

**STRATEGIC RESPONSE BY KENYA REVENUE AUTHORITY TO THE
CHANGING ENVIRONMENT**

BY

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other university or college for examination/academic purposes.

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

I dedicate this project to my family for unfailing encouragement and love. To the woman in my life who surround me as a family and friend, for walking this journey with me.

To my loving wife Caroline and my children: Chumba, Boit and Bett, may this accomplishment be an inspiration to you in your pursuit of knowledge and excellence.

Always keep in mind that anything is possible and you can attain even higher levels.

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TABLE OF CONTENTS

DECLARATION..... ii

DEDICATION..... iii

ACKNOWLEDGEMENTS iv

ABSTRACT..... vii

CHAPTER ONE: INTRODUCTION.....1

1.1 Background of the Study1

 1.1.1 Environmental Changes2

 1.1.2 Strategic Response4

 1.1.3 Kenya Public Sector6

 1.1.4 Kenya Revenue Authority (KRA).....6

1.2 Research Problem8

1.3 Research Objective10

1.4 Value of the Study10

CHAPTER TWO: LITERATURE REVIEW.....11

2.1 Introduction.....11

2.2 Theoretical Underpinnings.....11

 2.2.1 Theory of Strategic Balancing.....11

 2.2.2 Mathematical Theory of Games12

2.3 Environmental Dependency.....13

2.4 Strategic Responses to Environmental Changes.....17

2.5 Conclusion24

CHAPTER THREE: RESEARCH METHODOLOGY26

3.1 Introduction.....26

3.2 Research Design.....26

3.3 Data Collection26

3.4 Data Analysis27

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION OF RESULTS 29

4.1 Introduction.....29

4.2 Demographic Information.....29

4.3 Environmental Changes30

 4.3.1 Changes in Economic Environment.....30

 4.3.2 Changes in Regulation/Policies.....31

 4.3.3 Changes Due To Political Climate31

 4.3.4 Changes Due To Increased Demand for Revenue32

 4.3.5 Changes in the Regulatory Environment33

 4.3.6 Changes in the Technology33

CHAPTER FIVE: SUMMARY, DISCUSSION, CONCLUSION AND RECOMMENDATIONS.....37

5.1 Introduction.....37

5.2 Summary of Findings.....37

5.3 Discussion of Results.....42

5.4 Conclusion49

5.5 Recommendations.....50

5.6 Limitations of the Study.....51

5.7 Recommendations for Further Research.....52

5.8 Implication for Policy and Practice.....52

REFERENCES.....53

APPENDICES.....57

Appendix I: Letter of Introduction.....57

Appendix II: Interview Guide.....58

ABSTRACT

Changing environmental conditions which has been marked with political volatility, advancement in information technology, legislation as well as structural changes has completely altered the way of doing business not only in Kenya but also the world over. KRA has to constantly reengineer itself so as to favourably undertake mandate in line with the changing environmental parameters such as changes in IT, globalization, legislations such as the East African Community regulation changes regarding custom management and collection, and politics, among others for it to effectively remain relevant and sustain its operations as per its goals and mission in the face of increased demand for revenue brought about by the devolved government to county level. The purpose of the study was to establish strategic responses adopted by KRA to address changes in its operating environment. This study adopted case study design. The study made use of both secondary and primary data. Primary data was obtained from the ten heads of departments at KRA. The interview guides that were used to collect primary data consisted of open-ended questions. A conceptual content analysis was employed. From the study findings, the researcher concludes that the challenges in the external environment that affect the operations of the organization were such as new constitution dispensation, reforms and modernization, introduction of service level charters, review of code of conduct, restructuring of departments, regional balancing during appointments, introduction of performance contracts, industrial actions by civil servants in search for higher pay, freeze of donor funding from development partners and political changes. The study recommends that although there Kenya Revenue Authority has been successful in neutralizing the challenges brought about by changes in the operating environment, Kenya Revenue Authority should scan the environment and come up with proactive strategies to cope with identified risk before they happen. The Kenya Revenue Authority should also be involved in more corporate social responsibility to give back to the society through their corporate social responsibility policy which is one way of increasing its influence on the lives of Kenyans and thus enhancing customer loyalty in tax remittance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Things have changed in the recent times, particularly in the manner of doing business in Kenya. This has been occasioned by the ever changing environment spearheaded by rapid changes in technology, politics, and liberalization, structure of the organization consumer changes in tastes and preferences and even cultural transformation. Organizations both private and public must be alive to these changes for them to come up with the correct responses that could assure maximum return on investment. These changes in the environment therefore have far reaching implications on nature of opportunities and risks they expose firms to. It is therefore paramount for organizations to align themselves with the environment demands for their continuity, survival and sustainability (Choi, Gupta & Wilemon, 1985).

For firms to be efficient and effective resulting in successful business operations they must continuously take on the environmental turbulence and tap on any opportunity presented and handle any environmental conditions that are likely to cause any business challenge by strategically responding to the same. Strategic responses to the ever changing environmental conditions present an act as the yardstick within which improvement of the firms dealings can be attained. It is therefore an important aspect in the management of organizations to understand these two dimensions so that desired strategic responses and the changes in the environmental conditions (Pearce & Robinson, 2005).

Firms must therefore adapt their resource capabilities to address environmental opportunities and challenges in similar measures. This is necessary if they have to justify the reason for their existence in the localities where they operate through what they are able to perform or to give back to the society. However the greatest challenge for management is not even what they are capable to give but the level of environmental conditions turbulence. The changing technologies, reduced natural resources, changes in customers' demands and needs in addition to unpredictable economic and weather conditions have the resultant effect of a complex business environment and business transactions it is therefore necessary that firms across industry need to come up with responses strategies so as not only survival but have sustainable development (Burnes, 2000).

1.1.1 Environmental Changes

Effective strategic responses call for organizations to create a fit between their internal capabilities and environmental demands. This is basically the strategic fit which could ensure better firm performance. In any event, a mismatch between a firm's internal capabilities and environmental turbulence is highly likely to create disastrous business results which do not add value to stockholder wealth (Johnson and Scholes, 2002). This is therefore necessary for capacity and team building across the entire organizations to effectively manage environmental changes. Team work across departments, product differentiation, processes of control planning and evaluation in addition to business planning therefore are key in the way of responses to the environment by firms (Porter, 1990). Firms can respond to changing environment either by way of tactic or strategy.

Given the fact that strategies are time consuming and they take in a lot of resources it is necessary for the firm to consider a cost effective strategy that maximizes on costs. The tactical responses on the other hand are basically meant to fine tune the company strategy. They consume less resource and are difficult to monitor. Organizations can either utilize short term tactics which are meant to address issues in the long term strategy and environmental changes that are unforeseeable, emergent and unpredictable. In addition to the above firms can respond to the environment by way of differentiation strategy. This can involve a turnaround of department in the way of restructuring of the firm (Smart & Vertinsky, 2006).

Firms can also respond to environmental changes through organizational structure. This is because the formalities in firms' structure and control are dependent on the nature of environment at stake. Environments that are stable require more centralization and formalized rules and procedures and clear formal authority or mechanistic organization system. On the other hand environments that exhibit rapidity in change lead to a free flowing adaptive internal organization, this type of organizational structure requires less formality and obedience of rules and regulations of the firm leading to a situation that is almost laissez faire, a scenario which is known as organic management structure (Zajac & Kraatz , 2007).

To adequately responses to the environment the top echelons of the firm must undertake strategic planning. This can be emergent or long term. Emergent plans cushion the firm against environmental uncertainty and unpredictability in the near future especially in

unstable and complex environments. The complex and ever competitive terrain now calls for firms to craft strategic responses to deal with these changes. It is upon this basis therefore that an investigation requires to be done on strategic responses to changing environment (Thompson, 2005).

1.1.2 Strategic Response

The environmental conditions of a firm constitutes its surroundings, it includes all the elements which operate inside of the organization and the outside territory of a firm and can have the prospect of impacting positively or negatively on the operations of the firm (Pearce and Robinson, 2005). The environment of the organization therefore needs to be understood by the firm so as for the firm to understand the complexity and nature of that environment for it to effectively respond to the inherent dynamism.

Firms needs to understand environmental complexity in terms of its degree of change, homogeneity or heterogeneity of its elements, degree of concentration of the said elements and the degree of stability so as to come up with environment specific strategic responses to address them. This is because different environmental complexities present specific and unique resources such as raw materials, finance and even information for consideration by the firm. In addition, environmental turbulence, unpredictability and uncertainty pose greater risks to firms as they find it difficult to predict with precision the nature and amount of risks posed. Thus it is important for firms to align their strategic responses to the changes with clarity (Klinger, 2004).

Another factor is the scope of the environmental patterns and events with regard to environmental complexity and simplicity or the simple complex dimension. Environmental complexity usually has diverse external elements which influence organizational performance in the levels of their dissimilarity. Usually a stable and unstable environment points out at the dynamic nature of the environment. An environment with stable conditions implies that the business environment fails to change drastically over duration of up to one year. However an environment with unstable conditions shows an ever changing nature of the environment (Lamothe & Langley, 2009).

There is also as simple complex and unstable-unstable dimensions that are required for critical assessment to determine environmental uncertainty. The level of uncertainty is low if the environment is stable and vice versa. Environmental complexity therefore requires an analysis of multiple elements in the environment so as to come up with the correct strategic responses to deal with them. In simple and stable environments conditions, the rapidity of change is low and any such changes may easily be predicted (Tan & Litschert, 2004). When rapid changes create high levels of uncertainty in simple and stable environments, these create organizational uncertainty. Such uncertainty makes the environmental elements difficult to predict and act upon (Greenstein, 2001). If this continues for quite some time and when several sectors change in a simultaneous manner with high levels of unpredictability, supressful outfits, high volatility and business hostility, a state of environmental turbulence is created. Environmental turbulence calls for strategic responses to cushion the firm against the risks posed.

1.1.3 Kenya Public Sector

Kenyan public sector is a government sector that offers services to all the citizens either directly (through the public sector) or by financing private provision of services. The term is associated with a social consensus (usually expressed through democratic elections) that certain services should be available to all, regardless of income. Even where public services are neither publicly provided nor publicly financed, for social and political reasons they are usually subject to regulation going beyond that applying to most economic sectors.

A public service in Kenya the characteristics of a public good (being non-rivalrous and non-excludable), but most are merit goods, that is, services which may (according to prevailing social norms) be under-provided by the market. Therefore, the public sector in Kenya provides those services that cannot be left in the hands of individual entrepreneurs. In most cases public services are services, i.e. they do not involve manufacturing of goods. They may be provided by local or national monopolies, especially in sectors which are natural monopolies, e.g Kenya Power, Kenya Defense Force, Government Agencies/Ministries among others.

1.1.4 Kenya Revenue Authority (KRA)

The Kenya Revenue Authority (KRA) was established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on 1st July 1995. The Authority is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. A Board of Directors, consisting of both public and private sector experts, makes

policy decisions to be implemented by KRA Management. The KRA mission is to promote compliance with Kenya's tax laws and policies, trade, and border legislation and regulation by promoting the standards set out in the Taxpayers Charter (www.kra.go.ke).

KRA runs its operations in the same way as a private enterprise. In order to offer better single-window services to taxpayers, KRA is divided into five Regions as follows: Rift Valley region, Western region, Southern region, Northern region 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 (www.kra.go.ke). 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 (www.kra.go.ke).

The growth and development of the authority has been hampered with changes in the operating environment 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, developed basic ICT infrastructure, internet penetration and global financial crisis. 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.

1.2 Research Problem

Changing environmental conditions which has been marked with political volatility, advancement in information technology, legislation as well as structural changes has completely altered the way of doing business not only in Kenya but also the world over. The changes in the organizations external environment have been so unpredictable, rapid, uncertain, discontinuous have not only complicated organizations` management decisions but also in formulating strategic responses to counter the ever changing environmental conditions. Thus, it is important for organizations to embrace strategic leadership that allows for management to change in line with these changes innovatively (Bryson,1995). KRA has to constantly reengineer itself so as to favourably undertake mandate in line with the changing environmental parameters such as changes in IT, globalization, legislations such as the East African Community regulation changes regarding custom management and collection, and politics, among others for it to effectively remain relevant and sustain its operations as per its goals and mission in the face of increased demand for revenue brought about by the devolved government to county level. In addition, the global financial crises whose effects are yet to be fully felt, but which has already led to a depreciation of the Kenyan currency, declining Diaspora remittance, terrorist threats, weakening export and tourism performance and reduction of Overseas Development Assistance and Foreign Direct Investment (FDI) has direct negative impact on performance of businesses in Kenya and direct impact on revenue collection.

So far, local studies carried out on strategic responses to the changing environmental conditions include Kimani (2006) who carried out a study on strategic responses of CCS in Kenya to changes in their environment and found that the organization deliver effectively the corporate and business level strategies in terms of resources, process and people due to adoption of operational and product differentiation strategies; Gichohi (2006) did a study to establish the strategic responses by construction firms facing changing environmental conditions and found that the company mainly adopted product differentiation that fulfils a customer need; Kashero, (2008) studied the strategic responses to changing environment at Lloyd Masika and established that the company mainly employed diversification strategy and operational strategies while Maina (2008) did a research on the strategic responses by Central Bank of Kenya to changing environmental conditions and established that CBK concentrated on differentiation strategy and focus strategy. These studies while shedding light on strategic responses by organizations to changing environmental conditions did not deal with the current status of KRA which is supposed to collect enough revenue for the devolved government in the wake of reduction of revenue as a result of the implementation of East African Community common market and the implementation of the customs reforms and modernization (CRM). To address this gap in knowledge, there is indeed a need for a study on the same. The question to be addressed is: what are the strategic responses by KRA to the changing environment in which it operates?

1.3 Research Objective

To establish strategic responses adopted by KRA to address changes in its operating environment.

1.4 Value of the Study

The findings of this study would be useful to the following groups:

The study findings would be beneficial to the government in relation to policy making and strategy formulation in line to its expectations from KRA as an institution.

The findings of this study would give KRA management relevant information to help them build and improve their strategic responses to the ever changing environmental conditions in order to satisfy its mandate to the Kenyan people.

The findings of this study would enrich existing knowledge and hence was of interest to both researchers and academicians who seek to explore and carry out further investigations. It would provide basis for further research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the available literature that has been reviewed for the study. This chapter cover the following subtopics the concept of strategy, environmental conditions and the organization, strategic responses to the changing environmental conditions and the empirical review.

2.2 Theoretical Underpinnings

2.2.1 Theory of Strategic Balancing

Strategic balancing is founded on the premise that the strategy of an organization is partly comparable to the strategy of an individual. Certainly, the performance of organizations is affected by the actors' behavior, such as the system of leaders' values (Choi, Gupta & Wilemon, 1985). An organization wavers between many antagonistic poles that signify cooperation and competition. This allows for existence of various configurations of alliances that disappear only if the alliance swings in the direction of a mainstream of poles of confrontation.

Strategic balancing is comprised of three models which include: relational, symbiotic and deployment models. Competition attests to be part of the relational model and the model of deployment. It can be liable to undulation between the two aggressive strategies, one being primarily cooperative as depicted by the relational model and the other being predominantly competing as exemplified by the model of deployment. The organization

can then take turns in adopting the two strategies so as to keep their relationship balanced. This argument is very close to that of Brooks (1993). According to Brooks (1993), there are three types of competitive relationships: competition-dominated, cooperation-dominated, and equal relationships. The latter is also comparable to the fluctuation between the relational model and the model of deployment.

2.2.2 Mathematical Theory of Games

The mathematical theory of games was invented by Johnson and Scholes (2002). Game theory is the study of the ways in which strategic interactions among rational players produce outcomes with respect to the preferences (or utilities) of those players, none of which might have been intended by any of them. Game theorists, like economists and philosophers studying rational decision-making, describe these by means of an abstract concept called utility. This refers to the amount of ‘welfare’ an agent derives from an object or an event. Welfare refers to some normative index of relative well-being, justified by reference to some background framework. In the case of people, it is most typical in economics and applications of game theory to evaluate their relative welfare by reference to their own implicit or explicit judgments of it (Tushman & Romanelli, 1985).

Brands, as a result of innovations and differentiation, can be considered as a method of signaling quality and other product characteristics to consumers. This allows various models developed in game theory to be applied, such as Dill (1958) classic “market for lemons” model in which price signals quality. The “hidden” value that may be uncovered by applying game theory is the deterrence value of investments in intellectual capital. As

is well known, patents and copyrights add value by deterring competitors from making use of the same work and allow the patent or copyright holder to enjoy exclusive use of the intellectual work for a limited time. However, game theory shows that such a deterrence effect can also occur in the absence of patents and copyrights. The simplest scenario is where the market is limited and there is overcapacity in the industry. In such a scenario, an incumbent that makes a pre-emptive move by making a large investment may deter new entrants if the entrant believes that the incumbent will react aggressively to entry, or if the move allows the incumbent to move so far down the learning curve that it is difficult for new entrants to catch up. Most of the examples that can be quoted are practical benefits of applying game theory in the valuation of intellectual capital. However, game theory provides additional benefits in allowing one to draw insights about how to gain strategic value from intellectual capital. The conventional strategic management wisdom expounded by many authors (Smart & Vertinsky, 2006) is that, in order for a firm's resources (including intellectual capital) to lead to a sustainable advantage, they must be difficult to replicate, durable and imperfectly mobile or not easily traded.

2.3 Environmental Dependency

Environment is the context in which organizations interpret and respond to performance feedback and set strategies. Many scholars have recognized the importance of congruence between organizations and their environmental conditions (Lawrence & Lorsch, 2005). Organizations are also dependent on their environments. The notion that as the environment changes organizations should change their strategies and respond

accordingly has long been held (Thompson, 2005). Environment has a greater impact on strategic decision making in more technologically intensive industries than in simpler industries. Complexity challenges organizations' abilities to interpret their surroundings and respond to changes in their environments. With rapid change, interpretation and response become all the more difficult tasks for organizations. Complex environments that change rapidly are labeled turbulent environment (Stacey, 2009). Environmental change affects the ways in which organizations interpret strategy and performance.

Eisenhardt and Bourgeois' (1988) investigations of rapidly changing environments found that successful firms have an ability to react to environmental changes. The findings are also supported by Greenstein (2001) investigation of acute care hospitals. These organizations have the ability to make response strategic decisions both carefully and quickly in light of sudden environmental changes. Organizations whose past experience has been in an environment with constant change will come to expect change, are likely to remain more vigilant, devote more resources to environmental scanning, and consequently may be less likely to underestimate the significance of the environmental changes.

Organizations experiencing rapidly changing environmental face both high complexity and dynamism. Assuming a highly complex and dynamic environment, implicitly leads to the issue of continuity. Continuity deals with the magnitude of the changes in those parts of the environment that are changing (Tushman & Romanelli, 1985). Since we focus on environments that experience many changes it is interesting to understand what factor differentiates various changes. Continuity is considered high during relatively

incremental changes that build upon previous experiences. Incremental environmental change describes those changes that represent incremental or convergent shifts in salient environmental factors. Continuity is considered low during major changes that break from or are incongruent with previous experiences. Major environmental change describes revolutionary changes in environmental factors. These revolutionary changes tend to reorient or transform affected segments of the environment. There is less consensus about the abilities of firms to learning from prior experience during periods of incremental environmental shifts than during periods major change (Eisenhardt & Bourgeois, 1988). However, while there are competing theoretical perspectives about the nature of major change in the literature, there appears to be agreement about the disruptive effects of that change.

Since incremental environmental changes occur more often than major environmental changes, it is likely that most changes in the literature that have been labeled as conditions of high environmental turbulence are the result of a large number of incremental environmental change events. Most learning theories suggest that rapid environmental change and the condition of ambiguity it creates will attenuate successful organizational responses (Bryson, 1995). However, others suggest that the ambiguity generated by rapid environmental change will present firms with "equivocal experiences and opportunities for strategic responses. In persistently changing environments firms may come to expect rapid environmental changes as an equilibrium condition of their world (Zajac & Kraatz, 2007).

Haleblian and Finkelstein (1993) argue that as environmental change increases, a firm's decision making tasks become more difficult and managers may have greater information processing requirements. However, in stable environments information-processing requirements are not as intense. Environmental change may increase erroneous perceptions and interpretations of environmental signals during information processing. Successful organizational responses may be curtailed under conditions of rapid environmental change. However, firms in some industries are able to develop processes for coping with incremental environmental changes and have been successful at adapting to these environments. Second-order learning refers to exploration of alternative processes, routines, or technologies where first-order learning indicates improvement within the realm of current processes or technologies (Mahon & Murray, 2010).

Environmental conditions are vital to organizational aspirations, performance assessment, search, and change processes. As organizations attempt to understand their environments' they interpret additional information that is separate and distinct from performance feedback information. These incremental environmental changes may directly affect organizational strategic response decisions. Major environmental changes shake the core of organizational assumptions and lead organizations to question relationships that previously appeared clear. Organizations that rely on performance feedback to initiate strategic organizational changes may question the validity of performance feedback in light of a significantly changed organizational environment. Major changes will disrupt the feedback relationship between performance and strategic change (Tushman & Romanelli, 1985).

Technical advancements such as internet, electronic banking, and improved communications have presented new challenge to KRA. 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. KRA is also grumbling with the problem of aligning its operation to the new constitutional dispensation which also touches on its mandate coupled with the challenge presented with the increased demand from the devolved government.

2.4 Strategic Responses to Environmental Changes

The study of strategic change is increasingly important in today's dynamic business environment. Rapid technological change, easier entry by foreign competitors, and the accelerating breakdown of traditional industry boundaries subject firms to new, unpredictable competitive forces. Modern firms, operating in dynamic market contexts, often deal with these contingencies by implementing strategies that permit quick reconfiguration and redeployment of assets to deal with environmental change. Strategic responses mean strategic change. strategic change requires that firms change the

organizational vision, mission, objectives and of course the adopted strategy to achieve those objectives. Strategic change is defined as changes in the content of a firm's strategy as defined by its scope, resource deployments, competitive advantages, and synergy. Strategic change is defined as a difference in the form, quality, or state over time in organization's alignment with its external environment (Klinger, 2004).

Strategic responses are the alternatives that organizations make in an attempt to address the key issues arising from both internal and external analysis of the firm and its business operating environment. They involve changes in a firm's strategic behaviour to ensure success in transforming future environment. Strategic responses require organizations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. The organization, therefore, has to harness both its tangible and intangible assets to maintain a strategic fit in its environment and strategy (Stacey, 2009).

The changing business environmental conditions shape what a company's strengths, opportunities, challenges and threats. Organizations must therefore understand the underlying sources of competitive pressure in its industry so that it is able to formulate appropriate strategies to respond to competitive forces once organizations face unfamiliar and changing business environments, they should revisit and revise their operational strategies to match the turbulence and the unpredictable level (Porter, 1990).

Firms respond differently to the same environmental changes for example they respond with different strategies to the same opportunities (Greenstein, 2001). Porter (1990)

identified three generic competitive strategies that a firm can use as a response to a turbulent environment this include focus, cost leadership and differentiation strategies. Organization can respond using product-market scope strategies. Firms can focus on specific markets or specific products or even product new products to suit niche markets. New product development strategy is used when the external factors suggest that the market is saturated or that stronger competition or other threats to market exist and the internal factors show weakness in distribution or strength in product development. New market development strategy may be adopted when internal factors suggest adding markets for existing products due to greater distribution strengths but production or product development weaknesses (Wagner, 2001).

A change in strategy work in practice if the relevant structure is put in place in terms of processes, boundaries and relations and their interactions at the same time there must be enabling thus creating of support mechanisms in the organization in order to support strategy implementation and development. Finally there has to be change thus creating an environment that facilitates change throughout the organization. Organizational responses could take the form of strategy or operations. Firms in different environments respond to changes in the business environment through various methods. For portfolio related strategic responses firms can adopt mergers, takeovers demergers and diversification strategies. At the same time strategies such as shares buyback, joint venture, disinvestments and strategic alliances collaborations could be utilized (Bryson, 1995).

In addition firms can also adopt the environment organization structure related strategic responses which include strategic business units, matrix structure and delayering flat organization structure. Equally firms can use process related strategic responses of quality strategies, international quality, certification programmes, just-in-time inventory and benchmarking. Others strategies that could be utilized are setting vision and mission , cost and asset utilization strategies, technological upgradation and indigenization, information technology, research and development, marketing strategies and project management. Operational efficiency and effectiveness strategies alone may be insufficient to achieve sustainable competitive advantage. This is because they are short term in nature and may only address short term changes in the environment. However they address efficiency as opposed to effectiveness which is dealt with by strategic responses whose main characteristics is being long term in nature. The strategic responses are holistic in nature as they involve the whole firm and constitute decisions made at the corporate and business levels (Baron, 2005).

Diversification strategy could take the form of related diversification or unrelated diversification. Related diversification allows a business to escape from possible business wars with existing competitors while minimizing product-market adjustment costs in terms of having to adopt new technology. Unrelated diversification is an expansion by a business into market areas that are not related to existing products or services in terms of technology, distribution channels or end use. The rationale for such an expansion path is financial rather than industrial. Unrelated diversification releases the

company from any constraints upon the chosen market in which to expand (Smart & Vertinsky, 2006).

Firms can also respond to environmental changing conditions formulating new strategies in their operations. Firms` operational strategies can be in the functional level of a firm take and its strategic business unit. Here strategies can be on the areas of marketing, finance, operations, research and development and human resource functions. Marketing strategy deals with pricing, promoting, selling and distribution of products. Using market development strategy, a firm can capture a larger share of an existing market for current products through market saturation and market penetration. The company could also develop new markets for current products. Using the product development strategy, a company can develop new products for new markets. For advertising and promotion, a company could use push and pull marketing strategies (Wagner, 2001).

Strategic purchasing could be utilized to obtain supplies at a relatively cheap cost and better quality. This can in turn minimize cost or purchases and create competitive edge of the firm. To keep in line with modern business strengths a firm must put in place research and development strategies. These strategies could unravel new competitors in the market new demand and the changing nature of customer preferences and tastes. Harmed with these strategies the firm can create a competitive edge for itself. Firms can also make adjustments in the creation of a competitive human resource management component to deal with emerging issues in strategies in business while, the non-core functions maybe

outsourced. Functions that require to be performed by non-skilled labour could also be outsourced (Johnson and Scholes, 2002).

A good strategy in finance must examine the cash flow and investment issues of the firm this is in addition to adopting the best valuation methods in understanding fully the net present value of the firm so as for it to attract investment. Sources of financing which are reliable and relatively cheaper in terms of cost also constitute a strategic response to a volatile business environment. The formulation of strategic responses is generally treated as a rational process of matching corporate capabilities to market demands and changing environment conditions. Corporate perspectives on changing environmental conditions are likely to be premised upon views of climate science, expectations of regulatory responses, and the market potential for mitigation technologies. These perspectives are mediated by the institutional environment, including competitors, industry associations, consumers, regulatory agencies, and the media (Burnes, 2000).

The forces in macro environment have their impact on the goals, values, human relations technologies and decision making in a business organization and the firm must react strategic if it has to survive. At the same time perceptions and beliefs of the managers are also important. It is because of the fact that information from the external environment is passed through the perceptive and cognitive process of individual managers. They analyze the information and take the appropriate decision. The forces in the external environment may act a positive stimulant or a negative constraint for the business. When they act as positive stimulant, the efficiency of the business improves and when they act

as negative constraint or when prevailing environment is not favorable the business efficiency and managerial performance decline. This situation lowers the image of the management in the eyes of the public. It should also be noted a change in the environment may influence on business unit positively while other business negatively (Jeffs, 2008).

Contingency researchers have used a multiplicity of terms to describe and categorize the environment. Early research described the organizational task environment as factors from the external environment that affect organizational goal setting (Dill, 1958). Other research studied how organizations segment their environment (Lawrence and Lorsch, 2005). Duncan (2002) develops two dimensions that distinguish between the essence of different environments: complexity and dynamism. Complexity deals with the number of factors an organization must consider from its environment when making decisions. Relatively simple environments require that few factors be considered and relatively complex environments require that a large number of factors be considered.

Tan and Litschert (2004) suggest that a dynamic view of the relationship between the environment and strategic change is necessary to explore this relationship. Zajac and Shortell (1989) address the question as to whether or not organizations change strategies in response to changing environmental conditions and found that that while this is a generally appealing concept relatively little empirical work has been pursued. While they found general agreement with the notion that organizations change strategies in response to changing environmental conditions, their findings were less than conclusive. Kraatz

and Zajac (2001) were consistent with their earlier work and the behavioral perspective in their studies of small colleges and found that while the resources held by firm did constrain strategic change that organizations did respond to changing environmental conditions.

Smart & Vertinsky (2006) carried out a study on corporate responses to crises. This study examined the relationship between the type of external environment in which a firm operates and the repertoire of strategic responses the firm develops to cope with crises. The findings suggest that an executive's propensity to adopt a particular strategic posture depends on his perceptions of how well his firm can control its environment and on the costs of introducing change into the organization. Zajac and Kraaz (2007) in their study examined the environmental and organizational forces, counter-forces, and performance consequences of strategic restructuring in the higher education industry. The study proposes a diametric forces model to address the conflicting pressures for strategic change faced by these organizations, and uses extensive longitudinal data spanning the last two decades to examine the ways in which restructuring has been used as a successful adaptive response. The results suggest that, contrary to ecological predictions, restructuring is a predictable, common, and performance-enhancing response to changing environmental conditions.

2.5 Conclusion

Most of the reviewed literature is from other countries whose organizations strategic approach and financial footing is different from that of Kenya. In addition, , none is done

on organizations that are responsible of revenue collection in the countries of study. Further, none of the local ones have looked into the strategic responses by KRA to changing environment. This study therefore seeks to fill these gaps by establishing the strategic responses adopted by KRA to address changes in its operating environment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the following subtopic which relate to how the research was carried out to achieving its objectives. The chapter covers the research design used to conduct the study, data collection methods used and the analysis and presentation of the data.

3.2 Research Design

This study adopted case study design whereby the unit of analysis was the KRA. This design is appropriate when a detailed and an in-depth data is desired. This was the case with this study which was focusing on a single unit. Case study research design provides very focused and valuable insights to the phenomena that may otherwise be vaguely known or understood (Ruane, 2005). The design enables the researcher not only to establish factors explaining phenomena but also unearth underlying issues (Yin, 2003).

3.3 Data Collection

The study made use of both secondary and primary data. Primary data was obtained from the ten heads of departments at KRA including Domestic Taxes Department, Road Transport Department, Support Services Department, Human Resource Department, Office of the CG, Customs Services Department, Internal Audit, Marketing and Communication, Investigation and Enforcement and Information Communication and Technology departments using an unstructured interview guide. These respondents are better placed to provide required data to answer the research question of this study

because they are the ones playing a key role the formulation and implementation of strategies.

The interview guides that were used to collect primary data consisted of open-ended questions. The open-ended questions enabled the researcher to collect qualitative data. This was used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the study. The interview guides designed in this study comprised of two sections. The first part included the demographic and operational characteristics designed to determine fundamental issues including the demographic characteristics of the interviewees. The second part was devoted to the identification of the strategic responses to changing environment where the main issues of the study were put into focus. The interview guides were administered through face to face interviews with the respondents.

Secondary qualitative data was collected by use of desk search techniques from published reports and other documents. Secondary data sources on the response strategies to external environment included the KRA's publications such as strategic plan, KBS statistics, CBK and information obtained from the internet.

3.4 Data Analysis

Before processing the responses, the completed interview guides were edited for completeness and consistency. A conceptual content analysis was employed. Content analysis is defined as a technique of making inferences by systematically and objectively

identifying specific characteristics of messages and using the same to relate to trends (Bryman and Bell, 2007). It provides the researcher with a qualitative picture of the respondent's concerns, ideas, attitudes and feelings (Creswell, 2003). The researcher quantifies and analyzes the presence, meanings and relationships of such words and concepts then makes inferences about the messages within the text. To conduct a content analysis on any such text, the text is coded or broken down, into manageable categories on a variety of levels; word, word sense, phrase, sentence, or theme and then examined using content analysis.

The content analysis was used to analyze the interviewees' views about the strategic responses to the changing environment in Kenya Revenue Authority so as to bring out common themes or data from the various responses collected. This approach ensured that any unanticipated themes are given the opportunity to emerge from the data. The data was then presented in a continuous prose as a qualitative report. The data obtained was also compared with existing literature in order to establish areas of agreement and disagreement in order to ascertain the facts.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter presents research findings from the field and their interpretations. The data was gathered through interview guides and analyzed using content analysis. The findings were on the strategic response by Kenya Revenue Authority to the changing environment.

All the ten heads of departments identified in chapter three to be interviewed were interviewed. This constitutes a response rate of 100%. The commendable response rate was achieved after the researcher made frantic effort at booking appointment with the head of departments despite their tight schedules and making phone calls to remind them of the interview.

4.2 Demographic Information

In an effort to ascertain the interviewees' competence and conversance with matters regarding Kenya Revenue Authority asked questions on the position that the interviewee held in their departments. According to the data findings, all the interviewees were senior managers in charge of various department such as Domestic Taxes Department, Road Transport Department, Support Services Department, Human Resource Department, Office of the CG, Customs Services Department, Internal Audit, Marketing and Communication, Investigation and Enforcement and Information Communication and Technology departments. The researcher also asked a question on the years that the interviewees had worked for the organisation (Kenya Revenue Authority). According to

the interviewees' response, all of them had worked for the organisation for at least ten 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 senior managers and had experience and aptitude owing to their years of experience in the organisation.

4.3 Environmental Changes

4.3.1 Changes in Economic Environment

The interviewees were asked to describe the changes that have had major impact on their operations from the economic environment. From the responses, the interviewees were unanimous that the economic environment was very dynamic with distinct technological change, increasing need to maintain high quality services due to taxpayer awareness of their rights, changing legal environment such as new constitution dispensation, reforms and modernization, introduction of service level charters, introduction of performance contracts, freeze of donor funding from development partners and political changes.

On how KRA has responded to the changes, the interviewees indicated that there was preparation of service charters by all departments, automation of processes, integrity awareness to stakeholders, taxpayer education initiatives introduced, development of internal standards, retrenchment of staff who do not add much value to the organization, introduction of the balanced score card tool in staff evaluation, automation of business processes, introduction of Electronic Tax Register (ETR) and introduction of integrity programs.

4.3.2 Changes in Regulation/Policies

The interviewees also reiterated that the changes in regulation/policies that have affected their operations include various policy documents developed, performance contracting, performance evaluations, review of code of conduct, restructuring of departments, merging of departments, the adoption of new constitution, adoption of the VAT Act 2013 and a revised code of conduct.

The interviewees intimated that KRA responded to the changes in regulation/policies by purposely embracing policies to take care of such changes, gender mainstreaming as guided by the constitution, sensitization of staff on the rights of taxpayers and aligning them with current developments to avoid litigation on cases where there is contravention of the constitution. They also indicated that there has been adequate sensitization of staff regarding the same so that VAT collections can be boosted to a level within the set expectation on the tax head, aligning the code of conduct to the constitution to ensure no staff's rights are violated and development of new policies.

4.3.3 Changes Due To Political Climate

To the question on the changes that have taken place due to political climate, the interviewees cited recruitment of CEO via consultants, use of aptitude tests when recruiting graduate trainees, regional balancing during appointments, gender balance during appointments, physically challenged persons given equal employment opportunities, top management staff vacant positions are now competitively applied for

and filled, taxation of all persons including members of parliament and KRA intends to partner with county governments in collecting revenues.

To counter these changes that have taken place in the organization due to political climate, KRA has adopted competitive recruitment where advertisement of all positions which were earlier based on political patronage, publicity of applicants and results, conduct mobile tax clinics and engaging with the parliamentary service commission and the MP's on the importance of complying with the provisions of the constitution on taxation of all citizens.

4.3.4 Changes Due To Increased Demand for Revenue

The study proceeded to determine the changes brought about by the increased demand for revenue. All the interviewees agreed unanimously that due to increased demand for revenue, there has been integrity initiatives introduced for stakeholders, introduction and adoption of performance contracting in all carders' of staff, thirteen month salary for staff when targets are surpassed, reward system to performing staff, industrial actions by civil servants in search for higher pay, introduction of ethics and integrity department to address integrity issue and business automation to enable taxpayers pay from any corner of the republic.

They further indicated that responses adopted by KRA to cope with the increased demand for revenue with the coming of the devolved government include governors engagement via seminars, research on county's economic activities, expanding the tax base via new

initiatives like real estate taxation and having consultative forums with governors to sensitize them about tax planned opening of offices in all counties to ensure there is presence countrywide.

4.3.5 Changes in the Regulatory Environment

The study also proceeded to determine enumerate the changes in the regulatory environment. The interviewees concurred that the changes in the regulatory environment include performance contracting and evaluation of Government departments and parastatals and ranking of the same, target setting by the KRA principals (Treasury) with KRA Board, quarterly report submission to Treasury and performance Contracting in Public Sector is now under Devolution Ministry. The interviewees also indicated that to cope with the above changes in the regulatory environment, KRA has embraced performance contracting and complied with requirements and formation of a unit within Corporate support Services department responsible for Performance Contracting.

4.3.6 Changes in the Technology

On the areas in which technology has taken toll, the interviewees indicated that some of the technological changes experienced include ETR by DTD, SIMBA by CSD, VMS by RTD, K9 Unit by CSD, Scanners us by CSD, ITax by DTD, ERP by support services and Mobile Taxpayer Unit. They also intimated the taxpayers are always ahead in technology hence the organization has to align itself with the changes. Online filing was adopted to reduce paperwork and queues. Further, long-room issues on queues and integrity led to the introduction of the Simba system under Customs Services Limited.

The interviewees further intimated that to respond to the above technological changes, the strategies that have been put in place to achieve the appropriate changes include sensitizations done for stakeholders, publicity on the changes done, training of staff on capacity building and procurement of hardware for use. They also indicated that KRA is in the process of rolling out ITAX system which will enable taxpayers launch their returns online while giving the officers have a single view of the taxpayer. In addition, there are plans to roll out GPS enabled ETR machines are on the pipeline too which will reduce cases of misuse of these machines. The interviewees also cited that KRA is also taking staff through change management programs to enhance acceptance levels in the initiatives put in place.

The interviewees were also in accord that there has been improvement in performance owing to this technology adoption as depicted in improved service delivery, efficiency boosted, client focus, complaints reduced, delays and long queues reduced and Itax for Domestic Tax is a one stop shop for taxpayers to enhance a single view. It will be very key in the success of e-government objectives. They however indicated that ETR although it has had challenges, its introduction was very handy in VAT management. The data findings showed that the interviewees had been involved in the formulation of any of the response strategies.

The interviewees were in accord that the responses led to fruitful results include publicity campaign and conducting of sensitization seminars saying that the turnout of stakeholders during seminars and issuance of brochures and Q&A helped in buy in by the taxpayers of the initiative. They also intimated that renewal of DL via NBK is a success case.

To the question on the type of strategic responses to the changes in the company's external environment, the interviewees intimated that strategic responses were both proactive and reactive to the changes in the company's external environment. They indicated that the Corporate Plan carries out a PEST analysis of the organisation and develops appropriate measures. KRA is the first Public Institution to adopt BSC tool in evaluation and was in place even earlier than the introduction of performance contracting. The interviewees were in accord that the other strategic responses that KRA has adapted to the challenges posed by the external environment include responding to press complaints on time, organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others, conducting tax clinics country wide in all regional offices, implementing corporate social responsibility by sponsoring Heart Run, Freedom from hunger walk, support children Homes among others, responding to press complaints on time and organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others.

On what else Kenya Revenue Authority Limited should do to cope with the changes in the operating environment, the interviewees indicated that KRA need to scan the environment and come up with proactive strategies to cope with identified risk before they happen, lobbying with other government bodies and county to collect revenues and fees on agency basis as this will increase the authority's income hence reducing dependence on the exchequer, KRA need to scan the environment and come up with proactive strategies to cope with identified risk before they happen. The interviewees further said that since superior service delivery is critical for Kenya Revenue Authority

competitiveness, hence internally, the company's business segments (departments) should work closely together in ensuring that there is an efficient customer service. The interviewees also recommended that the company should be involved in more corporate social responsibility to give back to the society through their corporate social responsibility policy which is one way of increasing its influence on the lives of Kenyans and thus enhancing customer loyalty in tax remittance.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSION 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 were drawn are in quest of addressing the research question or achieving at the research objective which is the strategic response by Kenya Revenue Authority to the changing environment.

5.2 Summary of Findings

The study found that the economic environment was very dynamic with distinct technological change, increasing need to maintain high quality services due to taxpayer awareness of their rights, changing legal environment such as new constitution dispensation, reforms and modernization, introduction of service level charters, introduction of performance contracts, freeze of donor funding from development partners and political changes.

On how KRA has responded to the changes, the study deduced that there was preparation of service charters by all departments, automation of processes, integrity awareness to stakeholders, taxpayer education initiatives introduced, development of internal standards, retrenchment of staff who do not add much value to the organization, introduction of the balanced score card tool in staff evaluation, introduction of Electronic Tax Register (ETR) and introduction of integrity programs.

The researcher also found that the changes in regulation/policies that have affected their operations include various policy documents developed, performance contracting, performance evaluations, review of code of conduct, restructuring of departments, merging of departments, the adoption of new constitution, adoption of the VAT Act 2013 and a revised code of conduct.

The study further found that KRA responded to the changes in regulation/policies by purposely embracing policies to take care of such changes, gender mainstreaming as guided by the constitution, sensitization of staff on the rights of taxpayers and aligning them with current developments to avoid litigation on cases where there is contravention of the constitution. The study also established that there has been adequate sensitization of staff regarding the same so that VAT collections can be boosted to a level within the set expectation on the tax head, aligning the code of conduct to the constitution to ensure no staff's rights are violated and development of new policies.

On the changes that have taken place due to political climate, the study established that recruitment of CEO via consultants, use of aptitude tests when recruiting graduate trainees, regional balancing during appointments, gender balance during appointments, physically challenged persons given equal employment opportunities, top management staff vacant positions are now competitively applied for and filled, taxation of all persons including members of parliament and KRA intends to partner with county governments in collecting revenues.

To counter these changes that have taken place in your organization due to political climate, KRA has adopted competitive recruitment where advertisement of all positions which were earlier based on political patronage, publicity of applicants and results, conduct mobile tax clinics and engaging with the parliamentary service commission and the MP's on the importance of complying with the provisions of the constitution on taxation of all citizens.

The changes brought about by the increased demand for revenue include integrity initiatives introduced for stakeholders, introduction and adoption of performance contracting in all carders' of staff, thirteen month salary for staff when targets are surpassed, reward system to performing staff, industrial actions by civil servants in search for higher pay, introduction of ethics and integrity department to address integrity issue and business automation to enable taxpayers pay from any corner of the republic.

It was clear that responses adopted by KRA to cope with the increased demand for revenue with the coming of the devolved government include governors engagement via seminars, research on county's economic activities, expanding the tax base via new initiatives like real estate taxation and having consultative forums with governors to sensitize them about tax planned opening of offices in all counties to ensure there is presence countrywide.

The changes in the regulatory environment include performance contracting and evaluation of Government departments and parastatals and ranking of the same, target setting by the KRA principals (Treasury) with KRA Board, quarterly report submission

to Treasury and performance contracting in Public Sector is now under Devolution Ministry. To cope with the above changes in the regulatory environment, KRA has embraced performance contracting and complied with requirements and formation of a unit within corporate support Services department responsible for performance contracting.

On the areas in which technology has taken toll, the study deduced that some of the technological changes experienced include ETR by DTD, SIMBA by CSD, VMS by RTD, K9 Unit by CSD, Scanners us by CSD, ITax by DTD, ERP by support services and Mobile Taxpayer Unit. Further, the taxpayers are always ahead in technology hence the organization has to align itself with the changes. Online filing was adopted to reduce paperwork and queues. Further, long-room issues on queues and integrity led to the introduction of the Simba system under Customs Services Limited.

To respond to the above technological changes, the strategies that have been put in place to achieve the appropriate changes include sensitizations done for stakeholders, publicity on the changes done, training of staff on capacity building and procurement of hardware for use. KRA is in the process of rolling out ITAX system which will enable taxpayers launch their returns online while giving the officers have a single view of the taxpayer. In addition, there are plans to roll out GPS enabled ETR machines are on the pipeline too which will reduce cases of misuse of these machines. Further, KRA is also taking staff through change management programs to enhance acceptance levels in the initiatives put in place.

The study also revealed that there has been improvement in performance owing to this technology adoption as depicted in improved service delivery, efficiency boosted, client focus, complaints reduced, delays and long queues reduced and Itax for Domestic Tax is a one stop shop for taxpayers to enhance a single view. It will be very key in the success of e-government objectives. However ETR although it has had challenges, its introduction was very handy in VAT management.

The study further established that the responses led to fruitful results include publicity campaign and conducting of sensitization seminars saying that the turnout of stakeholders during seminars and issuance of brochures and Q&A helped in buy in by the taxpayers of the initiative. The renewal of DL via NBK is a success case.

They also indicated that strategic responses were both proactive and reactive to the changes in the company's external environment. Further, the Corporate Plan carries out a PEST analysis of the organisation and develops appropriate measures. It was clear that KRA is the first Public Institution to adopt BSC tool in evaluation and was in place even earlier than the introduction of performance contracting.

The study also revealed that the other strategic responses that KRA has adapted to the challenges posed by the external environment include responding to press complaints on time, organizing seminars with professional bodies like ICPAK. LSK, Hindu council among others, conducting tax clinics country wide in all regional offices, implementing corporate social responsibility by sponsoring Heart Run, Freedom from hunger walk,

support children Homes among others, responding to press complaints on time and organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others.

5.3 Discussion of Results

Strategic responses to the ever changing environmental conditions present an act as the yardstick within which improvement of the firms dealings can be attained. According to Choi, Gupta & Wilemon (1985), the changes in the environment therefore have far reaching implications on nature of opportunities and risks they expose firms to. It is therefore paramount for organizations to align themselves with the environment demands for their continuity, survival and sustainability. In line with this, the study found that the economic environment was very dynamic with distinct technological change, increasing need to maintain high quality services due to taxpayer awareness of their rights, changing legal environment such as new constitution dispensation, reforms and modernization, introduction of service level charters, introduction of performance contracts, freeze of donor funding from development partners and political changes.

On how KRA has responded to the changes, the study deduced that there was preparation of service charters by all departments, automation of processes, integrity awareness to stakeholders, taxpayer education initiatives introduced, development of internal standards, retrenchment of staff who do not add much value to the organization, introduction of the balanced score card tool in staff evaluation, introduction of Electronic Tax Register (ETR) and introduction of integrity programs. This is consistent with Pearce & Robinson (2005), who observed that for firms to be efficient and effective resulting in

successful business operations they must continuously take on the environmental turbulence and tap on any opportunity presented and handle any environmental conditions that are likely to cause any business challenge by strategically responding to the same.

The researcher also found that the changes in regulation/policies that have affected their operations include various policy documents developed, performance contracting, performance evaluations, review of code of conduct, restructuring of departments, merging of departments, the adoption of new constitution, adoption of the VAT Act 2013 and a revised code of conduct.

The study further found that KRA responded to the changes in regulation/policies by purposely embracing policies to take care of such changes, gender mainstreaming as guided by the constitution, sensitization of staff on the rights of taxpayers and aligning them with current developments to avoid litigation on cases where there is contravention of the constitution. Given the fact that strategies are time consuming and they take in a lot of resources it is necessary for the firm to consider a cost effective strategy that maximizes on costs. The tactical responses on the other hand are basically meant to fine tune the company strategy (Smart & Vertinsky, 2006). The study also established that there has been adequate sensitization of staff regarding the same so that VAT collections can be boosted to a level within the set expectation on the tax head, aligning the code of conduct to the constitution to ensure no staff's rights are violated and development of new policies.

On the changes that have taken place due to political climate, the study established that recruitment of CEO via consultants, use of aptitude tests when recruiting graduate trainees, regional balancing during appointments, gender balance during appointments, physically challenged persons given equal employment opportunities, top management staff vacant positions are now competitively applied for and filled, taxation of all persons including members of parliament and KRA intends to partner with county governments in collecting revenues.

To counter these changes that have taken place in the organization due to political climate, KRA has adopted competitive recruitment where advertisement of all positions which were earlier based on political patronage, publicity of applicants and results, conduct mobile tax clinics and engaging with the parliamentary service commission and the MP's on the importance of complying with the provisions of the constitution on taxation of all citizens.

The changing technologies, reduced natural resources, changes in customers' demands and needs in addition to unpredictable economic and weather conditions have the resultant effect of a complex business environment and business transactions it is therefore necessary that firms across industry need to come up with responses strategies so as not only survival but have sustainable development (Burnes, 2000). In line with this, the study deduced that the changes brought about by the increased demand for revenue include integrity initiatives introduced for stakeholders, introduction and adoption of performance contracting in all carders' of staff, thirteen month salary for staff when targets are surpassed, reward system to performing staff, industrial actions by civil servants in search for higher pay, introduction of ethics and integrity department to

address integrity issue and business automation to enable taxpayers pay from any corner of the republic.

It was clear that responses adopted by KRA to cope with the increased demand for revenue with the coming of the devolved government include governors engagement via seminars, research on county's economic activities, expanding the tax base via new initiatives like real estate taxation and having consultative forums with governors to sensitize them about tax planned opening of offices in all counties to ensure there is presence countrywide. This is consistent with Johnson and Scholes (2002) who deduced that it is necessary for capacity and team building across the entire organizations to effectively manage environmental changes. Team work across departments, product differentiation, processes of control planning and evaluation in addition to business planning therefore are key in the way of responses to the environment by firms (Porter, 1990).

A change in strategy work in practice if the relevant structure is put in place in terms of processes, boundaries and relations and their interactions at the same time there must be enabling thus creating of support mechanisms in the organization in order to support strategy implementation and development (Bryson, 1995). The study therefore found that changes in the regulatory environment include performance contracting and evaluation of Government departments and parastatals and ranking of the same, target setting by the KRA principals (Treasury) with KRA Board, quarterly report submission to Treasury and performance contracting in Public Sector is now under Devolution Ministry. To cope with the above changes in the regulatory environment, KRA has embraced performance

contracting and complied with requirements and formation of a unit within corporate support Services department responsible for performance contracting.

Rapid technological change, easier entry by foreign competitors, and the accelerating breakdown of traditional industry boundaries subject firms to new, unpredictable competitive forces. Modern firms, operating in dynamic market contexts, often deal with these contingencies by implementing strategies that permit quick reconfiguration and redeployment of assets to deal with environmental change. Strategic responses mean strategic change (Klinger, 2004). On the areas in which technology has taken toll, the study deduced that some of the technological changes experienced include ETR by DTD, SIMBA by CSD, VMS by RTD, K9 Unit by CSD, Scanners us by CSD, ITax by DTD, ERP by support services and Mobile Taxpayer Unit. Further, the taxpayers are always ahead in technology hence the organization has to align itself with the changes. Online filing was adopted to reduce paperwork and queues. Further, long-room issues on queues and integrity led to the introduction of the Simba system under Customs Services Limited.

Strategic responses require organizations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy. The organization, therefore, has to harness both its intangible and intangible assets to maintain a strategic fit in its environment and strategy (Stacey, 2009). Consistent with this, the study deduced that the strategies that have been put in place to achieve the appropriate technological changes include sensitizations done for stakeholders, publicity on the changes done, training of staff on capacity building and procurement of hardware for use. KRA is in the process of rolling out ITAX system

which will enable taxpayers launch their returns online while giving the officers have a single view of the taxpayer. In addition, there are plans to roll out GPS enabled ETR machines are on the pipeline too which will reduce cases of misuse of these machines. Further, KRA is also taking staff through change management programs to enhance acceptance levels in the initiatives put in place. This is consistent with Greenstein (2001) who opined that firms can focus on specific markets or specific products or even product new products to suit niche markets. New product development strategy is used when the external factors suggest that the market is saturated or that stronger competition or other threats to market exist and the internal factors show weakness in distribution or strength in product development.

According to Burnes (2000), corporate perspectives on changing environmental conditions are likely to be premised upon views of climate science, expectations of regulatory responses, and the market potential for mitigation technologies. In line with this, the study revealed that there has been improvement in performance owing to this technology adoption as depicted in improved service delivery, efficiency boosted, client focus, complaints reduced, delays and long queues reduced and Itax for Domestic Tax is a one stop shop for taxpayers to enhance a single view. It will be very key in the success of e-government objectives. However ETR although it has had challenges, its introduction was very handy in VAT management.

Firms can adopt the environment organization structure related strategic responses which include strategic business units, matrix structure and delayering flat organization structure. Equally firms can use process related strategic responses of quality strategies,

international quality, certification programmes, just-in-time inventory and benchmarking. The strategic responses are holistic in nature as they involve the whole firm and constitute decisions made at the corporate and business levels (Baron, 2005). Consistent with this, the study further established that the responses led to fruitful results include publicity campaign and conducting of sensitization seminars saying that the turnout of stakeholders during seminars and issuance of brochures and Q&A helped in buy in by the taxpayers of the initiative. The renewal of DL via NBK is a success case.

According to Wagner (2001), firms can respond to environmental changing conditions formulating new strategies in their operations. Firms` operational strategies can be in the functional level of a firm take and its strategic business unit. Here strategies can be on the areas of marketing, finance, operations, research and development and human resource functions. In line with this, the study revealed that the other strategic responses that KRA has adapted to the challenges posed by the external environment include responding to press complaints on time, organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others, conducting tax clinics country wide in all regional offices, implementing corporate social responsibility by sponsoring Heart Run, Freedom from hunger walk, support children Homes among others, responding to press complaints on time and organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others.

5.4 Conclusion

In the modern world of changing operating environment, Kenya Revenue Authority has been able to keep pace with the increased revenue demand scenario by adopting various response strategies. From the study findings, the researcher concludes that the challenges in the external environment that affect the operations of the organisation were such as new constitution dispensation, reforms and modernization, introduction of service level charters, review of code of conduct, restructuring of departments, regional balancing during appointments, introduction of performance contracts, industrial actions by civil servants in search for higher pay, freeze of donor funding from development partners and political changes.

The study also concludes that the responses to the changing environment that have led to fruitful results were automation of processes, preparation of service charters by all departments, taxpayer education, introduction of the balanced score card tool, competitive recruitment, mobile tax clinics and training of staff. Strategic responses adopted by Kenya Revenue Authority are both proactive and reactive to the changes in the external environment. It was clear that although ETR has had challenges, its introduction was very handy in VAT management.

The study further concludes that KRA has responded to the increased demand for revenue with the coming of the devolved government by engaging governors via seminars, research on county's economic activities, expanding the tax base via new initiatives like real estate taxation and taxing all civil servants including the parliamentarians.

5.5 Recommendations

From the discussions and conclusions in this chapter, the study recommends that although there Kenya Revenue Authority has been successful in neutralizing the challenges brought about by changes in the operating environment, Kenya Revenue Authority should scan the environment and come up with proactive strategies to cope with identified risk before they happen.

The study further recommends that Kenya Revenue Authority should undertake appropriate, persuasive and sustained advertisement, marketing and campaigns on the importance of paying tax so as to change the negative perception on their mandate, increase its revenue collection and customer satisfaction. The Kenya Revenue Authority should also be involved in more corporate social responsibility to give back to the society through their corporate social responsibility policy which is one way of increasing its influence on the lives of Kenyans and thus enhancing customer loyalty in tax remittance.

The study also recommends that the Kenya Revenue Authority should recruit workers who have the necessary knowledge and competencies in its business to minimize on the induction and training costs. The staff should also be remunerated fairly and have better work condition and terms to ward-off staff poaching by other parastatals and the private sector.

The study also recommends that there is need for lobbying with other government bodies to collect revenues and fees on agency basis as this will increase the authority's income hence reducing dependence on the exchequer. Since superior service delivery is critical

for Kenya Revenue Authority competitiveness, internally, the company's business segments (departments) should work closely together in ensuring that there is an efficient customer service.

5.6 Limitations of the Study

Being that this was a case study on one company the data gathered might differ from strategic responses that other parastatals have adopted to match the changing environment. This is because different institutions adopt different strategies that differentiate them from their counterparts. The study however, constructed an effective research instrument that sought to elicit general and specific information on the strategic responses that companies adopt to match the changing environment.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on strategic responses to changing environment. Due to limited finances the study could not be carried out on the other branches of Kenya Revenue Authority. The study, however, minimized these by conducting the interview at the Kenya Revenue Authority headquarter since it is where strategies are made and rolled out to other branches that operate on the blue print.

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 Kenya Revenue Authority. The researcher handled the problem by carrying with him 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.

5.7 Recommendations for Further Research

The study recommends that further research should be done on the other institutions in the public sector so as to get comprehensive information on how the other players in the sector have responded towards changing external environment.

More research needs to be done to determine what effect the strategic responses adopted towards changing external environment on the performance of the Kenya Revenue Authority. The contribution of strategic responses to the overall performance of Kenya Revenue Authority should be explored.

5.8 Implication for Policy and Practice

These findings imply that KPA is faced with various challenges brought about by the changing external environment as such the one experienced currently the organization should engage in more of the proactive strategies by coming up with new innovations in order to keep pace with the changing world.

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APPENDICES

Appendix I: Letter of Introduction

January 2012

The Manager

Kenya Revenue Authority

P.O Box 30440 -00100,

Nairobi, Kenya.

Dear Sir/Madam,

RE: REQUEST TO COLLECT DATA FOR MBA RESEARCH PROJECT

I am a student at the University of Nairobi pursuing a Masters of Business Administration program.

Pursuant to the pre-requisite course work, I would like to conduct a research project on **Strategic Response By Kenya Revenue Authority To The Changing Environment.** The focus of my research was the Kenya Revenue Authority and this involved use of interview guides administered to all the heads of departments.

I kindly seek your authority to conduct the research at Kenya Revenue Authority through interview guides and use of relevant documents. I have enclosed an introductory letter from the University.

Your assistance is highly valued.

Thank you in advance.

Yours faithfully,

Kittony Auckman Kurui

Appendix II: Interview Guide

STRATEGIC RESPONSE BY KENYA REVENUE AUTHORITY TO THE CHANGING ENVIRONMENT

Part A: General information

1. Name of department.
2. What is your designation in the department?
3. What is your total work experience in years?
4. What is your length of time in the organization?

PART B: ENVIRONMENTAL CHANGES

5. a) List the external changes that have had major impact on your operations from the economic environment.

b) How has KRA responded to the changes?
6. a) Have there been any changes in regulation/policies that have affected your operations? Briefly outline them.

b) How has KRA responded to the changes?
7. a) Indicate any changes that have taken place in your organization due to political climate?

b) How has KRA responded to the changes?
8. a) What are some of the changes brought about by the increased demand for revenue?

b) What are the responses adopted by KRA to cope with the increased demand for revenue with the coming of the devolved government?

9. a) Have there been any changes in the regulatory environment? Please enumerate them.
- b) How has KRA responded to the changes?
10. a) Briefly indicate the areas in which technology has taken toll? What are some of the technological changes experienced?
- b) To respond to the above technological changes, what strategies have been put in place to achieve the appropriate changes?
11. Has there been any improvement in performance owing to this technology adoption? Briefly outline
12. Are you involved in the formulation of any of the response strategies highlighted in any of the above questions? How?
13. Which responses led to fruitful results? Indicate briefly why?
14. Do you consider the various response strategies adopted by KRA to be proactive or reactive to the changes in the corporation's external environment?
15. What are the other strategic responses that KRA has adapted to the challenges posed by the external environment?
16. Any other suggestion on what KRA can do to cope with the changes in the operating environment?

THANK YOU!!