

EFFECT OF CUSTOM DUTY INCENTIVES ON FINANCIAL PERFORMANCE OF MANUFACTURING COMPANIES IN KENYA

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ABSTRACT

The Purpose of the study was to assess the effect of custom duty incentives on financial performance of manufacturing firms in Kenya. The study focused on the manufacturing companies registered by Kenya Association of Manufacturers. 447 manufacturing companies in the register of Kenya association of Manufacturers in 2019 were included in the study. Stratified random sampling technique was used to determine the sample size, and 211 manufacturing companies were selected for the study. Primary data was collected using questionnaires targeting accountants and other senior management officers in the manufacturing companies. Secondary data was collected from audited financial statements covering a period of 10 years from 2009 to 2018. The response rate on the questionnaires was 73.5 %. Data was analysed using SPSS version 25. Both descriptive and inferential statistics were used and diagnostic tests involving multi-collinearity tests, auto-correlation, heteroscedasticity and test of normality carried out. The data did not suffer from multi-collinearity neither was there auto-correlation. However, the data violated the assumption of normality. The study applied ordinal regression analysis to determine the predictive model. Pseudo-R square was computed which showed that custom duty incentives explains 4% of the change in financial performance meaning there are other factors that contribute to the change in financial performance. Custom duty incentive was significantly related to financial performance of manufacturing companies. It was concluded that custom duty contributes positively to the financial performance of manufacturing companies in Kenya and that manufacturing companies should embrace custom duty incentives offered by the government.

Keywords: *Financial Performance; Manufacturing Companies; Custom Duty Incentives*