# Does Operational Transparency Affect Tax Avoidance for Firms Listed at the NSE, Kenya?

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**Abstract**

*In the present era of globalization and information society, an essential component and factor of an organization's sustainability is operational transparency. The openness of information on business activities is a criterion for corporate management culture that determines its relationship with stakeholders. Thus, the purpose of this paper was to examine the impact of operational transparency on tax avoidance, which is a key ingredient of corporate trust. Descriptive and inferential statistics were used and the hypothesis was tested using the fixed effect regression model based on the results of the Hausman test. The study employed a sample of 31 firms listed in the Nairobi Securities Exchange and data for the period 2009-2018. The findings of the study show a negative and significant relationship between operational transparency and tax avoidance which have both managerial and policy implications.*

**Keywords:** operational transparency, tax avoidance, listed firms

## INTRODUCTION

Tax revenue is the lifeblood of any government as it constitutes the principal source of government revenue. Moreover, the effectiveness of any government largely depends on the ability of its citizens to voluntarily discharge their tax obligations without any coercion or harassment (Olaseyitan & Sankay 2012). Conversely, evidence shows increasing cases of tax avoidance which has compromised governments' expenditure and social welfare (Oats & Tuck, 2019). For years now, many corporations have managed to obtain special advantages at the cost of society owing to their privileged access to technical expertise in tax planning. Tax avoidance is a deliberate effort by a firm or individual to choose an option that leads to a lower tax liability than would otherwise apply had another option been chosen (Mustaqiim&Nurhidayati, 2020). Similarly, tax avoidance is conceptually distinct from tax evasion, although they are frequently merged in contemporary discourse. While, tax avoidance includes all arrangements to reduce, eliminate or defer tax liability, tax evasion is both illegal and unethical because it entails deception and concealment of tax obligations (Oats & Tuck, 2019). As regards factors that influence firms' decision to engage in tax avoidance, a good number of researchers suggest that transparent firms are less likely to engage in aggressive tax

planning compared to their opaque counterparts (Balakrishnan, Blouin, & Guay, 2019).

Corporate transparency entails the provision of information and creating opportunities for interactive communication with stakeholders (Welch & Wong, 2001). Also, there has been a growing concern on operational transparency as a way of enabling stakeholders' participation in monitoring an organization's activities, and a tool of good corporate governance practices. Operational transparency is concerned with divulging information on how an organization manages its workforce, materials, equipment, and information resources that produce and deliver value to its customers and other stakeholders. Willmott (2003), Waddock and Bodwell (2007) suggest that operational transparency enables a firm to build a relationship of trust with the stakeholders which is perceived as good citizenship. Hence, operational transparency is one of the basic conditions for establishing positive relationships between a corporation and stakeholders (Reynolds & Yuthas, 2008). Also, being accountable to stakeholders is the cornerstone of corporate citizenship; therefore, operational transparency is crucial for corporate accountability. Though operational transparency has been viewed traditionally as a governmental aspect of addressing corruption as well as upholding the rule of law, it is also important in understanding corporate behaviors such as trust and accountability (Waddock, 2004; Douglas, & Meijer, 2016). Furthermore, Ryan (2019) asserts that the voluntary provision of operational transparency increases sales, consumers' trust, and satisfaction. If a firm's operations are not disclosed it is difficult for stakeholders, for instance, tax authorities to monitor firm activities. Prior studies have revealed that organizations stand to gain financially and non-financially if their operations are transparent to both internal and external stakeholders. By ensuring that a firm's activities are more operationally transparent, that is, revealing the hidden work that an organization performs, may improve stakeholders' attitudes towards it and increases their engagement. For instance, companies can improve their image and performance by disclosing information on corporate social responsibility engagements (Dutta & Singh, 2013) privacy policies (Miyazaki, 2008), and corporate governance (Zaman, Arslan, & Siddiqui, 2014). It has also been argued in the literature that lack of operational transparency insulates management, which can expropriate firm value through shirking, empire building, risk aversion, and perquisites (Jain, Jiang, & Mekhaimer, 2011). Consequently, to increase perceptions of value, firms are now focusing on operational transparency that allows all stakeholders to observe operational processes (process transparency). Creating an interface between customers and employees, that allows employees to observe customers not only to improve customer perceptions but also to increase service quality and efficiency. Again encouraging employee and consumer's voice enables the co-creation of products (Franke, Keinz, & Klausberger, 2013); while seeking constructive feedback (Fast, Burris, & Bartel, 2014) could also help satisfy multiple stakeholders needs.

Furthermore, disclosing facets of the operation that are usually hidden from view, for instance, the work being performed behind the scenes enhance consumers' appreciation for the firm and their perceptions of the value it creates, which improves the corporate image (Chen & Chen, 2014). Researchers also suggest that transparent firms have less severe agency problems (Jain *et al.,* 2011); thus less likely to engage in tax avoidance relative to opaque counterparts. A study by Schmidt, Gaur, Lai, and Raman (2015) shows that operational transparency reduces information asymmetry between a company and its investors, which in turn can

make the company's stock price less sensitive to operational disruptions. Thus, to mitigate the escalation of political and reputation costs fueled by public concerns, corporations engage more in operational transparency to meet or alter societal expectations. While a growing body of empirical research documents the benefits of operational transparency on corporate governance and stakeholders' perceptions of organizations, particularly by demonstrating that customers reward organizations whose operations are transparent and punish those that do not (Buell, Kim, & Tsay, 2017; Dutta & Singh, 2013; Meijer, 2007), none has explored whether operational transparency can affect a firms' likelihood of engaging in tax avoidance. Besides, a firm's tax behavior is vital in building trust with stakeholders since it demonstrates the firm's contribution to the society in which it operates.

Although it is the government's responsibility to establish and operate a fair and well-functioning system of tax laws, some moral norms and values regulate the corporate tax behaviors beyond the law, since morality is wider than law. Without greater operational transparency, stakeholders can't hold corporations accountable for their tax behaviors such as aggressive tax planning. Despite the importance of operational transparency in enhancing corporate image and trust-building, over transparency can reduce firm profits, raise executive compensation, and inefficiently increase the rate of CEO turnover. Thus, this paper contributes to the literature by examining the impact of operational transparency and tax avoidance, which has been little researched on.

## LITERATURE REVIEW

Globalization and democratization have escalated the debate on the need for operational transparency across all spheres of our lives; government, corporation, and religious organizations (Mendoza Ovando, 2020). Operational transparency is no longer a choice but a matter of good corporate practices. Also, ethical business practices are now a major concern to investors and the public (Spiller, 2000) Furthermore, in the present free-market economy, which is characterized by a free flow of information, stakeholders and investors are better informed than before. Similarly, leaders of profit-making and non-profit-making entities are being called upon to be transparent and accountable (Markham & Punch, 2007; Lehr-Lehnardt, 2005). The need for consumers to be more involved in production provides further evidence that the need for operational transparency in society has increased tremendously (Arnot, Vizzier-Thaxton, & Scanes, 2016). Operational transparency denotes the availability of information about an organization or actor that allows external actors to monitor the internal workings or value of that organization (Grimmelikhuijsen & Meijer, 2014). Although empirical literature on operational transparency and tax avoidance is scanty, researchers have demonstrated that operational transparency is an effective tool of good governance and combating corruption (Peisakhin, 2012; Lindstedt, & Naurin, 2010). Besides, Atkin (1999) claims that operational transparency (OP) is an important concept in business ethics. Operational transparency is quite relevant considering the interactions between the organization and its stakeholders (Gremler & Gwinner 2000), it leads to shared interests and common goals, for instance, improving a firms' market since consumers have more complete information to base their decision. Also, public availability of information on organizations' operations is vital to both the executive and the external stakeholders. The relationship between an organization and stakeholders are influenced not only by the transparency of its operations but also by the stakeholders' subjective estimation of how the organization behaves in situations where actions and activities are hidden (Kitchin 2003).

Companies that commit a lot of effort to public social responsibility are in a unique position. These firms do not merely ask their consumers to believe that the products or services will satisfy them but ask them to also to trust that their operations are transparent. Consequently, incorporating business operations into the conventional financial reporting process improves the visibility of a broader range of events that have a significant bearing on both equity and non-equity stakeholders (Saad, Greenberg, & Greenberg, 2012). Again, the ability of stakeholders to visualize and/or map an end-to-end business process enables the optimization and management of processes and activities to provide transparency into processes. Similarly, if the executives do not know exactly what is being done, then it proves problematic to gauge the impact of their decisions. Thus, operational transparency not only provides a better understanding of the organization's value-generating activities but also improves the ability of managers to control the operation. Additionally, operational transparency facilitates strict adherence to regulatory requirements and an organization's internal controls (Meijer, 2007).

Operational transparency also provides external stakeholders with vital information for evaluating their needs and decision. At the strategic level, operational transparency enables the executive in evaluating managerial decisions in light of financial and non-financial outcomes. Operational transparency reveals information on a firm's activities such as product design and management of business operations in the production of goods and/or services. Thus, operational transparency ensures that business operations are efficient in the utilization of resources and effective in meeting customer needs. In the context of tax avoidance, companies consider both ethical and societal choices before making such a decision. Furthermore, society has certain standards and expectations for acceptable business behavior and outcomes (Lee, Park, Moon, Yang & Kim, 2009). Consequently, corporations are not free to do as they wish to maximize their profits. Furthermore, firms that use the power to reduce their tax liability behave irresponsibly in the eyes of the public (Jallai, 2017; Jallai and Gribnau, 2018). Companies that present themselves as socially responsible corporations, pay their fair share of tax (or at least not unfair), and should be willing to disclose their tax planning, arrangement, which demands a high level of operational transparency; going beyond compliance with legal disclosure requirements and reporting obligations (Gribnau, & Jallai, 2019). If a company is persuaded that its tax planning arrangements are legal, legitimate, and justifiable in the prevailing circumstance, then it is only prudent to disclose it to the stakeholders. Conversely, if the firm feels the need to conceal its tax affairs, then this should be seen as a red flag. Thus, operational transparency openness protects and advances corporate reputation; besides non-mandatory reporting would help to reduce the information asymmetry gap.

Operational transparency should be motivated by an intrinsic impetus to do consistently the right thing. Although opponents of corporate transparency argue that voluntary disclosure is a threat to taxpayers' privacy, weakening its competitive position, or risking misinterpretation of information by the misinformed recipient (Douglas & Meijer, 2016), operational transparency should be conceived as the first steps towards reducing tax avoidance. Additionally, aggressive tax planning cannot be resolved merely by changing the laws, for all laws can be gamed; it demands also that the mind-set and attitude are changed (McBarnet, 2007). Since corporate transparency is a prerequisite for corporate accountability, empirical studies on the nexus between operational transparency

and tax avoidance are crucial to provide a better understanding of the tax compliance environment.

Only a limited number of studies have investigated the association between operational transparency and tax avoidance. Balakrishnan, Blouin, and Guay, (2019) while examining whether aggressive tax planning is associated with lower corporate transparency. The authors found that aggressive tax planning is associated with lower corporate transparency. The study further reported that managers of tax aggressive firms attempted to lessen transparency problems by increasing tax-related disclosures. Rasaeiyan & Akbari (2013) explored the relationship between tax avoidance, corporate transparency, and firm value. The author used a self-constructed opacity index for tax avoidance. The findings of this study demonstrate that transparent firms avoid more tax relative to their opaque counterparts, suggesting that firms engage in tax avoidance mainly to enhance shareholder wealth. The study also reported that investors place a value premium on tax avoidance. Mangoting, Prastya, Shanty, and Prayitno, (2019), studied whether transparency affects the relationship of CSR to tax avoidance. The authors used a sample of 162 samples of manufacturing companies listed on the Indonesia Stock Exchange and a panel dataset for 2015 to 2017. These findings indicate a negative relationship between transparency and tax avoidance; implying the more companies engages in voluntary disclosures the less tax avoidance.

Firms' obligation to pay their fair share of taxes is grounded on Freeman's (1984) stakeholder's theory which argues that shareholders are just one of the many stakeholders- creditors, employees, and government among others (Freeman, 1984; Heath & Norman, 2004). Furthermore, Edgley *et al.,* (2010), Chen and Roberts, (2010), claim that firms exert an enormous impact on society, implying that they should be accountable to the diverse stakeholders who are affected by its operations and continued existence. Thus, companies have a moral obligation to pay taxes that are proportionate to their earnings to the government; which is a key stakeholder. Corporate tax obligation entails prompt disclosure of operational activities and earnings to the tax authorities and other stakeholders. Additionally, through operational transparency, the public can gauge whether the company meets its obligations to the other stakeholders; for instance, product quality, environmental conservation, and employee welfare. Based on empirical literature and theory this study contributes to the literature by examining the effect of operational transparency on tax avoidance from an emerging economy perspective, where the impact of tax avoidance might be more profound. Therefore, we hypothesis as follows:

H1. Operational transparency negatively and significantly affects tax avoidance

## METHODOLOGY

The study employed positivism using a combination of explanatory and longitudinal research design. The target population for this study comprised firms listed in Nairobi Securities Exchange during the period 2009 to 2018. These include from the following sectors: Agriculture, Automobiles and Accessories, Banking, Commercial and Service, Energy and Petroleum, Insurance, Investment sector, Investment services, Manufacturing and allied, Telecommunication and Technology, and Real Estate Investment Trust (NSE, 2018). Firm specifics on operational transparency, and tax avoidance data for this period was obtained from the Capital Market Authority (CMA, 2018), NSE website, and individual company

annual reports. Prior studies of tax avoidance excluded financial and insurance firms from their samples (Beuselinck *et al*., 2015; Richardson & Taylor, 2015; McClure *et al*., 2018). These firms were excluded because of special regulatory constraints imposed on them that potentially affect their tax avoidance activities coupled with differences in their application of accounting policies and derivation of accounting estimates compared to firms in other industries (Rego, 2003). Also excluded were firms in Investment, Investment services sector, and Real Estate Investment Trust sectors due to their unique capital structures and the fact that trusts are not taxpayers (Allen *et al*., 2016). The closing data point for this study was 31st December 2018, at which point there were 67 firms listed on NSE according to the CMA report (2018). From this total, a total of 24 firms belonging to the financial services sector (banking sector (11) and insurance sector (6), Investment sector (6), Investment services sector (1), and Real Estate Investment Trust (1) were excluded. Thus, the final sample consisted of 31 firms, which yielded 310 firm-year observations.

**Econometric model**

The study's hypothesis was tested using multiple regression analysis. The Hausman specification test was employed to determine the suitability of choice between fixed-effect regression and random-effect regression. The study has three sets of variables; the dependent variable (tax avoidance), the independent variable (operational transparency), and the control variables (firm size, financial leverage, and cash holding). The model specification is as shown below.

$$TA_{it} = \alpha_0 + \beta_1 OP_{it} + \beta_2 CH_{it} + \beta_3 FS_{it} + \beta_4 FLEV_{it} + \varepsilon_{it}$$

Where:
*TA* = tax avoidance.
$OP_{it}$= operational transparency of firm $_i$ at year $_t$
$CH_{it}$= cash holding of firm $_i$ at year $_t$
$FS_{it}$= size of firm $_i$ at year $_t$
$FLEV_{it}$= financial leverage of firm $_i$ at year $_t$

**Tax Avoidance**

Although several measures have been used in prior studies for tax avoidance based on estimates from the financial statements, the widely used measure of tax avoidance is the effective tax rate (ETRs) (Lanis & Richardson, 2011). Hence, this study uses ETR to estimate the effectiveness of companies' tax planning activities which is a proxy for tax avoidance (Phillips, 2003). According to Chen, & Lin (2017) no single measure is likely to capture all tax aggressive behavior. Following prior research, (Chen *et al.,* 2010; Rego & Wilson, 2012; Lennox *et al.,* 2013; Bird & Karolyi, 2017; McClure *et al.,* 2018). *ETR* is computed as income tax paid in year *t* divided by pretax income in the same period, pretax income in fiscal year t, ranging from -1 to 1. ETR captures a firm's ability to pay a low amount of cash taxes relative to earnings (Brown, 2018). The equation is shown below. $ETR_{it}$ = (tax expense / pre-tax income). The ETR obtained is then compared with the prevailing corporate tax to assess the extent of tax avoidance.

**Operational Transparency**

Operational Transparency, the independent variable was measured using an index as devised by Kim *et al.,* (2013) and adopted from the Transparency and Disclosure (T&D) index compiled by the Standard and Poor. Specifically, the corporate transparency scoring checklist by Kim *et al.,* (2013) was divided into four

subsections: financial transparency, governance transparency, social transparency, and operational transparency. The corporate transparency index has been used by prior researchers (Aksu & Espahbodi (2016), Aksu and Kosedag (2006), Patel, *et al.,* (2002)). To compose an index, the study used information on operational transparency items disclosed in each company's annual reports and any other reliable, relevant information from other sources, such as the corporate website, and official documents obtained through the Capital Markets Authority and the Nairobi Securities Exchange.

If a company provided the information, it got one (1) otherwise it was awarded zero (0). Then the numbers of items disclosed in each category were expressed as a percentage of the maximum possible *"Yes"* answers in that category for each firm. The level of disclosure for every firm was calculated as:

$$Level\ of\ disclosure = \frac{Actual\ items\ disclosed}{Total\ possible\ items\ in\ the\ index}$$

**Control variables**

The study drew upon prior corporate transparency and tax avoidance studies to identify key variables that could influence tax avoidance. The study controlled for the firm size following most prior studies (Al-Shammari *et al*., 2008; Al Mutawaa and Hewaidy, 2010; Manaligod, 2012; Glaum *et al.,* 2013; Yiadom and Atsunyo, 2014; Demir and Bahadir, 2014). Firm Size *(Fsize)*, was measured by the natural logarithm of total assets of firm $_i$ in year $_t$. Owing to their large size, firms are more likely to be more transparent in their operations and reporting. They may also be able to source for tax planning and legal services. These will lead to the firm exploiting the tax laws and end up avoiding more tax.

Besides, the study controlled for the company's leverage level. Based on agency theory, leverage has been suggested as a relevant factor to explain the compliance level in prior research (Al- Shammari *et al*., 2008; Demir and Bahadir, 2014; Yiadom and Atsunyo 2014). Indeed, Jensen and Meckling (1976) and Fama and Jensen (1983) suggest that agency conflicts between the principals (for example debt holders) and their agents (for example managers acting in the interests of the shareholders) give rise to agency costs which are expected to be higher for indebted firms. Hence, firms with higher leverage can be expected to disclose more information to reduce agency costs by reassuring the debt holders that their interests are protected (Sellami, & Fendri (2017). Firm Leverage *(Lev.),* was measured by the ratio of total debt (liabilities) to total assets of firm $_i$ in year $_t$ (Arfan *et al.,* 2017).

These variables were controlled as they may influence the level of tax avoidance. They were controlled to enable a clearer view of the influence of the independent variables as well as the moderating variables on the dependent variable. By controlling, it was easy to isolate the direct and moderated effect of corporate transparency on tax avoidance.

## RESULTS AND DISCUSSION

**Table 1: Summary descriptive statistics**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| Tax Avoidance | 310 | 0.225 | 0.139 | 0.007 | 0.509 |
| Operational Transparency | 310 | 0.698 | 0.204 | 0.375 | 1.000 |
| Cash holding | 310 | 0.059 | 0.006 | 0.001 | 0.485 |
| Firm Size | 310 | 6.836 | 0.085 | 4.707 | 8.579 |
| Firm Leverage | 310 | 0.417 | 0.160 | 0.132 | 0.806 |

The summary of descriptive statistics is presented in Table 1. The table indicates that the average annual cash effective tax rate (tax avoidance) is 0.225 (minimum = 0.007 and maximum = 0.509: standard deviation = 0.139), implying that the selected firms pay 22.5% of the pre-tax profit on corporate tax on the average which is lower than the 30% top statutory corporate tax rate. This could be attributable to either presence of foreign operations and/ or tax planning (avoidance). The standard deviation of CASH ETR = 0.139 is relatively high indicating substantial cross-sectional variation in tax avoidance. The mean operational transparency, measured by operational transparency index, was 0.698 (minimum= 0.375 and maximum = 1.000: standard deviation = 0.204). Further, cash holding, total cash, and cash equivalent held divided by net asset, has a mean value of 0.059 with (minimum = 0.001 and maximum = 0.485: standard deviation = 0.060). For example, the average firm size (Ln. TA) had a mean of 6.836 (minimum = 4.707 and maximum = 8.579; standard deviation = 0.764). The mean firm leverage is 0.417 (Minimum= 0.132 and maximum = 0.806; standard deviation = 0.160) suggesting judicious use of debt capital.

**Table 2: Pairwise correlation matrix**

| | TA | OT | FS | FLEV | CH |
|---|---|---|---|---|---|
| Tax Avoidance (TA) | 1.000 | | | | |
| Operational Transparency(OP) | -0.5607* | 1.0000 | | | |
| Firm Size (FS) | 0.6533* | -0.3964* | 1.0000 | | |
| Firm Leverage(FLEV) | 0.0481 | -0.0530 | 0.1382* | 1.0000 | |
| Cash Holding(CH) | 0.3290* | -0.2040* | 0.1379* | 0.0008 | 1.0000 |
| **ρ<0.05 | | | | | |

The Pearson correlation results are presented in Table 2. The correlation between operational transparency and tax avoidance is negative and significant ($r = -0.561; \rho < 0.05$). The association between firm size ($r = 0.6533; \rho < 0.05$), cash holding ($r = 0.3290; \rho < 0.05$) and tax avoidance is positive and significant. Finally, Firm leverage and tax avoidance have a positive but insignificant correlation ($r = 0.048; p > 0.05$).

**Table 3: Regression Analysis**

| | Fixed Effect | Random Effect | | |
|---|---|---|---|---|
| Tax avoidance | β | B | VIF | Tolerance |
| Operational transparency | -0.433(0.051)** | -0.408(0.047)** | 1.20 | 0.8337 |
| Firm size | 0.070(0.013)** | 0.090(0.012)** | 1.18 | 0.8475 |
| Firm leverage | 0.029(0.054) | 0.032(0.046) | 1.02 | 0.9791 |
| Cash holding | 0.211(0.055)** | 0.190(0.054)** | 1.03 | 0.9665 |
| Constant | 0.182(0.028)** | 0.204(0.026)** | | |
| R-squared | 0.503 | 0.532 | | |
| F-value/ Wald chi2(4) | 43.43 | 255.10 | | |
| Prob>F/ Prob> chi2 | 0.0000 | 0.00 | | |
| Hausman Chi2 | 12.33 | | | |
| Prob>chi2 | 0.0148 | | | |
| Observations | 310 | | | |

**ρ<0.05. The standard error (std. Err) is in parentheses. VIF, variance inflation factors

Based on the Hausman test results in Table 3 (above), the study hypothesis was tested using the fixed-effect model. The regression results illustrate that operational transparency had a negative and significant effect on tax avoidance ($\beta_3$ = -0.433, $\rho<0.05$). The study examined the influence of the control variables (firm size, firm leverage, and cash holding) on the dependent variable (tax avoidance) to ascertain their explanatory power. The study results found a weak and significant positive association between firm size and tax avoidance ($\beta= 0.070, \rho<0.05$), implying that larger firms could have more resources; thus can engage tax consultants that can do the tax planning for them and avoid more tax. This is consistent with Al-Shammari *et al*., (2008) in the Gulf Co-Operation Council Member States; Al Mutawaa and Hewaidy (2010) in Kuwait; and Yiadom and Atsunyo, (2014) in Ghana. Richardson and Lanis (2007) found that larger corporations are likely to be more tax aggressive than smaller corporations because they possess greater economic and political power relative to smaller corporations and can reduce their tax burdens accordingly.

Moreover, the study results found a weak and significant positive association between firm leverage and tax avoidance ($\beta= 0.029, \rho<0.05$) indicating that a one-unit increase in firm leverage caused a 0.029 increase in tax avoidance. This is consistent with Abdullah *et al.,* (2015) who found that leverage is positively associated with tax avoidance and this is due to tax-deductible interest payments. The results are, however, contrary to those of Park *et al*., (2017) who found a negative sign-on. This indicates that firms with high debt ratios are passive in tax avoidance because of the burden on various non-tax costs such as reputation risk, caused by tax avoidance rather than the effect of reducing agent cost. Furthermore, the results of the study showed that cash holding had a positive and significant effect on tax avoidance ($\beta= 0.211, \rho<0.05$).
The beta coefficients and the respective p-value analysis showing the significance of the explanatory variable and the control variable on the dependent variable is indicated in the regression output the model below,

$$TA= 0.182-0.433(OT)+0.070(FS)+0.029(FLEV)+0.211(CH)$$

## CONCLUSION AND RECOMMENDATION

The tax avoidance practices by the corporation have received much attention among policy-makers and researchers over the last few years. Besides, it has also become a prominent reputational risk for many firms. Also, tax planning practices can have dire consequences on a country's economic development agenda. Since there is little empirical evidence of whether operational transparency can have an impact on tax avoidance, the purpose of this study was to explore the relationship between operational transparency and tax avoidance. Using a sample of 31 Kenyan listed firms and data a panel dataset for 2009-2018, the study found that firms that are more transparent on their operations are less involved in tax avoidance. The results further revealed that a high level of cash holding contributes to tax avoidance. Accordingly, the study advocate for voluntary disclosures by firms as a strategy of mitigating irresponsible tax behaviors as the enterprise's performance on the level of its openness is also checked.

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