

**STRATEGIC RESPONSES BY KENYA REVENUE AUTHORITY TO CHALLENGES  
OF GLOBALIZATION**

**BY**

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## **DECLARATION**

I hereby declare that the work contained in this project is my original work and has not been previously, in its entirety or in part, been presented at any other university for a degree requisite. All the references cited in the text have been duly acknowledged.

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## **SUPERVISOR'S DECLARATION**

This project has been presented with my approval as the supervisor of the student and the University Of Nairobi, School of Business

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## **DEDICATION**

I dedicate this work to my family for their understanding and support during the study period.

## **ACKNOWLEDGEMENT**

First of all, I would wish to thank my parents, my Husband Njagi, daughter Kendi sons Muthuri and Murithi and my colleagues for their support, encouragement and for their understanding when I was not there for them during the project period; I wouldn't have made it this far without them.

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## **ABSTRACT**

Keeping in view the numerous potential benefits of globalization, the persistence of the movement of globalization seems to be better than the absence of globalization. However, the ever-growing confrontation of the global masses with the contemporary movement of globalization is threatening the very future of the western capitalist movement of globalization. Recent global happenings such as the economic recession in the West have had serious implications on the local industries and investors too. Globalization has brought with it challenges that have made the local firms in Kenya to devise means of staying competitive not only in the global market but also in the local market. Globalization is creating numerous opportunities for sharing knowledge, technology, social values, and behavioural norms and promoting development at different levels including individuals, organizations, communities, and societies across different countries and cultures. Globalization has also been of concern to KRA as it looks for ways of improving efficiency for better service delivery to its clients and stakeholders, and to continue meeting its goals and objectives.

The purpose of this study was to determine the challenges of globalization facing Kenya Revenue Authority custom department and to establish the strategic responses by KRA to challenges of globalization. This was a case study since the unit of analysis is one organisation. Self-administered interview guides were distributed among sampled employees currently employed by the Kenya Revenue Authority on a face to face basis. Secondary data sources were also employed through the use of previous documents. Being a case study, content analysis was most useful in analyzing the data.

Based on the study findings, the study concludes that in the modern world of globalization, KRA has been able to keep pace with the global nature of its operations by maintaining a match between its strategy and the environment through revision of its strategies to match the turbulence to ensure success despite the globalization challenge. KRA responds to the challenges of globalization by training and development, research and development, having geographically diverse operations and the human resource management strategies. The study recommends that although KRA has been successful in neutralizing the challenges brought about by globalization, KRA should engage in more cost reduction in relation to the regions rate.

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## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

A strategy is a company's game plan' (Pearce & Robinson, 2007). Strategy concerns what a firm is doing in order to gain a sustainable competitive advantage (Porter, 1980). The principal concern of corporate strategy is identifying the business areas in which a company should participate in to maximize its long run profitability.

Johnson and Scholes (2002) view strategy as the direction and scope of an organization over the long term, which achieves advantage for the organization through its configuration of resources within a changing environment, to meet the needs of markets and fulfil stakeholders' expectations. Strategy comprises actions employed to meet a firm's long-term objectives. Pearce and Robinson (2007) have recommended three critical ingredients for the success of strategy. These are; strategy must be consistent with conditions in the competitive environment; it must take advantage of existing and emerging opportunities and minimize the impact of major threats; and strategy must place realistic requirements on the firm's resources.

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies. Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose.

#### **1.1.1 Strategic Response**

Strategic response is the reaction of a firm or an organisation to environmental changes/turbulence i.e. machinery of the resources and activities of an organization to the environment in which it operates. They can be viewed as the matching of activities of an organisation to the environment in which it operates. When firms are faced with unfamiliar changes they should revise their strategies to match the turbulence (Ansoff and MC Donnel, 1990). Strategic responses affect the long-term direction of an organisation and require commitments and resources both human and financial. According to Pearce and Robinson (1991)



strategic responses is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objective. It is thus a reaction to what is happening in the environment of the organization. It is through strategic responses that a firm is able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment.

Strategic responses adopted by companies reflect the firm's internal strengths and the opportunities faced in the external environment. Strategy will also consider how best to deal with internal weakness and avoid external threats. Hill and Jones (2001) noted that internal new venturing is a strategy employed when a company has a set of valuable competencies in its existing business that can be leveraged to enter a new business area. Science based companies use their technology to create market opportunities in related areas mainly through internal new venturing. A firm can also use this strategy to enter and compete in a new business area or an emerging market where there are no established players.

### **1.1.2 Globalization**

Globalization is the integration of economies throughout the world by means of trade, financial and technological flows, the exchange of technology and information and the movement of people, goods and services (Thompson and Strickland, 1993). According to Johnson and Scholes, (2002) globalization refers to the strategy of approaching worldwide markets with standardized products. Globalization is multi-faceted with dimension of economic, political-legal, social-cultural and environmental. It refers to the strategy of approaching worldwide markets with standardized products.

The concept of globalization has only recently (20th Century) been popularized through the spread of multi-national enterprises. The roots of globalization however, date back to the 16th century when European nations struggled to establish empires worldwide. The Dutch and the British East India companies were perhaps among the earliest Multi National Enterprises, (Wagner, 2001).

In late 18th century many European firms went global by setting up manufacturing facilities in their colonies to extract raw materials. In mid 19th Century, many US firms began to globalize

by setting up business plants in various parts of the world, (Wagner, 2001). Firms that operate principally in the domestic environment have an important decision to make with regard to their globalization. The options available are either be proactive by entering global markets in advance of other firms and thereby enjoy the first-mover advantages often accruing to risk taker firms that introduce new products or services or be reactive by taking more conservative approach and following other companies into global markets once customer demand has been proven and the high costs of new product or service introduction have been absorbed by competitors.

Although the issues above are determined by specifics of the company and the context, the following can be a guideline; additional resources, lowered costs, incentives from host government or the home, access to new and growing markets, exploitation of the firm's advantages in technologies, differing corporate rates and tax systems in different, image of being international may increase a company's power and prestige and improve its domestic sales and relations with various stakeholder groups and going global can be driven by the need for offence strategy in competitors' home markets which can put pressure on the competitors to pull-back.

A fully global strategy entails: standardized product that is the same in all countries of the company's operation, centralized control; there is little decision making authority on the local level and advantages of cost, coordinated activities, faster product development. Modern day companies have to compete against those in international markets or be threatened by them in their domestic markets. Porter (1990) refers to this as competitive advantage or international competitiveness.

### **1.1.3 Globalization and Strategic Responses**

Challenges come from foreign competitors entering firms' domestic markets, and from domestic competitors reducing their costs through global sourcing, moving production offshore or gaining economies of scale by expanding into new markets. Globalization challenges firms to become more streamlined and efficient while simultaneously extending the geographic reach of their operations. Companies aspiring to meet the challenges of today's rapidly changing markets and increasing global competition require management decisions to be founded on well conceived strategies and plans that are vital if the firm is to achieve its objectives while optimizing the use of its limited resources. Intense global competition has forced many firms to examine their core

business processes and to devise plans to respond to an increasingly competitive market place. Many companies have had to critically assess their key competencies and develop strategies to compete effectively in a global economy (Bradley ET all, 2003). At the forefront of these efforts have been attempts to improve flexibility and quality, stimulate innovation, and reduce lead times, while simultaneously keeping costs down.

It is important to note that the advancements of science as well as technology and the consequent expansion of the market mechanism have been the real forces behind the movement of globalization. Of course, the expansion of globalization has been taking place in all directions. However, the economic dimension has been playing a central role in the process of globalization.

Responses to globalization require organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy. If an organization's strategy is not matched to its environment, then a strategy gap arises. If its internal capabilities are not matched to its strategy, then a capability gap arises. Porter (1990) affirms that it is important that organizations be able to shift strategy with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant.

Underlying responses to global competition has been the recognition of the role of product and process improvement in business strategy. Throughout the 1990s, firms examined and, in many cases, changed their quality focus. Instead of relying on inspecting quality into products, they emphasized improving product and process design, implementing process control, and continually improving processes (Burns and Scapens, 2000).

Firms in dynamic industries respond to environmental changes and competitive forces in different ways. Some improve current products, diversify and divest, while others employ techniques that ensure operational effectiveness. In order to achieve a competitive advantage, strategy needs to focus on unique activities. Operational effectiveness is necessary but not sufficient for achieving a sustainable competitive advantage (Porter, 1990). Changes in environmental conditions shape a firm's opportunities and challenges. A new environment necessitates the formulation of new strategy best suited to cope with change. According to Ansoff (1988) turbulent environments are characterized by unfamiliar rapid and unpredictable events.

Total quality management became a major element in corporate strategy (Calvo and Reinhart, 2002). Indeed significant numbers of large firms adopted quality programs during the 1990s (Craig and Douglas, 2000) though with mixed results. Quality improvement is but one-way for an organization to improve its competitiveness. Even in the absence of competition, improvements in quality can facilitate an organization's competitiveness, though as witnessed over the last decade, competition has for many organizations been the driver of quality improvement efforts. Commercial openings and economic activities resulting from globalization have introduced new competitive strategies among organizations.

#### **1.1.4 Kenya Revenue Authority**

Kenya Revenue Authority is a Government agency charged with a responsibility of the tax collection. The Kenya Revenue Authority was established by an Act of Parliament on July 1st 1995 Cap. 469 for the purpose of enhancing the mobilisation of Government revenue, while providing effective tax administration and sustainability in revenue collection. The Board and Management of KRA have since its inception spent time and resources setting up systems, procedures and the adoption of new strategies aimed at enhancing the operational efficiency of the Authority's processes.

The role of Kenya Revenue Authority (KRA) is to assess, collect, administer and enforce laws on taxes. It is divided into five regions i.e. Rift Valley, Western, Southern, Northern and Central Region. For revenue collections and other support functions the authority is divided into four departments namely Customs services, Domestic Taxes, Road Transport and support services.

It collects a number of taxes and duties, including: value added tax, income tax and customs. Since KRA's inception, revenue collection has increased dramatically, enabling the government to provide much needed services to its citizenry like free primary education and HIV treatment to all. Over 90% of annual national budget funding comes from local taxes collected by the KRA.

In particular, the functions of the Authority are: to assess, collect and account for all revenues in accordance with the written laws and the specified provisions of the written laws, to advise on matters relating to the administration of, and collection of revenue under the written laws or the

specified provisions of the written laws and to perform such other functions in relation to revenue as the Minister may direct

KRA vision is to be the leading Revenue Authority in the world respected for professionalism, integrity and fairness. It is charged with a mission to promote compliance with Kenya's tax, trade and border legislation and regulation by promoting the standards set out in the Taxpayers Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well being of Kenyans.

Kenya Revenue Authority has comparative and competitive advantage in skill drive service supply on account of her strategic location and relatively well developed human resource base, and being the only major government agent of revenue collection. The growth and development of the authority has however been hampered with challenges some of which include Government policies and regulations, restricting market access in areas of interest to KRA, treatments that give priority to nationals in service delivery. Less developed basic ICT infrastructure, low internet penetration and inadequate expertise in ICT and global financial crisis from other countries are some of the challenges that are faced by KRA in the globalized world

## **1.2 Statement of the Problem**

Keeping in view the numerous potential benefits of globalization, the persistence of the movement of globalization seems to be better than the absence of globalization. However, the ever-growing confrontation of the global masses with the contemporary movement of globalization is threatening the very future of the western capitalist movement of globalization.

Recent global happenings such as the economic recession in the West have had serious implications on the local industries and investors too, (Waters, 1995). Globalization has brought with it challenges that have made the local firms in Kenya to devise means of staying competitive not only in the global market but also in the local market. Globalization is creating numerous opportunities for sharing knowledge, technology, social values, and behavioural norms and promoting development at different levels including individuals, organizations, communities, and societies across different countries and cultures, (Brown, 1999; Waters, 1995).

Globalization has also been of concern to KRA as it looks for ways of improving efficiency for better service delivery to its clients and stakeholders, and to continue meeting its goals and objectives. KRA realizes that the challenges of globalization at this time is greater than in the past due to the increased advancements in technology that has increasingly forced service firms to face the effects of globalizing world.

Technical advancements such as internet, electronic banking, and improved communications have presented new challenge, through internet; it is possible for one to place an order for goods from one corner of the globe and they are delivered to the door step. Services such professional advices and consultations are carried out through internet, which is a major loophole for tax evasion and avoidance. Despite all this the Kenya Revenue authority is required to assess and collect their right amount of taxes without causing delays or unnecessarily increasing the cost for importation or exportation. The growth of Trans-continental trade requires that tax administration across the globe work in partnership to exchange information and built capacity to facilitate international trade and therefore KRA is expected to uphold the standards in line with the regional and international Tax administration.

The global financial crises whose effects are yet to fully felt, but which has already led to a depreciation of the Kenyan currency, declining diaspora remittance, weakening export and tourism performance and reduction of Overseas Development Assistant and Foreign Direct Investment (FDI) has direct negative impact on performance of businesses in Kenya and direct impact on revenue collection. Due to globalization, KRA has been forced to diversify its services, to innovate new methods of serving the customers, to form alliance with professional bodies and other Revenues authorities of the world. All this is aimed to enhance tax compliance, broaden the tax base, optimise tax collection and seal off any unexplored loophole that foreign competitors may come to exploit to avoid or evade taxes. The revenues collected on vehicles, machinery, fuel and electricity which is major expenses could be enormous if the situation of KRA is improved. Improving its performance through optimising inputs, Streamlining market channels and improving infrastructure could also reduce the challenges facing KRA. These efforts may however, lead to more tax being collected. The preferred solution therefore still lies in responding strategically to the challenges of globalization, (Hannah, 2007).

A few studies have been done on globalization which include; challenges of globalization and their impact on Kenya Airways, (Gichira, 2007), implications of globalization on private hire vehicle companies in Nairobi (Hannah, 2007) and strategic responses to globalization by foreign commercial banks in Kenya, a case of Barclays Bank (Mwasho, 2007). These studies focused on globalization and its impacts on other organizations. Studies done in reference to KRA include the influence of change on revenue collection by KRA, (Mwambingu, 2002), management perception of social responsibility at KRA, (Korir, 2006) and application of the balanced scorecard in implementation of strategy at KRA (Kamau, 2006). To the researcher's understanding, no study has been done to investigate the strategic responses to challenges of globalization by the state parastatals in Kenya with the main focus on KRA. It is in this light that this study seeks to fill the existing gap by carrying out a research on strategic responses to challenges of globalization by Kenya Revenue Authority custom department.

### **1.3 Objectives of the Study**

The objectives of the study were:

- i) To determine the challenges of globalization facing Kenya Revenue Authority.
- ii) To establish the strategic responses by KRA to challenges of globalization.

### **1.4 Importance of the Study**

The findings of the study are important to Kenya Revenue Authority, as it may be able to assess whether the strategies it has adopted have been beneficial to the organisation as far as globalization is concerned.

The results of this study are also invaluable to researchers and scholars, as it will form a basis for further research. The students and academics may use this study as a basis for discussions on globalization.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter deals with the available literature that has been reviewed for the study. The literature is mainly on the strategic responses to the effects of globalization. The chapter is hence structured into concept of globalization, challenges of globalization and strategic responses to the challenges of globalization.

#### **2.1.1 Concept of Globalization**

Globalization of the world economy is the integration of economies throughout the world through trade, financial flows, the exchange of technology and information and the movement of people. Different companies have moved into globalization for different economical, technological, socio-technological, political and market significations. Levitt (1983), the founding father of globalization, described globalization as a standardized market for the globe with no boundaries between regions and nations. At the time Levitt released his definition, it was the beginning of the new era in trade, openness, and knowledge mobilization across the globe. At that juncture, the economy was virtually described as a commodity economy before its transformation into a digital economy a decade later, then at long last its transubstantiation into a knowledge economy. This dramatic revolution from the tangibility to the intangibility of the economy calls for the amendment of Levitt's vision to cope with the twenty-first century's speedy convergence of globalization, knowledge, and technology.

Globalization introduces enormous opportunities to the developed world, but greater challenges to developing countries. The effectiveness of developing countries in business decisions depends on the availability and the speed of relevant knowledge. However, the developing world is already suffering the digital divide, and consequently information gaps. Paradoxically, even within the developed world, many multinational enterprises restrict their knowledge to certain areas such as offshore manufacturing and product design, while localizing the most knowledge-demanding entity, i.e. the management. This may result in a cultural collision either between the branches of the same company or between the company and its customers and/or allies. In globalization, the scope of thinking must extend beyond the localized environment to global dimensions. Hence, there is a drastic need for new global knowledge governance strategies to



handle such relations. Kidd (2001) stated that enterprises should become cultural literate to improve their understanding of exchanging or brokering knowledge between peers within the firm, or through linking with individuals in other firms.

The level of knowledge within the multinational and the level of knowledge exchange between the company and its allies or customers shape its global strategy. This in turn determines the degree of globalization to be pursued. It is noteworthy that this knowledge results from intermingled activities such as social networking, inter- and intra-organization communication, sharing, research and development, and innovation, (McKenna, 2000).

Globalization altered many organization's conventional processes and procedures due to mobilization of knowledge through itinerant agents augmented by avant-garde ICT channels. The resultant knowledge spans across multinationals and commit bidirectional transmutation due to different cultures and heritages of knowledge nurturing. This is where the domestic knowledge (intra-organization) mutually interrelates with the exotic knowledge (inter-organization) to beget a completely new knowledge that differs from both domestic and exotic knowledge. This new knowledge is a true innovation and may cause a paradigm shift that looked-for in globalization, (Mussa, 2000).

In globalization, new knowledge can be fetched from business alliances, partners, customers, competitors, products, and various channels of distribution. Inkpen (1998) concluded that in bringing together firms with different skills and knowledge bases, alliances create unique learning opportunities for the partner firms. By definition, alliances involve a sharing of resources. However, Kasul and Motwani (1995) warned that the deployment of effective global strategy is not trouble-free. The authors argued that the principal issues of globalizing organizations are transferring of knowledge, autonomy, integration, and responsiveness. Nevertheless, the relationship between globalization and knowledge is recursive, as stated by Lau et al. (2005) that globalization and growth resulted in new business opportunities to utilize the widely dispersed firms experience and expertise.

The term globalization has only become commonplace in the last two decades, and academic commentators who employed the term as late as the 1970s accurately recognized the novelty of doing so (Modelski, 1972). At least since the advent of industrial capitalism, however,

intellectual discourse has been replete with allusions to phenomena strikingly akin to those that have garnered the attention of recent theorists of globalization. Nineteenth and twentieth-century philosophy, literature, and social commentary include numerous references to an inchoate yet widely shared awareness that experiences of distance and space are inevitably transformed by the emergence of high-speed forms of transportation (for example, rail and air travel) and communication (the telegraph or telephone) that dramatically heighten possibilities for human interaction across existing geographical and political divides (Harvey, 1989). Long before the introduction of the term globalization into recent popular and scholarly debate, the appearance of novel high-speed forms of social activity generated extensive commentary about the compression of space.

## **2.2 Effects of Globalization**

Rapid globalization is the one of the most salient aspects of the new millennium, particularly since the fast development of information technology (IT) in the last two decades. To different observers, different types of globalization can be identified even though most of the attention is in the areas of economy, technology, and culture. According to Cheng (2000), there should be multiple globalizations, including technological globalization, economic globalization, social globalization, political globalization, cultural globalization, and learning globalization in the new millennium.

Globalization has brought with it effects that have made KRA to devise means of staying competitive not only in the global market but also in the local market. KRA has been forced to diversify its service delivery to increase revenue collection, broaden tax base and to seal off any unexplored loophole within the regulation that foreign competitors may come to exploit to evade and avoid tax. Globalization is also creating numerous opportunities for sharing knowledge, technology, social values, and behavioural norms and promoting development at different levels including individuals, organizations, communities, and societies across different countries and cultures. This has happened to KRA, where by there is interaction with other Revenues authorities in the world, other services industries Government bodies, and other national of the world. This facilitates exchange of ideas and technology. Even though globalization seems to be unavoidable to many countries and numerous initiatives and efforts have been made to adapt to it

with aims at taking the opportunities created from it to develop their societies and people, in recent years there also have been increasing international concerns about the dangerous impacts of globalization on indigenous and national development. Various social movements have been initiated against the threats of globalization, particularly on developing countries (Cheng, 2000)

It is reasonable, to differentiate between the effects of real and financial globalization on inflation. Real globalization in the sense of an increase in international trade or openness affects inflation, as has been discussed in recent years. The recent literature has identified openness as one of the countervailing forces that lessen the incentive to inflate. The argument which is originally due to Romer (1993) is that, the more open the economy, the smaller the real benefits of higher output from surprise monetary expansion, and thus the lower the equilibrium rate of inflation. As domestic output increases, the terms of trade worsen: the more open the economy, the larger the fraction of foreign goods in domestic consumption, and the greater the welfare loss from the terms of trade loss. In short, more open economies may be blessed with a lower incentive to inflate.

Financial globalization in the sense of an increase in cross-border capital flows (portfolio investment as well as foreign direct investment) implies that the above explained locational competition between countries or regions gains in importance. Theoretical and empirical research has shown that (high) inflation is an undesirable locational factor and a locational disadvantage in a globalised world (Wagner, 2002). Inflation is regarded as a signal of bad policy and political and economic instability (Rogoff and Reinhart, 2003). As bad policy and political and economic instability are relevant locational factors or disadvantages, this contributes to capital flight in a globalised economy. The costs of a capital drain stem from the fact that investors and (productive) mobile factors are the basis of economic growth. When firms and mobile capital leave the country (or region), this means a loss of (potential) production, a decrease in the (potential) output, an increase in unemployment and a decrease in productivity (particularly if, as is often the case, the most productive factors and the most innovative investors are the most mobile ones). This tendency for capital flight in the case of bad locational factors (such as high inflation) is stronger, the higher the integration and globalization of the financial markets is (Wagner and Berger, 2003). By contrast, the host country (recipient) profits from attracting foreign mobile capital. It profits from technology transfer, because foreign direct

investment (FDI) allows the labour force in the host country to become better trained, and from profits and tax revenues.

Inflation, however, works like taxation. The real effective capital income tax rate rises as inflation increases (Feldstein, 1997). The effects on capital income taxes are a main mechanism by which the tax system becomes non-neutral to inflation. Therefore, governments, unless they are very myopic, when deciding about structural priorities, will consider the costs of a capital drain and of not being able to attract foreign capital which functions as a source of financing investments and economic growth.

Intense global competition has forced many firms to examine their core business processes and to devise plans to respond to an increasingly competitive market place. Several factors have come together to cause this increase in competition. Foremost amongst these have been the shortening of product life cycles, rapidly changing demand patterns, the increasing presence of Japanese and European producers, and the emergence of producers from countries of the Pacific Basin as significant players in world markets. These forces have forced North American companies to critically assess their key competencies and to develop strategies to compete effectively in a global economy. At the forefront of these efforts have been attempts to improve flexibility and quality, stimulate innovation, and reduce lead times, while simultaneously keeping costs down, (Cheng, 2000).

Underlying responses to global competition has been the recognition of the role of product and process improvement in business strategy. Throughout the 1990s, firms examined and, in many cases, changed their quality focus. Instead of relying on inspecting quality into products, they emphasized improving product and process design, implementing process control, and continually improving processes. Total quality management became a major element in corporate strategy. Indeed significant numbers of large firms adopted quality programs during the 1990s (Hill and Jones, 2001) though with mixed results.

Globalization – and the accompanying market deregulation and liberalization process – increasingly exposes private agents and governments to international competition on different levels or fields. In the private sector (on a microeconomic level), global economic integration leads to lower price markups and lower excess wage on all markets. The disciplining effect of

global financial markets applies to the private sector, by making it more difficult to sustain unwarranted price markups and nonproductively driven wage increases (Citrin and Fischer, 2000). This effect of globalization, however, will tend to result in one-time downward shifts in the price level rather than ongoing restraints on the rate of inflation.

In the state sector (on a macroeconomic level), global economic integration leads to new, fiercer competition on the world market as new countries (competitors) enter the global market. The increased openness to trade and capital flows, based on liberalization and deregulation, particularly on the financial markets, and increases the locational or infrastructural competition between regions and countries. This in turn forces governments to reduce inefficiencies, and, as a consequence of this, inflation may be reduced (see in more detail, Wagner, 2000, 2001, 2002a; Stanley Fischer (from IMF) also argued that an aspect of globalization that is likely to have a long-lasting influence on inflation is the discipline on domestic financial policies imposed by increased financial market integration (Citrin and Fischer, 2000).

This means globalization tends to reduce inflation mainly through its impact on locational competition. Countries and regions have to provide good infrastructure (better infrastructure than competing countries or regions) to attract mobile production factors. Good infrastructure increases the incentive for foreign direct investors to invest in this country or region and improves the chances of domestic firms attracting foreign mobile production factors or keeping their own productive factors from moving outward. Here various so-called locational or infrastructural factors matter, for example, on the national level: legal security (property rights, contract enforcement), social security, economic and political stability; and on the regional level: cultural offers or infrastructure, housing, roads, safety, etc. We here concentrate on macroeconomic stability as a key locational factor on the national level. Major indicators or signals of macroeconomic (in) stability are inflation, debt and tax burden (Fischer, 1991). Globalization in the above sense forces governments to exercise greater fiscal discipline and to ensure sound institutional and political frameworks. In other words, it does act as a force for stability by limiting the scope for countries to pursue policies that are incompatible with medium-term financial stability (Citrin and Fischer, 2000). Thus, governments feel pressured by the (globalization-driven) locational competition to promote international competitiveness through macroeconomic stability particularly by lowering taxes, government debt, and inflation

(on the relevance of macroeconomic and in particular price stability for FDI (Rogoff and Reinhart, 2003)).

Even though globalization seems to be unavoidable to many countries and numerous initiatives and efforts have been made to adapt to it with aims at taking the opportunities created from it to develop their societies and people, in recent years there also have been increasing international concerns about the dangerous impacts of globalization on indigenous and national development.

### **2.3 Challenges of Globalization**

Organizational approaches to international business have evolved from multi-nationalism to globalization, necessitating a more sophisticated and well-trained management to cope with the complexities of the organization's involvement in multiple foreign markets. Global organizations source raw materials, production capabilities, distribution, capital, and employees from throughout the world. Managers from various cultures/countries must be successfully molded together at each corporate location, including the corporate headquarters, to maximize overall benefits to the corporate network, (McKenna, 2000). Although there has been a tendency to rely on parent-country nationals, companies cannot wait to groom expatriates or take the time for them to acquire the multilingual skills, experience, and global vision needed in today's top global executives. The need to develop multicultural multinational organizations to compete in the global marketplace effectively is the logical next step in the evolution of the global organization.

Some organizations are attempting to get an instant infusion of global expertise by making a foreigner the boss instead of training parent-country managers to become more globally cosmopolitan through expatriation (Romer, 1993). These organizations are creating a truly global perspective and multicultural workforce by relocating host and third country managers into the domestic organization, (Kidd, 2001).

The process of transferring international managers from their overseas assignments to the home/domestic market on a semi-permanent/permanent assignment is known as inpatriation (Harvey, 1993). Researchers have noted that managers' ability to work cross-culturally is a crucial success factor in competing in the global marketplace effectively (Mussa, 2000). To stimulate multiculturalism in the headquarters organization, human resource managers need to

facilitate the inpatriation process, improving inpatriate' ability to function in the focal organization's home country. Correspondingly, inpatriate employees can be seen as boundary-spanners between home and host organizations, assisting in maintaining cultural consistency between organizational entities (Levitt, 1983).

Organizational approaches to international business have evolved from multi-nationalism to globalization, necessitating a more sophisticated and well-trained management to cope with the complexities of the organization's involvement in multiple foreign markets. Global organizations source raw materials, production capabilities, distribution, capital, and employees from throughout the world. Managers from various cultures/countries must be successfully molded together at each corporate location, including the corporate headquarters, to maximize overall benefits to the corporate network. Although there has been a tendency to rely on parent-country nationals, (Drazen, 2000), companies cannot wait to groom expatriates or take the time for them to acquire the multilingual skills, experience, and global vision needed in today's top global executives. The need to develop multicultural multinational organizations to compete in the global marketplace effectively is the logical next step in the evolution of the global organization.

## **2.4 Strategic Responses to the Challenges of Globalization**

### **2.4.1 Strategic Alliances**

A strategic alliance, broadly defined, is a contractual agreement among firms to cooperate in reaching an objective without regard to the legal or organizational form the alliance takes. This definition accommodates the myriad arrangements that can range from handshake agreements to licensing, mergers, and equity joint-ventures. Thus, strategic alliances cover all relationships within the marketplace. Alliances are constructed as effective means to acquire access to new markets and special expertise or compete with others on the market. There might be a problem with finding resources to pursue a certain strategic direction and, therefore, a partner would be called in to help. Typically, such alliances might occur when a particular company has an interesting technological opportunity but lacks the funds to take it further or the needs to penetrate other countries, (Fischer, 2003). Trends towards higher competitiveness through productivity growth and market expansion paradoxically requires firms to form cooperative alliances and networks in order to compete better through cooperation. KRA has formed

alliances with various bodies such as ICPAK, Kenya Institute of Management, Other East African Revenue Authorities, they exchange ideas and technology. This enhances tax collection and broadens the tax base.

Traditional mass production techniques are becoming less and less appropriate for customization. The global economy requires firms who wish to compete internationally to become more flexible in their operations; to use advanced technology to produce high-quality, reasonably-priced goods; to rely on speed-to-market methods of operation; to use multi-site locations; and to adopt just-in-time production and delivery and world-wide components sourcing, (Inkpen, 1998).

Today, enterprises of all sizes will have to depend more heavily on worldwide networks of communications and transportation and establish virtual organizations to remain responsive and flexible. To adopt agile manufacturing practices, they have to organize them into new teams as new opportunities arise. Speed-to-market practices require companies to adopt concurrent engineering in which all aspects of a product's development are planned simultaneously rather than waiting for R&D phases to end before testing them with customers and developing marketing and service strategies. Cross-functional teams representing engineering and design, marketing, purchasing, distribution and service departments and customer representatives - some of whom are scattered widely in different cities or countries - is becoming part of the product development process, (Smith, 2003).

Globally competitive firms will have to enter into international strategic alliances more aggressively in the future and in this light the Kenya Revenue Authority has adopted various types of strategic alliances with Professional bodies, Business community, Clearing Agents and other East African countries to cope with the challenges of globalization. Marketing of KRA services through public Education, Billboards Advertising, and media broadcasting can furnish a deep understanding of customer needs and demands. This helps to reduce the cost of service delivery. An operation has the knowledge and experience to cost effectively produce and deliver the product to the market (Smith, 2003).

Just as the customer provides revenue to the firm, suppliers may represent the bulk of the costs. Because the company's product and processes depend on healthy suppliers, management must look backward when planning production and research strategies. Establishing suppliers as



partners is generally a win-win situation. Alliances geared towards reducing supplier costs or improving the quality supplied can greatly affect the productivity and attractiveness of the firm's own products and services to its customers, (Das and Teng, 2000).

Complementary alliances exist when two firms possess similar technology but different product lines. In this case a single technology may be implemented differently by firms with different products on various markets. A coalition of their energies and resources may yield much greater advancement of the overall technology than the sum of their individual efforts. This kind of technology coalition may be classified as a vertical alliance.

Complementary alliances also exist between KRA and small entrepreneurial firms. It brings to market new innovations that neither firm alone could accomplish. This synergy results from the small, entrepreneurial firm offering innovative technology while the larger firm supplies the necessary production and marketing resources. In either case, combining complementary strengths enhances each firm's competitive position: productivity and financial performance above what individual paths could have provided.

KRA has also adopted facilitating alliances where actions by government and academic institutions encourage cooperative efforts. Governments can do it through their economic policies, regulations and direct participation in the nationally-strategic programmes and projects. Research coalitions with academic communities could facilitate the supply of advance technologies. Because the transfer time from theory to application is rapidly shrinking, academic contributions are directly shaping the form of new product development. However, industry must participate with both money and personnel in collaborative efforts to affect the type and direction of academic research.

Globally competitive enterprises will not only have to manage their own internal operations effectively, but coordinate the entire value chain of suppliers and distributors on which they depend. Virtual organizations are not constrained by requirements of geographic space or locations in cities in the same way as those that are engaged in mass production, they have to be able to have a global presence in order to attain economies of scope, connect components of a production distribution system in many locations that have the physical and geographical characteristics most appropriate for the component's efficient operation, (Maslen, 1997).

## 2.4.2 Innovation Strategies

Innovation is the response to environmental challenges or future opportunities (Li and Atuahene-Gima, 2001). It invariably needs a purpose and, therefore, the introduction and identification of a new consumer need or the development of additional technology within the market place usually initiates the process. This is more commonly identified as the push-pull process (Tidd et al., 2001). Consequently, the key precipitating environmental factors for innovation are uncertainty, risk and change (Braganza and Ward, 2001).

Consumers perceive a new that which leads towards innovation (Rothwell, 1992). Factors that provide the stimulus for the new needs of the organizations, society and the market place, include unexpected events, globalization, alterations in demographics or changes in industry structure, and consumer need recognition. This emphasizes the market-pull aspect of the model (Rothwell, 1992). Innovation leads to both new market and new technological knowledge, which is fed-back to assist with new innovations (Afuah, 2003). This is a continual cycle and may be either radical or purely incremental.

The generation of new ways of doing things, or new product or services, has tended to be the domain of R&D of as a response to the challenges globalization: new and old knowledge combine to generate innovation. R&D functions do not just create, or drive, innovation they are also charged with the dissemination of the outcomes. An innovation is of little practical use if it cannot be absorbed by the market, organisation, process or service at which it is targeted (Brockhoff, 1998). Afuah, (2003) provided empirical evidence that R&D not only generates new knowledge, but it also enhances an organisations ability to assimilate existing knowledge. They argued that R&D could also enhance one's ability to learn from external knowledge sources and subsequently to create new knowledge. R&D functions essentially trade in knowledge: its creation, capture and transfer; they are knowledge creators. R&D brings value to creativity by combining new concepts (Kalling and Styhre, 2003) and ideas to generate applications. Another key R&D function is knowledge diffusion, defined as the process of communicating research, innovations, and/or knowledge to individuals, groups or organisations (Afuah, 2003).

The interaction of research and practice allows for timely insights at the right juncture for sense making to flourish. Knowledge can be exchanged, shared, evolve and made readily available at

the point of need. This implies that knowledge facilitates reflection and dialogue that leads to learning and innovation.

A related stream of research suggests that an increasing number of firms have begun to develop global products as a response in order to overcome the challenges globalization. Such globally oriented NPD efforts are apparently evident in small firms as well as large multinationals, attempting to design and develop products aimed at the worldwide market (Subramaniam and Van Helden et al, 2001). After in-depth case studies of large Japanese multinationals, for instance, Takeuchi and Porter (1986, p. 136) found that products were developed with the global market in mind from the start in more than three-quarters of the product categories examined. Indeed, the rapid advancement in information and communication technology will greatly facilitate the development of global products. Empirical evidence suggests a growing number of companies are attempting to develop global products by adopting global virtual teams. Such a global perspective in product development is summarized succinctly in the global product road pursued by a major multinational manufacturer of household products.

The global product road is ... geared toward identifying common product needs and opportunities across the various regions of the world. By having a global product road and encouraging our people to think, plan, and act on a global basis, we have proven we can accelerate our speed to market, reduce our investment cost, enhance quality, reduce product costs, and eliminate overhead redundancies (Graber, 1996, p. 485). A consistent conclusion from these studies is that product innovations are central in securing a firm's competitive advantage in international markets despite the challenges of globalisation, (Kleinknecht, 2002).

### **2.4.3 Diversification Strategy**

Geographically diverse operations are thought to bring significant performance benefits to organizations because of a variety of reasons. Previous research suggests that international diversity itself should confer advantage over domestic and less internationally diversified firms in the current globalized business environment (Aw and Batra, 1998). The positive impacts are expected to originate mostly from the firm's ability to access new technologies, the ability to leverage scale economies, and the potential to take advantage of arbitrage opportunities in factor cost differentials across multiple locations (Bartlett and Ghoshal, 1989). Increased international

diversity may increase a firm's ability to share activities of different geographic areas (Geringer et al., 1989), providing greater opportunities to achieve economies of scale in critical functions such as R&D and manufacturing over a broader base. In addition, internationally diversified firms have greater opportunities to leverage strategic resources while simultaneously diversifying market risks, thus raising their performance (Kim et al., 1993). They can arbitrage across factor markets and leverage their market power to reduce input costs.

Recent research has shown an increasing interest in examining the international diversification agenda as a response to the challenges of globalization. While previous studies differ widely in terms of research thrusts, sample, measures and findings, the emphasis has been placed on uncovering the impact of international diversification on organizational performance. A few recent studies have demonstrated a non-linear linkage between international diversification and performance. Nonetheless, the majority of previous studies have proposed and/or empirically demonstrated a positive relationship (Kim et al, 1993). We thus build upon the rich theoretical basis in the literature to extend the international diversification agenda to the domain of new product management. Past research has clearly shown a tendency to sample large firms. The samples were predominantly organizations, which presumably were more diversified compared to small firms. However, recent research suggests that an increasing number of small firms are diversifying into international markets (Yip et al., 2000). Further, many small and medium-sized firms are developing, and marketing, their products for the worldwide market.

In addition to presenting greater opportunities for its products, international expansion also offers to the firm significant advantages to enhance its performance from being exposed to diverse and heterogeneous customers, technologies, cultures, competitive practices, and other environmental contingencies (Craig and Douglas, 2000).

#### **2.4.4 Strategic Human Resource Management**

Strategic Human Resource Management (SHRM) involves a set of internally consistent policies and practices designed and implemented to ensure that a firm's human capital (employees) contribute to the achievement of its business objectives (Huselid, et al., 1997). Strategic human resources management is largely about integration and adaptation. Its concern is to ensure that: human resources (HR) management is fully integrated with the strategy and the strategic needs

of the firm; HR policies cohere both across policy areas and across hierarchies; and HR practices are adjusted, accepted, and used by line managers and employees as part of their everyday work.

For Wright and McMahan (1992), SHRM refers to the pattern of planned human resource deployments and activities intended to enable an organization to achieve its goals. To sum up, it appears that some of the frequently cited fundamental elements of SHRM in the literature are: SHRM practices are macro-oriented, proactive and long term focused in nature; views human resources as assets or investments not expenses; implementation of SHRM practices bears linkage to organizational performance; and focusing on the alignment of human resources with firm strategy as a means of gaining competitive advantage.

The resource-based theory of the firm blends concepts from organizational economics and strategic management (Barney, 1991). This theory holds that a firm's resources are key determinants of its competitive advantage. Firms can develop this competitive advantage only by creating value in a way that is difficult for competitors to imitate. Traditional sources of competitive advantage such as financial and natural resources, technology and economies of scale can be used to create value. However, the resource-based argument is that these sources are increasingly accessible and easy to imitate. Thus they are less significant for competitive advantage especially in comparison to a complex social structure caused by globalization. If that is so, human resource policies and practices may be an especially important source of sustained competitive advantage despite the challenges of globalization (Jackson & Schuler, 1995). Specifically, four empirical indicators of the potential of firm resources to generate competitive advantage are: value, rareness, imitability and substitutability (Barney (1991). In other words, to gain competitive advantage, the resources available to competing firms must be variable among competitors and these resources must be rare (not easily obtained). HR practices greatly influence an organization's human and organizational resources and so can be used to gain competitive advantage.

The idea that individual HR practices impacts on performance in an additive fashion (Delery and Doty, 1996) is inconsistent with the emphasis on internal fit in the resource-based view of the firm. With its implicit systems perspective, the resource-based view suggests the importance of complementary resources, the notion that individual policies or practices have limited ability to

generate competitive advantage (Barney, 1991). This idea, that a system of HR practices may be more than the sum of the parts, appears to be consistent with discussions of synergy, configurations, contingency factors, external and internal fit, holistic approach, (Delery & Doty, 1996).

Five best staffing practices that the use of these practices had a moderate and positive relationship with organizational performance. Finally, Huselid et al, (1997) identified a link between organization-level outcomes and groups of high performance work practices. Instead of focusing on a single practice (e.g., staffing), Huselid assessed the simultaneous use of multiple sophisticated HR practices and concluded that the HR sophistication of an organization was significantly related to turnover, organizational productivity and financial performance.

Huselid et al, (1997) presents a framework for Strategic Human Resource Management as a response to prepare organizations for the challenges of globalization. He observed that by and large organizations have achieved relatively low levels of effectiveness in implementing Strategic Human Resource Management (SHRM) practices (Huselid, et al., 1997). If the propositions he outlined are supported, then the real challenge for organizations in the era of globalization is to pay particular emphasis to strengthening their human resources by upgrading the relevant competencies.

As governments and corporate bodies brace up for the new millennium characterized by an ever-increasing global challenge, developing countries have no choice but to develop and continuously upgrade the human resource and business competencies of their workforce (Delery & Doty, 1996). In the case of developing countries, distinct competencies are important to deal with not only the HR issues but also others including partnerships in economic recovery especially in South East Asia, dealing with the big boys, the fund managers, concerns over possibility of fraud in E-commerce with fast spread of Information Technology and last but not least, implementing prescriptions for recovery and growth taking in to consideration the development agenda and unique circumstances of individual countries. Addressing these issues is a necessary step towards facing the challenges of globalization in to the next millennium (Delery & Doty, 1996).

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed. Therefore in this section the research identifies the procedures and techniques that were used in the collection, processing and analysis of data. Specifically the following subsections are included; research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

### **3.2 Research Design**

This was a case study since the unit of analysis is one organisation. It is a case study aimed at getting detailed information regarding the strategic responses adopted by KRA towards the challenges of globalization. According to Yin (1994) a case study allows an investigation to retain the holistic and meaningful characteristics of real life events. Kothari, (2004) noted that a case study involves a careful and complete observation of social units. It is a method of study in depth rather than breadth and places more emphasis on the full analysis of a limited number of events or conditions and other interrelations. Primarily data collected from such a study is more reliable and up to date.

### **3.3 Data Collection**

In order to investigate the strategic responses adapted by Kenya Revenue Authority to challenges of globalization, self-administered interview guides were distributed among sampled employees currently employed by the Kenya Revenue Authority. Interview guides were administered among the employees from the custom department to collect primary data. The interview guides had open-ended questions. The use of an open-interview strategy enabled better exposure of the interviewees' personal perspectives, their deeper thoughts, emotions and ambitions (Paton, 1990). This less structured approach allowed the interviews to be much more like conversations than formal events with predetermined response categories, permitting the respondents' views to unfold, rather than the predisposition of the researcher (Marshall and Rossman, 1997, p. 80).

The interview guides were administered on a face to face basis. Secondary data sources were also employed through the use of previous documents.

### **3.4 Data Analysis**

After the interview guides are filled up, the interview guides were edited for completeness and consistency. Being a case study, content analysis was most useful in analyzing the data. Bryman and Bell, (2003) describe it as a technique used to make inferences by systematically and objectively identifying specific characteristics and messages. This was the best method of analyzing the qualitative data that was collected from the interviews and discussions.



## **CHAPTER FOUR: DATA ANALYSIS AND FINDINGS**

### **4.1 Introduction**

This chapter presents the data findings of the study and their analysis there of. The data was gathered through interview guides and analyzed using content analysis. According to the data found, all the 12 respondents projected in the previous chapter to be interviewed were interviewed which makes a response rate of 100%. The commendable response rate was achieved at after the researcher made frantic effort at booking appointment with the respondents despite their tight schedules and making phone calls to remind them of the interview.

### **4.2 Response Analysis**

The study, in an effort to establish the interviewees' competence and conversance with matters regarding KRA asked questions on the years that the interviewees had worked for the organisation (KRA). According to the interviewees' response, all of them had worked for the organisation for at least five years as most promotions are internal, within the organization. The interviewees' responses hence had the advantage of good command and responsibility being that they were in the custom department which is the most affected by globalization and experience and aptitude owing to their years of experience in the organisation.

To the question on what the interviewees felt that the Organization's mission is all about, the interviewees said that KRA mission is to promote compliance with Kenya's tax, trade and border legislation and regulation by promoting the standards set out in the Taxpayers Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well being of Kenyans. According interviewees understanding, because of such mission KRA strive to have a strong focus being placed on quality of service to its customers and continuing to implement best practices based on international benchmarks.

The interviewees further said that the mission statement of KRA has changed over the ten years. According to the interviewees, this has been due to changes in the business environment necessitated by escalation of globalization and consumer demand. The interviewees further were in accord that the structure of KRA had changed in the last ten year. The interviewees said that in

response to changes in the company's mission statement and increase in customer base, the organization structure had to change for example creation of new departments and online registration practices.

To the question on what the interviewees thought that globalization was to KRA, they said that KRA recognize globalization as 'a growing integration of economies and societies around the world' and see it as an opportunity to grow or a threat that can lead to its failure to meet its strategic goals depending on its strategic response to it. To KRA globalization makes it possible for KRA to adopt new technology and learn from other global revenue collectors' strategies, success and failure hence the company polishes its strategies and take advantage of opportunities that globalization present.

### **4.3 Research Findings**

The research had two objectives which aimed to determine the challenges of globalization facing Kenya Revenue Authority custom department and to establish the strategic responses by KRA to challenges of globalization. The following paragraphs present the findings on the two objectives of this study.

#### **4.3.1 Challenges of Globalization**

The interviewees indicated that the types of globalizations that affect the operations at KRA were such as technological globalization, economic globalization, social globalization, political globalization, cultural globalization, and learning globalization. To the question on how globalization relates to the organization's survival and growth, the interviewees said that globalization has ensured the survival and growth of KRA. Globalization has opened up the country to the organization due to the influence of technology and KRA has responded by diversifying its revenue collection into various sectors of the economy. According to the interviewees, globalization has ensured survival since it enabled KRA strategic association with the world leaders in revenue collection.

On how KRA does create and maintains a match between its strategy and the environment to ensure success despite the globalization challenge, the interviewees indicated that it does this by ensuring that when faced with unfamiliar changes brought about by the challenges of

globalization, the organization management revise their strategies to match the turbulence. These strategic responses affect the long-term direction of the organization which interprets into strategic success. Other respondents said that the organization also redesign their internal capability to match these strategies in order to survive, succeed and remain relevant.

To the question on the challenges faced by KRA as a result of globalization, the study finding show that the challenges brought by globalization are increased competition, obsolescence of certain technology due to the organization adopting new technology, increasing demand from customers for quality, increased need for funds for expansion/diversification into other sectors for revenue collection and shift in customer loyalty and compliance.

To the question on how the management of KRA measure the challenges brought by globalization, the data findings showed that the management of the company consider, variance in revenue collected, change in consumers' perception and compliance, difficulty in formulating and implementing operation strategy, obsolescence and change in technology, size and diversity of competing companies, overall adjustment and organization standard deviation.

The interviewees, on KRA's policies in regards to the challenges brought about by globalization, said that KRA has a firm policy to strategically respond quickly and carefully to such challenges. The interviewees further said that in the light of globalization KRA seek to attract, develop, reward and retain outstanding individuals who we are committed to offering challenging responsibilities and development opportunities that can eliminate such threats. According to some interviewees, with globalization, KRA's policy has also been to highly differentiate its services in the competitive environment and ease revenue collection to enhance compliance needs.

#### **4.3.2 Responses to Challenges of Globalization**

The study sought to establish the training and skill development strategies adopted by KRA in order to cope with the challenges of globalization. According to the interviewees, the organization is attempting to get an instant infusion of global expertise by incorporating a foreigner in the management to become more globally cosmopolitan through expatriation coupled with training senior managers. They further indicated that this creates a truly global

perspective and multicultural workforce by ensuring that all the employees in the organization are continuously exposed to different types of training in order to ensure that they are well versed with information on how to counter the challenges they might encounter in their daily routine.

According to the interviewees, the research and development/innovation strategies adopted by KRA in response to the challenges of globalization include identification of new consumer needs, identification on new monitoring ways, the adoption of new technology within the market place, generation of new ways of doing things during the operations and new product or services. The interviewees further said that research and development increases the level of knowledge within the organization and the level of knowledge exchange between the organization and its allies or customers that shape its global strategy.

To the question on the international diversification strategies adopted by KRA in response to the challenges of globalization, the interviewees said that KRA having geographically diverse operations bring significant performance benefits such as its ability to access new technologies, the ability to leverage scale economies, increase its ability to share activities of different geographic areas, provide greater opportunities to achieve economies of scale in critical functions such as R&D and revenue processing over a broader base and greater opportunities to leverage strategic resources while simultaneously diversifying market risks, thus raising their performance.

From the interviewees, the human resource management strategies adopted by KRA in response to the challenges of globalization are such as ensuring human resources (HR) management is fully integrated with the strategy and the strategic needs of the firm; HR policies cut across policy areas and across hierarchies; HR practices are adjusted, accepted, and used by line managers and employees as part of their everyday work, HR policies are proactive and long term focused in nature. Others said that at KRA implementation of SHRM practices bears linkage to organizational performance and focusing on the alignment of human resources with firm strategy as a means of overcoming the challenges of globalization.

To the question on how KRA responds to these challenges, the data findings showed that KRA respond to these challenges by opening more branches countrywide, putting the necessary structures in place to achieve deserved compliance levels and engaging in Corporate Social Responsibility. The interviewees further said that due to increased complexity of its mandate as a threat brought about by globalization KRA strives to have cutting edge innovation and change, crafted specifically to address all the existing and potential customer needs. KRA also as a response to globalization continues to introduce products and services and engage in heavy advertisement.

The interviewees further said that globalization has had immerse effect on the organization's performance. According to the interviewees, globalization leads to the exposure of the Authority to both threats and opportunity. The opportunity so far had seen performance of the organization increase unbelievably for example 2008 revenue report showed a massive increase. Owing to threats posed by globalization, the interviewees said that advertisement strategy has been beefed up tremendously.

#### **4.4 Discussions**

In response to changes in the company's mission statement and increase in customer base, the organization structure had to change for example creation of new departments and online registration practices. KRA recognize globalization as 'a growing integration of economies and societies around the world' and see it as an opportunity to grow or a threat that can lead to its failure to meet its strategic goals depending on its strategic response to it. To KRA globalization makes it possible for KRA to adopt new technology and learn from other global revenue collectors' strategies, success and failure hence the organization polishes its strategies and take advantage of opportunities that globalization present. These findings are consistent with those of Cheng (2000) that various aspects of movements have been initiated against the threats of globalization, particularly on developing countries. Li and Atuahene-Gima (2001) also proposes that the introduction and identification of a new consumer need or the development of additional technology within the market place usually initiates the process. Consequently, the key precipitating environmental factors for innovation are uncertainty, risk and change.

The study found that the types of globalizations that affect the operations at KRA were technological globalization, economic globalization, social globalization, political globalization, cultural globalization, and learning globalization which have ensured the survival and growth of KRA and opened up the country due to the influence of technology and KRA has responded by diversifying its revenue collection into various sectors of the economy. KRA does create and maintains a match between its strategy and the environment to ensure success despite the globalization challenge by ensuring that when faced with unfamiliar changes brought about by the challenges of globalization, the organization management revises their strategies to match the turbulence. These strategic responses affect the long-term direction of the organisation which leads to strategic success. According to Inkpen (1998) global economy requires firms who wish to compete internationally to become more flexible in their operations; to use advanced technology to produce high-quality, reasonably-priced goods; to rely on speed-to-market methods of operation; to use multi-site locations; and to adopt just-in-time production and delivery and world-wide components sourcing. In responding to the challenges of globalization, Das and Teng (2000) argued that strategic responses should be geared towards reducing supplier costs or improving the quality supplied can greatly affect the productivity and attractiveness of the firm's own products and services to its customers

In the same view, Delery and Doty (1996) that individual HR practices impacts on performance in an additive fashion is inconsistent with the emphasis on internal fit in the resource-based view of the firm. This study found that the human resource management strategies adopted by KRA in response to the challenges of globalization are ensuring human resources (HR) management is fully integrated with the strategy and the strategic needs of the firm; HR policies cohere both across policy areas and across hierarchies; HR practices are adjusted, accepted, and used by line managers and employees as part of their everyday work and HR policies are proactive and long term focused in nature. At KRA implementation of SHRM practices bears linkage to organizational performance and focusing on the alignment of human resources with firm strategy as a means of overcoming the challenges of globalization.

## **CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn are in quest of addressing the research question or achieving the research objective which is the responses that KRA use on challenges brought about by globalization.

### **5.2 Summary of Findings**

From the study findings, it was established that because of such mission KRA strive to have a strong focus being placed on quality of service to its customers and continuing to implement best practices based on international benchmarks. The mission statement of KRA has changed over the ten years due to changes in the business environment necessitated by escalation of globalization and consumer demand. In response to changes in the company's mission statement and increase in customer base, the organization structure had to change for example creation of new departments and online registration practices. To KRA globalization makes it possible for KRA to adopt new technology and learn from other global revenue collectors' strategies, success and failure hence the organization polishes its strategies and take advantage of opportunities that globalization present.

On the responses to globalization, the study found that the types of globalizations that affect the operations at KRA were technological globalization, economic globalization, social globalization, political globalization, cultural globalization, and learning globalization which have ensured the survival and growth of KRA and opened up the country due to the influence of technology and KRA has responded by diversifying its revenue collection into various sectors of the economy. It was also clear from the study that KRA does create and maintains a match between its strategy and the environment to ensure success despite the globalization challenge by ensuring that when faced with unfamiliar changes brought about by the challenges of globalization, the organization management revise their strategies to match the turbulence. These strategic responses affect the long-term direction of the organisation which leads to strategic success.

The study found that the challenges brought by globalization are increased competition; obsolescence of certain technology due to the organization adopting new technology, increasing demand from customers for quality, increased need for funds for expansion/diversification into other sectors for revenue collection and shift in customer loyalty and compliance. The study further found that the management of the organization consider, variance in revenue collected, change in consumers' perception and compliance, difficulty in formulating and implementing operation strategy, obsolescence and change in technology, size and diversity of competing companies, overall adjustment and organization standard deviation.

On KRA's policies in regards to the challenges brought about by globalization, the study found that KRA has a firm policy to strategically respond quickly and carefully to such challenges. In the light of globalization KRA seek to attract, develop, reward and retain outstanding individuals who are committed to offering challenging responsibilities and development opportunities that can eliminate such threats. With globalization, KRA's policy has also been to highly differentiate its services in the competitive environment and ease revenue collection to enhance compliance needs. In addition, KRA is attempting to get an instant infusion of global expertise by sending its officers to other countries for training. This creates a truly global perspective and multicultural workforce by ensuring that most of the line managers in the organization are continuously exposed to different types of training in order to ensure that they are well versed with information on how to counter the challenges they might encounter in their daily routine.

According to the study findings, the research and development/innovation strategies adopted by KRA in response to the challenges of globalization include identification of new customer needs, identification on new monitoring ways, the adoption of new technology within the market place, generation of new ways of doing things during the operations and new product or services. These increase the level of knowledge within the organization and the level of knowledge exchange between the organization and its allies or customers that shape its global strategy.

On the international diversification strategies adopted by KRA in response to the challenges of globalization, the study established that KRA having geographically diverse operations bring significant performance benefits such as its ability to access new technologies, leverage scale economies, increase ability to share activities of different geographic areas, provide greater



opportunities to achieve economies of scale in critical functions such as R&D and revenue processing over a broader base and greater opportunities to leverage strategic resources while simultaneously diversifying market risks, thus raising their performance.

From the study, the human resource management strategies adopted by KRA in response to the challenges of globalization are ensuring human resources (HR) management is fully integrated with the strategy and the strategic needs of the firm; HR policies cohere both across policy areas and across hierarchies. At KRA implementation of SHRM practices bears linkage to organizational performance and focusing on the alignment of human resources with firm strategy as a means of overcoming the challenges of globalization. KRA responds to these challenges by opening more branches countrywide, putting the necessary structures in place to achieve deserved compliance levels and engaging in Corporate Social Responsibility. Due to increased complexity of its mandate as a threat brought about by globalization, KRA strives to have cutting edge innovation and change crafted specifically to address all the existing and potential customer needs. KRA also as a response to globalization continues to introduce products and services and engage in heavy advertisement.

### **5.3 Conclusions**

In the modern world of globalization, KRA has been able to keep pace with the global nature of its operations by maintaining a match between its strategy and the environment through revision of its strategies to match the turbulence to ensure success despite the globalization challenge.

The study concludes that KRA responds to the challenges of globalization by infusion of global expertise coupled with training and development among line managers which has a truly global perspective and multicultural workforce; research and development/innovation strategies including identification of new consumer needs, identification of new monitoring ways, the adoption of new technology within the market place which increase the level of knowledge within the organization that shape its global strategy; having geographically diverse operations which gives it an ability to access new technologies, leverage scale economies, provide greater opportunities to achieve economies of scale in critical functions such as R&D and revenue processing over a broader base and the human resource management strategies. These initiatives help in meeting the dynamic challenges of globalization. The study concludes that KRA has

effectively been responding to challenges brought about by globalization and this has seen the performance of the organization increase unbelievably.

#### **5.4 Recommendations**

From the discussions and conclusions in this chapter, the study recommends that although KRA has been successful in neutralizing the challenges brought about by globalization, KRA should engage in more cost reduction in revenue collection.

Besides providing its services and products at lower cost (cost advantage), KRA should increase its efficiency in service delivery and incentives that exceed those of other countries in the region (differentiation advantage) to gain a competitive advantage. The study further recommends that KRA should heavily advertise itself in all regions in the country in order to take advantage of economies of scales. This would increase the compliance level among its customer base.

#### **5.5 Area for Further Research**

The researcher recommends that further studies should be done on internationalization strategies used by KRA to globalization so as to comprehensively and exhaustively study globalization. The researcher further recommends that the same study be done on other profit making and non-profit making organizations in the country so as to find out how other companies also respond to globalization since each company do approach a different strategy.

#### **5.6 Limitations of the Study**

The researcher encountered various limitations that tended to hinder access to information sought by the study. This included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. However the researcher countered the limitation by carrying out the research across the customs department in KRA which enabled generalization of the study findings.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about the institution. The researcher handled the problem by carrying with her an introduction letter from the University

and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes.

The researcher also encounter problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the information they had as the research instruments did not bear their names. Lack of sufficient funds limited the researcher from accessing all the KRA stations in Kenya to collect data for study. The researcher however limited herself to the KRA due to inadequacy of funds.

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## **RESEARCH INTERVIEW GUIDE**

### **Part One: General Information**

1. How many years have you worked at KRA?
2. What is your position at KRA?
3. Has the KRA mission changed in the last 10 years?
4. Has the structure of KRA changed in the last 10 years?
5. What do you think is globalization to KRA?

### **Part Two: Response to Globalization**

6. What types of globalizations affects the operations at KRA?
7. How would you describe globalization in relation to the KRA's survival and growth?
8. How KRA does create and maintains a match between its strategy and the environment to ensure success despite the globalization challenge?
9. What are the main challenges faced by KRA as a result of globalization?
10. How does KRA measure the challenges brought about by globalization?
11. What are the KRA policies in regards to the challenges brought about by globalization?
12. What are the training and skill development strategies adopted by KRA in order to cope with the challenges of globalization?
13. What are the research and development/innovation strategies adopted by KRA in response to the challenges of globalization?
14. Which are the international diversification strategies adopted by KRA in response to the challenges of globalization?
15. What are the human resource management strategies adopted by KRA in response to the challenges of globalization?
16. How else does KRA respond to these challenges? Explain in details the Company's response strategies to these challenges?
17. How has globalization affected KRA strategy and performance?

**THANK YOU FOR YOUR COOPERATION!**