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Effect of Liquidity Position on Corporate Revenue Performance Among Listed Commercial Banks in Kenya

Elvis Nyaga[1*], Albert Abanga[2], Collins Kipkiyai[2]
[1]Tax Administration, Moi University, Kenya
[2]School of Business and Economics, Moi University, Kenya
*Corresponding author email: elviskaremi@gmail.com

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Abstract

This study investigated the influence of liquidity position on corporate revenue performance among listed commercial banks on the Nairobi Securities Exchange, Kenya, focusing on the moderating effect of regulatory oversight. The study was grounded in Agency Theory and Political Cost Theory. The study used a cross-sectional longitudinal design and panel secondary data from annual audited financial reports and statements for the financial years 2015 to 2025. The liquidity position had a significant positive effect on corporate revenue performance ($\beta = 0.228$, $p = 0.013$). This study concludes that liquidity position significantly influences corporate revenue performance, and that regulatory oversight amplifies this positive relationship. To reduce policy uncertainty, the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA) should improve the clarity, transparency, and predictability of their supervisory processes through detailed regulatory impact assessments and forward guidance, enabling bank management to align liquidity strategies effectively.

Keywords: *Liquidity position, corporate revenue performance, return on assets*

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1. Introduction

Governments worldwide depend on tax revenue to provide public goods and services. To meet the growing need for economic development and growth, governments have developed various tax regimes, systems, and bases (Linegar & Walbeek, 2020). Collecting taxes and fees is fundamental to generating public revenue that enables investment in human capital, infrastructure, and services for citizens and businesses (IMF, 2020).

Corporate revenue performance refers to how revenues collected from corporate entities meet or deviate from set targets over a specified fiscal period. It is an important public finance measure used to assess the efficiency and effectiveness of tax administration systems, particularly corporate income tax collection (Tanzi & Zee, 2020). Oates (2019) argues that economic growth, tax policy design, and the institutional capacity of revenue authorities influence corporate revenue performance. In developing economies, tax compliance behavior, administrative inefficiencies, and the size of the informal sector further affect performance (Fjeldstad & Heggstad, 2022). Strong corporate revenue performance reflects effective fiscal

governance, while weak performance indicates gaps in enforcement and revenue mobilization strategies (Keen & Slemrod, 2021).

Liquidity position refers to a firm's ability to cover short-term financial obligations with easily convertible assets, which is essential to smooth business operations. Within the context of corporate tax avoidance, liquidity signifies financial flexibility. Firms with high liquidity are theorized to have the readily available cash reserves needed to implement advanced, often costly tax planning strategies, such as engaging specialized consultants or structuring complex cross-jurisdictional transactions (Mardiana, 2024). Therefore, in this research, liquidity is conceptualized as the firm's reservoir of financial resources that can be deployed to facilitate tax avoidance activities

Corporate liquidity position refers to a company's ability to meet short-term financial obligations using available liquid assets such as cash, cash equivalents, and other current assets (Choi et al., 2024). It reflects a firm's financial flexibility and its ability to sustain daily operations without financial distress (Yoon, 2024). A strong liquidity position indicates that a company possesses sufficient short-term resources to finance operations and absorb unexpected financial shocks (Fairhurst & Zahid, 2022). Conversely, weak liquidity may expose firms to insolvency risks, delayed payments, and reduced investor confidence (Chasha et al., 2024).

In Kenya, corporate revenue performance of commercial banks listed on the Nairobi Securities Exchange (NSE), Kenya, has remained relatively strong, although it is shaped by interest rate movements, credit risk exposure, and macroeconomic volatility (CBK, 2020). Mutua and Njenga (2024) observe that Kenyan listed commercial banks such as Equity Group, KCB Group, and Co-operative Bank have recorded steady revenue growth driven mainly by increased interest income from expanded loan portfolios and rising uptake of digital banking services. Wanjiku and Otieno (2023) further note that non-interest income, particularly from mobile banking, transaction fees, and agency banking, has become a key driver of revenue diversification for NSE-listed banks.

Njuguna and Kithinji (2024) argue that rising credit default risks and inflationary pressures have moderated profitability growth despite increasing revenue streams in the banking sector. Muriuki and Kamau (2023) highlight that exchange rate volatility and high operating costs have affected banks with significant exposure to foreign currency lending and international transactions, leading to fluctuating earnings. Odhiambo and Mwangi (2024) emphasize that while digital transformation has strengthened revenue resilience, macroeconomic shocks such as high interest rates and constrained household borrowing capacity continue to influence the overall revenue performance of NSE-listed commercial banks.

1.1 Problem Statement

Ideally, commercial banks listed on the Nairobi Securities Exchange are expected to achieve strong, stable, and continuously growing revenue performance, supported by efficient financial management and consistent income generation (NSE, 2025). This revenue performance should reflect steady earnings growth, diversified income streams, and improved market competitiveness across the banking sector (CBK, 2025). However, corporate revenue performance among some listed commercial banks has remained unstable, with periods of slow growth and fluctuating earnings outcomes due to changing economic conditions (OECD, 2025).

Furthermore, loan loss provisions increased by about 10%–20% at some banks, reducing net revenue and contributing to missed earnings targets set in annual financial plans (NSE, 2025). While the sector remains profitable, these figures indicate that several banks are not fully meeting their planned corporate revenue targets because of rising costs, credit risk exposure, and slower-than-expected income growth.

Corporate Income Tax (CIT) in Kenya recorded about KSh 304.8 billion against a target of KSh 421.1 billion, showing a significant revenue shortfall. This reflects a decline in corporate tax performance driven by reduced taxable profits across key sectors of the economy. High interest rates, inflation, and weak business activity reduced corporate earnings and tax contributions. Commercial banks, major CIT contributors, also saw reduced profitability due to higher loan loss provisions, higher funding costs, and exchange rate volatility. Although digital banking and non-interest income supported revenues, overall bank profitability fell short of projected corporate tax targets.

Mwangi (2024) conducted a study among commercial banks in Kenya, using primary data collected through questionnaires targeting finance managers and branch supervisors. The results showed a positive and significant relationship between liquidity management and financial performance. Therefore, a study was needed to examine the moderating effect of regulatory oversight on the relationship between financial determinants and corporate revenue performance among listed commercial banks on the Nairobi Securities Exchange, Kenya.

2. Literature Review

2.1 Theoretical Review

2.1.1 Political Cost Theory

Political Cost Theory is a positive accounting theory developed by Ross, Watts, and Zimmerman (1978). Political Cost Theory proposes that more visible corporations are more likely to face political scrutiny and regulatory intervention, making their political costs higher (Boland & Godsell, 2020). It assumes businesses do not exist in a vacuum, as their activities may draw negative attention from regulators, politicians, and the citizenry. The theory of taxation suggests that companies should weigh the financial gains of tax avoidance against the possible political costs, including reputational losses, increased regulation, and unfavorable policy reforms. The theory also recognizes that politically connected companies can use their positions to secure favorable tax treatment or influence laws to their benefit.

Political Cost Theory has been used to analyze differences in tax planning between different firms of varying sizes and visibility in the tax avoidance literature. Kimemia et al. (2022) find that larger, more visible corporations face greater political scrutiny, which increases the cost of aggressive avoidance. Irianto et al. (2017) show that politically affiliated companies can abuse their position and remain unpunished because of their ties to policymakers. Weak institutions in Sub-Saharan Africa accelerate these dynamics, and firms use political networks to evade taxes. Political Cost Theory also applies well to this study because banks are highly visible financial institutions regulated by two authorities: the CBK and the KRA. The theory relates to tax avoidance strategies. The systemic importance of large banks and their visibility to political actors may increase the political costs of aggressive tax planning. The theory can also help explain how banks with government associations, or those that deal in government securities as major dealers, could bypass the tax system. Additionally, banks' liquidity

positions and debt structures can be shaped by the need to remain politically legitimate and maximize tax, so this theory can help explain the political aspects of managing corporate tax in Kenya's banking industry.

2.1.2 Agency Theory

Stephen Ross formulated Agency Theory in 1973, and Michael Jensen and William Meckling later enhanced it in 1976. The theory emerged from their work on the ownership-control divide in contemporary corporations and addresses the conflict of interest that arises between principals (shareholders) and agents (managers). Agency Theory describes the dynamics of relationships between principals (shareholders) and agents (managers) when their interests are not perfectly aligned. The theory assumes that information asymmetries and differing objectives create agency costs because managers may act in ways that maximize their benefits rather than shareholder value. The theory of tax management implies that managers may engage in tax avoidance to maximize after-tax returns to shareholders or seek personal benefits because aggressive tax strategies create complexity and obscurity.

Agency Theory has also been used extensively in the tax avoidance literature to explain managers' motivations for making such decisions. Osebe et al. (2019) and Muturi et al. (2021) indicate that when corporate governance is weak, managers can use complex avoidance structures for personal enrichment, whereas strong corporate governance can moderate the relationship between tax avoidance and shareholder value maximization. This theory applies to this study because Kenyan listed banks have concentrated ownership structures and regulatory loopholes that could create agency conflicts.

The theory helps explain how managerial incentives to obtain interest deductibility in tax benefits may affect debt financing decisions, how profitability levels can affect managers' discretion in tax planning, and how liquidity positions can provide flexibility in implementing tax strategies. In the Kenyan banking industry, where institutions use different administrative systems, Agency Theory offers a template for explaining how managerial discretion in financial management translates into tax avoidance practices that may or may not align with shareholders' interests.

2.2 Empirical Review

2.2.1 Corporate Revenue Performance

Researchers commonly measure corporate revenue performance by comparing actual tax collections with projected or budgeted targets within a financial year (Bird, 2022). Key indicators include the tax-to-target ratio, the growth rate of corporate tax receipts, and corporate tax's contribution to total government revenue (Moore, 2024). Empirical studies show that firm profitability, tax incentives, enforcement strength, and administrative efficiency significantly influence corporate tax performance (OECD, 2022). In many African economies, including Kenya, corporate revenue performance depends heavily on key sectors such as banking, telecommunications, and manufacturing, which make up a large share of the taxable corporate base (Bird, 2022).

Corporate revenue performance remains a critical indicator of fiscal sustainability and economic governance. Poor performance often reflects tax evasion, weak enforcement, and economic shocks, while strong performance links to efficient tax systems, digitalization, and improved taxpayer compliance (Oates, 2019). Strengthening corporate revenue performance

therefore requires continuous policy reforms, enhanced administrative capacity, and improved compliance strategies to ensure optimal revenue mobilization and sustainable public finance management (OECD, 2024).

2.2.2 Liquidity Position

The relationship between liquidity and corporate tax avoidance has yielded both positive and negative empirical findings across scenarios. Noor et al. (2010) analyzed listed companies in Malaysia and found that companies with higher cash ratios reported substantially lower effective tax rates, suggesting that liquid companies have more resources to take advantage of tax-saving opportunities. Their analysis of 100 Malaysian companies over five years found that a 1 percent change towards cash ratio corresponded to a 0.34 percent fall in effective tax rates: financial flexibility allows more advanced tax planning.

Halioui et al. (2016) also discovered that highly liquid firms could maintain conservative tax activities to maintain cash flow stability, especially during periods of economic uncertainty. An analysis of NASDAQ 100 companies found that cash-rich firms were less likely to adopt aggressive tax policies: firms whose liquidity ratios exceeded the median were 23 times less likely to adopt aggressive tax policies.

Bagana et al. (2024) examined the effect of liquidity management on the financial performance of Nigerian consumer goods manufacturing firms using secondary data from 10 firms listed on the Nigerian Exchange Group between 2018 and 2022. The study employed an ex-post facto research design and regression analysis to assess the relationship between liquidity indicators and profitability.

2.3 Conceptual Framework

According to Mugenda (2008), a conceptual framework is a concise description of the phenomenon under study, accompanied by a graphical description of the study's major variables. The independent variable was liquidity position. The dependent variable was corporate revenue performance, as shown in Figure 1.

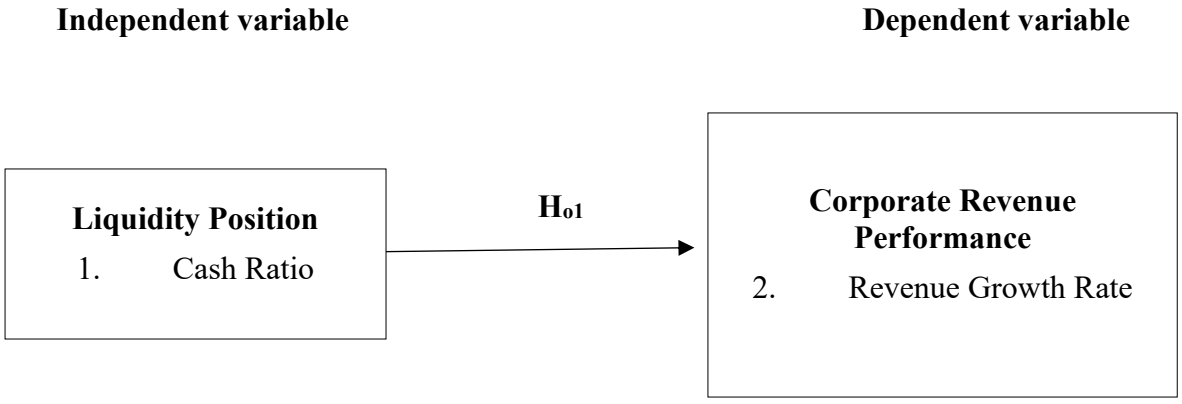


Figure 2.1: Conceptual Framework

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3. Methodology

This study adopted an explanatory, cross-sectional research design using panel data. Panel data allow the researcher to control for individual heterogeneity and minimize omitted variable bias, improving the accuracy of the findings. This design is appropriate because it allows the researcher to examine how changes in the independent variables affect the dependent variable across entities and over time. A longitudinal research design was also used to analyze changes in patterns in the independent variables over the period between 2015 and 2025. To test for stationarity, this study employed unit root tests, specifically the Levin-Lin-Chu test. The null hypothesis for these tests is H0: $\gamma = 0$ (indicating the presence of a unit root), while the alternative hypothesis is HA: $\gamma < 0$ (indicating no unit root). A 5% significance level was be used. If we do not reject the null hypothesis, the data contain a unit root and are therefore non-stationary. Conversely, if the null hypothesis is rejected, the data are stationary (Herranz, 2017).

Table 1 shows that corporate revenue performance had a p-value of 0.000, indicating that its series is stationary. Additionally, the liquidity position had a p-value of 0.000, confirming that the series had no unit root and therefore was stationary.

Table 1: Levin-Lin-Chu unit-root test

Ho: Panels contain unit roots		Number of panels =	11
Ha: Panels are stationary		Number of periods =	11
List of predictors	Unadjusted t	Adjusted t	p-value
Corporate revenue performance	-7.7838	-4.5196	0.000
Liquidity position	-2.6713	2.4221	0.000

4. Results and Discussion

4.1 Descriptive Statistics

4.1.1 Liquidity Position

The liquidity position is calculated by dividing Cash & Cash Equivalents by Current Liabilities, the ratio of cash to current liabilities. Liquidity position descriptive statistics in Table 2, measured as Cash & Cash Equivalents divided by Current Liabilities for 11 listed commercial banks on the Nairobi Securities Exchange in Kenya over an 11-year period (N = 121), had an overall mean of 0.461 (SD = 0.107), with values ranging from 0.163 to 0.680. The mean above 0.40 suggests that, on average, these banks held sufficient liquid assets to cover over 46% of their short-term obligations, indicating a relatively prudent liquidity cushion. The between-bank standard deviation (SD = 0.084) was larger than the within-bank standard deviation (SD = 0.071), implying that differences in average liquidity positions across different NSE-listed banks are more pronounced than year-to-year fluctuations within individual banks. This pattern suggests that liquidity management strategies are largely bank-specific and stable over time, rather than being driven primarily by temporal shocks. These findings align with Kithinji and Waweru (2019), who reported that listed commercial banks in Kenya maintain moderate to

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strong liquidity positions as a buffer against deposit withdrawals and interbank market volatility, with mean liquidity ratios typically between 0.40 and 0.50.

Table 2: Descriptive Statistics of Liquidity Position

Variable	Mean	Std.Dev.	Min	Max	Observations
Liquidity Position overall	0.461	0.107	0.163	0.680	N= 121 n= 11 T =11 years
Between		0.084	0.273	0.578	
Within		0.071	0.283	0.780	

4.1.2 Corporate Revenue Performance

Table 3 summarizes statistics for corporate revenue performance, operationalized as year-over-year revenue growth percentages, among 11 listed commercial banks on the Nairobi Securities Exchange, Kenya. The results show a mean of 0.112 (11.2% growth) in corporate revenue (SD = 0.099), ranging from -0.243 to 0.428 across all banks. The positive average growth rate indicates that, on average, these banks experienced moderate corporate revenue growth rates during the study period. However, the standard deviation nearly equals the mean, indicating considerable variability in growth rates and reflecting the volatile nature of revenue generation in Kenya's banking sector. The between-bank standard deviation (SD = 0.043) was notably lower than the within-bank standard deviation (SD = 0.090), showing that revenue growth fluctuated more within banks than across banks. These findings align with Mwangi and Murigu (2015), who inferred that the financial performance of Kenyan commercial banks is significantly shaped by dynamic industry-specific factors and macroeconomic conditions, causing year-over-year earnings fluctuations within individual institutions.

Table 3: Descriptive Statistics of Corporate Revenue Performance

Variable	Mean	Std.Dev.	Min	Max	Observations
Corporate Revenue Performance: overall	0.112	0.099	-0.243	0.428	N= 121 n= 11 T =11 years
Between		0.043	0.039	0.201	
Within		0.090	-0.222	0.400	

4.2 Correlation Analysis

The correlation analysis tested Pearson's correlation coefficients to quantify the linear relationship between liquidity position and corporate revenue performance among listed commercial banks on the Nairobi Securities Exchange, Kenya.

Table 4 indicates a positive and significant correlation between liquidity position and corporate revenue performance (r = 0.641, p = 0.008), suggesting that banks with stronger liquidity positions tend to achieve higher revenue outcomes. This finding aligns with contemporary financial management literature emphasizing that adequate working capital and cash reserves enable organizations to seize growth opportunities, meet short-term obligations promptly, and maintain operational continuity, thereby enhancing revenue generation capacity.

Table 4: Correlation Analysis

Variables	(1)	(2)
(1) Corporate revenue performance	1.000	
(2) Liquidity position	0.641*	1.000

N= 121
** P<0.05,*

4.3 Post Estimation Tests

4.3.1 Hausman Test

To determine whether a fixed-effects or random-effects model is sufficient for panel data analysis, a Hausman test is employed. The test evaluates the null hypothesis that the unique errors are uncorrelated with the regressors; under the null, the random effects panel model is preferred. If the null is rejected ($p < 0.05$), the random effects model's assumption is violated, indicating that the fixed effects model is preferred (Schunck, 2016). Table 5 shows the Hausman test results: the Hausman test p-value is 0.0316, which is lower than 0.05. This implies that the fixed-effect model is preferred, since this study examines the relationship between liquidity position and corporate revenue performance and how these effects vary over time.

Table 5: Hausmann Test

	(B) Fixed	(b) Random	(b-b) Difference
Liquidity position	0.1535500	0.1276295	0.0259205

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic
chi2(4) = 10.59
Prob>chi2 = 0.0316

4.4 Fixed Effect Regression Model

The fixed-effect model equation shows the effect of liquidity position on corporate revenue performance among listed commercial banks at the Nairobi Securities Exchange.

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$y_{t(i)}=0.007 +0.228X_{1t}$

Table 6 also showed an R of 0.641, indicating that liquidity position was positively correlated with corporate revenue performance by 64.1%. The overall R-square of 0.411 indicated that liquidity position accounted for 41.1% of the variation in corporate revenue performance, while the remaining 58.9% was caused by factors not included in the model.

The table further shows that a one-unit change in liquidity position results in a significant increase in corporate revenue performance among listed commercial banks at the Nairobi Securities Exchange ($\beta = 0.228$, $p = 0.013 < 0.05$). The positive effect of liquidity position on corporate revenue performance suggests that banks with stronger liquidity reserves tend to generate higher revenue. This may reflect a greater capacity to meet short-term obligations, fund income-generating lending activities, and capitalize on emerging market opportunities without incurring costly emergency financing, ultimately supporting sustained revenue growth and competitive advantage within the banking sector.

Table 6: Fixed Effect Model

Corporate revenue performance	Coef.	Std.Err.	t-value	p-value	[95% Conf	Interval]	Sig
Liquidity position	.228	.101	2.26	.013	-.011	.467	*
Constant	.007	.003	2.33	.010	-.104	.119	
Mean dependent var		0.112	SD dependent var			0.099	
R		0.641					
R-squared		0.411	Number of obs			121	
F-test		3.564	Prob > F			0.000	
Akaike crit. (AIC)		-238.937	Bayesian crit. (BIC)			-233.346	

*** *p<.01*, ** *p<.05*, * *p<.1*

4.5 Discussion

4.5.1 Liquidity Position and Corporate Revenue Performance

The study sought to determine the effect of liquidity position on corporate revenue performance among listed commercial banks on the Nairobi Securities Exchange, Kenya. The correlation matrix found a positive and significant correlation between liquidity position and corporate revenue performance ($r = 0.641$, $p = 0.008$), suggesting that banks with stronger liquidity positions tend to achieve higher revenue outcomes. The fixed effects model in Table 7 shows that liquidity position had a positive and significant effect on corporate revenue performance among listed commercial banks at the Nairobi Securities Exchange ($\beta = 0.228$, $p = 0.013 < 0.05$). This may reflect an enhanced capacity to meet short-term obligations, fund income-generating lending activities, and capitalize on emerging market opportunities without incurring costly emergency financing, ultimately supporting sustained revenue growth and competitive advantage in the banking sector. Nguyen and Pham (2021) examined Vietnamese commercial banks and found that higher liquidity ratios significantly improved net interest margins and overall revenue, as banks with ample liquid assets were better positioned to extend credit without resorting to costly wholesale funding. Alshatti (2020) reported that Jordanian banks

maintaining optimal liquidity levels experienced enhanced financial performance, with liquidity emerging as a significant predictor of profitability and revenue growth. Dahir et al. (2018) found that liquidity management practices positively influenced the financial performance of commercial banks in Somalia, noting that effective liquidity buffers enabled banks to seize lending opportunities and withstand market shocks. Amuah et al. (2025) reported that maintaining adequate liquidity buffers enhanced income stability and operational resilience in UK retail banks. Bagana et al. (2024) found that effective liquidity management significantly improved profitability and operational efficiency among Nigerian consumer goods firms.

Noor et al. (2010) and Halioui et al. (2016) found that highly liquid firms engaged in conservative tax activities or aggressive tax planning depending on context, suggesting that the liquidity-revenue relationship may vary with regulatory conditions. Thus, while most studies support a positive liquidity-performance link, mixed findings indicate the relationship is contingent on external factors such as regulatory oversight.

5. Conclusion

The study concludes that a robust liquidity position is a fundamental and direct driver of corporate revenue performance for commercial banks listed on the Nairobi Securities Exchange. This positive, significant relationship affirms that liquidity is not merely a survival-oriented metric for meeting short-term obligations. Instead, it functions as an active strategic asset that allows banks to seamlessly fund revenue-generating loan portfolios and exploit emergent market opportunities for high-cost emergency financing. This finding extends the traditional liquidity literature from a primarily risk-management perspective to a strategic performance perspective in the context of a developing capital market. The contribution lies in empirically validating the direct liquidity-revenue nexus for NSE-listed banks, departing from the common prior literature that focuses on liquidity's impact on profitability metrics or its role in solvency.

6. Recommendations

First, given the positive and significant direct effect of liquidity position on corporate revenue performance, the CBK should design a tiered liquidity-requirement framework that not only ensures systemic stability but also incentivizes and rewards banks for maintaining optimal liquidity buffers above the statutory minimum. The empirical evidence shows that liquidity position has a direct and significant positive effect on corporate revenue performance. Investors should look beyond traditional profitability ratios and scrutinize the composition and quality of a bank's liquid asset portfolio, such as the ratio of high-quality liquid assets to short-term liabilities, as a key predictor of future top-line revenue growth. A bank with a consistently strong, well-managed liquidity buffer is better positioned to capitalize on lending opportunities and sustain revenue momentum.

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