experienced growth in sales over the past three years.	130	0	0.0	5	3.8	28	21.5	56	43.1	30	23.1	3.8	0.9
Our sales growth rate meets or exceeds our annual targets.	130	10	7.7	7	5.4	8	4.2	38	29.2	30	23.1	2.9	1.1
We make optimal use of our production or operational capacity.	130	11	8.5	11	8.5	29	22.3	52	40.0	34	26.2	3.3	1.2
Our business has minimal idle capacity during regular operations.	130	1	0.8	23	17.7	23	17.7	40	30.8	32	24.6	3.8	0.9
Our business offers a variety of products that meet diverse customer needs.	130	0	0.0	5	3.8	26	20.0	48	36.9	34	26.2	3.8	1.0
We frequently introduce new innovative products to expand our offerings.	130	4	3.1	1	0.8	27	20.8	62	47.7	37	28.5	3.3	1.2
Our business has increased its market share in the past three years.	130	0	0.0	0	0.0	11	8.5	90	73.1	29	26.9	3.1	1.1
We are competitive in our industry compared to other businesses of a similar size.	130	0	0.0	0	0.0	8	6.2	70	53.8	52	40.0	3.9	1.0
Average	**130**											**3.5**	**1.1**

Field Data (2025)

The managers responded that their business has experienced growth in sales over the past three years by 56 (43.1%) who agreed and 30 (23.1%) who strongly agreed while 5 (3.8 %) disagreed. 28 (21.5%) chose to be neutral. With a mean of 3.8 and 0.9 variation, it suggested relatively strong agreement with moderate dispersion. These findings indicate that many liquor manufacturers have experienced positive sales performance, potentially reflecting sustained demand for alcoholic beverages and market resilience. The sales growth rate on meeting or exceeding annual targets, 38 (29.2%) agreed and 30 (32.1 %) strongly agreed while 10 (7.7%) strongly disagreed and 7 (5.4%) disagreed and 8 (4.2%) remained neutral. From this statement, a mean of 2.9 and a variation of 1.1 was recorded suggesting relatively weaker agreement compared to other performance indicators. This indicates that although firms may experience sales growth, the growth does not always align with strategic sales targets, which could reflect operational constraints, regulatory pressures, or competitive dynamics within the liquor manufacturing sector. On organizations making optimal use of

production or operational capacity, 52 (40%) agreed and 34 (26.2%) strongly agreed. 11 (8.5%) disagreed while 29 (22.3%) remained neutral. The statement recorded a mean of 3.3 and a variation of 1.2 inferring moderate concurrence but with relatively higher variation among responses. This finding suggests that while many firms operate near optimal capacity, some may face production inefficiencies or operational constraints that limit full utilization. The business has minimal idle capacity during regular operations and responded to by 40 (30.8%) who agreed, 32 (24.6%) strongly disagreed while 1 (0.8%) and 23 (17.7%) strongly disagreed and disagreed respectively. 23 (17.7%) were neutral. From the statement, a mean of 3.8 and 0.9 variation inferring relatively strong agreement. These findings suggest that most firms maintain relatively consistent operational activity, although a notable minority still experiences periods of underutilization. On business offering a variety of products that meet diverse customer needs 48 (36.9%) agreed and 34 (26.2%) strongly agreed while 5(3.8%) were of contrary opinion. 34 (26.2%) chose to be neutral. A mean of 3.8 and a 1.0 variation shows that liquor manufacturers pursue product diversification strategies to capture broader market segments and respond to consumer preferences. On introduction of new innovative products to expand offerings, 62 (47.7%) agreed and 37 (28.5%) strongly agreed. 4 (3.1%) strongly disagreed and 1 (0.8%) disagreed while 27 (20.8%) were neutral. From the statement, a mean of 3.3 and 1.2 variation was noted. The study also assessed whether firms have increased their market share over the past three years. The findings reveal that 90 respondents (73.1%) agreed and 29 respondents (26.9%) strongly agreed, indicating that 125 respondents (96.2%) perceived market share expansion. None of the respondents strongly disagreed or disagreed, while 11 respondents (8.5%) were neutral. The statement recorded a mean of 3.1 and a variation of 1.1. This infers that many liquor manufacturers perceive their firms as gaining a stronger position within the market, possibly due to product differentiation, brand positioning, or increased demand. Finally, respondents were asked whether their firms are competitive compared to other businesses of similar size. The findings show that 70 respondents (53.8%) agreed and 52 respondents (40.0%) strongly agreed, meaning 122 respondents (93.8%) believed their firms are competitive. Only 8 respondents (6.2%) remained neutral, and none expressed disagreement. The statement recorded the highest mean of 3.9 with a variation of 1.0. This strong agreement suggests that liquor manufacturing firms in the study area perceive themselves as well positioned within the competitive landscape.

The respondents pointed out that taxes had a big impact on the business, especially the excise taxes that have increased the product's prices, hence slowing sales growth. The companies have had to absorb such costs just to stay competitive, and thus has led to squeezed margins. Taxation policies make or break businesses as they directly impact the pricing and production costs. The most challenging aspect of taxation is its unpredictability due to tax policy changes. The businesses are not able to predict, hence cannot plan, and sometimes the changes are so sudden and thus altering the business operations. The taxation levels end up limiting the capacity utilization and production scale. High production costs due to taxes result in increased product prices, which are imposed on the end user, hence low demands on such products. The products have therefore become less competitive, and this has led to a reduction in the market share compared to other players.

Besides high taxes, the interview findings pointed to consistency in sales growth in the period of four years from 2021 to 2024, which varied in various organizations and were between 200 million and about 240 million. Some organizations highlighted taxes paid in the same period were averagely in the 60 million. It was also noted that the taxation policies at least change once or twice in a year within the studied period, and this sometimes leads to the tax disputes resolution period lasting for about six months.

These findings agree with the positions of Handoyo *et al*. (2023), who asserted that business performance is influenced by financial, operational, and strategic factors. These factors can be operational and strategic factors that inform business performance (Rudiawarni *et al*., 2022; Handoyo *et al.*, 2023). However, in the process of seeking to achieve higher business performance, firms are faced with externalities, including taxation and policy changes that affect their performance (Davidsson et al., 2002; Ngo & Nguyen, 2022).

Firms that are poised for growth must leverage their resources to counter the negative impact of these externalities and still meet the obligations of the shareholders (Omisakin & Adegoke, 2022).

Model Summary

The model summary was presented to show the magnitude of changes that were caused by the independent variables on the dependent variable. Specifically, simple regression analyzed predictable tax systems and the business performance of liquor manufacturers in Nairobi, Kenya. The findings are displayed in Table 4.

Table 4: Overall Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.629[a]	.395	.391	.38576

a. Predictors: (Constant), PREDICTABLETAXSYSTEMS

Field Data (2025)

From Table 4 above, the model summary results indicate a strong relationship between taxation policies and business performance among liquor manufacturing firms in Nairobi City County. The simple correlation coefficient (R = 0.629) demonstrates a strong favourable connection between the predictor variables and business performance. The coefficient of determination (R^2=0.395) implies that 39.5% of the variation in business performance was explicated by predictable tax systems mechanisms. The remaining 33% is influenced by other variables not tested in this model. The relatively low standard error of the estimate (0.28860) further suggests that the model provides reliable predictions of business performance. Hence, the model was fit for further inferential statistics.

ANOVA

The study analysed the variances to determine the overall statistical significance of the regression model. It examined the effect predictable tax systems on business performance and the outcomes are exhibited in Table 5. The study tested that the null hypothesis that the predictable tax system does not have any statistically significant effect on the success of the business for the liquor manufacturing firms.

Table 5: Analysis of Variance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.460	1	12.460	83.726	.000[b]
	Residual	19.048	128	.149		
	Total	31.508	129			

a. Dependent Variable: BUSINESSPERFORMANCE

b. Predictors: (Constant), PREDICTABLETAXSYSTEMS

Field Data (2025)

The ANOVA results showed that the regression model was statistically fit with an F-value of 63.32. The p-value of 0.000 was less than the level of significance (0.05), an indicator that the predictable tax systems affected the success of the liquor manufacturing firms in Nairobi City County. With these results, the null hypothesis that the taxation policies significantly affected the firms' success, is therefore rejected at 5% level of significance.

Regression Coefficients

Regression coefficients were tested to identify both the level and how significant each of the measured predictor variables was to the outcome variable. The relationship between predictable tax systems was

analyzed as well as their effect to business performance of liquor manufacturers in Nairobi, Kenya, as displayed in Table 6.

Table 6: Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.680	.142		18.930	.000		
	PREDICTABLETAXSYSTEMS	.342	.037	.629	9.150	.000	1.000	1.000

a. Dependent Variable: BUSINESSPERFORMANCE

b. Dependent Var.: Business Performance

Field Data (2025)

From the regression model output, the study establishes the regression model to be as thus:

Business Performance = 2.680 + 0.342 (predictable tax systems) + 0.037(error term)

Predictable tax systems have a favourable and statistically significant effect on business performance (β = 0.342, t = 9.150, p = 0.00). A one-unit improvement in tax predictability increases business performance by 0.342 units, controlling for other factors. This finding emphasizes the relevance of policy stability and consistency in enabling long-term planning, investment decisions, and operational efficiency. The objective relating predictable tax systems to business performance is therefore empirically supported.

On predictable tax systems, Chen *et al*. (2025) found that tax systems need to be predictable because businesses can plan for long-term financial and investment decisions alongside their growth strategies. Businesses that know the type of taxes and the payable rates they will be subjected to in the next few years can effectively budget, allocate, and distribute resources efficiently, and manage their cash flows with assurance (Chen *et al*., 2025). Businesses that can predict their expenses, factoring in the tax liability, can equally identify plan pricing strategies and set the estimated levels of profit. Such certainty can further support business competitiveness strategies without hiking product prices unnecessarily, which could have an impact on their performance (Francis *et al*., 2019).

Hypothesis Testing

The study tested the hypotheses utilizing simple regression to confirm the relationships between the study variables.

H_{01}: There is no significant effect of predictable tax system on business performance of liquor manufacturers in Nairobi City County, Kenya.

The study aimed at testing the effect of predictable tax systems on business performance as shown in Table 4.15 and shows that p = 0.000 which is less than the significance level of p=0.05 threshold. Hence, the null hypothesis was rejected. Therefore, this implies that predictable tax systems affect the business success of liquor manufacturers in Nairobi City County, Kenya.

These findings align with Chen et al. (2023)'s study which demonstrated that tax uncertainty substantially impedes corporate innovation, resulting in funding limitations and adversely impacting information transparency. The regional economic system, enhanced tax enforcement, and digital transformation can mitigate the adverse effects of tax uncertainty on corporate innovation. Additionally, the results agree with

those of Francis *et al.* (2019) who found that tax planning affects analysts' forecast accuracy through the review of audit documentation. Firms spend more resources on tax planning.

The impact of revisions of tax regimes frequently are felt in businesses due to the unpredictability of policies on future tax obligations (Audretsch *et al*., 2021), making it harder and cumbersome for businesses to develop a long-term tax plan, increase business administration burden, and higher compliance costs (Ciconte *et al*., 2023). Businesses can also be on constant watch to adapt business operations to align with the new taxation requirements. If the business environment is marred by an environment where tax policies are constantly and frequently revised, forecasting revenues, allocating resources, and setting strategic goals becomes a major business challenge (Drake *et al*., 2017; Chen *et al*., 2023). The consequence of such an environment is high costs of compliance, cash flow disruptions, and diminished investors' confidence (Audretsch *et al*., 2021).

CONCLUSION AND RECOMMENDATIONS

The objective focused on the effect of predictable tax systems on business performance. The regression results indicate that predictable tax systems have a statistically significant effect on performance. This demonstrates that stability and clarity in taxation policies significantly enhance business outcomes. The positive coefficient shows that when firms perceive tax policies as stable, transparent, and consistent over time, their performance improves. The strength of the t-value confirms that this is a reliable effect. Predictability reduces uncertainty in financial planning, facilitates long-term investment decisions, and strengthens managerial confidence. For liquor manufacturers operating in a highly regulated environment, clarity regarding tax rates, policy changes, and compliance procedures appears to support strategic planning and operational efficiency, which ultimately translates into better performance.

The study also concludes that predictable tax systems significantly enhance business performance. The statistically significant standardized coefficient of 0.319 demonstrates that policy stability and clarity contribute substantially to firm success. Predictability reduces uncertainty in planning, strengthens investment confidence, and supports strategic decision-making. The conclusion drawn is that stable and transparent taxation frameworks foster an enabling environment in which firms can operate with greater certainty and efficiency. In highly regulated industries, consistency in fiscal policy becomes an essential driver of performance.

Concerning predictable tax systems, the study demonstrated that policy stability and clarity significantly contribute to improved business performance. Parliament and the National Treasury are therefore encouraged to minimize abrupt tax policy shifts and to ensure adequate stakeholder consultation before introducing new fiscal measures. Clear transitional frameworks should accompany any policy changes to allow firms sufficient time to adjust their operational and financial strategies. The Kenya Revenue Authority should provide consistent interpretive guidelines and advisory support to reduce uncertainty in tax administration. Regulatory bodies such as the Kenya Bureau of Standards should coordinate with fiscal authorities to align regulatory and taxation requirements, thereby avoiding policy contradictions that create compliance confusion. Business owners should incorporate tax forecasting into their long-term strategic planning to mitigate the effects of potential policy changes. Scholars and researchers are encouraged to investigate the long-term economic effects of tax predictability on investment decisions and sectoral competitiveness in emerging markets.

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