

**THE EFFECT OF STRATEGIC ALIGNMENT AS A SOURCE OF
PERFORMANCE AT KENYA REVENUE AUTHORITY.**

BY

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DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

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DEDICATION

This project is dedicated to my family:

My husband, Raphael Manyasi, whose unconditional love, guidance and support has been with me all through.

To my daughter Catherine and son Ian whose passion for life and unwavering support has been evident. Did you know you are my heroes? I could think of no greater family than mine to have been honored by God to be part of.

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ABBREVIATIONS AND ACRONYMS

KRA-Kenya Revenue Authority

BSC-Balanced Score Card

ITMS-Integrated Tax Management System

S2005S- SIMBA 2005 System

TOT-Turn over Tax

AEO-Authorized Economic Operator

KWATOS- Kilindini Water Front Operating System

FOSS- Free Open Source Software

SWOT- Strengths, Weakness, Opportunities & Threats

KRATI- Kenya Revenue Authority Training Institute

VMS-Vehicle Management System

CCRS-Computerized receipting System

RTD-Road Transport Department

ERP-Enterprise Resource Planning

BKMS-Business keepers Monitoring System

BMS-Block Management System

ISO-International Organization of Standards

MTO-Medium Taxpayer Office

ABSTRACT

Effective organizations are organic, integrated entities in which different units, functions and levels support the company strategy. As a result, coherence or alignments on these organizational entities have an impact on the performance of these organizations. Organizational strategic alignment requires a shared understanding of organizational goals and objectives by managers at various levels and within various units of the organizational hierarchy. This is because a firm's ability to seek and maintain a competitive advantage rests on its ability to acquire and deploy resources that are coherent with the organization's competitive needs. The purpose of the study was to establish the effect of strategic alignment on organizational performance at Kenya Revenue Authority.

The research design was a case study aimed at establishing the effect of strategic alignment on performance at Kenya Revenue Authority. The target population consisted of respondents deemed to be knowledgeable of the effect of strategic alignment on organizational performance. Data collection was based on both primary and secondary sources. An interview guide was used to collect data from the respondents. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews. Secondary data was collected from organizational records.

The findings of the study were that KRA has developed strategies that are designed to enhance performance through the four perspectives of the Balanced Score Card.

Policy implication for strategic alignment is that the level of strategic alignment and organizational performance are closely related. Kenya Revenue Authority management

can clearly identify organizational goals during a strategic alignment initiative thereby achieving organizational performance. Future research should consider the role of time, contextual factors, various employer representatives and their role as sense-givers in any strategic alignment initiative.

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The concept of alignment in relation to both a firm's external opportunities and internal policies and actions has been an important topic among researchers for some time. As a result, when an organization is formulating corporate strategy, researchers have emphasized the importance of fitting or aligning the organization's strategy with an internal appraisal of the firm and an external assessment of environmental opportunities and threats. Alignment is important in formulating strategies as well as in their implementation since implementation is fostered by aligning and adjusting key systems, processes, and decisions within the firm (Kaplan, 2005). A firm's ability to seek and achieve higher performance as well as competitive advantage rests on its ability to acquire and deploy resources that are coherent with the organization's competitive needs (Porter, 1996) and as such, alignment requires a shared understanding of organizational goals and objectives by managers at various levels and within various units of the organizational hierarchy.

According to O'Regan and Ghobadian (2004) when an organization achieves a fit between its generic capabilities such as the ability to promote the product or service, ability to offer a broad product range, wide distribution, responsiveness to changes in demand, ability to compete on price and provide after sales service, the organizations performance is enhanced. This point has further been reinforced by Papke-Shields and Malhotra (2001) who posited that the influence and involvement of manufacturing

executives does affect alignment, which, in turn, affects business performance. Similarly, using a sample of 206 global firms Xu et al., (2006) found out that when there exist an interrelationships among strategy, structure, and processes a firms performance is further improved. Indeed, it is noted further that a strategic fit between operations and marketing is more critical in understanding organizational performance as compared to the choice of competitive strategies alone. Similarly, in an effort to examine the alignment between marketing and manufacturing, Alegre and Chiva (2004) while examining two cases studies, concluded that for the successful firm a fit between product innovation and manufacturing competitive priorities was necessary. They argued that different business strategies, using the Miles and Snow (1978) model, will require a different focus on marketing activities (such as customer, competitor, innovation, and cost control on behalf of the marketing department) in the presence of structural characteristics of the organizations such as formalization, centralization, and specialization.

1.1.1 Concept of Strategic Alignment

The concept of business alignment has elicited different definition by various scholars on the subject area. Ciborra (1999) while citing the work of Henderson and Venkatraman(1993) observed that strategic alignment was originally defined as concerning the inherently dynamic fit between external and internal domains, such as the product/market, strategy, administrative structures, business processes. Economic performance is argued to be enhanced by finding the right fit between external positioning and internal arrangements. Alignment urges organizations to reflect on the true nature of their shore, namely management strategy and technology. This means that

business alignment is both an internal and external process across an organization or organizations. On their part, Chan and Reich (2007) observed that firms can create sustainable competitive advantages through external alignment with business environment and internal alignment with resources and infrastructure.

Contingency theory considers business alignment as a state that determines strategic arrangements and organizational structures in the process of interaction with business environment. On the other hand, the resource-based view emphasizes an organization's resources and capabilities as sources of competitive advantage. Different assets and endowments within organizations can therefore explain how firms can create sustainable competitive advantage and why firms differ in business performance.

1.1.2 Organization Performance

Management research has defined performance from a variety of perspectives (Venkatraman 1986). The business performance perspective was selected for the present study. Business performance includes indicators such as return on sales, return on capital, and profit per share, as well as non-financial indicators such as market share, or new product development. In order to remain consistent with the definition of business strategy used here, wherein business performance is seen as “the long-term well-being and strength of the enterprise relative to its competitors” (Ward and Griffiths, 1996, p.63), business performance is defined here along two dimensions: growth and profitability, relative to the competition. The growth dimension takes into account the notion of “long-term well-being” while the profitability dimension embeds the notion of strength. Practices that recognize both the value and the needs of employees enable

companies to grow in terms of profits and revenues and to sustain that growth over longer periods of time, because they provide that critical fundamental element: “the right people on the bus and in the right seats” (Collins, 2001). Robinson (1983) argued that performance could be measured in two ways: objectively or subjectively. Objective measurements are generally based on financial data (such as financial results). According to Miller (1987), subjective measurements are better than objective measurements since accounting information is not readily available and not usually reliable since they could be manipulated by owners for various reasons.

There are a number of indicators by which company performance may be judged. The balanced scorecard offers both qualitative and quantitative measures that acknowledge the expectations of different stake holders and related an assessment of performance in choice of strategy. In this way performance is linked both to short term outputs and process management. (Johnson et al. 2006). An organization measurement system strongly affects the behaviour of managers and employees. Traditional financial accounting measures can give misleading signals for the continuous improvement and innovation required by today’s competitive environment demands (Kaplan and Norton, 1992).The balanced scorecard allows managers to look at the business from four important perspectives namely; the customer perspective which deals with critical success factors which include market share, customer retention rates and relevant products; the internal business perspective deals with critical success factors which include process cycle times, and productivity or capacity utilization; the financial perspective deals with critical success factors which include survival, profitability and revenues; the innovation and learning perspective which takes into consideration the

critical success factors which include training, quality improvement and service leadership. The importance of the innovation and learning perspective lies in the direct link between the company's value and company's ability to innovate, improve and learn. The ability to launch new products, create more value for customers and improve operating efficiencies continually results in penetration of new markets, increase in revenues and margins.

1.1.3 Strategic Alignment and Kenya Revenue Authority

Effective organizations are organic, integrated entities in which different units, functions and levels support the company strategy – and one another (Lingle and Schiemann, 1996) and as a result, coherence or alignment on these organizational entities have an impact on the performance of these organizations. Nath and sudharshan (1994) found that by studying a firm's business strategy and the different functional areas in the organization, they found out that their existed some measure of coherence. They further found out that alignment between strategic and operational aspects is more "visible" in successful firms. This is consistent with Day (1984), who suggested that business strategy should be integrated with functional strategies to achieve a sustainable competitive advantage. These studies therefore lend credence to the suggestion that when various levels of strategy and strategic priorities are consistent, linked, and mutually supporting, the performance of the organization would be higher than otherwise.

In an empirical study, Smith and Reece (1999) found that the fit between business strategy and decision categories or operational elements (e.g., inventory and logistics decisions, workforce issues, and organization structure, leads to improved business

performance. Further, focus on the vertical alignment between manufacturing and business strategy is evident. Using data obtained from across 20 countries, they concluded that as alignment between manufacturing and business strategies increases, firm performance increases. Additionally, the incremental contribution to performance due to the manufacturing function increases as the alignment increases. Examining strategic capabilities of small and medium sized firms, O'Regan and Ghobadian (2004) concluded that when a fit is obtained between generic capabilities and strategic planning the resultant organizational performance is at a higher level. For them, generic capabilities consisted of organizational abilities such as the ability to promote the product or service, ability to offer a broad product range, wide distribution, responsiveness to changes in demand, ability to compete on price and provide after sales service, ability to maintain delivery schedule, quality levels and organizational ability to obtain involvement of both top management as well as line managers in organizational activities. On the other hand, Youndt et al. (1996) while examining the horizontal alignment relationships between human resources (HR) systems, manufacturing strategy, and firm performance; they found certain types of HR systems were directly related to operational performance measures, such as employee productivity, equipment efficiency, and customer alignment. Further they found that certain competitive priorities or manufacturing strategies moderated this relationship. For example, they found that the interaction effect of a cost strategy with an administrative HR system was positive on equipment efficiency, whereas that of a delivery flexibility strategy was positive on customer alignment.

1.1.4 Kenya Revenue Authority

Kenya Revenue Authority is a state corporation established on 1st July 1995 through an act of Parliament Act Cap 469. The Kenya Revenue Authority was established for the purpose of enhancing the mobilization of government revenue, while providing effective tax administration and sustainability in revenue collection. In particular, the functions of the Kenya Revenue Authority are to assess, collect and account for all revenues in accordance with the written laws and the specified provisions of the written laws, advise on matters relating to the administration, and collection of revenue under the written laws or the specified provisions of the written laws, and perform such other functions in relation to revenue as the Minister may direct. In order to achieve these objectives, the organization has been divided into five segments namely; Support services, Road transport, Customs, Domestic and Large taxpayers Office (Kenya Revenue Authority, 2011)

The Board and Management of KRA have since its inception spent time and resources setting up systems, procedures and adopted new strategies aimed at enhancing the operational efficiency of Kenya Revenue Authority's processes. The board is composed of following: Chairman to be appointed by the President; Commissioner-General, Permanent Secretary, Ministry of Finance or his representative; Attorney-General or his representative; six other persons appointed by the Minister by virtue of their knowledge and experience in accountancy, commerce, law, taxation, business administration or public administration.(Kenya Revenue Authority, 2011)

Towards the achievement of its objectives, the organization faces several challenges in its operations. These challenges include resistance to change such as automation by the

many stakeholders affected by the organization; incidences of tax evasion and avoidance are still rampant, lack of automation of client's services and frequent political interference in the management of organization (Kenya Revenue Authority, 2011).

1.2 Research Problem

Organizational strategic alignment requires understanding of organizational goals and objectives by managers at various levels and within various units of the organizational hierarchy. This is because a firm's ability to seek and maintain its performance rests on its ability to acquire and deploy resources that are coherent with the organization's performance needs (Porter, 1996). With this enhancement of performance in organization's activities, it is expected that the same organization will be able to improve the performance of the activities and service it is offering. However, some strategy researchers have argued that too much alignment may result in firms with components that are very tightly coupled and lead to problems with adapting to a dynamic external environment. For instance, Hagel and Singer (1999) argue that fit should be considered in light of the interaction costs faced by a firm. They contend that if the interaction costs of performing an activity within the confines of the firm are higher than the costs of performing it externally, then it ought to be performed externally rather than attempting to create a fit within the tightly couple bounds of the firm.

The Kenya Revenue Authority plays a critical role of assessment of taxes, collection of revenue, administration and enforcement of Laws relating to revenue on behalf of the government. In addition, according to the Act of Parliament Cap 469, KRA is also tasked with the role of enhancing and mobilization of government revenue, providing effective administration and sustainability of revenue collection. This noble objective can only be

achieved if the organization lays down effective strategies of achieving these goals through the process of aligning effectively the resources and assets at its disposal. However, the current business environment is quite turbulent and as such risks abound in the realization of KRA objectives such as tax evasion and avoidance, not meeting revenue collection targets, political interference, sabotage of the systems by stakeholders and weak laws governing tax collections. The end result of successful strategic direction setting must therefore be the capacity of the organization to align its internal resources towards the attainment of the same objectives.

Studies have been done on the effect of strategic alignment on organizational performance. Pearson and Saunders (2004) pointed out that successful firms have an overriding business strategy that drives organizational strategies. For a firm to perform, the technology strategy must be aligned with organizational and operational strategies. Thawesaengskulthai (2007) stated that technological innovations must support operational and organizational strategies, as this alignment will lead organizations to improve the operational performance and gain a competitive advantage. As a result of the aforesaid, this study will seek to establish the effect of strategic alignment on organizational performance. What is the effect of strategic alignment on organizational performance?

1.3 Research Objectives

To determine how strategic alignment has influenced performance at Kenya Revenue Authority

1.4 Value of the Study

The study will be beneficial to various stakeholders; this study will be an instant source of information to KRA management on the various strategic alignment practices being adopted by the organization and other potential strategies that they can employ towards attainment of their goal. This study will also be helpful since it will help the Kenya Revenue Authority in controlling much more effectively the execution and realization of their strategies as it will be able to incorporate the possible risks to be faced in their operation if effective alignment of their resources is not achieved. Revenue collection and other organizations will benefit from the study since they will be able to adapt the findings of this study in their organizational set-up. Some light will also be shed on the loopholes in strategic alignment process.

The policy makers can obtain knowledge of the industry dynamics and the appropriate strategies and therefore they can obtain guidance from this study in designing appropriate policies that will regulate the industry and methods that can be used to mitigate risks during the strategy implementation. To the academicians, the study will contribute to the existing literature in the field of strategic management in general and organizational alignment. It should also act as a stimulus for further research to refine and extend the present study especially in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter highlights the major issues relating to the effect of strategic alignment on organizational performance. It covers the concept of strategy, organizational strategic alignment, organizational performance and the role of strategic alignment on organizational performance.

2.2 Concept of Strategy

A strategy is the direction and scope of an organization over a long term; which gives advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets to fulfill owners' expectation (Biggadike, 1976). Andrews (1971) argues that with respect to corporate strategy, strategists address what the firm might and can do as well as what the firm wants to do. However, he also argues that strategists must address what the firm ought to do. Mintzberg (1994) proposes five formal definitions of strategy as plan, ploy, pattern, position and perspective. Strategy is a plan, some sort of consciously intended course of action, a guideline (or a set of them) to deal with a situation. Strategy can be a ploy, just a specific 'maneuver' intended to outwit an opponent or competitor. Strategy is a pattern, specifically a pattern in a stream of actions. Strategy is a position, this means specifically identifying where the organization locates itself in what is known in the management literature as 'environment' for a business firm, usually a market. Strategy is a perspective, its content consists not just a chosen position but an ingrained way of perceiving the world.

Thomson and Strickerland (2007) observe that strategies are at ends and these ends concern the purpose and objectives of the organization. They are the things that organizations do, the paths they follow and the decisions they take in order to reach certain points or level of success. Mintzberg and Quinn (1998) identify four interrelated definitions of strategy as a plan, perspective, pattern and position. As a plan, it is some sort of consciously intended course of action, a guideline to deal with a situation. As a pattern it integrates an organization's major goals, policies and actions sequences into a cohesive whole. Strategy as a position becomes a mediating force or match between the organizations and its external and internal environments. Strategy as a position looks outside the organization seeking to locate the organization in the external environment and it in a cohesive position. Strategy as a perspective looks at the organization. In this respect it is a concept and a perspective shared by the members through their intentions and actions.

Strategy is viewed as a long-term approach to implementing a company's plans and there sources needed to achieve its goals and objectives (Warnock, 2000). There has also been a consistent analysis of the importance of strategy to technology, change and innovation over the last four decades (Cummings and Worley 2004), which clearly demonstrates the significance of increasing the understanding of the role of strategy in managing technologies to improve operational performance. Traditionally, the concept of strategy has been viewed in two dimensions, namely process and content. The strategy process refers to the activities that guide an organization towards choosing a competitive strategy (Ketchen et al., 2006). Strategy content, on the other hand, is related to a firm's competitive forces present in the environment, such as actual and potential competitors,

buyers and suppliers, as well as product/service substitutes. The strategy chosen enables the organization to predict, respond to, or dictate the existing environmental forces, making strategic content a key determinant of performance (Ketchen et al., 2006).

2.3 Strategic Alignment

Strategic alignment is dynamic process of continuous adaptation and change. Kaplan and Norton (2006, P. 59) defined the alignment process as "...whenever plans are changed at the enterprise or business unit level, executives likely need to realign the organization with the new direction". They argued that an organization can measure and manage the degree of alignment, and hence the synergy, being achieved across the enterprise. Organizations that master this process can create competitive advantages that are difficult to dislodge. Strategies must be synchronized to maintain the stated alignment due to an ever changing environment. Henderson and Venkatraman (1993) argue that the inability to realize value from information systems investment is, in part, due to the lack of alignment between the operational and information systems strategies of organizations. In addition, Pearson and Saunders (2004) point out those successful firms have an overriding business strategy that drives both organizational strategy and IS strategy. Successful firms carefully align these three strategies, as the three strategies are linked and affect each other.

Alignment requires a shared understanding of organizational goals and objectives by managers at various levels and within various units of the organizational hierarchy. A firm's ability to seek and maintain a competitive advantage rests on its ability to acquire and deploy resources that are coherent with the organization's competitive needs. However, some strategy researchers have argued that too much alignment may result in

firms with components that are very tightly coupled and lead to problems with adapting to a dynamic external environment. For instance, Hagel and Singer (1999) argue that fit should be considered in light of the interaction costs faced by a firm. They contend that if the interaction costs of performing an activity within the confines of the firm are higher than the costs of performing it externally, then it ought to be performed externally rather than attempting to create a fit within the tightly couple bounds of the firm. If organizations are skilled at aligning IT strategy with organizational strategy, there is no reason to believe that this skill should quickly erode. Instead, this valuable skill should continue to be a part of the organization's operational capabilities. If the organization has developed this competency, it is more likely that it will be able to achieve a high level of alignment in future time periods than other organizations that have not developed this skill. In fact, it has been shown that the ability to achieve a high level of strategic alignment can be strengthened if alignment is sustained over time (Street, 2006).

Coined by organizational behaviorists as fit, congruence, consistency or alignment, the concept describes the relationship of a firm's internal systems and strategies with its organizational opportunities and possibilities (Gelade and Young, 2005). No matter what term is used, the concept is a belief that a firm whose internal policies, procedures and systems are in alignment, both with each other and with external contingencies, will perform better than those organizations that are not so aligned. Firms that have set explicit goals to deliver service excellence, supported by explicit systems, policies and procedures which reinforce the achieving of such goals will be more effective and profitable than operations with low alignment. According to Schneider *et al.*, (2000), various systems, policies and procedures focused on the same goals will reinforce one

another, thereby reducing the possibility of wasted effort and resources in exceeding customer expectations and gaining their loyalty.

According to Rivard et al., (2006), strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage. They posit that it is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales-force approach, match a process technology, or replicate a set of product features. As a result, when formulating a corporate strategy, it is important for it to fit or align the organization's strategy with an internal appraisal of the firm and an external assessment of environmental opportunities and threats (Jean et al., 2008). They point out that in the process of realizing an organizations strategy, alignment is important in formulating strategies as well as in their implementation since implementation is fostered by aligning and adjusting key systems, processes, and decisions within the firm.

Strategic alignment is achieved along several aspects. Financial alignment requires that the organization's pool of monies is re-evaluated ruthlessly to ensure that more (not all) money is spent on the strategic priorities. This includes monies spent on new initiatives, existing initiatives and to run business as usual. People alignment involves skill definition, hiring, training, rewards and incentives are aligned to the strategy. Process alignment is when the organization's business processes, quality definitions and measures are aligned to the strategy. Shareholder alignment requires the Board to sign-off on the strategy as well as be aligned to support the strategy on the ongoing basis, in-spite of not having full consensus. Partner alignment touches on the organization's agents and service providers need to understand its strategy and re-orient themselves.

2.4 Organizational Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). An organizational performance includes multiple activities that help in establishing the goals of the organization and monitor the progress towards the target. It is used to make adjustments to accomplish goals more efficiently and effectively. Organization Performance is what business executives and owners are usually frustrated about. This is so because even though the employees of the company are hard-working and are busy doing their tasks, their companies are unable to achieve the planned results. Results are achieved more due to unexpected events and good fortune rather than the efforts made by the employees. However, for any business to be successful, functions must be defined and accomplished. It is important for an organization to develop strategies that should be designed around the skills that would enhance the performance of the organization.

There are a number of indicators by which company performance may be judged. The balanced scorecard offers both qualitative and quantitative measures that acknowledge the expectations of different stake holders and related an assessment of performance in choice of strategy. In this way performance is linked both to short term outputs and process management (Johnson et al. 2006). An organization measurement system strongly affects the behaviour of managers and employees. Traditional financial accounting measures can give misleading signals for the continuous improvement and innovation required by today's competitive environment demands (Kaplan and Norton, 1992).

The performance of firms in the modern business-operating environment can be judged using various parameters. The ultimate goal of a firm employing various competitive strategies is to gain an edge over its competitors hence improve performance. Performance is judged using financial and non- financial or behavioural parameters. Financial factors include state of the firm equipment or facilities, return on capital employed, production and operations costs, prices or rates of produce released to the market, volume of operations or sales i.e. market share, financial cash flow, technology, profitability, research, and development. Behavioral parameters include management style, human resources, product quality, service quality, customer care, firm's image or reputation, marketing effectiveness, technological status, location and processes or systems.

In the past firm performance was generally judged using financial parameters only. However, it has become increasingly evident that the human resources and management factors are drivers and contribute greatly to overall financial performance. Public image and responsibility to the society have also increasingly become critical factors to overall firm performance. According to Olsen (2002), many managers nowadays adopt a balanced scorecard approach to measuring performance. This position is true for all industries and the most successful firms emphasize the measures and perspectives e.g. customer satisfaction index, internal business processes, innovation and profitability.

2.5 Strategic Alignment and Organizational Performance

Strategic alignment links information systems planning with business planning. Ideally, business plan and information systems plan –either product or corporate planning function– should be linked through the direct mapping of information systems strategy to

one or more business strategies (Calhoun and Lederer 2000). Through the alignment of information systems plan and business plan, information resources will support the business goals, and reap the advantage of information systems strategic utilization. Therefore, an increase in performance can be achieved and competitive advantage will be attained, leading to the organization thriving despite many challenges. Chanet *al.* (2007p. 142) states that “Companies that appear to perform best are companies in which there is alignment between realized business strategy and realized information systems strategy”. Luftman and Brier (2009p. 121) similarly declares, “Companies that have achieved alignment can build a strategic competitive advantage that will provide them with increased visibility, efficiency, and profitability to compete in today’s changing markets”. Unfortunately, a positive correlation between strategic alignment and organizational performance tends to be diverse. Sabherwal and Chan (2001p. 21) point out that, “Empirical research on the performance implications of this alignment has been sparse and fragmented”.

Organizations which aim to achieve world-class performance must make decisions on what objectives will enable them to gain a competitive advantage or differentiate themselves (Hill, 2005). Key competitive business strategies include both achieving lower cost and adding value through differentiation (Porter, 1980). One important way in which performance may be achieved is through quality improvement. This strategy can be used both to differentiate products and services and to obtain lower costs through enhanced productivity and the elimination of waste (Thawesaengkulthai, 2007). However, one of the well-recognized pitfalls of the strategic planning process approach is related to existing dualism between formulation and implementation phases (Cicchetti,

2003). This dualism is seen as the lack of strategic role of information systems application or to a misalignment among organizational, business and information systems strategies. Consequently, organization's that fail to align strategies are more likely to fail in the implementation of the IT to deliver on strategic objectives.

Tichy (1983) noted that the strategic task of management is to keep the organization both internally and externally aligned. Externally, strategic choices are shaped by the need to align organizational resources with environmental opportunities and threats. An organization that is in close fit or alignment with various contingency factors, (size, environment, technology, resource availability) can significantly improve its' performance (Powell, 2002). Internally, ensuring a consistent fit between organizational mission and the actions, policies, and procedures of the organization and its leadership can also significantly improve organizational performance. Porter (1996) suggests that the best way for any organization to achieve a sustainable competitive advantage is to reinforce its chosen strategy with a host of "activities," including functional policies, staffing decisions, and structure. Nadler and Tushman (2007, p. 34) proposed five key areas that an organization should seek to establish and monitor where congruence or fit is critical for organizational success. They state: "the degree to which the strategy, work, people, structure, and culture are smoothly aligned will determine the organization's ability to compete and succeed". With strategic alignment, it is possible to hopefully improve performance results and gain a competitive advantage. Aligning the organization to the external environment requires forethought and taking proactive actions. Aligning employees' performance to the strategic direction requires leadership and monitoring.

Aligning different functions and resources across the organization requires integration and diplomatic handling of personalities.

In the case of horizontal alignment, some work has been conducted in linking two functional areas, such as operations management and marketing management. For instance, using data obtained from US banks, Rhee and Mehra (2006) found that strategic fit between operations and marketing was more critical in understanding organizational performance as compared to the choice of competitive strategies alone. Similarly, in an effort to examine the horizontal alignment between marketing and manufacturing, Youndt et al., (2006) examined the horizontal alignment relationships between human resources systems, manufacturing strategy, and firm performance. They found certain types of human resources systems were directly related to operational performance measures, such as employee productivity, equipment efficiency, and customer alignment. Further they found that certain competitive priorities or manufacturing strategies moderated this relationship. For example, they found that the interaction effect of a cost strategy with an administrative human resources system was positive on equipment efficiency, whereas that of a delivery flexibility strategy was positive on customer alignment. Additionally, they observed the interaction effect of a quality strategy with the human-capital enhancing HR system was positive on all three operational performance measures noted above.

Many organizations have been frustrated in their attempts to imitate competitors (Chan and Reich, 2007). This is due in part to the difficulty of imitating its competitors underlying horizontal alignment among many aspects of its strategies and operations. It is

well documented that some organizations are no-frills, low priced. Others who have tried to replicate the competitor's model have not succeeded because they were unable to achieve other horizontal components of the strategy. This includes human resources practices such as non-union workers, and a vibrant corporate culture, operational practices. While ample research exists to suggest that vertical alignment leads to higher levels of business unit performance, the empirical research to support a similar relationship between horizontal alignment and performance needs to be buttressed. Kim (2003) found that formalization improves organizational performance, as when a firm characterized by high formalization can, in fact, perform better than its competitors. Formalization enables the creation of organizational memory of best practices, which, in turn, makes knowledge use more efficient and may have a positive impact on performance, especially when it serves to collect valuable information and conveys priorities and values. On the other hand, Lin et al., (2008) found that OS (formalization and decentralization) does not play a moderating role in the relationship between innovativeness and business performance; whereas the extent of formalization of an OS negatively correlates with business performance.

A strategic alignment process matches performance measures with a business strategy. The results of a survey in 140 Australian manufacturing companies by Rhee and Mehra (2006) revealed a positive association between a company's strategic priorities (e.g. low product price or differentiation), its management control practices (e.g. use of non-financial performance measures) and its perceived organizational performance (i.e. the respondents' perception of organizational performance relative to their major competitors (Kaplan, 2005). conducted semi-structured interviews in 42 Australian manufacturing

companies to examine the impact of aligning a strategy of manufacturing flexibility and the performance measurement system on perceived organizational performance. Their study showed that an alignment had a positive effect on perceived organizational performance.

Hoque and James (2000) found that the inclusion of more non-financial performance measures in the four perspectives of the BSC was positively correlated with perceived organizational performance. Furthermore, Banker *et al.*, (2000) showed that non-financial performance measures – e.g. customer satisfaction – are drivers of future organizational performance. Non-financial performance measures are better predictors of future organizational performance than financial performance measures, because the former contain additional, forward-looking information that is not reflected in financial performance measures. This type of information helps employees to focus on the long-term performance consequences of their actions. As a result, the inclusion of more non-financial performance measures in the BSC is expected to lead to improved future organizational performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used in the research. The chapter adopted the following structure: the research design, target population, and data collection methods and data analysis method used.

3.2 Research design

The research design was a case study. A case study is an in-depth investigation of an individual, institution or phenomenon. This research design was adopted in this particular study since not all the target population of the study was knowledgeable of the effect of strategic alignment on organizational performance at the Kenya Revenue authority.

In light of this therefore, a case study design was deemed the best design to fulfill the objective of the study as only a few members of staff were knowledgeable to the research area. Further, it allowed the researcher to prop further an interviewee in case the answer to a particular question was not adequately answered at a given point since the design was a face to face interview.

3.3 Data Collection

The study made use of primary data which was collected through a face to face interview with the researcher. An interview guide was used to collect data on the effect of strategic alignment on organizational performance. The interviewees were those involved with

formulation, evaluation and implementation of the strategies and consisted of managers and functional heads in human resource, revenue departments, business development, information and communication department as well as finance.

The interview guide was made up of three sections namely; demographic information, strategic alignment process adopted by the organization and the effect of the strategic alignment process on the organization performance. It is deemed that the above interviewees were versed with the research subject area and contributed to the realization of the research objective.

3.4 Data Analysis

The data obtained from the interview guide was analyzed qualitatively. Qualitative data analysis makes general statements on how categories or themes of data are related. The qualitative analysis was adopted in this study because the researcher was able to describe, interpret and at the same time criticize the subject matter of the research since it was difficult to do so numerically. The qualitative analysis was done using content analysis.

Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the object of study. The themes (variables) that were used in the analysis were broadly classified into two: organizational strategic alignment and the role of organizational alignment on performance.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The objective of the study was to establish the effect of strategic alignment on organizational performance at Kenya Revenue Authority. This chapter presents the analysis and findings with regard to the objective and discussion of the same. The respondents comprised of the senior managers in Kenya Revenue Authority. 100% response was achieved.

4.2 Respondents Profile

This section was designed to establish the respondent's current position in the organization, the duration they had been holding the position as well as their academic qualification. From their position, duration they had held their current position the researcher was able to assess their capacity to answer questions relating to the effect of strategic alignment in the organization's performance.

In total, the researcher interviewed all the fifteen targeted respondents who comprised of the senior revenue officers, senior assistant commissioners, manager human resources, manager in information and communication technology and the manager finance. The work experience for the respondents ranged from one to six years. This means they have been in the organization long enough to understand the effect of strategic alignment on their work. All the respondents interviewed had university degrees with three of them having a Master's degree as well. With such academic and professional background the

respondents were deemed to be capable to analyze, critically identify and respond appropriately to questions on the effect of strategic alignment on performance.

4.3 Organizational strategic alignment as a strategy

This section aimed at establishing whether organizational strategic alignment as a strategy existed in Kenya Revenue Authority. The respondents noted that KRA has developed strategies that are designed to enhance performance through the four perspectives of the Balanced Score Card (BSC): the people, internal processes, and customer and revenue perspectives. The people's perspective are initiatives which includes successful implementation of KRA's capacity building initiatives, continuous recruitment of management trainees, up-scaling the facilities in Kenya Revenue Authority Training Institute, and enhancing the institutional capacity to meet integrity challenges and cascading of performance contracting to all levels of management.

Internal processes entails modernization of IT systems, allowing the customs and road transport systems to communicate seamlessly and implement the integrated tax management system (ITMS) for domestic taxes, thus ensuring that all revenue departments are fully automated. Customer perspective involves increase of service options to the taxpayers by enhancing IT services, implementing a call centre; revising and implementing the taxpayers' charter as well as carrying out taxpayer education initiatives and facilitating compliant taxpayers through the introduction of risk profiling and the authorized economic operator (AEO) scheme.

Revenue Perspective has seen KRA achieve over 707 Billion in the last financial year. This robust revenue performance, which has become a hallmark of KRA, was due to

successful initiatives to broaden the tax base, implementing taxpayer segmentation and the turnover tax (TOT) programme, reviewing audit processes, development of an enforcement strategy and deploying of additional non-intrusive enforcement tools.

The respondents indicated that there exist adequate mechanisms to harness the organizations alignment in order to realize its objectives. This has been achieved through action to improve customer service, including expanding the scope of electronic services through the integrated tax management system, increasing the number of authorized economic operators under the customs services taxpayer facilitation programme, performance approval system, revenue targets and use of BSC tools to evaluate performance, linking the customs SIMBA system to the Kenya Ports Authority KWATOS system, establishing customer service desks and achieving ISO 9001:2008 re-certification.

In order to achieve the intended objectives, an organization should ensure that there is a consistent fit between organizational mission and the actions, policies, and procedures of the organization and its leadership can also significantly improve organizational performance. In KRA, this has been achieved through rolling out Simba System to remote stations, integrating KWATOS and KRA systems for data exchange eases, computerization of cash receipting through the computerized cash receipting system (CCRS), linking the vehicle management system (VMS) and Simba System allowing for payment of motor vehicle registration fees with import duty. The integration process enabled vehicle importers to seamlessly pay for the registration along with other relevant customs duties online through the Simba System. The vehicle management system was also integrated with the PIN database to allow for verification of the PIN numbers for

RTD transactions, VMS was also integrated with cash receipting system (CRS) to facilitate online calculation and payment of taxes and the implementation of FOSS enterprise resource planning (ERP) system which will merge the support administrative functions to enable efficiency, effectiveness and transparency.

Alignment of both organizational strategy and information strategy is important in formulating strategies as well as in their implementation. Implementation is fostered by aligning and adjusting key systems, processes, and decisions within the firm. The respondents observed that the Kenya Revenue Authority has been able to meet its targets through a strategy which drives both organizational strategy and information strategy as this will ensure that there is transparency, efficiency and effectiveness in revenue collection. Revenue mobilization initiatives included: implementation of Phase II of electronic cargo tracking system, acquisition of additional scanner, adoption of KRA block management system (BMS), implementation of the authorized economic operator (AEO) concept, and implementation of phase I of valuation system. In terms of implementation of the Enforcement Strategy, KRA implemented the revenue administrations digital data exchange, and a digital forensic laboratory was established. Business keepers monitoring system (BKMS) was introduced as a web-based whistleblower for reporting corruption.

The performance of the Kenya Revenue Authority requires resources which have been hard to come although the Kenya Revenue Authority has negotiated with various governments and donors, while the allocation from the government has not been enough to meet its needs and this poses an extremely serious risk to its ability to continue to carry out its mandate. The Kenya Revenue Authority deployed all the resources appropriately

as they have a strong finance department and internal audit function that acts as oversight.

A strength, weakness, opportunities and threats (SWOT) analysis of Kenya Revenue Authority allows one to find the best match between environmental its trends (opportunities and threats) and internal capabilities (strengths and weaknesses). An assessment of strengths and weaknesses occurs as a part of organizational analysis of Kenya Revenue Authority; that is, it is an audit of the organization's internal workings, which are relatively easier to control than outside factors.

Alignment of the organization's resources with its objectives resulted into opportunities which provide the Kenya Revenue Authority with a chance to improve its performance and its competitive advantage. Opportunities are also the operational potentials that the Kenya Revenue Authority can take advantage of in order to enhance its ability to meet the corporate objectives and goals. They include great potential in attracting highly qualified staff with improved terms of service, the Kenya Revenue Authority embracing modern technology and research which are recognized in enhancing revenue collection both locally and internationally, growing informal sector and the Kenya Revenue Authority's introduction of the turnover tax (TOT) regime provides the opportunity to penetrate the informal sector which will provide the bulk of new employment opportunities over the plan period and globalization which creates a wider market and greater opportunity for profitable businesses and hence an opportunity for KRA. On the other hand the threats which can be individual, group, or organization outside KRA that aim to reduce the level of the Kenya Revenue Authority's performance. These include other state corporations and the private sector that are attracting high calibre staff because

of freedom to adjust their remuneration packages in line with the market, influx of counterfeit goods and uncompetitive business structures and practices, poor infrastructure, cumbersome administrative and legislative regime, as well as insecurity in the country, Under-funding leading to inadequate budgetary allocation to enable Kenya Revenue Authority implement all the planned programmes, vulnerability of socio-political changes and political patronage.

On whether strategic alignment was considered during strategy implementation, the respondents were unanimous that it was considered as it is a way of implementing specific firm policies, programs, and action plans across the organization. Effective strategy implementation and execution relies on maintaining a balance between preventing failures and promoting success simultaneously. When there is a proper alignment between strategy, administrative mechanisms and organizational capabilities, it will be easier to implement and execute the strategy and to achieve the desired objectives. Alignment requires a shared understanding of organizational goals and objectives by managers at various levels and within various units of the organizational hierarchy. In KRA, internal alignment through shared understanding of organizational goals and objectives by managers has been achieved through involvement of middle and senior managers in planning for budgeting, various departmental and top management conferences, through sensitization, seminars and training and monthly meetings in the various sections.

Externally, strategic choices are shaped by the need to align organizational resources with environmental opportunities and threats. An organization that is in close fit or alignment with various contingency factors, (size, environment, technology, resource availability)

can significantly improve its' performance. The respondents indicated that KRA been able to align its strategies to external opportunities arising from the work environment by minimizing customer compliance costs and enhancing customer service, Deliver focused education, outreach and alternative services directly and through stakeholder relationship, Strict adherence to taxpayers charter timelines and provision of tools to ensure accurate, timely and accessible responses to tax law and account issues and inquiries, facilitate participation in the tax system by all Kenyans and simplifying the tax process. External alignment measures that have affected the organization's internal alignment measures include the implementation of the new constitution, the changing of macro and microelectronic environment, customer demands, training of staff in customer care services, formation of the call centre to address tax payer enquiries, recruiting commissioners from private sector, KRA adherence to legal, political and macroeconomic factors like the new constitution, vision 2030 have all caused KRA's internal strategies to be re aligned.

4.4 Role of strategic alignment on organizational performance

This section of the interview guide aimed at determining from the respondents the role of strategic alignment on KRA performance. On this area, strategic alignment in KRA has helped in strategic planning process and achievement of business goals through modernizing IT systems for improved service and enforcement; improving IT and information security in Kenya Revenue Authority; implementation of best human resource practices; a comprehensive recruitment and retention strategy to reduce staff turnover by five per cent; reviewing salaries and benefits to match the market rates; modernizing and improving business processes and infrastructure, improving service

options to taxpayers, facilitating participation by all sectors and simplification of the tax process, broadening the tax base, improving compliance, improve enforcement and deter tax and financial abuse, improve debt and refund management and tax exempt facilities, encourage professional ethics and standards and improve expenditures and programme funding.

Firms that have set explicit goals to deliver service excellence, supported by explicit systems, policies and procedures which reinforce the achieving of such goals will be more effective and profitable than operations with low alignment. Various systems, policies and procedures focused on the same goals will reinforce one another, thereby reducing the possibility of wasted effort and resources in exceeding customer expectations and gaining their loyalty. In KRA, the fit between organizational mission and the actions, policies, and procedures of the organization and its leadership improved performance through business process improvement, exploring other initiatives to simplify business processes to reduce customer compliance costs, rolling over uncompleted revenue mobilization initiatives, discouraging and deterring non-compliance, implementing the enforcement strategy, institutionalizing a fully functional structure that included integrated recruitment, audit and debt functions, creation of regional commissioners.

Strategic alignment process has enabled the organization to removes duplication, provides for a single point of access for taxpayer enquiries, common registration function, unique identification numbers for each taxpayer, a single accounting framework, enforcement and audit across taxes, dedicated information processing

operations, common support functions, KRA delivering on its mandate, transforming its public image, and being regarded as a high performing public sector parastatal. The respondents noted that the organization's systems alignment has affected operational performance measures, such as employee productivity, equipment efficiency, and customer alignment as it has led to increased employee productivity, accountability and commitment due to more equipment utilization and customer focus, time management and improved demand driven process, and employee contribution to customer, revenue, internal process and people perspectives.

Change in performance measures within the organization improved alignment process as it resulted in review of regulations, procedures, charters, and internal guidelines to align them with the leadership and integrity Act and ISO requirements, Utilization of the performance contracting, reward and recognition regulations to promote and reward professionalism, moving towards a more customer-oriented model where staff competencies support timely customer focused processes and services that minimize the administrative burden on taxpayers, design and implementation of succession plan strategy focusing on tapping and cascading knowledge of retiring officers, Adopt contemporary anti-corruption measures such as periodic vetting of staff, lifestyle audits using provisions of the tax laws, developing and implementing an intellectual property (IP) policy to guide management and staff concerning the development, ownership, management and marketing intellectual property emanating from the organization, developing a comprehensive change management and communication strategy for Kenya Revenue Authority, examination of wealth declarations and taxing

unaccounted for income, and developing a measurement of the effectiveness of KRA's leadership at all levels through carrying out a situation analysis.

4.5 Discussion

The level of tax collected by Kenya Revenue Authority has been on an upward trend as it has increased from 189 billion in the year 2000/01 to 707 billion in 2011/12. This can be attributed to review of low turn-over tax compliance policy in order to achieve the intended objectives and consequently attain higher compliance levels and establishment of the MTO offices which gives KRA an opportunity to penetrate the informal sector and exploit revenue potential among the medium taxpayers, respectively, modernize, maintain and integrate ICT systems, review of the KRA organizational structure to an elaborate organizational structure, Upgrading the work environment to enhance staff morale, efficiency and effectiveness, Improving customer service by benchmarking service delivery standards, Implementing a legal strategy to reduce backlogs in courts and minimize revenue loss through litigation, and implementing strategy for taxation of mining sector.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study established that Kenya Revenue Authority has developed strategies that are geared towards performance enhancement through major strategic alignment initiatives implemented by Kenya Revenue Authority. KRA has built its corporate planning around four perspectives of the Balanced Score Card (BSC): the People, Internal Processes, Customer and Revenue Perspectives. During the current plan period KRA has set for itself six strategic goals. These are: Developing a professional team that is well remunerated, Creation of an enabling work environment, Full automation of the Kenya Revenue Authority and ensuring that KRA Information, Technology (IT) is fully integrated allowing for a single view of the taxpayer and full utilization of IT to promote compliance, Completion of the transition to a fully functional organization, Minimizing customer compliance costs and enhancing customer service, Achieving revenue targets by rolling over completed revenue mobilization initiatives, whilst pursuing new revenue and compliance initiatives to maturity.

Achieving these strategic goals has allowed KRA to accelerate its reform and modernization agenda which underpinned its Revenue Administration Reform and Modernization Programme (RARMP). The RARMP envisioned a fully automated Authority, organized along functional lines, responsive to the needs of the customers, efficient and effective and thus achieving revenue mobilization targets at least cost. The People Perspective initiatives included successful implementation of KRA's capacity

building initiatives, continuous recruitment of management trainees and up-scaling the facilities in KRATI.

Internal processes perspective has been successful through the modernizing of IT systems, allowing the Customs and Road Transport systems to communicate seamlessly and implementing the Integrated Tax Management System (ITMS) for Domestic Taxes, thus ensuring that all revenue departments are fully automated. KRA was also able to modernize its business processes, review the functional structure of several departments and achieve ISO 9001:2008 certification. In the Customer Perspective, KRA was able to increase service options to the taxpayers by enhancing IT services, implementing a call centre; revising and implementing the Taxpayers Charter as well as carrying out taxpayer education initiatives. KRA has also been able to further facilitate compliant taxpayers through the introduction of risk profiling and the Authorized Economic Operator (AEO) scheme.

The study further established that KRA had achieved a robust revenue performance, which has become a hallmark of KRA. Kenya Revenue Authority has had revenue collection increase from 189 billion in the year 2000/01 to 707 billion in the year 2011/12. This was due to successful initiatives to broaden the tax base, implementing taxpayer segmentation and the Turnover Tax (TOT) programme, reviewing audit processes, development of an enforcement strategy and deploying of additional non-intrusive enforcement tools. Other strategic alignment initiatives by KRA include Common Cash Receipting System implemented to harmonize tax payment procedures across Kenya Revenue Authority. By harmonizing tax payment procedures, KRA intends to achieve a single view of the taxpayer and make payment of taxes less burdensome on

the taxpayer. Further, the Internal Audit and Risk Management (IA&RM) Project has seen the enhancement of the operations of Internal Audit & Risk Management department within Kenya Revenue Authority

RARMP Governance Structure is a critical success factor for the Revenue Administration Reform and Modernisation Programme. KRA's strong administrative structure creates accountability and responsibility for initiatives being implemented. In conclusion Kenya Revenue Authority implemented key projects to include: Customs Reforms & Modernisation, Domestic Taxes Reform & Modernisation and Road Transport Reform & Modernisation Projects.

5.2 Conclusion

The study established that Kenya Revenue Authority has aligned its internal and external strategies and this has resulted in increased total revenue collection from 189 billion in the year 2000/01 to 707 billion in 2011/12. The alignment of internal strategies has seen Kenya Revenue Authority roll out Simba System to remote stations, integrated KWATOS and KRA systems for data exchange eases, computerization of cash receipting through the computerized of all its operations to rid out corruption and increase efficiency and flexibility. Alignment of external strategies by Kenya Revenue Authority has enabled it to simplify tax process which ensures that it improves its tax collection, and improves its strategic planning process. The study showed that Kenya Revenue Authority is faced by various challenges and threats like implementation of the new constitution, the changing of macro and microelectronic environment, customs demand, training of staff in customer care service, formation of the call centre to address tax payer matters,

recruiting commissioners from private sector, KRA adherence to legal, political and macroeconomic factors like the new constitution, and vision 2030.

5.3 Recommendation for the Study

The findings from the study indicate that treasury does not allocate sufficient resources which will enable it to undertake various tasks which will enhance their revenue collection. It is recommended that Kenya Revenue Authority being the only institution tasked with the collection of taxes should be allocated sufficient resources do that they can implement various tasks which are geared towards improving revenue collection.

5.4 Limitations of the study

The findings of the study indicated that Kenya Revenue Authority is faced by challenges emanating from the operating environment like non-compliance with payment of taxes and it is recommended that Kenya Revenue Authority should liaise with various institutions so that they can enforce compliance while at the same time seeking experts opinion on how to comply faster with the new constitution, and vision 2030.

5.5 Suggestions for further Research

The study confined itself to the Kenya Revenue Authority. This research therefore should be replicated in other Authorities in order to establish whether there is consistency among the Government authorities on the effect of strategic alignment on organizational performance.

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