

**BENCHMARKING PRACTICES AND PERFORMANCE OF KENYA  
REVENUE AUTHORITY**

**JOB OUMA**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF  
MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,  
UNIVERSITY OF NAIROBI**

**OCTOBER, 2014**

## DECLARATION

I, *Ouma O Job* hereby declare that. The contents of this research project paper hereinafter presented together with materials annexed hereto, attachments herewith, and any such other accompaniments thereof, which may have been included herein. Constitute my original work and has neither been submitted in this University nor any other for the award of a similar master of business administration degree in the past reasonable period of time. And that it conforms to all the guidelines of carrying out research issued by The University of Nairobi.

Signed.....

Date.....

Mr. Job Ouma

D61/73280/2012

I, *Dr. Jackson Maalu*, hereby agree that, this research project has been submitted for examination and subsequent award of degree of master of business administration with my approval as the University Supervisor.

Signed.....

Date.....

Dr. Jackson Maalu

Department of Business Administration

School of Business

University of Nairobi

## **DEDICATION**

This study is dedicated to my daughter, Angel Anna-Marie

## **ACKNOWLEDGEMENTS**

The journey to completion of this course has been challenging and inspiring at the same time. The successful completion of this study has been achieved by combined efforts of some other people who helped me with their various talents, instructions, experience and above all their valuable time. I wish to express my sincere gratitude to the following individuals who in one way or another gave me valuable support during the study;

I thank our Almighty God for his grace and sustenance that has seen me completes this course successfully. I want to return praise to him for the free life he has given me, wonderful opportunities that I have had, the knowledge to share with others and the strength to write this research project. My sincere appreciation is extended to my family members particularly my family for being respectful to and patient with me while pre-occupied with the entire Masters in Business Administration course. I also appreciate greatly my parents' support, prayers, love and encouragements during my entire lifetime.

I am extremely grateful to my Supervisor, Dr. Jackson Maalu for his invaluable advice, suggestions, criticisms and encouragements that he gave me during the research period. I sincerely thank him for creating time to ensure that not only did I get the best out of the research but also to anyone who reads this report. I am indebted to the University of Nairobi for accepting me to the Master's program in Business Administration, School of Business. Many thanks also to all School of Business lecturers for their resources, guidance and constructive criticisms during the entire course. Please keep up the good works.

Finally, I wish to thank the management and employees of KRA who created time to participate in this research project. Your contributions are highly valued and I believe they will go a long way in building the future of our country.

## **ABBREVIATIONS AND ACRONYMS**

<b>DTD</b>	-	Domestic Tax Department
<b>FY</b>	-	Financial Year
<b>GDP</b>	-	Gross Domestic Product
<b>IDF</b>	-	Import Declaration Form
<b>KRA</b>	-	Kenya Revenue Authority
<b>PSI</b>	-	Pre-Shipment Inspection
<b>RTD</b>	-	Road Transport Department
<b>SACCOs</b>	-	Savings Credit and Cooperatives
<b>TOC</b>	-	Theory of Constraints
<b>VAT</b>	-	Value Added Tax

## TABLE OF CONTENTS

<b>DECLARATION .....</b>	<b>ii</b>
<b>DEDICATION .....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>iv</b>
<b>ABBREVIATIONS AND ACRONYMS.....</b>	<b>v</b>
<b>LIST OF TABLES .....</b>	<b>viii</b>
<b>ABSTRACT .....</b>	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Background of the study .....	1
1.1.1 The Concept of Benchmarking .....	2
1.1.2 Organizational Performance.....	4
1.1.3 Kenya Revenue Authority .....	5
1.2 Research Problem .....	7
1.3 Research Objectives.....	9
1.4 Value of the study .....	9
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>11</b>
2.1 Introduction.....	11
2.2 Theoretical Foundation .....	11
2.2.1 Theory of Competition .....	11
2.2.2 The Theory of Constraints.....	12
2.3 Benchmarking and Management Fads.....	13
2.4 Benchmarking and Organizational Performance .....	14
2.5 Empirical Review.....	16
2.6 Summary of Literature Review .....	17
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>19</b>
3.1 Introduction.....	19
3.2 Research design .....	19

3.3 Data Collection .....	19
3.4 Data Analysis .....	20
<b>CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION.....</b>	<b>21</b>
4.1 Introduction.....	21
4.2 Benchmarking Practices adopted by Kenya Revenue Authority .....	22
4.4 Discussion of Findings.....	30
<b>CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS .....</b>	<b>37</b>
5.1Introduction.....	37
5.2 Summary .....	37
5.3 Conclusion .....	38
5.4 Recommendations.....	39
5.5 Limitations of the Study.....	40
5.6 Suggestion for further research.....	40
5.7 Implications of the Study .....	41
<b>REFERENCES.....</b>	<b>42</b>
<b>APPENDIX I: LETTER OF INTRODUCTION.....</b>	<b>50</b>
<b>APPENDIX II: INTERVIEW GUIDE .....</b>	<b>51</b>

## LIST OF TABLES

<b>Table 4.1:</b> Benchmarking Practices in the Customs Service Department.....	24
<b>Table 4.2:</b> Benchmarking Practices in the Domestic Tax Department.....	26
<b>Table 4.3:</b> Benchmarking Practices in the Investigations and Enforcement Department.....	28
<b>Table 4.4:</b> Relationship between Benchmarking Practices and Performance of KRA.....	29

## **ABSTRACT**

In an ever-changing global economy, organizations must find ways for operating by developing new competences as the old advantage and competences gained is quickly eroded owing to environmental changes. Benchmarking has gained acceptance worldwide as an instrument of continuous improvement in the context of total quality management and as a means of enhancing competitiveness. It is on this premise that the researcher studied benchmarking practices adopted by KRA and their impact on performance of the Authority. The study was modeled on a case study design whereby qualitative data was collected focusing on the benchmarking practices adopted by KRA. The case study was considered appropriate for this study because the focus of the study was to answer “how” and “why” questions and the study wanted to cover contextual conditions that are relevant to the phenomenon under study. Primary data was collected using an interview guide. The interview guide was divided into two sections: section A contained questions on the background information of the respondents. Section B contained questions on benchmarking practices adopted in the four departments of the Authority. Longitudinal analysis was used considering the qualitative nature of the data collected through in-depth personal interviews and the secondary data on performance as outlined in the corporate plans of the Authority. The study found out that KRA adopts strategic and process benchmarking as expressed in the reform and modernization programme and the corporate plan objectives. The study further established that KRA not only adopts benchmarking practices in customs but such benchmarking practices have positively affected performance of KRA. Based on the findings it can be concluded that benchmarking has contributed to KRA’s success and has significantly led to improved performance both in revenue collection and service delivery. The authority has modernized its IT function and this has made functions more accessible and drastically reduced contracts with customers thereby enhancing integrity. The study recommends that the management of KRA should consider creating understanding of the current corporate plan to both top management as well as supportive staff. It is equally important that the supportive staff understand the organization’s current corporate plan because they are part and parcel of the organization. They can only support the management to work towards achieving the organization’s goals if they are made to understand the current corporate plan.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the study**

In an ever-changing global economy Johnson and Scholes (2003) notes that organizations must find ways for operating by developing new competences as the old advantage and competences gained is quickly eroded owing to environmental changes. Because of the fact that changes are a necessity in private as well as public sector, every organization must change with the environment otherwise it would become irrelevant. Rose and Lawton (1999) observes that changes in the public service arise out of the need for efficiency, economy, effectives, performance evaluation ethics and market concerns. Rising demand for services and expectations of quality of those services have placed extreme pressure on managers and their organizations, depicting change as a continuous episode in the life of corporations. This is the conceptual backbone of benchmarking like following the lead in any industry by borrowing the operating patterns and strategies of the leaders in any industry.

The concept of benchmarking and organizational performance is backed by the theory of constraint and the theory of competition among other theories. The theory of constraints (TOC) is a management philosophy that has been effectively applied to manufacturing processes and procedures to improve organizational effectiveness. The theory has application to service industries; services can improve their processes and procedures just as can manufacturers. The theory emphasizes on quality in decision making, performance measurement systems and organizational mindset (Boyd and Gupta, 2004). Benchmarking is an external focus on internal activities, functions, or operations in order to achieve continuous improvement (McNair and Leibfried, 1992). This gives a company a competitive advantage and this is the justification of the theory of competition as a basis.

Companies respond to environmental factors and one of the environmental influences to a business arises from competition. They have to respond strategically to environmental factors in order to be sustainable. Increased competition threatens the attractiveness of an industry and reduces the profitability of the players. Firms therefore focus on gaining a competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core strengths, firms are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage. Though a business does not want competition from other businesses, inevitably most will face a degree of competition. The amount and type of competition depends on the market the business operates in (Hamel and Prahalad, 1993). A company has competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces (Thompson and Strickland, 2002).

### **1.1.1 The Concept of Benchmarking**

Camp (1989) defines benchmarking as the search for industry best practices that will lead to superior performance. It is a systematic and continuous measurement process; a process of continuously measuring and comparing an organization's business process against business leaders anywhere in the world to gain information which will help the organization to take action to improve its performance (Lema and Price, 1995). Benchmarking has gained acceptance worldwide as an instrument of continuous improvement in the context of total quality management and as a means of enhancing competitiveness (Carpinetti and de Melo, 2002). This process is used intensively and extensively in the private sector and its use is growing steadily in the public sector (Auluck, 2002). Benchmarking and the learning organization are ideal as institutional fairy godmothers, which offer potential to improve organizational performance in the public sector. Norman (2001) posits that benchmarking has been used as a

tool, a methodology and a technique for continuous improvement in sectorial operations to gain and maintain competitive advantage. Participating on benchmarking has therefore promoted a culture of thinking about quality, assessing one's own performance and taking responsibility for it. This is aimed at improving customer relations and promoting self-criticism.

Andersen and McAdam (2006) assert that benchmarking is a process that involves a number of steps. They include identification of what is to be benchmarked, identification of comparative companies, determination of data collection method and collect data, determination of current performance gap, projecting future performance levels, communicating benchmark findings and gain acceptance, establishing functional goals, developing action plans, implementing specific actions and finally monitoring progress; and recalibrating benchmarks. These steps imply that benchmarking allows companies to learn new and innovative approaches to issues facing management which, in turn, provides the basis for training. Benchmarking also act as vehicle to improve performance by assisting in setting achievable goals that have already been proven successful. Fuller (1997) further asserts that benchmarking overcomes disbelief that there are other ways of achieving and creating overall enhancement of an organization.

There are different approaches to benchmarking. While McGaughey (2002) suggested that there are three types of benchmarking internal, external and best practice, Behara and Lemmink (2007) classified benchmarking on the basis of what is being benchmarked to include functional, performance, generic, process and strategic or who is being benchmarked including internal, competitive or noncompetitive benchmarking. Fong et al. (2008) further classified benchmarking on the basis of who is being benchmarked to include internal, competitor, industry, generic and global content of benchmarking. This study seeks to

investigate the relationship between adoptions of benchmarking practices on performance improvement, a more widely accepted distinction between best practice and performance benchmarking is adopted. Hinton, Francis and Holloway (2000) posit that a benchmarking process can be either process or performance benchmarking and they further suggested that most benchmarking carried out is performance benchmarking and not process benchmarking.

### **1.1.2 Organizational Performance**

This study views organizational performance in terms of effectiveness. Mia and Clarke (1999) assert that effectiveness is the extent to which a unit is successful in achieving its planned target or stated objectives. Any effective Plan must therefore contain clear verifiable performance indicators and spell out an effective monitoring and evaluation framework. Performance refers to how effectively an organization is implementing an appropriate strategy (Otley, 1999). As the public sector comes under greater pressure from both internal and external sources to demonstrate improvements in its performance (McAdam, Hazlett and Casey, 2005), various National and local/municipal governments and other government departments are taking an interest in performance measurement and reporting for improving performance and increasing accountability (Barry, 2000). As part of overall management strategy, the managers of public organizations need to measure performance to evaluate whether the agency is performing as expected. Behn (2003) asserts that managers of public organizations must ensure that the employees are doing the right things and that the line and staff managers are doing the necessary things to improve performance by determining the budgeting priorities.

In today's dynamic and rapidly changing workplace and globalised economy, development of organizational performance is associated with the development personal performance, skills, knowledge and experience (Covey, 2004). High-performing organizations therefore actively

identify key performance indicators and measure their progress against established target values for those indicators as a way of measuring their effectiveness. Rudman (2008) asserts that the key indicators are the performance measures of the enterprise and they are based on data that tells a story about whether an agency or activity is achieving its objectives and if progress is being made toward attaining the organizational goals. Niven (2005) further posits that there is a growing recognition that using performance measures to gauge success is vital to any organization whether in the private or public or non-profit sectors. Maltz, Shenhar and Reilly (2003) were however of the view that measuring performance has been a challenge for both managers and researchers. This is because the process of designing and implementing an effective performance management system involves addressing a number of methodological issues and managing the change process.

### **1.1.3 Kenya Revenue Authority**

KRA is a state corporation established by an act of Parliament of July 1st, 1995 Cap 469 as a central body. The authority is charged with the responsibility of collecting revenue on behalf of the government of Kenya. The authority is under the general supervision of the Cabinet Secretary of Finance (Treasury). The Authority's mandate and core business is to assess, account and administrate and enforce all the laws relating to revenue. KRA's role is assessment, collection, administration and enforcement of laws relating to revenue; restoring economic independence be it elimination of budget deficits and creating organization structures that maximize revenue collection (Obae, 2009). KRA has faced several challenges both external and internal factors ranging from Political, Technological, Legal and Social.

Njoki (2011) asserts that since its inception in 1995, KRA has undertaken several strategic changes. These were guided by the organizations vision and mission statements. In response to managerial concerns, KRA has undergone major strategic changes refocusing its business

from the traditional authoritative ways of collecting tax to a more modern and customer friendly approach; change of leadership and various reforms in its management. In regard to structure, KRA has implemented changes which include restructuring departments in order to centralize key operational areas; review and modernization of operational processes to improve efficiency and effectiveness; improving internal resource capabilities through staff appointments and training, that is, there was a merging of different Cultures to form one organization. These are supported by the introduction of appropriate technology for increased efficiency. After putting in place the institutional strategic changes to counter these challenges in key policy and structural reforms since 2003, the following major benefit has been realized, KRA revenue collection grew by 48% from Ksh 201.7 billion in 2002/2003 to Ksh 297.7 billion in 2005/06. However, the cost of collection rose from 1.6% in 2002/03 to 1.9% in 2005/2006 due to costs associated with the implementation of the Reform and Modernization Programme (KRA's Third Corporate Plan, 2009).

The mission statement of KRA is to promote compliance with Kenya's tax, trade, and border legislation and regulation by promoting the standards set out in the Taxpayers Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well-being of Kenyans. In order to offer better single-window services to taxpayers, KRA is currently divided into five Regions namely: Rift Valley Region, Western Region, Southern Region, Northern Region and Central Region. In terms of revenue collection and other support functions, the Authority is divided into five departments that are each headed by a commissioner as; Customs Services department, Road Services department, Investigations and Enforcement department and Domestic taxes department. KRA plays an important role in the economy contributing up to Ksh. 360 billion in financial year 2006/07 and contributing Ksh. 274 billion in financial year

2004/05, which accounted for over 93% of total government revenue, with the rest coming from development partners (KRA's Third Corporate Plan, 2009). This implies that benchmarking revenue collection would have a marked improvement and a positive spillover effect on the economy. According to the IMF (2003), Kenya's tax system has performed better than average, for Africa, in the past three decades. In 1989/90, Kenya's tax revenue collection was 23.3% of GDP. Revenue collection peaked in 1995/96 at 30.4% of GDP, as a result of economic liberalization, and thereafter, declined to 20.5% of GDP in 2002/03, before increasing to 22.0% in 2007/08.

## **1.2 Research Problem**

The business environment in which organizations are operating in currently is highly competitive, rapidly changing thus organizations have been forced to consider, and adopt or implement, a wide variety of innovative management programs and techniques. One of the modern approaches for determining appropriate measures is benchmarking. From the 1980s onward, benchmarking has been applied in many companies in a more or less formalized form. Nowadays, benchmarking is a widely spread management tool. Benchmarking can promote higher performance by identifying best practices and setting challenging performance goals as well as helping organizations to understand their strengths and weakness relative to competitors. The value of benchmarking is most effectively utilized when it is integrated into organizational strategy and incorporated into all performance improvement efforts. Without an integrated strategy, it will not be clear what the most important processes are to be benchmarked.

Benchmarking is an established performance improvement technique that has proved to be effective in many industries in Kenya over time. This makes it paramount for KRA to improve its operational success and improve revenue collection performance. The KRA

(KRA) is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. After inception in 1995, the Authority exceeded the targeted collections till 1998/1999 financial year when it fell short of meeting the target revenue collection. This trend of declining performance in revenue collection persisted till the 2003/2004 financial year when the Authority recovered and surpassed the revenue collection targets, a performance that has been upheld to date. KRA needs to foster and encourage determination and persistence in the strategic performance. This forms the basis of benchmarking practices adoption.

Various studies have been conducted regarding the application of benchmarking practices. Whymark (2008) explored differences in attitudes to the adoption of best practice benchmarking between manufacturing and financial services through a credit risk management consortium. The result revealed that benchmarks enabled organizations to challenge their own policies, procedures and operational processes based on fact and objective analysis. A study by Voss, Ahlstrom and Blackmon (2007) found a strong direct link between benchmarking and improved organizational performance. They suggested that benchmarking can promote higher performance by identifying best practices and setting challenging performance goals. A study by Akuma (2007) on the use of benchmarking as a continuous improvement tool by the ministry of agriculture in Kenya found out that most Parastatals had systems that facilitate the systematic comparison and evaluation of practice, process and performance. Mutuku (2010) also studied the relationship between benchmarking and financial performance of SACCOs in Nairobi. The study found out that benchmarking is used at the SACCOs as an incremental continuous improvement tool that has enhanced the overall business performance realized by the SACCOs by helping to change internal paradigms. The studies show that enough research has not been done regarding the adoption

of benchmarking practices in the Government Parastatals. KRA is in the move to maximize revenue collection at the least possible cost for the socio-economic wellbeing of Kenyans. It is on this premise that this study will seek to answer the question ‘Is there a relationship between adoption of benchmarking practices and performance of KRA?’

### **1.3 Research Objectives**

- i. To identify the benchmarking practices adopted by KRA.
- ii. To determine the relationship between adoption of benchmarking practices and performance of KRA

### **1.4 Value of the study**

The study will offer valuable contribution to theory and practice. First the study will add value to the body of strategic management discipline especially in the more demanding concerns of strategic issues in management and will form the basis of further research by identifying the knowledge gap that arises from this study. This research offers scholars a foundation into the extent of evolution of the public sector service provision.

The principles as enunciated in the proposal will help in further research in benchmarking and related areas. In policy making, the results will enable the Government to come up with specific regulations to help KRA achieve its revenue collection targets. Other Organizations will also use the findings in policy formulation and implementation with respect the continuous improvement principle of Benchmarking.

With respect to practice, this project presents ample opportunity for business people to acquire clientele by improving on services offered by comparing their products and services to those of their competitors. For KRA and its stakeholders, this research proposal presents an

opportunity to evaluate performance with the view to improving services and products offered. The study findings will also be of great help to researchers/Academicians as it will identify gaps which are necessary for further research in areas related to Benchmarking and organizational performance.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provides a discussion of the various theories/ models and concepts that provide explanations regarding benchmarking and performance of companies; studies that have been done that are relevant to this study and a summary of the literature review. The chapter is organized in such a way that it begins with a discussion of the relevant models in strategic management followed by concepts then the empirical review, and finally a summary of literature review.

### **2.2 Theoretical Foundation**

The following theories and models are relevant in the areas of strategic performance measurement and improvement.

#### **2.2.1 Theory of Competition**

Competition denotes the existence of firms that try to sell identical products or services to the same group of customers. Competition is indeed a complex phenomenon, one that is manifested not only in other industry players but also in form of customers, suppliers, potential entrants, substitute products, the government and social welfare organizations. Barney (1991) noted that a firm has a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors. When two or more firms compete within the same market, one firm possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit (Grant, 2005). Competitive advantage is more likely to be created and sustained if the organization has distinctive or unique capabilities that competitors cannot imitate. This may be because the organization has some unique resources. Hax and Majluf

(1996) stated that competitive advantage is created when resources and capabilities that are owned exclusively by the firm are applied to developing unique competencies. A company's strategy is all about how management intends to grow the business, how it will build a loyal clientele and out-compete rivals, how each functional piece of the business will be operated and how performance will be boosted (Thompson et al., 2007).

Benchmarking as a strategic approach is not only used for survival but for being distinct and different from the competition. Firms have to be able to formulate strategies to gain competitive advantage. This calls for a strategic fit on an organizations core competence levels, technology, leadership styles, markets, culture, people and environmental influence (Awino *et al.*, 2009). Benchmarking makes it easy to identify the gap between where the organization would like to be and where it actually is. This gap provides a measure of the improvement an organization would like to make (Finch & Luebbe, 1995). It is therefore an appropriate competitive strategy because in the short run, avoiding this gap and refusing to change will decrease the opportunities for survival in the long run (Matters & Evans, 1997).

### **2.2.2 The Theory of Constraints**

The theory of constraints is a systems-management philosophy developed by Eliyahu Goldratt in the early 1980s. The fundamental thesis of TOC is that constraints establish the limits of performance for any system. TOC advocates suggest that managers should focus on effectively managing the capacity and capability of these constraints if they are to improve the performance of their organization. Three TOC paradigms that have evolved over the last twenty-five years include logistics, global performance measures, and thinking processes (Blackstone, 2001). More recently Draman (1995) has referred to these three paradigms as decision making, performance measurement systems, and organizational mindset, respectively. Originally, the logistics paradigm had managers looking for, and elevating,

system constraints in order to increase throughput. This included using drum-buffer-rope scheduling techniques and the five focusing steps of TOC. In the second paradigm, global performance measures were effectively utilized. These measures, based on throughput, operating expense, and inventory, allow managers to easily assess the impact of any given decision and help the manager to focus on the corporate goal. Most recently, the thinking processes have come into a more widespread use.

Benchmarking is the process of studying industry or competitive practices, functions and products and finding ways to meet or improve upon them. Companies from all different industries use benchmarking to gauge their successes and pinpoint their shortcomings. The use of global performance measures and/or the TOC thinking processes can therefore be beneficial to improve service times, information flows and in reengineering of administrative functions (Spencer and Wathen, 1994). The Theory of Constraints is a methodology for identifying the most important limiting factor (i.e. constraint) that stands in the way of achieving a goal and then systematically improving that constraint until it is no longer the limiting factor. The theory of constraints therefore is an important tool for operations managers to manage bottlenecks and improve process flows which is a basic concern in benchmarking.

### **2.3 Benchmarking and Management Fads**

Carson et al. (2009) defines management fads as managerial interventions which appear to be innovative, rational and functional and are aimed at encouraging better organizational performance. They further suggested that fads have a four step life-cycle comprising invention, acceptance, disenchantment and decline. They suggested that reasons for fad adoption include a need to conform and a pressure to react to market and competitor activities. Van der Wiele et al. (2000) asserted that most fads fade away after a short period

of time. Kumar et al. (2008) suggested that faddish ideas tend to be simple, prescriptive and transient but cautioned against following fads by suggesting that they lead to organizational problems. However, fads are not simply good or bad and characterizing new management theories and practices as fads was described as a tactic used by critics who wish to undermine the legitimacy of new developments in management practice (Kumar et al., 2008).

Carson et al. (2009) suggested that benchmarking was a fad while Ahmed and Rafiq (2008) wrote that a minority of management theorists considered it to be a fad. On the basis of the literature presented in this section, two criteria will be fundamental in making this judgment. First, has benchmarking survived over the past 25 years and how does it rank against other management theories and second, does it deliver operational and business benefits when adopted. Some studies have identified financial performance as the key reason for benchmarking (Maiga and Jacobs, 2004), but however, according to Anderson and McAdam (2006), focusing benchmarking on financial performance is backward looking and more predictive measures of performance need to be applied to benchmarking. These criticisms indicate that while benchmarking is acknowledged to be a useful technique, there are still doubts about how and why it is deployed.

## **2.4 Benchmarking and Organizational Performance**

Benchmarking provides a high payoff in terms of quality, productivity and customer satisfaction, when linked to a strategic planning framework (Sedgwick, 1995). Consequently, benchmarking is a technique that helps in the implementation of change. Equally, benchmarking provides an insight into prevailing business performance, by observing the achievement of other organizations. This information is often obtained through the examination of one's competitors. Thus, benchmarking is equally an awareness technique that could help organizations to become familiar with new technological and managerial

breakthroughs that other organizations are already using in their processes (Allan, 1993). Benchmarking therefore has been shown to offer organizations the following benefits; it adequately meets end-user/customer requirements in terms of business improvement (Shetty, 1993); It establishes pragmatic goals based on a concerted view of external conditions (Spendolini, 1992); It determines authentic measures of productivity (Allan, 1993); It helps to change internal paradigms and see out of the box (Spendolini, 1992); It supports the quest for a competitive position and create awareness of industry good practice (Camp, 1989) and finally it provides significant leaps in performance not always attained by other management techniques (Sedgwick, 1995).

Wagacha (1999) argue that taxation reforms should seek to improve the efficiency and productivity of taxation, improve tax collection and administration while lowering the rates, and gain tax effectiveness through greater tax elasticity. He further acknowledges that the changing international environment has significantly affected the ability of developing countries to make and implement tax policy. Integration of national economies in the global context, the rapid advance of information technology systems and rapid advance in the technological and managerial abilities of private firms have ensured that developing countries will face increasing challenges in raising taxes. In addition, a growing informal sector, partially the result of high compliance costs and weak capacities, means that developing countries face taxation challenges unknown to developed countries. Thus, organizations must simultaneously focus on revenue protection and reducing explicit and implicit compliance costs to the taxpayer. This may be achieved through effective benchmarking.

## **2.5 Empirical Review**

Different studies have been conducted regarding benchmarking and organizational performance. Kerandi, Nyaoga, Bosire and Nyambega (2014) sought to investigate the performance improvement through benchmarking in commercial banks in Kenya by focusing on the extent to which commercial banks used benchmarking, the relationship between benchmarking and organizational performance, and the challenges facing the adoption and implementation of benchmarking. The analysis indicated that on overall, benchmarking has a positive and significant correlation with organizational performance. In another study Sajabi (2012) analyzed benchmarking practices used by commercial banks in Nairobi. He sought to investigate whether commercial banks in Kenya benchmark, and if they do, in what specific areas of their operations, evaluate the success as well as the challenges they encounter in their quest to benchmark. The paper concluded that benchmarking has had a tremendous effect in improving the operations of many firms and will continue to play a critical role in their success going into the future. In revenue collection practices, Awitta (2010) studied effectiveness of revenue collection strategies at KRA in Nairobi. The purpose of the study was to examine the effectiveness of revenue collection strategies at KRA in Nairobi. The study revealed that through education, it's now easier for taxpayers to fill/lodge documents than before; however tax evasion is still rampant even after taxpayer education.

Akuma (2007) conducted a study on the use of benchmarking as a continuous improvement tool by the ministry of agriculture in Kenya found out that most Parastatals had systems that facilitate the systematic comparison and evaluation of practice, process and performance with any best practices or smarter institutions in improvement and self-regulation. A study by Mutuku (2010) on the relationship between benchmarking and financial performance of SACCOs in Nairobi found out that benchmarking is used at the SACCOs as an incremental

continuous improvement tool that has enhanced overall business performance realized by the SACCOs by helping to change internal paradigms and see out of the box. Magutu et al (2011) found out that participating in benchmarking would give Kenyan public universities a better understanding of practice, process, or performance and insights of the academic operations and functions. The three most critical factors facing the benchmarking processes in Kenya were found to be: time and resource availability; limited duration; comparability and compatibility which happened to be the probable reason why the institutions don't practice international benchmarking.

## **2.6 Summary of Literature Review**

Comparing the performance of organizations, sectors and economies has received considerable attention and resources in recent years, particularly with growing internationalization of production, increasing trade across regions and subsequent intensification of global interactions. The use of benchmarking at the level of organization level can foster innovation, identify gaps and trajectories, and enhance the quality of products and services. A study by Wanyama (2012) found out that factors that enhance benchmarking success in freight and forwarding companies include internal assessment, management commitment, benchmarking limitations, employee participation and role of quality department. Voss, Ahlstrom and Blackmon (2007) also found out that there is a strong direct link between benchmarking and improved organizational performance. They asserted that benchmarking can promote higher performance by identifying best practices and setting challenging performance goals.

The theory of competition is of the view that, firms have to be able to formulate strategies to gain competitive advantage and this can be achieved through benchmarking. The use of

theory of constraint thinking process can also be beneficial to improve service times, information flows and in re-engineering of administrative functions (Spencer and Wathen, 1994). Public sector service provision is of critical concern in enhancing economic development of the country. The role of KRA is critical to the economy in effective collection of revenue. It is on this view that this study will sought to answer the question ‘Is there a relationship between adoption of benchmarking practices and performance of KRA?’

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter discusses the research design, the type of data used and the source of the data.

This chapter also explains how the data was analyzed and conclusions arrived at.

### **3.2 Research design**

The research design was a case study. Young (1999) posits that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. Kothari (2004) describes case study as a comprehensive study of a social unit be that unit a person, a group, a social institution, a district or a community. It is a form of qualitative analysis where in careful and complete observation of an individual or a situation or an institution is done; efforts are made to study each and every aspect of the concerning unit in minute details and then from case data generalizations and inferences are drawn. KRA therefore met the criterion for the case study.

Adoption of Benchmarking practices is an initiative of top management and the departmental heads. The case study was considered appropriate for this study because the focus of the study was to answer “how” and “why” questions and the study wanted to cover contextual conditions that are relevant to the phenomenon under study (Yin, 2003).

### **3.3 Data Collection**

The study used both primary and secondary data. Secondary data on performance was derived from KRA’s corporate plans while primary data was collected using an interview guide focusing on the relationship between adoption of benchmarking practices and performance of KRA. The interview guide was prepared to assist in an in depth interview. It helped to collect information on benchmarking practices at KRA with specific emphasis on

the type of benchmarking practices, the processes that are benchmarked, and the sources of benchmarking, challenges experienced by KRA in benchmarking and whether or not the benchmarking practices have improved the performance of KRA.

The interview guide used probing questions to help collect qualitative data. The twelve interviewees were senior level managers at KRA. The senior level managers are divided into Commissioners and Supervisors within the existing departments namely Customs services, Road services, Investigation and enforcement and Domestic tax departments. Each department is headed by a commissioner. The commissioners and Supervisors are deemed to be well versed with benchmarking matters in the respective departments.

### **3.4 Data Analysis**

The data collected was cleaned, validated, and edited for accuracy, uniformity, consistency and completeness. Longitudinal analysis was used considering the qualitative nature of the data that was collected through in-depth personal interviews. It embodies a range of mainly in-depth interview-based studies which involve returning to interviewees to measure and explore changes which occur over time and the processes associated with these changes (Holland et al 2004). For this study secondary data on performance was used and compared with the views of the interviewees as collected using the interview guide.

The data was analyzed as per departments and management levels. This helped to easily collect and classify different managers' views. This offered a systematic and qualitative description of the objective of the study.

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

### **4.1 Introduction**

The KRA is the predominant government revenue collection agency accounting for over 96% of Government Ordinary revenues. The Authority administers 18 Acts of Parliament as well as collects agency revenue for several Government Agencies. The overarching goal for KRA is to scale up its services to that of the better performing emerging economies in line with the Country's Vision 2030 strategy.

The objective of benchmarking is to understand and evaluate the current position of an organization in relation to best practice and to identify areas and means of performance improvement. It involves looking outside the organization to examine how others achieve their performance levels and to understand the processes they use. In this way benchmarking helps explain the processes behind excellent performance. When the lessons learnt from a benchmarking exercise are applied appropriately, they facilitate improved performance in critical functions within an organization. KRA needs to maximize revenue collection to improve service delivery and the general well-being of Kenyans. This can be achieved easily through benchmarking of revenue collection. The authority applies process and strategic benchmarking. This is done against its strategic priorities as outlined in its corporate plans.

This chapter presents the analysis of data collected from the interviewees using the Interview Guide in Appendix II. The interviews were done with four commissioners and eight managers from the authority. The interview guide targeted four departments which included customs services, road transport, domestic taxes and investigations & enforcement.

## **4.2 Benchmarking Practices adopted by KRA**

The findings revealed that KRA pursued benchmarking practices since the period 2004/2005. Since the inception of KRA, revenue collection continued to grow while professionalism in revenue administration continued to be enhanced. A number of processes however remained manual and KRA was yet operate as a fully integrated organization. KRA second corporate plan recommended appropriate strategies to address the same. This actuated the revenue administration reform and modernization program which commenced in 2004/05 with the objective of transforming KRA into a modern, fully integrated and client-focused organization.

The following table represents some of the bench marking practices adopted by the Authority as per the findings. It represents an analysis of the benchmarking practices adopted, the previous practices, sources of benchmarking and the achievements realized by the authority.

### **4.2.1 Customs Service Department**

This is the largest of the four revenue departments in terms of manpower, revenue collection and countrywide operational network. The primary function of the department is to collect and account for import duty, excise duty and VAT on imports. Other taxes collected by the Department on an agency basis include petroleum development levy, sugar levy, road maintenance levy, import declaration fee (IDF), road transit toll, directorate of civil aviation fees, air passenger service charge, KAA concession fees and fees on motor vehicle permits. Apart from its fiscal responsibilities, the department is responsible for facilitation of legitimate trade and protection of society from illegal entry and exit of prohibited goods. The department is headed by Commissioner.

At the international level, the KRA Customs and Excise Department is a member of the World Customs Organization (WCO). Membership in the WCO confers certain benefits to the country including participation in negotiations towards accession to customs agreements with international application such as the Harmonized System Convention that forms the basis for tariff classification of goods traded in the international market. The links assist in developing best international practices through benchmarking, training of customs officers through the WCO or Member States, networking with other organizations with a stake in international trade like the World Trade Organization, the International Chamber of Commerce and the United Nations Conference for Trade and Development (UNCTAD).

The department also hosts the world customs organization regional intelligence liaison office (RILO) for Eastern and Southern Africa. The office is a Centre for gathering customs intelligence on drug seizures, methods of concealment of smuggled goods, money laundering, and precursors and is networked to the WCO Secretariat through the worldwide Customs Enforcement Network. The department has developed industry specific benchmarks for the excise manufacturers, food manufacturers and plastic manufacturers. The use of industry benchmarks plays a significant role in assisting audit officials identify potential evasion cases. The researcher established that the authority has adopted a host of benchmarking practices as outlined in Table 4.1.

**Table 4.1 Benchmarking Practices in the Customs Service Department**

<b>Benchmarking Practices</b>	<b>Previous Practices</b>	<b>Year Adopted</b>	<b>The Source of Benchmarking</b>	<b>Achievements</b>
SIMBA System Electronic contact between Customs and Customs agents, Ship agents, carriers as well as regulatory government agencies.	Bishops Office Freight Forwarders Integrated Network (BOFFIN) system	2005	SENEGAL	Improved tax compliance  Enhanced revenue collection  Improved efficiency at the Port.  Increased accountability  Increased transaction volume
Cargo Management Information System	Manual handling of cargo	2005	SENEGAL	Faster processing of customs procedures  Reduced cargo diversion
24 hour Document Processing Centre	Manual processing of documents in long rooms	2006	The Authority' strategies and objectives	Centralized processing of import documents  Easy lodgment of documents
Electronic Document Exchange Platform	Manual handling of documents	2006	International best practice	Enhanced cargo clearance  Minimal diversion of cargo
Capacity Building	Incompetence, high levels of corruption and low commitment levels among employees	2005	Strategic Initiative	Increased motivation, commitment and cooperation of staff  Improved competence  Improved professionalism and courtesy.

Source: Research Data, 2014

#### **4.2.2 Domestic Taxes Department**

The Department is charged with the responsibility of assessing, collecting and accounting to the exchequer all revenue under the Income Tax Act Cap. 470, VAT Act Cap 476 and Agency revenues under Sugar Act 2001, Standards Act (Cap. 496) and Stamp Duty Act (Cap. 480). The Large Taxpayer Office (LTO) was formed in 1998 in order to create a one-stop-shop highly efficient and customer oriented tax office for large tax payers. The basic

objective was to increase and coordinate control over the largest taxpayers, improve large taxpayers' compliance and revenue yield to Government. LTO accounts for over 75% of total KRA revenue collections in Domestic taxes department. LTO is responsible for all tax affairs of the top/specialized 400 taxpayers, including compliance monitoring, audit, debt collection, dispute resolutions and technical advice and taxpayer services. The researcher established that the authority has adopted a host of benchmarking practices as outlined in Table 4.2.

**Table 4.2 Benchmarking Practices in the Domestic Tax Department**

<b>Benchmarking Practices</b>	<b>Previous Practices</b>	<b>Year Adopted</b>	<b>The Source of Benchmarking</b>	<b>Achievements</b>
Merger of income tax and VAT	Income tax separated from VAT	2004	Strategic Initiative	Provision of a one stop shop for taxpayer services.
Segmentation of Tax payers	One size fit all approach	2006	Strategic Initiative	Addressing of unique needs of the different taxpayers  Increased rate of voluntary taxpayer compliance
Widening of the tax net	No proper formal system to collect tax from informal sector	2008	Strategic Initiative	Increased revenue collection
Withholding VAT system and Electronic tax system	Suppression of declaration of the VAT due for payment.	2003	Best practice required by the Government	Enhanced tax payer compliance
Integrated Tax Management System	Manual procedures	2006	Strategic Initiative	Protection of revenue collections  Elimination of the tedious, costly & error-prone manual data captures work.  Enhance monitoring of taxpayer compliance.

Source: Research Data, 2014

#### **4.2.3 Road Service Department**

To improve service delivery, it was established that KRA has transferred road transport departments' services delivery functions to National Transport and Safety Authority (NTSA) beginning 1/7/2014. The NTSA was created through the NTSA Act 2012 to address challenges in the road transport sub-sector to perform functions previously performed by various institutions including the road transport department. NTSA is not stationed at border

points and hence KRA officers will continue issuing and account for foreign motor vehicle license fees. All auctions must also be entered through the 'SIMBA 2005' system. KRA will however continue to exercise its mandate of assessment, collection, accounting and reconciliation of revenue while NTSA will offer services such as: registration and licensing of motor vehicle and trailers, keeping of motor vehicle and driver records, licensing of driving schools and instructors, transfer of motor vehicle ownership and issuance of duplicate registration books and driving license.

#### **4.2.4 Investigation and Enforcement Department**

The mandate of the department is to enhance revenue collection by the authority through investigation of all detected cases of tax fraud/evasion and apply all the enforcement measures at the disposal of the respective tax legislations. Its main functions include to support effectiveness and efficiency of Revenue departments audit programs through provision of intelligence summaries and risk profiling, to support the Revenue departments through providing specialized investigative services into tax frauds and crimes, determining the modus operandi, identifying the sponsors or perpetrators, and prosecuting them to enhance compliance and to detect areas of willful negligence and graft by KRA staff and make recommendations, after full investigations, for necessary disciplinary action. The researcher established that the authority has adopted a host of benchmarking practices as outlined in Table 4.3.

**Table 4.3 Benchmarking Practices in the Investigations and Enforcement Department**

<b>Benchmarking Practices</b>	<b>Previous Practices</b>	<b>Year Adopted</b>	<b>The Source of Benchmarking</b>	<b>Achievements</b>
Integration of all investigation and enforcement units	Each department had its own investigation function	2004	Strategic Initiative	Proper coordination of activities Use of common strategies
Enhanced prosecution capacity	Limited prosecution powers	2004	Strategic Initiative	Substantial win of court cases Reduced corruption cases High levels of ethics and integrity
Use of anti-counterfeit and anti-smuggling solutions	Minimal control of smuggling and counterfeits	2009	Strategic Initiative	Reduced number of counterfeit goods Reduced Smuggling activities

Source: Research Data, 2014

### **4.3 Relationship between Benchmarking Practices and Performance of KRA**

In today's competitive, fast-paced business landscape, getting the most out of available resources is not an option but rather a requirement. Organizations are taking a highly proactive approach to systems modernization and operations in an effort to increase efficiency and effectiveness in their operations. There is an increasing need by the government to collect much revenue by way of taxes to face the increasing financial expenditures budgeted by the country. To meet this requirement, KRA implemented a host of best practices as initiated by the second corporate plan 2003/2004 — 2005/2006. These benchmarking practices and their effects are summarized in Table 4.4.

**Table 4.4 Relationship between Benchmarking Practices and Performance of KRA**

<b>Benchmarking Practice</b>	<b>Period</b>	<b>Performance Indicators</b>	<b>Achievements</b>
SIMBA System	2005	Tax compliance Revenue collection Cost of revenue collection	Improved tax compliance Enhanced revenue collection Improved efficiency at the Port. Increased accountability Increased transaction volume
Cargo Management Information System	2005	Quality of service Public perception	Reduced cargo diversion  Faster processing of customs procedures
24 hour Document Procession Processing Centre	2006	Quality and timeliness	Easy lodgment of documents  Centralized processing of import documents
Electronic Document Exchange Platform	2006	Corruption index Bribery index	Enhanced cargo clearance Minimal diversion of cargo
Capacity Building	2005	Commitment levels Staff motivation Integrity levels	Improved competence  Increased motivation, commitment and cooperation of staff  Improved professionalism and courtesy.
Merger of income tax and VAT	2004	Functions integration	Provision of a one stop shop for taxpayer services
Segmentation of Tax payers	2006	Compliance level Revenue collection	Addressing of unique needs of the different taxpayers  Increased rate of voluntary taxpayer compliance
Integration of all investigation and enforcement units	2004	Activity coordination	Proper coordination of activities Use of common strategies
Withholding VAT system. Electronic tax system	2003	Compliance level	Enhanced tax payer compliance

Source: Research Data, 2014

#### **4.4 Discussion of Findings**

The objective of the study was to identify the benchmarking practices adopted by KRA and to determine the relationship between adoption of benchmarking practices and performance of KRA. The focus of the study was to establish the benchmarking practices adopted by the Authority and how they affect its performance. The analysis of the information obtained through the interview guide with the Commissioners and deputy commissioners who head the Departments indicated that KRA adopted a variety of benchmarking practices in the various departments. In the customs service department, the practices included; the SIMBA system, Cargo Management Information System (CAMIS), 24 hour Document Processing Centre, Electronic Document Exchange Platform and Capacity Building. The benchmarking practices are based on the customs reforms and modernization project. The practices aim at transforming and modernizing customs administration in accordance with internationally accepted conventional standards and best practice. This also involves embracing the redefined function of Customs to lay greater emphasis on trade facilitation and protection of society. The Authority sourced the benchmarking partners from Senegal and its strategic initiative as outlined by the corporate plans. Benchmarking has transformational effect. This is in consistent with Wagacha (1999) who argued that taxation reforms should seek to improve the efficiency and productivity of taxation, improve tax collection and administration while lowering the rates, and gain tax effectiveness through greater tax elasticity.

The study established that before the adoption of the practices, there was no integration as KRA remained a tax-based organization with the inherent inefficiencies that result from such a structure. As a result there was replication of organizational units for each tax and scarce resources being wasted on repetitive jobs. Each revenue department continued to retain its

own units in taxpayer recruitment, audit, investigation, taxpayer education and debt management. Most processes including administrative procedures were done manually with very little computerization. There was little use of computers motor vehicle registration and licensing, cash receipting at RTD and electronic filling of returns. Little had been done on installation of e-mail services and electronic banking facilities. Customs and Excise department had obsolete systems, PAYE and withholding tax internal processes still used manual systems while critical systems needed to support service departments such human resources, finance, investigation and research were not available. Overall, the systems at KRA used the old traditional approach to data processing i.e. data entry of paper documents with reports being generated on ad hoc basis. The systems were incapable of sharing information with each other leading to delays in decision making. Customer could not be served efficiently and effectively and this could be manifested from the massive confusion which existed in the then long rooms.

In capacity building, it was established that KRA has best practice initiatives to implement reform initiatives that will rejuvenate the workforce by fostering technical competence and professionalism. In so doing, KRA would upgrade and diversify the skill base to international best practice standards and improve staff motivation and commitment. The key initiatives being implemented included implementation of best human resource practices, institutionalizing of change management and training programs, implementation of e-learning initiatives and partnering with various institutions of higher learning for staff to build capacity in technical fields, professionalizing human resources department by improving recruitment and talent and succession management and introduction and implementation of performance management tools including the Balanced Score Card (BSC) approach, performance contracting and a staff appraisal system. It was also established that the

Authority was institutionalizing coaching and mentoring, establishment of an in-house Psychometric and Assessment Centre (PAC) to provide a centralized base for competency, skills and personality assessment services within the Authority, organizational re-alignment to new business realities by conducting a comprehensive job evaluation and skills gap analysis and revamping KRA Training Institute (KRATI) to meet the training needs of the Authority. Capacity building as a benchmarking initiative by the Authority is consistent with an earlier by Awitta (2010) who studied effectiveness of revenue collection strategies at KRA in Nairobi. The study revealed that through education, it's now easier for taxpayers to fill/lodge documents than before; however tax evasion is still rampant even after taxpayer education.

In domestic tax department, the researcher established a number of benchmarking practices. Some of the practices include merger of income tax and VAT, segmentation of tax payers, widening of the tax net, withholding VAT system and electronic tax system and an integrated tax management system. The best practices in benchmarking were sourced from the corporate plan outlining the strategic initiatives of the Authority. The benchmarking initiatives seek to create a fully integrated and modern domestic tax administration. The key objectives include integrating domestic revenue administration; developing a holistic approach to taxpayer services thereby providing a single view of the taxpayer; reducing the administrative and compliance costs; improving services through taxpayer segmentation; enhancing taxpayer compliance and broadening the tax base. To further achieve the provision of a one stop shop for taxpayer services, the study established that KRA has implemented the Common Cash Receipting System (CCRS) to harmonize tax payment procedures across the Authority. By harmonizing tax payment procedures, the authority intends to achieve a single view of the taxpayer and make payment of taxes less burdensome on the taxpayer.

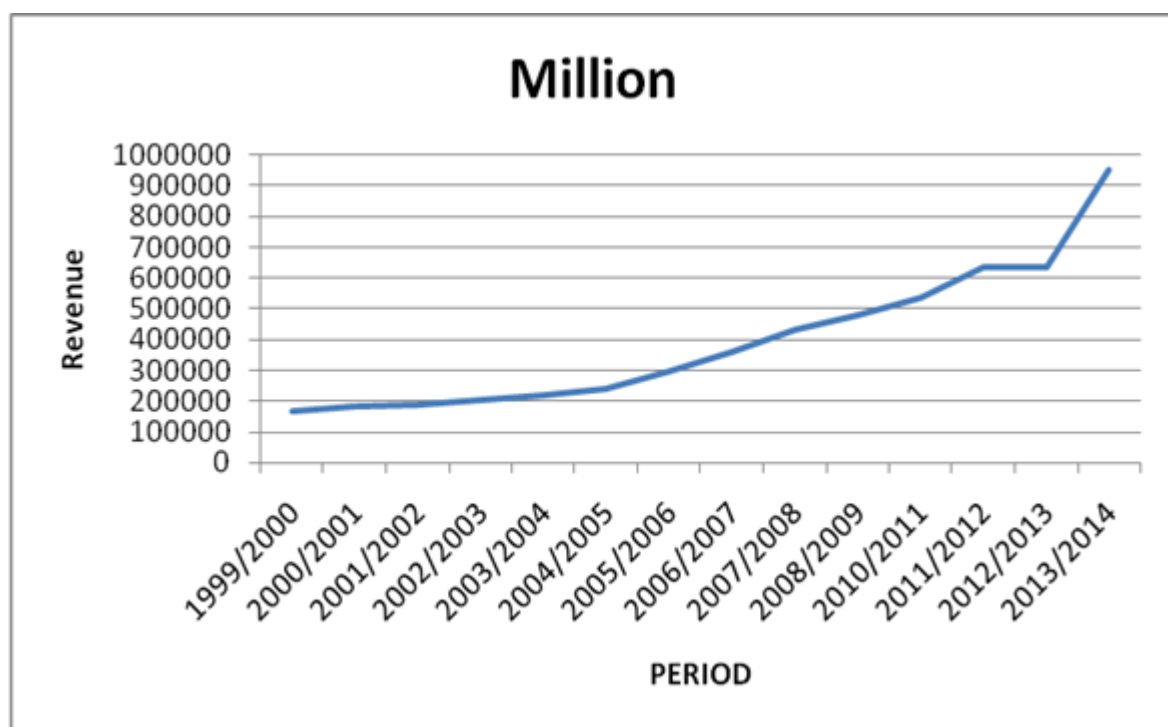
In the road service department, the researcher established that benchmarking aims to modernize road transport department's operations. This is to ensure improved service delivery to the taxpayers, increased revenue collection while at the same time reducing the cost of revenue collection. To improve service delivery, KRA transferred road transport departments' services delivery functions to National Transport and Safety Authority (NTSA) beginning 1/7/2014. The study also found out a number of benchmarking practices in the investigation and enforcement department. The Authority adopted integration of all investigation and enforcement units, enhanced prosecution capacity and use of anti-counterfeit and anti-smuggling solutions. The aim of benchmarking is to enhance KRA's capability to efficiently and effectively detect, deter and punish tax fraud through proactive intelligence, coordinated and rapid enforcement, and targeted prosecution. To enhance the operations of Internal Audit and Risk Management department within the Authority, the researcher established that KRA is implementing the automation of IA & RM processes. This will involve installation and adoption of an Audit Management Solution and the formulation and implementation of a KRA-wide Enterprise Risk Management Framework.

Regarding the second objective, the study established that the benchmarking practices adopted by KRA has had an impact on its performance overtime. The adoption of the SIMBA system, Cargo Management Information System, 24 hour Document Procession Processing Centre, Electronic Document Exchange Platform and capacity planning led to improved tax compliance, enhanced revenue collection, improved efficiency at the Port, increased accountability and increased transaction volume. This result is consistent with an earlier study by Kerandi, Nyaoga, Bosire and Nyambega (2014). They sought to investigate the performance improvement through benchmarking in commercial banks in Kenya. This study established that benchmarking has a positive and significant correlation with organizational

performance. The study also established that these practices led to faster processing of customs procedures, reduced cargo diversion, centralized processing of import documents, easy lodgment of documents, enhanced cargo clearance and minimal diversion of cargo. The study also established that due to the adopted practices, there was provision of a one stop shop for taxpayer services, addressing of unique needs of the different taxpayers, increased rate of voluntary compliance, addressing of unique needs of the different taxpayers, proper coordination of activities, use of common strategies and enhanced tax payer compliance.

The study also established an increasing trend in revenue performance from the period the best practices were adopted. Figure 4.1 shows trends in growth in revenue for the period 1999/2000 to 2013/2014:

**Figure 4.1 Trends in Revenue Performance**



Source: Revenue Department KRA, 2014

The figures above show improved revenue performance on a consistent basis. This strong revenue performance was matched by improvements in customer service, primarily driven by initiatives in automation, integrity and enhancing professionalism in service delivery. KRA was able to record these achievements by focusing on the following strategic goals of namely: Developing a dedicated and professional team, re-engineering business processes and modernizing technology, improving and expanding taxpayer services, and enhancing revenue collection, improving compliance and strengthening enforcement.

The study established that this performance is also as a result of revenue mobilization initiatives including implementation of Electronic Cargo Tracking System, acquisition of additional scanner, adoption of KRA Block Management System (BMS), acquisition of five high speed patrol boats, implementation of the Authorized Economic Operator (AEO) concept, and implementation of a Valuation system. In terms of implementation of the Enforcement Strategy, the adoption of PIN as a common identifier was fully implemented, KRA implemented the Revenue Administrations Digital Data Exchange, integrated KWATOS and KRA systems for data exchange eases, and a digital forensic laboratory was established. A whistleblower tool was launched; KRA adopted revised business rules and partnered with professional bodies for improved professional integrity and compliance. Business Keepers Monitoring System (BKMS) was introduced as a web-based whistleblower for reporting corruption. The revenue performance established is consistent with a study done by Mutuku (2010). She found out that benchmarking is used as an incremental continuous improvement tool that has enhanced overall business performance realized by the SACCOs by helping to change internal paradigms and see out of the box.

The findings of this study are that KRA adopts benchmarking practices in customs service department, domestic tax department and investigations and enforcement department. The study further establishes that benchmarking practices positively affect performance of KRA. These findings are in agreement with earlier studies. Kariba (2005) conducted an analysis of tax reform policies and tax revenues in Kenya. He found out that there was a significant improvement in tax revenue after the implementation of reform policies by Kenya. It is also consistent with the study by Obae (2009) that sought to determine the turnaround strategy adopted by the KRA in government revenue collection. The study concluded long term planning is important for KRA success due to the following reasons; it ensures commitment to the set objectives, it makes it possible to check performance against set objectives.

## **CHAPTER FIVE: SUMMARY CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter gives summary of findings, conclusions, and it also discusses limitations arising from this study and areas that require further research. The objectives of the study were to identify the benchmarking practices adopted by KRA and to determine the relationship between adoption of benchmarking practices and performance of KRA. These objectives were achieved through interviews with the respondents assisted with an interview guide and analysis of the available secondary data on performance.

### **5.2 Summary**

The study found out that the Authority adopted both process and strategic benchmarking. Strategic benchmarking involves examining long-term strategies regarding core competencies, new product and service development or improving capabilities for dealing with change while the purpose of process benchmarking is simply to learn to improve one's own selected processes. According to the findings, benchmarking practices by KRA is driven by its commitment to deliver on the agreed targets through innovative practices, leveraging on technology and implementation of staff performance improvement measures. The achievements of these targets are reviewed periodically as set out in the Authority's corporate plans. The findings of this study are therefore that KRA adopts benchmarking practices in customs service department, domestic tax department and investigations and enforcement department. The study further establishes that benchmarking practices has positively affected performance of KRA.

### **5.3 Conclusion**

From the findings and the discussions in this chapter, the study concludes that there were benchmarking practices adopted by KRA in order to improve its performance. The findings of the study have shed adequate light to draw pertinent conclusions about the benchmarking practices adopted by KRA. The Authority's quest for improved service delivery has propelled stability in the Kenyan economy and therefore promoting several Government programs. This means that the benchmarking practices by the Authority had an improved performance effect on the Authority.

The study also concludes that the authority had to restructure its operations during the course of implementing the corporate plans mainly by shifting from tax based structure to function based structures, merging some departments (VAT, IT, to form Domestic Taxes Department) for efficient service delivery and automation of service deliveries. This restructuring was very effective in improving performance of KRA in terms of improved taxpayer services, reduced corruption, reduced compliance costs to enhanced revenue collection and reduced time wastage.

Encouraging milestones towards achieving benchmarked areas were well defined in the Authority's corporate plans and the future looks promising as more strategies are laid to solidify the success and improve on their current state. It is however worthy to note that the benchmarking process would not have seen the light of the day were it not for the situational factors that provided the proper environment for a successful benchmarking. Also it would have not been a success if there were no counter measures to combat a number of challenges met on the way. It could be generally concluded that benchmarking practices were employed in order to achieve improved service delivery and the effects were felt in all facets of the Authority during the time of this study.

A key cornerstone of achieving benchmarking success is the reform and modernization programme which has kept the activities of the Authority in conformity with recommended best practices. On technology for example, the study concludes that KRA has modernized IT function and this has made functions more accessible and drastically reduced contracts with customers thereby enhancing integrity. There is automation and intranets throughout KRA hence time taken to achieve results in IT related environment is much shorter hence enhanced efficiency in programs delivery. This has enhanced revenue collection and faster processing of funds and other deliveries.

## **5.4 Recommendations**

The management of KRA should consider creating understanding of the current corporate plan to both top management as well as support departments. It is equally important that the support departments understand the organization's current corporate plan because they are part and parcel of the organization. They can only support the management to work towards achieving the organization's goals if they are made to understand the current corporate plan.

Resistance to change by the employees and the stakeholders may also be addressed by involving every employee and the main stakeholders in decision making processes regardless of their positions. In so doing they will feel more responsible to bring change and embrace new ideas. The challenge of inadequate expertise may be addressed through continuous training to sharpen their management skills. Role conflict may also be dealt with by defining the roles of each and every employ before bringing them on board.

## **5.5 Limitations of the Study**

Only twelve personnel were interviewed. Therefore the findings may have a marginal error as a result of the not including the middle managers for the study. Finally getting hold of the commissioners to schedule the interviews was also a big challenge due to their busy schedule. This forced the researcher to make several call backs in order to get hold of the respondents which had cost and time implications on the researcher. The study also focused on the current senior managers of the Authority and some to a certain extent were not involved in the benchmarking processes from beginning. Therefore the interpretation of the findings of this study should also be done with this limitation in mind.

## **5.6 Suggestion for further research**

The respondents of the study only consisted of top managers in revenue departments hence the findings can be verified by conducting the same study with middle level managers and support departments in order to validate the results. The study findings are therefore according to the top management point of view, the middle managers views on the benchmarking practices are as well important and should be taken into account. Future researchers may conduct a study targeting both the middle and top level management in order to validate the results. Further research should also be conducted in other organizations which have experienced similar circumstances as in KRA to establish the benchmarking practices adopted by those organizations in order to improve their performance. This would be particularly recommended for public sector organizations where service delivery is of great concern.

## **5.7 Implication of the Study**

The findings would be useful when developing policy guidelines for making changes in the institutional frameworks and policy interventions. Benchmarking has also been used in many countries as a means of reducing the perceived gap between the performance of public sector organizations and their private sector counterparts, with the aim of improving the quality of service, and ultimately saving taxpayer's money. A number of problems can be identified in benchmarking in the public sector including the lack of agreement on what public policy is, the contradiction between learning and copying in public sector organizations, the dualism between top-down and bottom-up approaches and the conflict between accountability and public trust. These problems can only be addressed through effective formulation of policies which this study will offer insights into the specific areas of benchmarking that would guide policy making activities.

With regard to theory the study will add value to the body of strategic management discipline especially in the more demanding concerns of strategic issues in management and will form the basis of further research by identifying the knowledge gap that arises from this study. As a strategic management tool, the objective of benchmarking is the application of new business knowledge to business decision making.

With respect to practice, this project presents ample opportunity for business people to acquire clientele by improving on services offered by comparing their products and services to those of their competitors. For KRA and its stakeholders, it presents an opportunity to evaluate performance with the view to improving services and products offered.

## REFERENCES

- Adebanjo, D. and Mann, R. (2007). Identifying problems in forecasting consumer demand in the fast moving consumer goods sector. *Benchmarking: An International Journal*, 7 (3), 223-230.
- Ahmed, P. and Rafiq, M. (2008). Integrated benchmarking: A holistic examination of select techniques for benchmarking analysis. *Benchmarking for Quality Management and Technology*, 5(3), 225-242.
- Akuma, O. E (2007). A survey on the use of benchmarking as a continuous improvement tool by the ministry of agriculture parastatals in Kenya. *Unpublished thesis*. University of Nairobi.
- Allan, C.F. (1993). Benchmarking practical aspects for information professionals. *Special Libraries*, 84, 3,123-30
- Anderson, K. and McAdam, R. (2006). A critique of benchmarking and performance management. *Benchmarking: An International Journal*, 11(5), 465-483.
- Auluck, R. (2002). Benchmarking: A tool for facilitating organizational learning. *Public Administration and Development*, 22(2), 109-2002.
- Awino Z., Wandera W. W.,Imaita I., Obonyo P. K., (2009). Challenges Facing the Implementation of differentiation strategy at Mumias Sugar Company Limited. *Unpublished thesis*. University of Nairobi
- Awitta M. (2010). Effectiveness of revenue collection strategies at KRA

- in Nairobi. *Unpublished thesis*. University of Nairobi.
- Barry, M.A. (2000). How can performance standards enhance accountability for public health? *Journal of Public Health Management Practice*, 6, 5, 78-84.
- Baulcomb, J.S. (2003). Management of change through force field analysis. *Journal of Nursing Management*, 11, 275-280.
- Becker, B., Huseld, M. and Ulrich, D. (2001). *The HR Scorecard: Linking people, strategy and Performance*. Harvard Business School Press
- Behara, R. and Lemmink, J. (2007). Benchmarking field services using a zero defects approach. *International Journal of Quality and Reliability Management*, 14(5), 512-516.
- Bhutta, K. and Huq, F. (2002). Benchmarking – best practices: An integrated approach. *Benchmarking: An International Journal*, 6(3), 254-268.
- Blackstone, J.H., (2001). Theory of constraints--A status report. *International Journal of Production Research*, 39 (6), 1053-1080.
- Boyd, L. and Gupta, M. (2004). Constraints management: What is the Theory? *International Journal of Operations and Production Management*, 24 (4), 350-371.
- Camp, R. C. (1989). *Benchmarking: The search for Industry best Practices that lead to Superior Performance*. Milwaukee: ASQC Quality Press.
- Carpinetti, L. C. R. and de Melo, A. M. (2002). What to benchmark? A systematic approach and cases. *Benchmarking: An International Journal*. 9(3), 244-255.

- Chan, L. (2004). Performance measurement and adoption of the balanced score card: A survey of the Municipal governments in the USA and Canada. *The International Journal of Public Sector Management*, Vol.17, No. 2, pp. 21
- Covey, S.R. (2004). *The 8th Habit: From Effectiveness to Greatness*. UK: Simon & Schuster.
- Dattakumar R. and Jagadeesh, R. (2003). A review of literature on benchmarking: *An International Journal*, 10 (3), 176 – 209.
- Delpachitra, S. and Beal, D. (2002). Process benchmarking: An application to lending products. *Benchmarking: An International Journal*, 9(4), 409-420.
- Draman, R.H. (1995). A New Approach to the Development of Business Plans: A Cross Functional Model Using The Theory of Constraints Philosophies. *Ph.D. Dissertation*, University of Georgia.
- Finch, B.J. and Luebbe R.L. (1995). *Operations Management*, The Dryden Press, Fort Worth, TX.
- Fong, S., Cheng, E. and Ho, D. (2008). Benchmarking: A general reading for management practitioners. *Management Decision*, 36(6), 407-418.
- Haber, S. and Reichel, A. (2005). Identifying performance measures of small ventures - The case of the tourism industry. *Journal of Small Business Management*, 43, 3; 257-287.
- Hamel, G., and Prahalad, C.K. (1993). *Competing for the Future*. Boston, Harvard Business School Press.

- Hess, K. and Francis, G. A. J. (2004). Cost-income ratio benchmarking in banking. *Benchmarking: An International Journal*, 11(3), 303-319.
- Hinton, C. M., Francis, G. A. J. & Holloway, J. (2000). Best practice benchmarking in the UK. *Benchmarking: An International Journal*, 7(1), 52-61.
- Inman, R.A. and Mehra, S. (1991). JIT Applications for service environments. *Production and Inventory Management Journal*, 32 (4), 16-21.
- Johnson, G. and Scholes K., (2003). *Exploring Corporate Strategy*. 6<sup>th</sup> Edition, Harlow England: Prentice Hall
- Kenya Institute of Management (2009). *Fundamentals of Management Research Methods*; Nairobi Macmillan Publishers. (n.d.).
- Kerandi D. O, Nyaoga B. R, Bosire M. R and Nyambega E (2014). A survey of performance improvement through benchmarking in commercial banks in Kenya: The managers' perception and experience. *International Journal of Business and Economics Research* 2014; 3(1): 6-14
- Knights, D. and McCabe, D. (2006). A bridge too far?: Consistent quality initiatives in financial services. *The TQM Magazine*, 8(5), 51-55.
- Lema, N. and Price A. (1995). Benchmarking - Performance improvement toward competitive advantage. *Journal of Management Engineering*, 11(1), 28-37.
- Magutu, P. O., Mbeche, I. M., Nyamwange, S. O., and Nyaoga, R. B (2011). A Survey of

- Benchmarking Practices in Higher Education in Kenya: The Case of Public Universities. *IBIMA Business Review*.
- Maltz, A.C., Shenhar, A.J. and Reilly, R.R. (2003). Beyond the balanced scorecard: Refining the search for organizational success measures. *Long Range Planning*, 36, 2, 187-204
- Matters, M. and Evans, A. (1997). *The nuts and bolts of benchmarking*, [http:// www.ozemail.com.au/~benchmark/nuts.bolts.html](http://www.ozemail.com.au/~benchmark/nuts.bolts.html).
- McAdam, R., Hazlett, S.A. and Casey, C. (2005). Performance management in the UK public sector: Addressing multiple stakeholder complexity. *The International Journal of Public Sector Management*, 18, 3, 256-273.
- McGaughey, R. (2002). Benchmarking business-to-business electronic commerce. *Benchmarking: An International Journal*, 9(5), 471-484.
- Mutuku, J. K (2010). The relationship between benchmarking and financial performance of SACCOs in Nairobi. *Unpublished thesis*. University of Nairobi.
- Niven, P.R. (2005). Driving focus and alignment with the balanced scorecard. *The Journal for Quality and Participation*, 28, 4, 21-25.
- Norman, G (2001). *Production and Operations Management*; 7th edition.
- Nyaoga, B. R, Mundia M. C, and Riungu I. (2012). The effect of benchmarking on performance in secondary schools in Nakuru municipality - Kenya, *International Journal of Management, IT and Engineering*, 3, 2.
- Pearce, A.J and Robinson, R. (1999). *Strategic Management, Formulation, Implementation & Control*. USA: Richard D Irwin.

- Poister, T.H. (2003). *Measuring performance in public and nonprofit organizations*, Jossey Bass: San Francisco, A Wiley Imprint.
- Porter, M.E. (1985). Technology and competitive advantage. *Journal of Business Strategy*, 5, 3, 60 –78.
- Porter, Michael E. (1985). *Competitive Advantage*. New York. The Free Press.
- Porter, M.E. (1985). *Competitive Advantage*. New York, USA: Free Press.
- Rose. A and Lawton. (1999). *Public Service Management*. New York: Financial Times/Prentice Hall.
- Rudman, R. (2008). *Performance Planning and Review*. Warriewood, Australia: Business & professional Publishing.
- Sajabi, D. W. (2012). Benchmarking practices used by commercial banks in Nairobi. *Unpublished thesis*, University of Nairobi.
- Schragenheim, I. (1999). *Management Dilemmas: The Theory of Constraints A road to Problem Identification and Solutions*. St. Lucie Press/APICS Series on Constraints Management, Boca Raton, FL.
- Sedgwick, S. (1995). Benchmarking and best practice: promise and performance. *Australian Journal of Public Administration*, 54, 3, 401-7.
- Shetty, Y.K. (1993). Aiming high: competitive benchmarking for superior performance. *Long Range Planning*, 26, 1, 39-44.

- Spencer, M.S. and Wathen, S. (1994). Applying the theory of constraints' process management technique to an administrative function at Stanley furniture. *National Productivity Review*, 13 (3), 1994, 379-385.
- Spendolini, M.J. (1992). *The Benchmarking Book*. American Management Association, New York, NY.
- Sweeney, M. (2004). Benchmarking for strategic manufacturing management. *International Journal of Operations and Production Management*, 14(9), 4-15.
- Thompson, A.A. and Strickland A, J. (2002). *Strategic Management; Concepts and Cases*. 2<sup>nd</sup> edition, Upper Saddle River, NJ Prentice Hall.
- Thompson, A., Strickland, A.J. & Gamble, J. (2007). *Crafting and Executing Strategy: The Quest for Competitive Advantage: Concepts and Cases*. New York, USA: McGraw Hill Irwin.
- Ulusoy, G. and Ikiz, I. (2001). Benchmarking best manufacturing practices. *International Journal of Operations and Production Management*, 21(7), 1020-1043.
- Voss, C., Ahlstrom, P. and Blackmon, K. (2007). Benchmarking and operational performance: Some empirical results. *International Journal of Operations and Production Management*, 17(10), 1046-1058.
- Wagacha, M. (1999). *Fiscal policies and their macroeconomic implications for Kenya. Kenya's Strategic Policies for the 21st Century: Macroeconomic and Sectorial Choices*. Nairobi: Institute of Policy Analysis and Research (IPAR).

Wanyama, S. O. (2012). The effect of benchmarking on performance: evidence from freight forwarding firms in Kenya. *Unpublished thesis*. Kenyatta University

Whymark, J. (2008). Benchmarking and credit risk management in financial services. *Benchmarking for Quality Management and Technology*, 5(2), 126-137.

Young, M. (1999). Market structure analysis: a foundation for developing and assessing bank strategy. *The International Journal of Bank Marketing*, 17, 1, 20-5.

## **APPENDIXI: LETTER OF INTRODUCTION**

UNIVERSITY OF NAIROBI,  
SCHOOL OF BUSINESS,  
P.O BOX 30197 NAIROBI

Dear Sir/Madam,

### **RE: RELATIONSHIP BETWEEN ADOPTION OF BENCHMARKING PRACTICES AND PERFORMANCE OF KRA (KRA)**

The above subject matter refers.

I am a Postgraduate student undertaking a Master of Business Administration (MBA) degree at the University of Nairobi. I am currently undertaking a research on the title outlined above. Your organization has been chosen to be used for this research. I would therefore like to request for your assistance in completing the questionnaire attached to enable me complete the research. The information you provide will be treated with strict confidence and will only be used for academic purposes (this research).

Your cooperation in completing the questionnaire will be highly appreciated.

Yours faithfully,

Job Ouma  
MBA Student

## **APPENDIX II: INTERVIEW GUIDE**

### **PART A: BACKGROUND OF RESPONDENTS**

1. Name of respondent (Optional)\_\_\_\_\_
2. What position do you currently hold\_\_\_\_\_
3. Time worked at KRA\_\_\_\_\_

### **PART B: BENCHMARKING PRACTICES AT KRA**

#### **5 CUSTOMS SERVICES DEPARTMENT**

4. Does KRA conduct benchmarking on customs and excise department?
5. If Yes, what are the types of benchmarking practices in customs adopted by KRA?
6. What are the benchmarking practices applied on gathering customs intelligence on the following:
  - a. Drug seizures
  - b. Methods of concealment of smuggled goods
  - c. Money laundering precursors
7. What are the sources of best international practices in Training of customs offices?
8. What are the key challenges when implementing best practices in customs department

#### **ROAD SERVICE DEPARTMENT**

9. What are the sources of best practice standards in Road service department?
10. What are the effects of benchmarking on the following on performance of KRA?
  - a. Automation
  - b. New generation logbook
  - c. Driving license management system

- d. Migration of data to an oracle platform
  - e. Web enabling of the motor vehicle management system
11. How does the department benchmark on staff training?
12. What are the practices adopted to improve motor vehicle registration?

## **6 DOMESTIC TAX DEPARTMENT**

13. How has the department improved tax collection?
14. What are the benchmarking practices adopted in domestic tax reforms?
15. What are the sources of benchmarking on the following areas:
- a. Merger of income tax and VAT
  - b. Segmentation of taxpayers
  - c. Widening the tax net
  - d. Enhancing taxpayers' compliance
  - e. Provision of on line services

## **7 INVESTIGATIONS AND ENFORCEMENT DEPARTMENT**

16. What are the benchmarking practices in investigation and enforcement department?
17. From the list below, what are those aspects your department prioritize to be Best practices that can be benchmarked:
- a. Integration of all investigation and enforcement units.
  - b. Restructuring I & E department.
  - c. Enhancement of prosecution capacity.
  - d. Acquisition and use of anti-counterfeit and anti-smuggling solutions.
  - e. Capacity building in critical investigations and enforcement areas
  - f. Development and implementation of a KRA-wide Enforcement strategy.
18. Who/what are the department's sources of 'Best in the Industry' performance?