RESPONSES BY KENYA REVENUE AUTHORITY (KRA) TO THE CHALLENGES IN THE IMPLEMENTATION OF THE CUSTOMS' REFORMS AND MODERNIZATION (CRM)

By
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A Management research project submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration (MBA), School of Business, Nairobi University

DECLARATION

This management research project is my original work and has not been presented for a degree in any other university.

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

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DEDICATION

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List of Abbreviations

KRA   Kenya Revenue Authority
CSD   Customs Services Department
CRM   Customs Reform and Modernization
WCO   World Customs Organization
ICT   Information and communication Technology
IT   Information Technology
UNCTAD United Nations Conference on Trade and Development
CSIP   Continuous Service Improvement Programme
PMBO Program Management and Business Analysis Office
BPI   Business Process Improvement
VSAT Very Small Aperture Terminal
BCO   Border Control Officers
KIFWA Kenya International Freight and Warehousing Association
ISP   Internet Service Providers

Abstract

This study seeks to determine how KRA implemented the Customs Reforms and Modernization Program, the challenges KRA encountered in implementing the reforms and modernization initiatives and how KRA responded to those challenges.

Using an interview guide, data was collected from the members of the core Customs Reforms and Modernization team and the Customs officers that were involved in the reforms and modernization initiatives. These responses were then tabulated and weighted to determine key challenges and responses.

The findings indicate that the greatest challenge KRA encountered was resistance to change followed by lack of requisite skills. Other challenges included lack of resources and a supportive telecommunication infrastructure. KRA responded to these challenges by training and sensitizing the staff and stakeholders and hiring new staff with the requisite skills. They also sought political support and improved their project management style.

One key conclusion of this study is that strong, visionary leadership is an important component for project success particularly when faced with resistance to change. Another conclusion is that flexibility, political support, teamwork and openness are important when implementing strategic change within the public sector.

CHAPTER 1 - INTRODUCTION

1.1 Background

Tax administration entails the collection of taxes, enforcement of tax laws and provision of structures that facilitate revenue collection. Globalization has resulted in a global supply chain that links the developed world and the developing world. As a result, revenue authorities that occupy the ends of the global supply chains, have been under tremendous pressure to standardize their operations and make them more effective so as to add value to the taxpayers who engage in imports and exports of goods.

In addition, following the 11 September 2001 terrorist attack in the US, most countries customs border control have added emphasis on security of goods entering and leaving countries (Dunniela Kaufman and Fraser Milner Casgrain, 2004). This is in conflict with globalization, which calls for borders to become increasingly porous (Stephen Flynn and Jeane Kirkpatrick, 2002). Preventing the entry of dangerous goods requires profiling of goods based on certain risk criteria and subsequently subjecting such goods to specified intervention or inspection measures based on the risk channels they are placed in. This calls for computerization of verification processes and a heavy reliance on modern technology.

Customs is concerned with control of imports and exports of goods and therefore occupies a pivotal role in handling the above challenges, alongside the perception that customs officials are corrupt (John Carman, 1998; Grigol Liluashvili, 2005; John Pomfret, 2006) hence the need for transparent, auditable systems. In addition, like most government programs the reforms programs were open to political interference. It is in that backdrop that the KRA Customs Reforms and Modernization program was initiated.

1.1.1 Reforms and Modernization

World trade has expanded more than twice as rapidly as world gross domestic product over the past decade (World Bank, 2005). This increase has resulted in an increased demand for trade integration and a range of complementary policies by customs administrations that provide traders with transparent, predictable, and speedy clearance of goods (Michael Lane, 1998).

In addition, the customs administrations have had to face changes in their operating environment including:

1. More sophisticated and demanding clients who have invested heavily in modern logistics, inventory control and information systems.

2. Greater policy and procedural requirements associated with international commitments.

3. Proliferation of regional and bilateral trade agreements, which increases the complexity of administering border formalities and controls.

4. Heightened security concerns and demands to respond to the threats posed by international terrorism and transnational organized crime.

In addition, the role of customs has evolved from being that monitoring the physical flow of goods at border points to being the key border agency, responsible for trade facilitation and protecting the society through preventing cross-border movement of dangerous and unsafe goods.

In response to the above challenges many countries have devoted substantial resources to reforming and modernizing their customs administrations and modernization of customs has been on the development agenda of many governments (World Bank, 2005).

The WCO revised Kyoto Convention of 1999, to which Kenya was a signatory besides another 144 countries, was an international convention on the simplification and harmonization of Customs procedures. The Kyoto convention provided a framework and standards for processing goods in international commerce. It is in this backdrop of global trends that the KRA Customs Reforms and Modernization program was developed.

1.1.2 Change Management

Change management entails planning and coordinating the transition from one state to another in an organization. "Change management is a structured and systematic approach to achieving a sustained change in human behavior." (Todd A., 1999)

Organizational change can be strategic or operational. Whereas operational change aims at ensuring that organizational activities are done in the best way

possible, strategic change involves fundamental changes in the business of the organization or its future direction. All changes take place under certain contexts which invariably include forces that operate to bring about change and some of the forces that engendered the change in customs have been mentioned in the introduction and more appear later in this chapter.

The three main areas in corporate strategy are strategy analysis, strategy development and strategy implementation. Lynch R. (1999) states that there are two main approaches to corporate strategy including the prescriptive approach, which includes strategy analysis and strategy development followed by strategy implementation. Then there is the emergent approach to strategy which holds that strategy development and strategy implementation are essentially interrelated. Strategy implementation is the most crucial of the three and this proposal is about how KRA implemented the Customs Reforms and Modernization project, which involved changes that were strategic in nature. The changes that CRM inculcated were on technology, service, people and administrative.

1.1.3 Kenya Revenue Authority

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 and its main purpose is the assessment, collection, administration and enforcement of laws relating to revenue.

The functional departments and sections of Kenya Revenue Authority comprise the Customs Services Department, the Domestic Taxes Department, the Road Transport Department and the Support Services Department which comprises Legal Affairs, Internal Audit, Research and Corporate Planning, Information and Communication Technology (ICT), Investigations, Human Resource and Administration, Finance, Corporate & Public Affairs, Revenue Protection Services and Tax Programmes & New Business Initiatives.

Since its inception, KRA faced a number of challenges that generally required enhancement of professionalism in revenue administration. KRA has increasingly introduced changes in its activities every succeeding year through reform strategies which are enunciated in its three-year corporate plans. KRA's second corporate plan included strategies to address these challenges and it actuated the Revenue Administration Reform and Modernization Program (RARMP) which commenced in 2004/05 with the objective of transforming KRA into a modern, fully integrated and client-focused organization.

The RARMP included the Customs Reforms & Modernization Project, the Domestic Taxes Reform & Modernization Project, the Road Transport Reform & Modernization Project, Investigation & Enforcement Reform & Modernization project, KRA Infrastructure Development Project, KRA Business Automation Project and the Human Resource Revitalization Project.

This proposal focuses on the Customs Reform and Modernization program. The terms of reference for the CRM project team included undertaking a

comprehensive Business Process Re-engineering (BPR) to simplify Customs procedures; implementing a modern IT system with an aim of ultimately eliminating paper based transactions and drastically reducing physical interventions; develop audit-based procedures for transit goods, Bonded Warehouses and Excise administration; develop integrated cross border clearance and documentation processes; Developing competencies and design strategies in risk profiling approaches to cargo and post release verification and audit; developing strategies for taking over the functions of Pre Shipment Inspection companies.

1.1.4 Customs Services Department, KRA

The Customs and Excise Department of the Kenya Revenue Authority was established by an Act of Parliament in 1978. It is the largest of the four revenue departments in KRA in terms of manpower, revenue collection and countrywide operational network.

The Primary function of the Department is to collect and account for customs and excise taxes. Some of the taxes collected include import duty, excise duty (on imports and local commodities) and VAT (Value Added Tax) on imports. Some other taxes collected by the Department are on agency basis. These are Petroleum Development levy, Road Maintenance Levy, Import Declaration Form / Pre-Shipment Inspection Fees, Road Transit Toll, Directorate of Civil Aviation Fees and Fees on motor vehicle permits.

The non- fiscal responsibilities of the Department include collection of trade statistics, facilitation of trade and protection of society.

The aforementioned Customs reform and modernization project comprised the following sub-projects: Customs replacement system; Review of Customs procedures and processes; Implementing an Electronic Cargo tracking system; Scanner imaging systems implementation; Direct banking; Community Based System; Taking-over from Pre Shipment Inspection(PSI) Companies; Patrol boats & Helicopter; Restructuring of CPS (Customs Preventative Services); K9 section; Preparation of Excise Act.

1.2 Statement of the Problem

Projects that involve strategic change in organizations face difficulties including organizational culture, poor planning, change of leadership, and resistance to change. If such projects involve introduction of new technology, that adds an additional challenge. According to research carried out in the USA by the Standish Group, 31 percent of IT projects are canceled before completion (Ewusi-Mensah, 1997).

One of the reasons IT projects fail in customs administrations is because IT projects depend on a number of factors, many of which are outside the direct control of the customs administration itself, like the telecommunication technologies and infrastructure (Luc De Wulf and Gerard McLinden,2005).

The absence of good diagnostic work has also been identified by World Bank as a major shortcoming in the reforms and modernization projects (Barbone, De Wulf, Das-Gupta, and Hanson 2001).

Fortune 500 executives indicate that resistance was the primary reason changes failed while 80 percent of the chief information officers said that resistance – not a lack of technical skills or resources – was the main reason why technology projects failed. It is that soft, emotional human reaction of resistance that matters (Maurer R., 2006).

Even managers resist change, particularly strategic change. "History is littered with managers apparently unable to adapt to new and threatening circumstances, and suffering the penalty of dismissal" (Whittington, R., 1993, p.122). As such, resistance to change is one of the greatest obstacles to successful implementations of strategic changes. It is important to note that the people resisting don't see what they are doing as resistance – they often see it as survival. Resistance to change is a reaction to the way a change is being led. But there are no born "resistors" out there waiting to ruin otherwise perfect plans. People resist in response to something. Because of this, managing resistance to change requires tact and patience.

It is important for change managers to identify the level of resistance they are dealing with at any one time. Resistance to change can be grouped in three levels. Level one resistance is caused by lack of information, disagreement with data, lack of exposure to critical information and confusion over what it means. Level two resistance is an emotional reaction to the change based on fear and level three resistance is caused by lack of trust or confidence in the driver of the change.

Given the rate of cancellation of IT projects (31% in the USA in 1997) and high failure rate due to resistance by stakeholders, particularly employees, unless the change process is managed very carefully and prudently, it is liable to failure. It is therefore important to find out how KRA dealt with such problems in the implementation of Customs Reform and Modernization programme. This is because, like other organizations, KRA is not immune to resistance to change. The lessons learnt on how KRA managed the challenges will be invaluable to other organizations, particularly in the public sector which may be contemplating similar changes.

Thus the proposed study seeks to answer the following questions:

1. How did KRA implement the Customs Reform and Modernization program?

2. What challenges did KRA encounter while implementing the CRM program?

3. How did KRA handle the challenges it encountered?

1.3   Research Objectives

1. To determine the challenges KRA faces in implementing the Customs Reform and Modernization programme.

2. To establish the strategies KRA used to overcome the challenges it faced in the implementation of the Customs Reform and modernization programme.

1.4   Importance of the Study

To academicians and students of strategic management, this study will present the kind of challenges that are encountered when implementing strategic changes in the public sector.

To KRA, this research will provide valuable lessons learnt in the implementation of the Customs Reform and Modernization program. This will be useful to both current and future reform initiatives that KRA will implement.

For public corporations, this study will document and evaluate the efforts of the CRM team with a view to serve as a record about the insights that can be extracted from their work and so as to provide a reference point for similar or related projects in the public sector.

CHAPTER 2 – LITERATURE REVIEW

2.1   Customs Reforms and Modernization

Michael Keen notes that the workload of customs administration is largely driven by the magnitude of trade flows with which it must cope. Trade statistics released by UNCTAD (United Nations Conference on Trade and Development) in 2001 indicate that between 1980 and 1999 the volume of all merchandise exports grew by over 250 percent. "Trade has more than tripled in the last 20 years." keen notes (*Challenges and Strategies for the Reform of Customs Administration*, p.3).

This increase in trade, combined with globalization and security concerns that arose from the September 11, 2001 terrorist attack in the US, have put pressure on customs administrations worldwide to devise new ways of doing business with an aim of facilitating trade in line with international standards. Customs reforms and modernization initiatives were developed to handle these challenges.

The World Bank defines customs reforms as referring to the wide range of activities that are aimed at, among other things, modifying outdated legislation "that does not clearly spell out the authority of customs in the globalized economy, that may be out of tune with international commitment, that provides inadequate transparency and predictability and may require complex procedures while preventing the full use of information and risk analysis" (*Customs Modernization Handbook*, p.vvii).

Customs reforms also entails improving the compensation packages of customs including career management and training to ensure they are motivated, simplifying customs procedures to make them more transparent and predictable.

Modernization involves making sufficient use of information and communication technology in customs operations to make them in tune with modern business practices that use advanced notification, direct trader input and tracking devices. It also seeks to reduce face to face contact between traders and customs officials and reduced discretionary powers of customs officials.

With respect to customs laws and regulations, modernization aims at excluding noncore customs elements, seeks harmonization and compliance with agreed international commitments and ensuring transparency and predictability by providing basic information such as rules, decisions, consultations and mechanisms and adequate appeals processes.

Luc De Wulf and Gerald McLinden indicate that ICT has a key role in reforms and modernization activities and they note that "automation must proceed as part of an overall modernization strategy for the institution" (*Customs Modernization Handbook*, p.288). In the KRA Customs reforms and modernization in this proposal, the pivotal role of ICT is clear because the reforms activities were actualized through an ICT system called Simba 2005.

2.2   Strategic Change

Strategy is 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 and to fulfill stakeholder expectations (Johnson and Scholes, 2004). Johnson and Scholes (2004) also note that "strategic decisions will very often involve change" (*Exploring Corporate Strategy,* p.10) and this is because of the changing business environment and the changing stakeholder expectations. As such, change management and strategic management go hand in hand.

Change is a transition from one state to another. Change can influence strategy, structure, behavior and organizational culture. Burnes B (2004) states that on the one hand, visions and strategies of an organization direct change by creating the climate and conditions within which change takes place, while at the same time, organizational change is sometimes necessary in the realization of the organization's strategy and vision. As such, the relationship between strategy and change is a two way street.

Change can be operational if it only affects the operations and can be regarded as strategic change if it involves fundamental changes in the activities of an organization (Johnson and Scholes, 2004).

Johnson and Scholes (2004) note that it is important to identify the scope, type and the context of the change in order to know the magnitude of the challenge faced in trying to effect the strategic change, the blockages that exist and which forces might exist to facilitate the change process. Strategic change can be incremental or revolutionary; realignment or transformational (Balogun and Hope,1999).

Balogun and Hope (1999) identify four types of strategic change based on the nature of change and the scope of the change. They identify two natures of change: incremental change which occurs gradually is favored because it builds on the skills, routines and beliefs of the stakeholders. Where an organization is facing a crisis or needs to change direction very fast, a big bang approach to change is required though it may be very disruptive and painful. This is also referred to as revolutionary change.

In terms of the scope of the change process, change is evaluated as per whether it can occur within the current paradigm (i.e. the current organizational beliefs and assumptions). If it can, it is regarded as a realignment strategy rather than a fundamental change of strategic direction. If it cannot, it is regarded as a transformational change. Transformational changes are revolutionary if they are rapid and involve major strategic and paradigm change and are regarded as evolutionary if they involve paradigm change, but over time (Johnson and Scholes, 2004).

Realignment strategies are regarded as adaptive when they can be accommodated within the current paradigm and occur incrementally. They are

regarded reconstructive when they involve a good deal of upheaval within the organization but without fundamental change of the paradigms.

2.2 Approaches to Change Management

There are several organizational theories regarding change management and they differ in how their proponents view the organization, and how they view the interaction of the change subjects with the forces of change. There are two main categories of organizational change based on whether the change is consciously embarked upon or planned by an organization or whether it came about by accident, or is forced on an organization (Marrow, 1969). These are the planned and emergent approaches to change respectively.

Lewin (1947) presented a three-phase model for planned change. These phases included unfreezing, moving and refreezing. In the three-phase model, unfreezing entails destabilizing the equilibrium of human behavior. It involves "disconfirmation of the validity of the status quo, the induction of guilt or survival anxiety, and creating psychological safety" (Burnes 2004, p. 274). Unfreezing creates motivation to learn but does not necessarily control or predict the direction (Schein, 1996) thus moving involves moving to a new state. Refreezing seeks to stabilize the group at a new quasi-stationary equilibrium in order to ensure that the new behaviors are relatively safe from regression. Bullock and Batten (1985) further developed Lewin's three-phase model and presented a four-phase model of planned change. This four-phase model has two major dimensions: change phases, which are distinct states through which an organization moves as it undertakes planned change; and change process,

which are the methods used to move an organization from one state to another. The four phases are described below.

The Exploration phase – this involves deciding whether change is required and may involve hiring a consultant to help with planning and implementing the changes.

The Planning phase - this involves understanding the organizations problem and persuading key decision-makers to approve and support the proposed changes.

The Action Phase – here, the organization implements the changes identified in the planning phase.

The Integration phase – this starts once the changes have been successfully implemented and is concerned with consolidating and stabilizing the changes so that they become part of an organization's normal, everyday operation.

Alongside the three-step model, Lewin included three maxims for change managers: field theory, which holds that every *status quo* is maintained by certain forces; action research, which emphasizes that change requires action, correct analysis of each situation and a felt need for change by the stakeholders; and group dynamics, which seeks to understand why group members behave the way they do when subjected to forces of change.

Advantages of Planned Approach to Change

Burnes (2004) notes that the planned approach to change remains highly influential. It is also the best developed, documented and supported approach to change.

By having the consultant's role involving creating a learning environment, this approach enables those involved in the change process to gain new insights into themselves and their circumstances and they thereby willingly come to see the need for change. As such, it minimizes the resistance to change.

It is a model that is relatively simple to follow because it is modeled on a step-by-step basis.

It places emphasis on the collaborative nature of the change effort and thereby minimizes conflict during the change process through its strong humanist and democratic orientation.

According to Cummings and Huse (1989), this model has broad applicability to most change situations. This arises from the fact that it incorporates key aspects of many other change models.

It is the most comprehensive approach to change because Lewin's model of planned change comprises four elements: field theory, Group Dynamics, Action Research and the three-step model. As such, it is an iterative, cyclical process involving diagnosis, action and evaluation, further action and evaluation and as such, it leads to sustaining change that is safe from regression (Burnes, 2004).

Criticisms of Planned Change

French and Bell (1995) observed that Bullock and Batten's approach focused more on behavioral aspects and placed less emphasis on the bottom line or the value of stock. Cummings and Worley (1997) argue that having the consultants' task involving not only facilitation but also provision of solutions tends to render the stakeholder a passive recipient who has to be directed to the 'correct' solution.

Planned approach is criticized for presuming a top-down, autocratic, rigid and rule-based organization whilst organizational change is more of a continuous and open-ended process than a set of self-contained events (Arndt and Bigelow, 2000; Bechtold, 1997; Black, 2000; Brown and Eisenhardt, 1997; Kanter *et al*, 1997; Stacey, 2003).

Burnes (2004) notes that some writers have criticized planned change for its emphasis on incremental and isolated change and its inability to incorporate radical, transformational change (Dawson, 1994; Dunphy and Stace, 1993; Harris, 1985; Miller and Friesen, 1984; Schein, 1985; Pettigrew, 1990a, 1990b).

Planned change has also been criticized for being based on the assumption that common agreement can be reached and that all the parties involved in a particular change have a willingness and interest in doing so (Dawson, 1994; Hatch, 1997; Wilson 1992). This assumption, argues Burnes, appears to ignore organizational conflict and politics. It is also faulted for assuming that one type of approach to change is suitable for all organizations, all situations and all times Dunphy and Stace (1993, p.905) argue that:

Turbulent times demand different responses in varied circumstances. So managers and consultants need a new model of change that is essentially 'situational' or 'contingency model', one that indicates how to vary change strategies to achieve 'optimum fit' with the changing environment.

Brown and Eisenhardt (1997) have argued that planned change is less relevant to larger-scale and more radical transformational changes that many organizations have undergone or are experiencing.

Weick (2000, p.237) defines emergent change as follows:

Emergent change consists of ongoing accommodations, adaptations and alterations that produce fundamental change without *a priori* intentions to do so. Emergent change occurs when people reaccomplish routines and when they deal with contingencies, breakdowns, and opportunities in everyday work. Much of this change goes unnoticed, because small alterations are lumped together as noise in otherwise uneventful inertia.

Proponents of emergent change see change as a continuous, dynamic and contested process that emerges in an unpredictable and unplanned fashion Burnes (2004). Coping with emergent change requires organizational learning, which Martin (2000, p.463) defines as "the capacity of members of an organization to detect and correct errors and seek new insights that would enable them to make choices that better produce the outcomes they seek." This requires that the organization supports learning from change, which needs an open management style, encouraging initiative and risk.

Advantages of Emergent Approach to Change

Even though business environments vary in speed and magnitude of change, organizations invariably change hence emergent approach to change is generally applicable to most organizations.

It is a more realistic model for managing change because change cuts across functions, spans hierarchical divisions and has no neat starting or finishing point; instead it is a "complex analytical, political, and cultural process of challenging and changing the core beliefs, structure and strategy of the firm" (Pettigrew, 1987, p.650).

Dawson (1994, p.181) argues that change cannot be represented as "the results of objective rational decision-making on the part of managers…nor as a single reaction to adverse contingent circumstances". Dawson stresses that there can be no simple prescription for managing organizational transitions successfully owing to time pressures and situational variables and because of these, suggests that emergent change is the best model for managing change.

Pugh (1993) explains that because organizations are occupational systems and political systems as well as for allocating resources for rational decision making. As such, power and politics play an important role in the process of organizational change and need to be incorporated in change models and because emergent approach does so, it is a better model than the planned approach which is averse to power and organization politics.

Stace and Dunphy (2001) argue that it is a more hands-on and participative approach because it does not provide a simplistic model that ignores complexity in the organization. They argue that other prescriptive approaches absolve managers from the onerous task of critically reviewing the full range of the issues in order to devise a custom-made change program.

Criticisms of the Emergent Approach to Change

Burnes (2004) faults the approach for lacking coherence because its proponents have differing objectives and perspectives.

In addition, the applicability of the emergent approach to change depends to a large extent on whether one subscribes to the view that all organizations operate in a dynamic and unpredictable environment to which they must continuously adapt.

Another weakness arises from the fact that the proponents of the approach sway between advocating for culture change (Kanter *et al*, 1992) and advocating the need to work with existing cultures (Kotter, 1996), thus it is not clear what they perceive the role of culture to be.

Lastly, the emergent approach to change is more applicable to organizations operating in a dynamic environment and is therefore not applicable to organizations that require incremental and punctuated equilibrium change programmes. Punctuated equilibrium models of organizational change depict organizations as evolving through relatively long periods of stability (equilibrium periods) punctuated by relatively short bursts of fundamental change (Romanelli and Tushman, 1994).

Other Approaches to Change Management

Even though the planned and emergent approaches to change are the two dominant approaches, there are other approaches that are available in the change literature.

The Classical School and Contingency Theorists

The classical school holds that change management involves showing organizations where they are and where they should be and because managers and workers are rational beings, they should accept any concomitant changes because it is the logical thing to do. The contingency theorists also adopt a similar approach (Burnes B, 2004).

The Human Relations Approach

The Human relations approach sees change relations as more complex. According to this approach, because organizations are social systems, change is not a rational process because emotions come into play. Therefore, persuasion and leadership play a key role in changing organizations.

Peters (1993) advocates a 'Big Bang' approach to change. This approach advices change managers to change radically and quickly. On the other hand, Hardy (1996) encourages a more gradualist approach to change and points out that big changes require longer periods of time. Kanter *et al* (1992) encourage a combination of both and argue that major changes, especially those that require a change in behavior, can only be achieved over time. They also hold that dramatic measures are necessary to improve performance in the short term. This approach to change is characterized as a combination of 'bold strokes with long

marches' (Burnes B., 2004). Bold strokes refers to major strategic initiatives, usually structural or technological in nature (Kanter *et al*, 1992) and which have a clear are rapid impact on the organization, but rarely lead to long-term change in habits or culture. Long marches refers to a host of relatively small-scale and operationally focused initiatives whose benefits are realized in the long term and over time, lead to a change of culture.

2.3   Why Change Initiatives Fail

Kotter (1996) identifies eight reasons why change initiatives fail and he lists them as follows: allowing too much complacency; failing to create a sufficiently powerful guiding coalition; underestimating the power of vision; undercommunicating the vision; permitting obstacles to block the new vision; failing to create short-term wins; declaring victory too soon; neglecting to anchor changes firmly in the corporate culture.

Both Hayes (2002) and Hucyzynski and Buchanan (2001) note that resistance to change is a typical problem while implementing change. They advice that coping effectively with change requires that managers develop a range of interpersonal skills that enable them deal with individuals and groups who seek to block and manipulate change for their own benefit.

2.3   How to implement successful Change Programs

Kotter (1996) also lists eight steps to successful change, which include: establishing a sense of urgency; creating a guiding coalition; developing a vision and strategy; communicating the change vision; empowering broad-based action;

generating short-term wins; consolidating gains and producing more change; anchoring new approaches in the culture. Mabey and Mayon-White (1993) note that strategies for dealing with resistance to change include promoting openness, reducing uncertainty, and encouraging experimentation. They encourage use of organizational development tools that encourage shared learning through teamwork and cooperation. These tools and techniques include transactional analysis, teamwork, group problem solving and role-playing (McCalman and Paton, 1992).

Kanter *et al* (1992) propose ten steps that they call the 'Ten commandments for Executing Change' which are: analyse the organization and its need for change; create a shared vision and a common direction; separate from the past; create a sense of urgency; support a strong leader role; line up political sponsorship; create an implementation plan; develop enabling structures; communicate, involve people and be honest; reinforce and institutionalize change.

CHAPTER 3 – RESEARCH METHODOLOGY

3.1 Research Design

The research design that will be used in this proposal is a case study which is an ideal methodology when a holistic, in-depth investigation is needed (Feagin, Orum, & Sjoberg, 1991).

3.2 Data Collection

Both primary and secondary data will be used in this research. The primary data will be collected through interviews with the key managers in CRM, who are responsible for the implementation of the CRM initiatives. Eight respondents will be used. Two from top Customs Management and six from middle-level management.

The secondary sources will comprise internal memos, strategic plans, project plans and documentation relating to CRM activities. A research assistant will be used in data collection and analysis to minimize bias.

3.3 Data Analysis

Data analysis will seek to establish the measures KRA took to ensure that the CRM project is implemented successfully and the arising challenges dealt with effectively. This being a qualitative study, content analysis will be used to determine the challenges that KRA faced in the implementation of the Customs Reform and Modernization programme and the strategies it used to deal with the said challenges. This method has been used n conducting similar studies in the past, examples include (Njau, 2000; Koske, 2003).

CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

4.1 Response Rate

The Customs Reforms and Modernization (CRM) has a core team of 12 managers who coordinate the reform and modernization initiatives that in turn directly affect other staff to varying degrees. Through an interview guide (*see* Appendix I), data was collected from Customs officers who were involved in the Customs Reform and Modernization and from the Customs reform and Modernization core team members. These included line staff, section heads and managers in Nairobi from where most of the initiatives are driven.

Of the 30 officers who were requested for an interview, 21 (70%) were available and were interviewed using the interview guide. Table 1 indicates the challenges cited by the interviewed respondents.

Table 1: Challenges Encountered

Challenges	Responses	
	Frequency	Percentage
1. Resistance to Change		
a. Internal	16	76%
b. External	18	86%
2. Lack of Skills		
a. Internal	17	81%
b. External	14	67%
3. Lack of Resources		
a. Financial	13	62%
b. Staff	16	76%
c. Other	10	48%
4. Long Procurement Process	8	38%
5. Infrastructural Challenges	11	52%
6. Slow reaction to Identified problems	15	71%
7. Technological Challenges	9	43%
a. Data Security	10	48%
b. Integration Challenges	8	38%
8. Unclear Strategy	7	33%
9. System Inadequacies	9	43%

4.2 The Challenges faced in Implementing CRM Initiatives

This study sought to determine the challenges KRA faced in implementing CRM initiatives and how KRA addressed those challenges. The challenges are described below.

4.2.1 Resistance to change

Resistance to change is one of the greatest challenges KRA faced in implementing the CRM the findings indicate that 76% said internal stakeholders resisted the changes and 86% say external stakeholders resisted the changes. The external stakeholders went to court seeking an injunction to stop KRA form implementing a computerized customs system allegedly because KRA had introduced the Customs system without informing them. They also enlisted the support of politicians who led them in public protests. On the other hand, the internal stakeholders resisted the change by criticizing the system and blaming it for all undesirable issues, including non-system issues and exaggerating the systems perceived failures and weaknesses.

4.2.2 Lack of Skills

The second greatest challenge was lack of skills both internally and externally. The KRA staff lacked computing skills and were slow to learn how to use computers and reluctant to adjust to using automated systems. Whereas KRA planned to acquire patrol boats for monitoring sea ports, there were no trained staff to constitute the marine unit in charge of the boats. The X-Ray scanners that were obtained for scanning cargo, and the patrol boats required specialized staff that KRA had never recruited before. Recruiting them, training them and developing their job descriptions was a challenge to KRA.

4.2.3 Lack of Resources

Another challenge was lack of resources. This took the form of financial resources, physical amenities and human resources. The building that was to house the marine unit had been condemned by the Ministry of works as uninhabitable and there were no funds to build another one. The marine unit had

to seek alternative berthing space and accommodation at Kisumu Yatch club. Because of a shortage of funds, some of the staff members were constrained to sharing computers or doing without them while in fact they needed to have personal computers. The building of Kennels for the narcotic dogs and putting up of berthing facilities for patrol boats were not done due to lack of funds. There also weren't adequate funds for purchasing patrol boats. Because of lacking land at Busia border, KRA cannot build permanent offices and is using a fabricated container for an office. Because of this, expensive but reliable telecommunication equipment cannot be fixed in the Busia office and they have experienced slow and unreliable internet connection to the main Customs system.

Lack of staff was a challenge that was further aggravated by the high staff turnover as a result of employees who were dismissed because of lack of integrity. Lack of staff to handle CRM projects meant that the projects were not properly monitored and evaluated. This affected the progress and success of the projects. Because the activities of the Customs officers were streamlined through the automated system, roles that were hitherto performed by a single individual required multiple individuals. This arrangement required a good number of staff and the staff shortage hampered the realization of the benefits of CRM initiatives.

4.2.4 Long Procurement Process

Long and bureaucratic procurement process was also a challenge and this delayed several initiatives. For example, the tendering process for the Electronic Cargo Tracking system took four years to complete and was mired by controversy and court cases. In another instance of bureaucratic challenge, a narcotics sniffer dog died and because dog breeders refused to participate in the lengthy government procurement process, the dog was not replaced in time. Since the formation of a canine (K9) unit was a key CRM initiative, this delay has negatively impacted on the success of CRM.

4.2.5 Infrastructural Challenges

Infrastructural problems have been a major challenge because the main Customs system was automated and replaced with a web-based system that

requires internet access. Because border stations like Isebania, Lungalunga and Busia did not have any Internet Service Providers (ISPs), KRA had to invest in VSAT systems to make it possible for the staff in those stations to be able to connect to the main system. And even with the stations that had internet access, there was often unreliable connection with low bandwidth that could not handle the data traffic. The unstable electrical power and inadequate infrastructure affected the system availability, speed and reliability.

4.2.6 Delayed Resolution of Identified Problems

Another challenge has been in form of delayed reaction to identified system problems in the Customs systems. This delay arises because KRA bought the software from a Senegal company (Gainde 2000) and are relying on them to support the system and implement enhancements to meet changing business needs. Because of distance and commitment to other projects, the Senegal system developers have not been able to respond quickly and adequately to emerging needs or identified problems. This has slowed down the improvement of the system.

4.2.7 Technological Challenges

KRA also faced technological challenges. The X-ray scanner systems were purchased from China and it has been difficult to integrate them with other existing computerized systems because they run on proprietary hardware and software. This has undermined the realization of the full benefits of the X-ray scanner systems because it has not been integrated with other existing KRA systems.

The Customs system also required integration with banks to enable traders to pay money directly at the banks instead of Customs cash office. But the banking systems, including the Central Bank systems were different from that of KRA and were supplied by a different vendor. This posed a challenge that required wide consultation and reworking of the existing systems. It was also a challenge to find local providers for the cargo tracking system because it's a technology that is new in the region.

The customs web-based system christened Simba 2005 was also prone to security risks that were exploited by some traders who hacked into the system and logged in using other people's accounts and proceeded to carry out illegal transactions. Some staff tampered with the payment data as it is being transmitted from the bank to the customs system and committed fraudulent transactions. The payment system was subsequently reengineered to make it more secure. Because of a higher security requirement in Kenya relative to Senegal, the system's security has had to be gradually tightened over the years.

4.2.8 Unclear Strategy
Lack of a clear strategy is a challenge that was evident when KRA purchased scanners worth hundreds of millions of shillings without a clear plan of how the scanned images would be accessed by the relevant officers throughout the country.

With respect to the Electronic Cargo Tracking system, KRA started first with the intention of acquiring an electronic cargo tracking system but later decided to seek private partnership in the initiative, arguing belatedly that KRA's core business is not management of cargo tracking equipment.

The Electronic Cargo tracking equipment that were purchased were inadequate in number because the Container Freight Stations in Mombasa kept multiplying and each required installation of the equipment. These problems associated with the scanners and electronic cargo tracking systems are linked to the fact that the project decisions, like the purchase of X-Ray scanners, were made at the treasury without a proper feasibility study, and KRA was left to ensure they are properly utilized.

4.2.9 System Inadequacies
System inadequacies have also been a great challenge because the customs system was found to be lacking several required customs functions. This is because it was inherited from a previously existing system in Senegal that used different rules and was altered to accommodate the needs of Kenya customs, which in turn were not exhaustively documented. In addition, the customs system

had several faults that resulted in inaccurate calculation of taxes, inaccurate posting of data and low system speed. The database was also not optimized but could not be improved because of the unclear impact any alterations would have on the system.

Some challenges resulted from poor preparation and these included an incomplete and unverified requirements document for what the customs system was supposed to do. The CRM projects also lacked project charters as part of the documentation and this resulted in poor coordination of project activities because of unclear goals and responsibilities.

4.3 KRA's Responses to the Challenges

Table two shows the responses to the challenges described in the previous section and the number of respondents who cited each of the responses.

Table 2: Responses to the Challenges

Response to Challenge	Frequency	Percentage
Seek Political/ Government Support	16	76%
Seek Industry Support	8	38%
Workshops and Meetings with Stakeholders	12	57
Promotions and Dismissals	14	67%
Training and Sensitization	17	81%
Hiring more staff	16	76%
Seek Donor Funding	12	57%
Laptop Loan Scheme	9	43%
Budgetary Reallocation	7	33%
Government-to-Government Contracts	14	67%
Blocking Websites	9	43%
Expanding Bandwidth	14	67%
Installing VSAT links	13	62%
Use in-house developers	9	43%
Provide web-portal for banks	12	57%
Develop and Projects Office	13	62%
Introduce an ICT security Unit	12	57%
Optimize Database	9	43%
Enforce Proper system documentation	15	71%

4.3.1 Seek Government and Industry Support

In handling the resistance to change, which took the form of court cases, KRA sought the intervention of the Minister of Finance and the Kenya Manufacturers Association who rallied alongside KRA in selling the system as good for business. This left the few disgruntled agents without support and they soon consented to comply with the required reforms.

4.3.2 Workshops and Meetings with Stakeholders

KRA also organized workshops and joint meetings with stakeholders to discuss the concerns of stakeholders and agree with them on how to address the issues. Customs Services has since made it a policy to include KIFWA (Kenya International Freight and Warehousing Association) officials in all discussions regarding issues that could change how KRA does business.

4.3.3 Promotions, Transfers and Dismissals

Internal resistance was handled in various ways and this included promotion of those that were compliant with the system and dismissal or transfers of those that proved inflexible. Customs regularly carried out employee reshuffles that aimed at placing the more skilled and change responsive officers in charge of critical areas.

4.3.4 Training and Sensitization

The staff that lacked skills and had the right attitude were trained and sensitized on the importance of the reforms and information and computer technology. They were also kept abreast of other reforms activities KRA was planning in other areas and helped to see the benefits of modernization. Project training was given to all the CRM core team members and their assistants.

4.3.5 Communication and Transparency

KRA also developed an internal magazine called *Revenews* and used it to educate staff, recognize top reformers and publicize the gains of reforming and

modernizing. This magazine has made it possible for all staff to know how much revenue KRA's departments are collecting every month and has provided an avenue for the staff to gauge and monitor the results of their own efforts in the reform agenda.

4.3.6 Hiring Staff

KRA tackled the skills gap by hiring skilled personnel and making it a policy to only recruit graduates who could quickly acquire computer skills. For the patrol boats marine unit, KRA hired crew from the Navy and trained them on customs procedures while Border Control Officers (BCOs) were also trained on marine and patrol work.

4.3.7 Budgetary Reallocation Donor Funding

KRA sought donor funding to help finance the CRM projects. Budgetary reallocation that involved prioritization of the initiatives was also done and the projects of high priority were financed first as funds were sought. KRA also asked the Ministry of Finance to increase budgetary allocation for the authority to enable it implement its third corporate plan, which spelt out the reforms and modernization initiatives.

4.3.8 Laptop Loan scheme and Purchasing More Computers

In dealing with lack of computers, which is linked to lack of funds, KRA introduced a laptop loan scheme for all its staff to enable staff equip themselves with computers and enhance computer literacy. This is a loan facility without any interest rate and has been taken by many of the KRA staff. KRA also purchased more computers to fill the shortage of computer equipment.

4.3.9 Government-to-Government Agreements

To circumvent the bureaucracy of the procurement process, which also disallows singe-sourcing, KRA has sought and obtained a government-to government agreement between Senegal and Kenya to acquire the Simba 2005 system and KRA is now seeking means to circumvent the lengthy procurement with respect to buying the patrol boats.

4.3.10 Install VSAT Links and Expand Bandwidth

KRA has dealt with the infrastructural problems by installing VSAT links in the remote regions and by using wireless technology to connect various offices in remote stations. KRA expanded the bandwidth of its existing lines to accommodate the huge amount of data traffic flowing as transaction data is exchanged with shipping agents, customs clearing agents, Banks and KRA officers among others.

4.3.11 Blocking heavy-graphic Websites

In addition, KRA limited user access to websites that have video traffic like youtube.com because video data consume a lot of bandwidth. KRA revamped its wide area network by installing redundant connections and upgrading the network connection devices countrywide to use wireless and VSAT technology and installed a fiber optic backbone cable for its local area network.

4.3.12 In house Software Development

In dealing with delayed system enhancements from Senegal, KRA has resorted to using in-house system developers who have since developed some three systems to meet urgent user's needs albeit with resulting integration challenges. KRA has also recruited more staff to revamp the application management section in preparation for taking over the Simba system from Senegalese system developers in late 2008.

4.3.13 Continuous Business Process Improvement

KRA regularly undertakes Business Process Improvement (BPI) activities to get rid of uncritical processes and automate manual processes and these improved and streamlined processes have reduced the pressure arising from having inadequate staff while increasing operational efficiency.

4.3.14 Providing Banks with a Web Connection

KRA provided the banks with an internet connection to the Customs system and thereby solved the integration and security problem with the banks. KRA is also

developing software and hardware interfaces that will enable the staff to view the X-ray images of scanned containers. These interfaces are designed to overcome the integration problems with the scanner systems.

4.3.15   Develop a Reforms and Projects Division

To ensure proper project management along clear strategies, Customs Services Department introduced a Reforms Section and Projects section to spearhead reforms initiatives and to manage projects respectively. KRA also set up a Program Management and Business Analysis Office (PMBO) to oversee and interlink departmental projects to ensure there was synergy and harmony in their execution.

4.3.16   Develop an ICT Security Unit and Policy

KRA formed an ICT (Information and Technology) security unit within the ICT division to be in charge of the security matters in the computer systems that are used by KRA. The ICT division also published an ICT security policy that covers all security aspects from simple user security such as password protection to technical security requirements that must be met by all systems KRA implements. This ICT security policy has been implemented and is continually improved through CSIP (Continuous Service Improvement Programme).

4.3.17   Optimize System Database

The KRA ICT team has made improvements on the database system that underlies the Customs system in order to optimize its performance. KRA has made preparations to receive the system from the Senegalese developers after which KRA will consider an overhaul of the database structure in order to enable the system to realize optimal performance. KRA has sent the ICT officers for training in the relevant tools and systems in order to build in-house ICT capacity.

4.3.18   Mandatory Documentation and Analysis of User Needs

KRA has now made it a policy for all requests for new systems or system enhancements to be properly documented and approved by the commissioners of the respective departments before the requests can be acted on by the ICT

department. The ICT department has also implemented a governance structure based on the services ICT offers the various departments. This has made easier the integration of the various systems KRA departments use and also oriented ICT towards provision of service as opposed to provision of technology.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

This proposal set out to find out whether there were any challenges KRA encountered while implementing changes that are an integral part of the customs reforms and modernization process. Another objective was to determine the responses that KRA developed towards the said challenges with a view to determine effective ways of managing and implementing change.

The finding of this study indicate CRM project entailed a planned change but was also incorporated emergent changes as it was rolled out. Some initiatives that were not original to the CRM plans were developed mid-stream and incorporated as part of it. Among these was the elimination of the Customs "longrooms" which were open offices in all customs stations countrywide for processing documents and replacing them with the centralized Document Processing Center (DPC) which was an office away from the public, paper-free and fitted with closed circuit cameras. The DPC idea was seen as able to reduce incidences of corruption by eliminating physical contact between customs staff and clearing agents and was included among the reform initiatives. This example underlined the dynamic and adaptive nature of the change approach that KRA employed.

The findings also indicate that KRA encountered a number of challenges with most of the respondents citing resistance to change as the greatest challenge. This is consistent with the findings of Maurer R. (2006) and Whittington, R. (1993) who indicate that resistance to change is one of the greatest challenges change managers face, particularly when the changes involve the use of information technology. KRA's case is particularly interesting because the changes KRA was putting in place on the one hand affected external stakeholders as well who were influential and whose co-operation was essential

to the success of the project. On the other hand, the internal stakeholders, who were supposed to champion the changes, were also resisting the changes.

The findings indicate that KRA responded to the resistance by external stakeholders by getting allies from amongst the external stakeholders and also by using its power as an arm of the government to sustain the change process. KRA also closed ranks with the external stakeholders by listening to them, helping them manage the change through training and recognizing them by seeking their inputs in subsequent change activities. This combined approach in handling resistance to change helped KRA succeed in implementing the changes.

With respect to internal stakeholders, who also resisted the changes, KRA used its internal quarterly *Revenews* magazine to publicize the CRM plans and achievements and thereby promoted openness as a way of dealing with resistance to change. Mabey and Mayon-White (1993) cite promotion of openness as a strategy of dealing with resistance to change so this finding was consistent with the literature. The findings also indicate that KRA promoted teamwork by recognizing sections and project units as opposed to individuals and the according to McCalman and Paton, encouraging teamwork is an effective way of managing resistance to change.

Kanter *et al* (1992) include lining up political sponsorship among the commandments for executing change. We see that KRA did this by calling upon the Minister of Finance to publicize his support for the changes and encouraging the doubters to comply.

5.2   Conclusions

All the respondents interviewed in this study were in agreement that the CRM project was largely successful and this study reveals that KRA employed a change management strategy that was multifaceted and entailed a combination of the different approaches available in the literature.

It can therefore be said that strategic management that involves change is best approached not with a prescription but with an awareness of the available methods of managing change and the possible problems and recommended ways of handling them.

For government organizations, who often deal with stakeholders that have organized themselves into powerful associations, it is important to secure the support of the top government officials in the ministry before embarking on a strategic change that has great ramifications. For the case of KRA, a court injunction was circumvented through the intervention of the minister of Finance. It is also clear that resistance to change is to be expected from the internal stakeholders and the carrot and stick approach must be applied judiciously to manage it.

Ultimately strong, visionary leadership is vital to see the planned strategy through all the challenges that beset the project in the face of various interests that were more comfortable with the *status quo*, some with strong political connections.

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APPENDIX 1: INTERVIEW GUIDE

Note: The Information gathered from this Interview will be treated with utmost confidentiality and will only be used for academic purposes.

1. What was the main objective of implementing the Customs Reform and Modernization?

2. Were there any preparations that you carried out before implementing the CRM initiatives?

3. How were the CRM initiatives developed?

4. How were the CRM initiatives communicated to the Customs Department?

5. What Role did the Customs Top Management play in the implementation of CRM initiatives?

6. How are the CRM initiatives linked to the main strategy of KRA?

7. What are the verifiable benefits of implementing the CRM initiatives?

8. What challenges have you faced in implementing the CRM initiatives?

9. How have you dealt with the challenges referred to in item 8. above?

10. What are the successes and/or failures of CRM?

11. Is there any other information you would like to share as far as the CRM project is concerned?