STRATEGIES ADOPTED BY THE COUNTY GOVERNMENT OF MOMBASA IN RAISING REVENUE

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2014

DECLARATION

This research project is my original work and has not been presented in this or any other University for assessment or award of a degree.

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SUPERVISORS APPROVAL

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

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DEDICATION

I dedicate this study to my caring and loving wife Leah Asellah for her continuous support and encouragement, to our two brilliant Children Ian and Allan for their inspiration in my life's journey and my late mother, Juliana Nekesa, she taught me to persevere and prepared me to face challenges with faith and humility.

ACKNOWLEDGEMENT

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ABSTRACT

If the County governments were to be able to enhance their revenue collection, a lot of revenue would be generated for undertaking development projects. County governments need to redouble their efforts to raise sovereign, sustainable and predictable resources. Having this information in mind, this study attempted to fill the knowledge gap through answering the following research questions; what are the strategies adopted by the Mombasa County government to raise revenue? How effective are the revenue collection strategies of Mombasa County in raising more revenue? This study employed a case study method. A case study is a detailed investigation of a single individual or group. The study employed a face to face interview as a primary data collection method. The researcher used the interview guide to aid in obtaining information from the respective respondents who were the departmental heads that were well conversant with the County Operations. The respondents included the Executive Committee Members and the Chief Officers who are holders of Authority to Incur Expenditure (AIE) from each of the 11 cabinets in Mombasa County. This constituted a total of 22 respondents. The data was analyzed using content analysis. Content analysis enabled the researcher to sift through large volumes of data with relative ease in a systematic fashion. This study therefore concluded that the County of Mombasa had adopted differentiation strategies in its revenue collection role. Among them included the remission of cash to the nearest bank and not to the cash offices. The county had also improved tax rates, widen the tax base, devolution of tax base to county government departments, improved controls on management of cash. Among other new developments included decentralized ICT based tax collection systems and offices in the sub- counties. The study recommends that the County Government of Mombasa needs to automate its revenue collection. This can be done through partnering with the regional banks whereby the tax payers will be given option of paying county fees through mobile money or branded credit cards via new revenue collection system. The study also recommends the development of revenue management capacity by training qualified personnel, trained staff in efficient budgetary and financial management systems, established proper revenue management mechanisms and implemented fiscal policy measures. According to the study findings, this negative attitude was related to the poor quality of services provided by the County. There was, therefore, need for the County to provide quality services to the people. This would enable taxpayers to relate the taxes they pay to the services they receive. It would also motivate taxpayers to pay taxes where there is tangible evidence of tax usage.

ABBREVIATIONS AND ACRONYMS

AIE: Authority to Incur Expenditure

KIHBS: Kenya Integrated Household Budget Survey

Kshs: Kenya Shillings

USA: United States of America

CHAPTER ONE:INTRODUCTION

1.1 Background of the Study

As many nations adopt devolved systems of governance, fiscal decentralization has been embraced in many cases so as to move governance closer to the people, through strengthening local government finances. Fiscal decentralization has thus become a salient feature of public finance, with and balanced distribution of government spending and public revenue being the cornerstone of devolution (World Bank, 2000). Thus, many African nations have adopted devolution with the belief that it facilitates greater participation of communities in problem analysis, project identification, planning, implementation as well as oversight which in turn increases ownership and the likelihood of sustainability of such initiatives (Kauzya, 2007).

According to Bird (2010), a sound revenue system for devolved governments is an essential pre-condition for the success of fiscal decentralization. This is because, apart from raising revenues, local revenue mobilization has the potential to foster political and administrative accountability by empowering communities (Oates 1998). Despite, turning to devolution, many African governments have been faced with a governance crisis and poor service delivery capability. The devolution of revenue mobilization and spending powers to lower levels of government has had its share of challenges (Odd-Helge and Kari, 2012). Ola and Tonwe (2005) suggest that lack of finance remains a major challenge to the success of devolution in many African countries. Many of the devolved units are faced by the challenges of mobilizing appropriate levels of revenue to enable

effective service provision and address poverty and inequality issues at the local level (Latema, 2013).

Fosu, and Ashiagbor (2012) posit that many of the devolved units are financially weak and rely on financial transfers and assistance from the central government. If the local governments were to be able to enhance their revenue collection, a lot of revenue would be generated for undertaking development projects.

The researcher realized that it might not be academically sound to review the revenue raising measures without leaving a window for exploring new opportunities in revenue strategies, hence the importance of the resource dependence theory and revenue diversification theories in this study. The theories will play a significant role in exploring ways in which effective revenues measures can be adopted, and which can help broaden the range of revenue sources for the County Government of Mombasa. The aim is to provide a stepping stone towards a new funding structure as revenue diversification is a valid revenue management strategy and one that can help address issues to do with effectiveness of the revenue strategies.

1.1.1 The Concept of Strategy

The word strategy has been in existence since the 18th centaury, at that time it was defined with a narrow sense as the art of using battles to win the war (Carl von Clausewitz, 1832). According to Michael Porter (1980), competitive strategy is simply a broad formula for how a business is going to compete. Henry Mintzberg (1994), a

professor of management at McGill University, in his book ' The Rise and Fall of Strategic Planning' goes further to argue that strategy can also be a ploy, a maneuver intended to outwit a competitor. Just recently, strategy has been defined as a general plan of action for achieving one's goals and objectives (Fred Nickols, 2011).

Despite the concept of strategy being a relatively young field in the business sector, its roots date back to the early medieval years where it was greatly applied in military engagements; the early military strategy. The concept was founded on knowing the other and knowing yourself so as to triumph without peril or knowing nature and knowing the situation so as triumph completely (Payne, 2011).

Today, there is a clear acknowledgment of relevance and importance of the concept within the domain of the business world. Hitt, et al (2004) concludes that strategy is the unifying theme that gives coherence and direction to the decisions of an organization. Strategy enables organizations to be able to attain long-term success, achieve their goals and gain above average returns or remain profitable. It is a core component of strategic management which involves the analysis, decisions and actions an organization turns to in order to create and sustain competitive advantages. Strategic management is the full set of commitments, decisions and actions that a firm must adopt so as to create value and earn above average returns (Payne, 2011).

1.1.2 Revenue in County Governments

According to Orewa (1991), local governments are a level of government below the central government (second-tier) in the case where the state is unitary, or below the regional, provincial or state government in the case of a federation (third-tier). The Constitution of Kenya 2010 introduces a two tier system, national and county governments. Further schedule four of the constitution mandates county governments to provide a range of services as set out by law to its constituents and has a legal authority to do so. It also has legal powers to enforce its executive and regulatory decisions on its citizens without resorting to unnecessary social pressures to achieve this. Its instruments define its area of authority and basis for representation on its political leadership platform. It has its own staff and revenue (Orluwene, 2006).

Akpa (2008) argues that revenue is a necessary tool for the effective functioning of any government machinery and no government can survive without adequate revenue. In many countries, the local governments act as a tier of government requiring adequate finances to enable them cope with numerous developmental activities within their jurisdiction. Nevertheless, many of them are coupled with dwindling revenue generation, remaining overwhelmingly dependent on central government for its financial resources, with limited revenue raising ability (Oyugi, 2000).

In India, many of the second-tier governments have been faced with an impossible situation where their entire revenues have not been enough to meet their budgetary needs. Most of these have not had enough money to pay the wages of their employees. The

situation in these second-tier governments is a fiscal crisis of unprecedented dimensions for the State Governments. Even with sincere efforts to correct the situation, it is estimated that it will take the Indian government several years to come out of the current fiscal imbalance. Consequently, States are starved of funds to meet the essential investment needs in social and infrastructure sectors. Large borrowings are resorted to by several States just to meet the current expenditure. Almost all the indicators of fiscal health of the State economies are steadily deteriorating. Unless drastic measures to correct the situation are resorted to without delay, several State finances will collapse (Saxena, 1999). The situation in sub-Saharan Africa in regard to revenue maximization by local governments has also been wanting. In Nigeria for example, revenue in local government councils is inadequate to achieve the objectives of self-reliance and structural transformation of the rural environment. Though there are many revenue avenues, there are some aspects of local revenue administration which are not fully operationalized; for instance, only rudimentary assessments of the ratable liabilities are undertaken (Kessey and Gunter, 1992). In Ghana, the collection of property rates is usually less than 20% and a large potential of revenue from property rates is not utilized by the local governments (Fosu and Ashiagbor, 2012).

In Kenya, the situation is not any better. In a baseline survey on devolution released by the Institute of Certified Public Accountants in Kenya (ICPAK) in June 2014, several counties are generating less revenue than what the defunct local authorities that lay within their boundaries raked in collectively; raising concerns on the capacity of the devolved units in raising own revenue. According to the report titled 'Public Finance

Building Blocks for Devolution', the counties have weak revenue bases, lack internal audits, have poorly trained personnel, use manual revenue collection systems and some county revenue officers are reluctance to embrace change, and this has impacted negatively on revenue collection within the counties (Okulo, 2014). In a move to create a transparent data base so as to track payments real- time, improve efficiency, reduce cash transactions as well as ensure there are no leakages in the revenue systems, the Mombasa County government has been planning to step up revenue collection by phasing out the manual collection system to pave the way for a fully automated one. All which is geared towards improving its revenue base (Machuhi, 2013).

1.1.3 Mombasa County

Mombasa County covers an area of 229.7 km^2 of dry land and 65 km^2 of water mass. The county is situated in the South Eastern part of the former Coast Province. It borders Kilifi County to the North, Kwale County to the South West and the Indian Ocean to the East. Administratively, the county is divided into seven divisions, eighteen locations and thirty sub-locations. The county is politically divided into 6 constituencies and 30 electoral wards. Mombasa County lies within the coast lowland, which rises gradually from the sea level in the east to slightly over 76 m above sea level in the mainland west. The highest point is at Nguu Tatu hills in the mainland north that rises up to 100 m above sea level (Republic of Kenya, 2013).

The county's population going by the 2009 census was 939,370 in 2009 and has an estimated growth rate of 2.6% per annum. Currently the population is estimated to have

grown over 1,040,941. The county is cosmopolitan in nature and houses residents from almost all other counties in Kenya. Unemployment at the county is estimated at 37.6% by the Kenya Integrated Household Budget Survey (KIHBS) of 2013 (Republic of Kenya, 2013).

Otieno (2013) reveals that the financial situation of the county government of Mombasa, though on an upward trajectory, is one that is still in need of dire reforms. There have been several cases of county government workers downing their tools in protest over unpaid wages running to several months, paralyzing the entire operations of the county government. Having this in mind, this study seeks to determine strategies adopted by the Mombasa County Government.

1.2 Problem Statement

According to Odd-Helge (2006), many cities and towns in Africa have grappled for a long time with a governance crisis and poor service delivery capability. As a result, many of the countries in Africa have had to restructure governmental functions and finances between the national and local governments. In turn devolution of government functions has entered the core of the development debate. The number of countries adopting it, and the magnitude of implementation has made decentralization a key global trend in public administration and management,. the period 1980-2005 'over 75 countries had attempted to transfer responsibilities of the state to lower tiers of government (Ahmad, et al., (2005:1)

Odd-Helge (2006) reveals that the local 'own revenue' systems across Africa are often characterized by a huge number of revenue instruments, the main sources being property rates, business licenses, and various user charges, often in the form of surcharges for services provided by or on behalf of the municipality. Nevertheless, experiences from a number of African countries show that these revenue instruments have serious shortfalls (Boris, 2000). An example is given where property taxes can be costly to administer and the enforcement of user fees has resulted in widespread resistance to pay from the poorer segments of the population in several countries (Fjeldstad, 2004).

Despite Mombasa County being host to Kenya's second city and East Africa's most prominent trading hub, the county has been faced with severe economic challenges that have seen increased incidences of crime. The county government in 2013 missed its target for locally collected revenue by 21% raising Kshs 436 million against a target of Kshs 553.5 million. The inability to raise the full budgeted revenue coupled with administrative challenges in accessing the county revenue fund account contributed to the low absorption rates (Republic of Kenya, 2014). Therefore, an effective strategy for raising revenue to meet the high needs of the region is a significant milestone of turning the dwindling opportunities at the coastal region of Kenya. Several studies have been done previously in the area of strategy and revenue generation.

Latema (2011) in a study on the business models for revenue generation and enhancement adopted by County Governments in Kenya, it recommends the need for county governments in Kenya to innovate new models of revenue enhancement and

revenue generation. Ochieng (2012) looks at ways of engendering public participation in county government governance just giving a general overview of strategies of raising revenues at the county levels.

Kariuki, (2002) did a Survey of Revenue Enhancement Strategies by Local Authorities. It was observed that to enhance revenue collection by local authorities, political will, reforms, taxpayer education and incentives to those involved are required so as to enhance the revenue mobilization effort.

When County governments are not penalized for inefficient operations nor rewarded for improvements, there is no incentive for efficient County Governments and revenue collection (Harrison, 2008). Therefore there was a need to carry out the study with an intention of tracing and providing options for sealing the loopholes in revenue collections in relation to service delivery in the counties. So the local people should be satisfied on the importance of paying taxes so that it becomes easy to collect the revenues from them without resistance.

Whereas many studies had been undertaken to address the social and economic ills bedeviling the region as discussed, most studies on strategies of raising revenue in County governments in Kenya took a general approach mainly focusing on the whole nation and to the best of the researcher's knowledge, there has been no study focusing on Mombasa County. Having this information in mind, this study attempted to fill the knowledge gap through answering the following research questions;-

i. What are the strategies adopted by the Mombasa County government to raise revenue?

ii. How effective are the revenue collection strategies of Mombasa County in raising more revenue?

1.3 Research Objectives

The specific objectives of this study were to:

i. Establish the strategies adopted by Mombasa County to raising revenue.

ii. Examine the effectiveness of the revenue raising strategies adopted by the County Government of Mombasa.

1.4 Value of the Study

The findings from the study would contribute to the body of scholarly knowledge especially on the applicability of cost leadership, differentiation, market focus growth and development strategies to developing countries. The proposed concept of " strategies for raising revenue by Mombasa county government" will also be of interest to researchers in strategic management.

The findings of the research will enable the national government to recognize the role of County governments in creating effective strategies to enhance revenue generation. The potential success story of Mombasa County will be one that other peer Counties would wish to emulate.

The study will also help policy makers in both national and county government in identifying and adopting effective strategies in an effort to increase revenue generation by counties.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter examines existing literature on strategies of revenue collection from the concept of devolved system of governance. The theoretical framework on which the study is underpinned precedes the discussion on the revenue collection and the effectiveness of any adopted measures. The challenges faced in raising revenue in local governments and the conceptual framework is also highlighted.

2.2 Theoretical Foundation of the Study

Even though the assignment of own revenue sources to sub national governments is a central policy concern in all fiscally decentralized countries around the world, there is still no agreement in literature about the principles that should guide revenue assignment decisions (Martinez-Vazquez and Sepulveda, 2012). Nevertheless, in this study, the Resource Dependency Theory and the Revenue Diversification Theory are suggested as a potential revenue strategy in fiscal decentralization.

2.2.1 The Resource Dependence Theory

This theory studies the extent to which the dependence on external resources affects an organization's behavior. According to Pfeffer and Salancik (1978), organizations are 'embedded in networks of interdependencies and social relationships. The Resource Dependence Theory argues that nonprofit organizations often obtain their financial resources from their environment, making them dependent on external sources.

The Resource Dependency Theory focuses on the political and social interdependencies between nonprofits and the entities that provide resources to them (Chang and Tuckman, 1994). Therefore, nonprofit organizations are constrained by their environments and the way these organizations deliver their services is influenced by their external resource providers (Pfeffer and Salancik, 1978).

In this study, the county governments are considered as nonprofit organizations that have a mandate of raising extra revenue so as to meet their budgets. Being geographically limited to their borders, county governments therefore need to develop measures that are in tandem with their environment. This is in line with the first objective of this research which looks at revenue raising strategies that are adopted by the county government.

2.2.2 The Revenue Diversification Theory

Bernelot (2013) suggest that revenue diversification, i.e. an equal balance between multiple income sources in the revenue portfolio of nonprofit organizations usually lead to increased financial stability. In this study the revenue diversification strategy that stems from the financial Modern Portfolio Theory, will be applied as the second potential revenue strategy for county governments. According to Bernelot (2013), the revenue diversification theory focuses on whether a more diversified, well-balanced revenue portfolio increases financial stability for organizations by reducing revenue volatility. Evidence exists indicating that there is a positive effect of the strategies adopted in raising revenues on finances. Commercial and market-oriented revenue strategies have been found to have a positive effect on organizations finances.

2.3 Sources of Revenue in Devolved System of Governance

This research seeks to understand how local governments have responded in recent years to the decline and unpredictability of revenue sources and economic conditions during the most recent recession from 2007 to 2009. It explores the implementation of innovative service delivery initiatives, particularly contracting out in its various forms. These types of activities include contracting out with for-profit vendors, non-profit organizations, and local government agencies from other jurisdictions to continue the delivery of public goods and services (Carvalho, 2013).

Throughout the country there are many examples of complex intergovernmental relationships that require city and county officials to manage their economic development duties in a network situation. These structural arrangements have received increased attention over the last decade. In a study conducted by Ashbacher (2005) discussed the management of formal intergovernmental economic development agreements in Iowa. In local economic development, city governments build networks with a variety of public and private agencies to strategize, plan, and implement custom-designed policies to increase the economic well-being of the community. In Iowa, this structural agreement allows the small communities, which have been struggling to maintain their service and retail capacity, to work with larger communities in the state, to pool resources and work more efficiently to serve regional areas.

2.4 Types of Strategies

2.4.1 Cost Leadership Strategies

This is Porter's generic strategies known as cost leadership (Malburg, 2010). This strategy focuses on gaining competitive advantage by having the lowest cost in the industry (Cross, 2011). In order to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy (Malburg, 2010). The organization must be willing to discontinue any activities in which they do not have a cost advantage and should consider outsourcing activities to other organizations with a cost advantage (Malburg, 2010). For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2011). There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials (Malburg, 2000). Porter (1985) purports that only one firm in an industry can be the cost leader (Sy, 2012) and if this is the only difference between a firm and competitors, the best strategic choice is the low cost leadership role (Malburg, 2010).

Lower costs and cost advantages result from process innovations, learning curve benefits, and economics of scale, product designs reducing operational time and costs, and reengineering activities. A low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors. The firm may have access to raw materials or superior proprietary technology which helps to lower costs.

Organizations do not have to sacrifice revenue to be the cost leader since high revenue is achieved through obtaining a large market share (Porter, 1987). Lower prices lead to higher demand and, therefore, to a larger market share (Helms, 2007). As a low cost leader, an organization can present barriers against new market entrants who would need large amounts of capital to enter the market (Hyatt, 2011). The leader then is somewhat insulated from industry wide price reductions (Malburg, 2010). The cost leadership strategy does have disadvantages. It creates little customer loyalty and if a firm lowers prices too much, it may lose revenues (Cross, 2011).

This generic strategy calls for being the low cost producer in an industry for a given level of quality. The firm sells its products either at average industry prices to earn a profit higher than that of rivals, or below the average industry prices to gain market share. In the event of a price war, the firm can maintain some profitability while the competitor suffers losses.

2.4.2 Market Focus Strategies

The focuser's basis for competitive advantage is either lower costs than competitors serving that market segment or an ability to offer niche members something different from competitors. Focusing is based on selecting a market niche where buyers have distinctive preferences. The niche is defined by geographical uniqueness, specialized requirements in using the product or by special attributes that appeal to members, (Stone, 2005).

A focus strategy based on low cost depends on there being a buyer segment whose needs are less costly to satisfy than the rest of the market. On the other hand, a focus strategy based on differentiation depends on there being a buyer segment that demands unique product attributes. In the focus strategy, a firm targets a specific segment of the market (Porter, 1996). The firm can choose to focus on a select customer group, product range, geographical area, or service line (Martin, 2009). For example, some service firms focus solely on the service customers (Stone, 2005). Focus also is based on adopting a narrow competitive scope within an industry.

Focus aims at growing market share through operating in a niche market or in markets either not attractive to, or overlooked by, larger competitors. These niches arise from a number of factors including geography, buyer characteristics, and product specifications or requirements. A successful focus strategy (Porter, 1980) depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors. Market penetration or market development can be an important focus strategy. Midsize and large firms use focus-based strategies but only in conjunction with differentiation or cost leadership generic strategies. But, focus strategies are most effective when consumers have distinct preferences and when the niche has not been pursued by rival firms (David, 2010).

2.4.3 Differentiation Strategies

Differentiation strategies are marketing techniques used by a firm to establish strong identity in a specific market; also called segmentation strategy. Using this strategy, a firm will introduce different varieties of the same basic product under the same name into a particular product category and thus cover the range of products available in that category. Differentiation strategy can also be defined as positioning a brand in such a way as to differentiate it from the competition and establish an image that is unique, (Davidow and Uttal, 2009).

Differentiation strategy is an approach under which a firm aims to develop and market unique products for different customer segments. Usually employed where a firm has clear competitive advantages, and can sustain an expensive advertising campaign. It is one of three generic marketing strategies that can be adopted by any firm. To maintain this strategy the firm should have; strong research and development skills, strong product engineering skills, strong creativity skills, good cooperation with distribution channels, strong marketing skills, and incentives based largely on subjective measures, be able to communicate the importance of the differentiating product characteristics, stress continuous improvement and innovation and attract highly skilled, creative people, (Baum and Oliver, 2012). Research within service sector (Phillips and Peterson, 2011) concludes that product differentiation is a common way of differentiating the firm's offerings from those of its competitors.

A differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and that customers perceive to be better than or different from the products of the competitors. The value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the products unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily, (Porter, 1985).

The basis for competitive advantage is a product whose attributes differ significantly from rivals' products. Efforts to differentiate often result in higher costs. Profitable differentiation is achieved by either keeping the cost of differentiation below the price premium that the differentiating features command, or by offsetting the lower profit margins through more sales volumes, (Grant, 2010).

2.4.4 Growth and Development Strategies

To portray alternative corporate growth strategies, Ansoff presented a matrix that focused on the firm's present and potential products and markets (customers). By considering ways to grow via existing products and new products, and in existing markets and new markets, there are four possible product-market combinations.

Ansoff's matrix provides four different growth strategies: Market Penetration - the firm seeks to achieve growth with existing products in their current market segments, aiming

to increase its market share, market development - the firm seeks growth by targeting its existing products to new market segments, product development - the firm develops new products targeted to its existing market segments and diversification - the firm grows by diversifying into new businesses by developing new products for new markets, (Porter, 1996).

The market penetration strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. However, market penetration has limits, and once the market approaches saturation another strategy must be pursued if the firm is to continue to grow, (Ashton, 2009).

Market development options include the pursuit of additional market segments or geographical regions. The development of new markets for the product may be a good strategy if the firm's core competencies are related more to the specific product than to its experience with a specific market segment. Because the firm is expanding into a new market, a market development strategy typically has more risk than a market penetration strategy, (David, 2010).

A product development strategy may be appropriate if the firm's strengths are related to its specific customers rather than to the specific product itself. In this situation, it can leverage its strengths by developing a new product targeted to its existing customers.

Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share, (Bourgeo, 2010).

2.5 Conceptual Framework

A conceptual framework is a figure that shows the relationship between the dependent variable and the independent variable. A conceptual framework has been drawn to show the relationship of the dependent variable and the independent variables.

Figure 2.1: Conceptual Framework

Independent Variables   **Dependent Variable**

Cost Leadership Strategies
- Workforce
- Outsourcing
- Automation

Growth and Development Strategies
- Diversification
- Market penetration
- Product development

Revenue Collection

Differentiation Strategies
- Price (tax brackets)
- Innovation

Market Focus Strategies
- Sensitization
- Promotion
- Target tax regimes
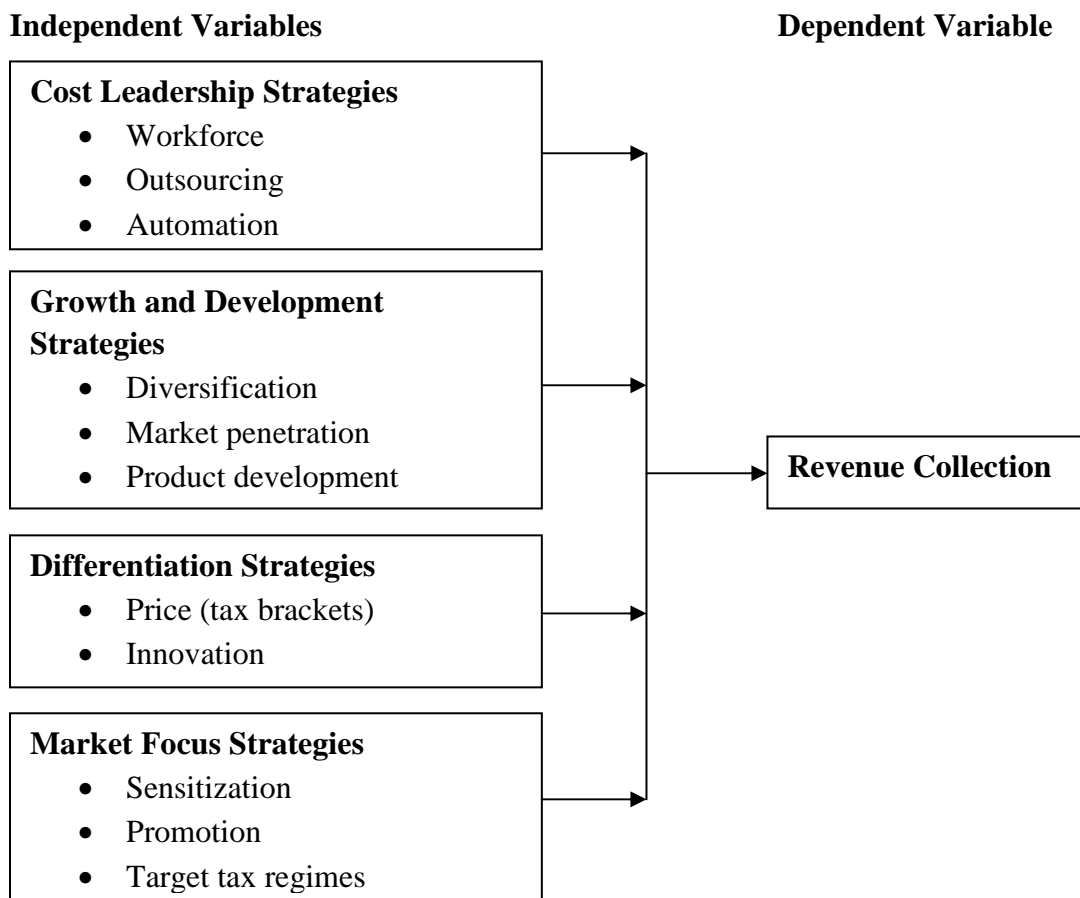
CHAPTER THREE:RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented description of the research methodology that was used in the study. The methodology that was used in the research study included research design, data collection and analysis procedures.

3.2 Research Design

This study employed a case study method. A case study is a detailed investigation of a single individual or group. Case studies can be qualitative in nature. The defining feature of a case study is its holistic approach and aims to capture all of the details of a particular individual or group, which are relevant to the purpose of the study, within a real life context.

The design shows which individuals are to be studied, when and where and under which circumstances they are being studied. More equally, research design refers to the way the study is designed, that is, the method used to carry out a research. It is important to highlight the method used when investigating and collecting data that is qualitative approach. A qualitative approach to research generally is concerned with inductive testing (Saunders, 2003).

3.3 Data Collection

The study employed a face to face interview as a primary data collection method. Primary data is data that has not been previously published, that is, data derived from a new or original research study and collected at the source. It is information that is

obtained directly from first-hand sources for example by means of surveys, observation or experimentation.

The researcher used the interview guide to aid in obtaining information from the respective respondents who were the departmental heads that were well conversant with the County operations. The researcher exercised care and control to ensure all interview guides used to collect data from the respondents were filled and to achieve that, the researcher maintained a register of interview guides, which were used. The primary focuses in this research were the heads of departments. The respondents included the Executive Committee Members and the Chief Officers who are holders of Authority to Incur Expenditure (AIE) from each of the 11 ministries in Mombasa County. This constituted a total of 22 respondents. The departments included: Agriculture livestock and fisheries, education, finance and economic planning, health, land and housing, tourism, trade energy and industries, transport and infrastructure, water and environment, youth gender and sports and inspectorate (Republic of Kenya, 2013).

3.4 Data Analysis

The data was analyzed using content analysis. Content analysis enabled the researcher to sift through large volumes of data with relative ease in a systematic fashion. It can be a useful technique to discover and describe the focus of individual, group, institutional, or social attention. It also allowed inferences to be made which can then be corroborated using other methods of data collection (Weber, 1990).

Qualitative content analysis does not produce counts and statistical significance. It uncovers patterns, themes, and categories important to a social reality. Presenting research findings from qualitative content analysis is challenging. Although it is a common practice to use typical quotations to justify conclusions (Schilling, 2006), the study incorporated other options for data display, including frequencies and tables (Miles and Huberman, 1994). Qualitative research is fundamentally interpretive, and interpretation represents ones personal and theoretical understanding of the phenomenon under study.

CHAPTER FOUR: DATA ANALYSIS,FINDINGS AND INTERPRETATION

4.1 Introduction

This chapter presents the data analysis and interpretation of the study. The primary data was collected using an interview guide and analysis was done through content analysis to determine the strategies adopted by Mombasa County to raising revenue and the effectiveness of the revenue raising strategies adopted by the County Government of Mombasa. Both descriptive statistics and content analysis were used to analyze the data. In the descriptive statistics, relative frequencies, tables and pie charts were used. Qualitative data was analysed using content analysis and findings presented in prose form. The first section of this chapter presents the analysis of the demographic information of the respondents and the second section presents the strategies adopted to raise revenue in the County Government of Mombasa.

4.2 Response Rate

The researcher administered 22 interview guides to Executive Committee Members and the Chief Officers who were holders of Authority to Incur Expenditure (AIE) of Mombasa County. The researcher collected the enclosed questionnaires from the respondents after completion. The findings are presented in the following table.

Table 4.1: Response Rate

Response Rate	Frequency	Percentage
Interview guides duly returned	18	82
Interview guides not returned	4	18
Total	**22**	**100**

From table above, the Interview guides return rate was 82% for the County Officials. Mugenda (2003) states that a 50% response rate is adequate, 60% is good and above 70% is rated very well. The response was therefore rated very well. The commendable response rate was achievable after the researcher administered the Interview guides personally and made personal visits and phone calls to remind the respondents to fill-in and return the Interview guides.

4.3 Demographic Characteristics of the Respondents

4.3.1 Gender

The study sought to determine the gender of the respondent and therefore requested them to indicate their gender. The findings were as follows;

Table 4.2: Respondent's Gender

Respondents Gender	Frequency	Percentage
Male	12	67
Female	6	33
Total	**18**	**100**

From the findings, it was revealed that 67% (12) of the respondents were males while 33% (6) of the respondents were females. This is an indication that both genders were represented in the study findings although not in equal proportions.

4.3.2 Level of Education

The study sought to establish the respondent highest level of education. The findings are given by the table below;

Table 4.3: Highest Education Level

Highest level of education	Frequency	Percentage
Post graduate PhD	1	6
Degree	10	56
Degree	10	56
Diploma	7	39
Total	**18**	**100**

The study found that the respondents had attained university level of education as their highest level of education as shown by 56% (10) .39% (7) of the respondents indicated to have attained a diploma and only 6% (1) who indicated to have either attained either postgraduate or a PhD as the highest academic achievement level. This is an indication that majority of the respondents were well educated to understand the dynamics in revenue collection in the County Government.

4.3.3 Respondents Experience

In addition, the study sought to determine the years of service by the respondents.

Table 4.4: Respondents Experience

Years of service	Frequency	Percentage
1- 3 years	3	17
4 – 6 years	5	28
6 – 10 years	8	44
10 years and above	2	11
Total	**18**	**100**

From the study findings, majority of the respondents indicated that they had between 6-10 years of experience as represented by 44% response level, 28% indicated to have worked for between 4-6 years, 17% indicated 1-3 years while only 11% who indicated to having working experience of 10 years and above. This shows that majority of the respondents had previous working experience before the adoption of the County mode of

governance. This is an indication that majority of the interviewee had enough experience and this positioned them to give reliable information regarding the study.

4.4 Strategies Adopted To Enhance Revenue Collection

According to the findings on whether the County Government of Mombasa had adopted any revenue collection strategy, majority of the respondents indicated that the County had come up with different revenue collection strategies. The findings are presented here below;

4.4.1 Outsourcing Strategy

According to the findings, the County government of Mombasa has outsourced several activities which include cleaning services, solid waste and sewerage management services to external service providers. This implies that the county government of Mombasa can focus on its core business of collecting revenue and service delivery to the citizens of Mombasa.

These findings were similar to those of Malburg (2010) who stated that in order for organisations to achieve a low-cost advantage, an organization must have a low-cost leadership strategy, low-cost manufacturing, and a workforce committed to the low-cost strategy.

4.4.2 Tax Diversification Strategy

Respondents also stated that the County had come up with strategies to be able to widen their tax base. Among the strategies mentioned included new rates for the small businesses that evaded tax prior to the County Government establishment. This included the development of new licenses for all business groups and establishment of fully functional county offices where information regarding tax payment was accessed at ease. This implies the county government of Mombasa will increase revenue collection to provide services to citizens.

These findings concurs with those of Ayee (2008) who stated that County governments should put strategic measures to improve voluntary compliance, enhance and improve assessment, improve debt and arrears management, Effective enforcement by applying the tax law strictly, fairly and responsibly and finally prosecution capabilities strengthening.

4.4.3 Recruitment and Training Strategy

On training of the labour force, the respondents indicated that there is recruitment and training of new labour force. It was further revealed that the county had been recruiting more staff from the banking sector to help in implementation of the new revenue collection strategies. The study found that there were new regulations in the County which includes, training of staff, increasing citizen's awareness on new tax rates. Among the key areas that the county has laid much emphases is in reviewing of organizational structures and subsequent establishments, Developing and implementing modern and

innovative human resource management practices and preparing human resource manual, upholding principles of merit, equal opportunity in recruitment and promotions and Continuous Professional and Personal Development. This enhance the performance of staff to enhance revenue collection hence more money for the county government of Mombasa.

These findings concurs with those of Bowsher (2008) who stated that for an organisation to develop a workforce respected for technical competence, professionalism and courtesy, they should support measures that ensure that its workforce is respected as technically competent, objective, professional and courteous.

4.4.4 Innovation and Technology

On innovation, the respondents indicated that there was development of geographically decentralized ICT based tax collection systems and offices in the sub- counties. The respondents further indicated that there was installation of ICT based tax payers monitoring system to monitor how regular tax payers pay tax to reduce tax evasion. It was also revealed that Mombasa County plans to enhance staff involvement in new technologies, increasing top management support for new technology adoption, increased budget allocation on new technologies and increased system securities to reduce cases of frauds.

Revenue administration is linked with the execution of physical policies through the registration of tax payers and assessment and collection of charges. Local revenue

administration is said to be the assessment, collection, recording and verification of taxable amounts (Minassian, 2009). In addition, there are some aspects of local revenue administration which are not fully operationalized; for instance, only rudimentary assessments of the ratable liabilities are undertaken (Kessey, 2002). This problem has resulted due to the absence and poor keeping of records on the activities of majority of the rate payers who are basically small scale economical actors and failure to automate their activities. This call for the implementation of very efficient and effective software's to easily capture any transaction, a deposit, a withdrawal or any other revenue related undertaking in an organisation.

4.4.5 Tax Awareness Creation Strategies

On the creation of awareness on taxation, the respondents indicated that there was a high level of sensitization and monitoring by county staff and collection agents which has improved compliance. It was further revealed that the county intended to start a radio station which will be disseminating all crucial information to the residents of the county. This will enhance the sensitization hence making the residents understand the importance of compliance and penalties attached incase of failure to comply. Compliance will mean more revenue for the county government of Mombasa.

Kim (2012) stated that effective utilization of enforcement powers available to revenue bodies can go a long way in addressing the revenue arrears and evasion challenges they face. His study indicated that all countries have sufficient powers to enter a business

premises and taxpayers dwelling, seize documents, gather information from third parties such as financial institutions, and generally enforce payment of tax.

4.4.6 Performance Management Strategy

The county is implementing a Quality Assurance Programme geared towards managing the output quality of its services at the least cost with maximum satisfaction to Mombasa residents. The county has therefore provided Accessible, Dependable, and Timely, Fair, Open and Courteous service. The County has also introduced Simplified forms and procedures in the tax assessment and compliance. In some instances there is a reduction on cost of Taxpayers compliance within the Plan period and it has also put in place an Effective Queue Management at its offices. In addition, the county plans to introduce performance contracting for the county staff to enhance performance.

Kisser (2002) noted that Revenue bodies recognize the need to strengthen strategic planning and management and have established appropriate structures to drive this process, including setting up corporate planning units.

4.5 Challenges Faced During the Implementation

The study sought to determine the notable challenges faced during the implementation of revenue collection strategies. The respondents indicated among the challenges include low level of compliance by the citizens making it hard for the county to collect adequate finances to provide services to the citizens at ease. The study also revealed that there was inefficiency due to service change and in some sectors; there was lack of transparency as

some of the collection agents embezzled the County funds. The respondents therefore suggested that there should be high level of monitoring mechanisms to strengthen compliance level.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusion, recommendations and suggestion for further studies. The study wanted to determine the strategies adopted by County Government of Mombasa to raising revenue.

5.2 Summary of Findings

The study findings were collected from 18 Executive Committee Members holders of Authority to Incur Expenditure (AIE) of Mombasa County. The study revealed that Mombasa County had come up with different revenue collection strategies. Among them is diversification strategy, the County has improved tax rates by increasing the property rates, entertainment taxes, license fees and direct service fees. The County also widened its tax base, devolving of tax base to county government departments, improving controls on management of cash by ensuring banking of cash by the collecting personnel and developing revenue collection department for each revenues stream.

Other strategies mentioned included new rates for the small businesses that evaded tax prior to the County Government establishment. This included the development of new licenses for all business groups and establishment of fully functional county offices where information regarding tax payment was accessed with ease. The County has also developed county collection centers to ensure that there is improved control of cash collected and the entire management of the county collections.

It was further revealed that the County had discontinued several activities which did not have a cost advantage and adopted the outsourcing strategy. The county has outsourced several activities including cleaning, solid waste collection and even management of the sewer in the county to cheaper service providers. The county is also in the process of implementation of an e-payment platform to include a module for payment of daily parking fees by private motorists through their mobile phones.

The research further established that there was recruitment and training of new labour force. It was further revealed that the county had been recruiting more staff from the banking sector to help in implementation of the new revenue collection strategies. The research further revealed of the development of geographically decentralized ICT based tax collection systems and offices in the sub- counties. It was revealed that there was installation of ICT based tax payers monitoring system to monitor how regular tax payers pay tax to reduce tax evasion.

It was further revealed that there was a high level of sensitization and monitoring by county staff and collection agents which had improved compliance. It was further revealed that the county intended to start a radio station which will be disseminating all crucial information to the residents of the county.

Finally the study revealed that among the challenges facing revenue collection included low level of compliance by the citizens making it hard for the county to collect adequate finances to provide services to the citizens at ease. The study also revealed that there was

inefficiency due to service change and in some sectors, lack of transparency since some of the collection agents embezzled the County funds. The respondents therefore suggested that there should be high level of monitoring mechanisms to strengthen compliance level.

5.3 Conclusion

This study therefore concludes that County Government of Mombasa had adopted several revenue collection strategies, among them outsourcing of services to cheaper service providers. The county have also introduced new rates for the small businesses that evaded tax prior to the County Government establishment.

County governments have also put strategic measures to improve voluntary compliance, enhance and improve assessment, improve debt and arrears management, Effective enforcement by applying the tax law strictly, fairly and responsibly and finally prosecution capabilities strengthening.

The study also concludes that the county is committed in reviewing its organizational structures and subsequent establishments, Developing and implementing modern and innovative human resource management practices and preparing human resource manual, Upholding principles of merit, equal opportunity in recruitment and promotions and Continuous Professional and Personal Development

The study further concludes that the installation of ICT based tax payers monitoring system to monitor how regular tax payers pay tax has reduced tax evasion. Most of the residents are willing to comply after the introduction of Simplified forms and procedures in the tax assessment and compliance.

5.4 Recommendations from the Study

This study revealed that Mombasa County has made several strides in improving its revenue collection methods. However, in order to fully realize these objectives, the following issues need to be addressed;

The County Government of Mombasa needs to automate its revenue collection. This can be done through partnering with the regional banks whereby the tax payers will be given option of paying county fees through mobile money or branded credit cards via new revenue collection system.

The study also recommends the development of revenue management capacity by training staff in efficient budgetary and financial management systems, established proper revenue management mechanisms and implemented fiscal policy measures.

The County needs to adopt new systems of tax collection. This will ease the collection, updating the taxpayer's information and monitoring on the tax payers status to reduce tax evasion.

It was noted that corruption still existed in both the county headquarters and other collection centres. This suggests that there are significant capacity problems in the County to fight corruption. It is worth to note that corruption is not caused by the technical incapacity of the anti-corruption institutions. There is thus, need for serious moral questioning, which needs to be addressed through sensitization on professional ethics.

The aspect of supervision and monitoring by the County officials was found to be highly lacking. As a result, some revenue officers did not account fully all the amount collected. At the same time, in case of under remitting, the collection centres had no basis of argument due to the lack of sufficient facts about the coverage and amounts collected per period of time. It is therefore imperative that a special department be instituted at the various revenue divisions with the sole responsibility of monitoring the revenue collection and submission.

The study findings also showed that data used for tax assessment was outdated. The study revealed that the available data excludes some of the potential taxpayers while on the other hand included those that did not exist. There is, therefore, need for serious work by the County to update the available information, or if possible, compile new data.

5.5 Limitations of the Study

This study used interview guides as the only instrument for collecting data. The researcher did not have much control on the respondent in regard to the information they filled in the interview guide. Some of the respondents were not willing to give full

information based on the fact that the information was confidential. The study handled the problem by carrying an introduction letter from the University and assuring them that the information they gave would be treated confidentially and it would be used purely for academic purposes.

5.6 Recommendations for Further Research

The study wanted to determine the strategies adopted by Mombasa County to raising revenue. This study therefore recommends a similar study to be done in all the counties. This will help to make more generalized conclusions regarding the revenue raising strategies among County Governments in Kenya.

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APPENDICES

APPENDIX I: INTRODUCTORY LETTER

UNIVERSITY OF NAIROBI

SCHOOL OF BUSINESS

MBA PROGRAMME

Telephone: 020-2059162 Telegrams: "Varsity", Nairobi Telex: 22095 Varsity	P.O. Box 30197 Nairobi, Kenya

DATE 05|09|2013

TO WHOM IT MAY CONCERN

The bearer of this letter ..... NABISA MARTIN NJONGESA

Registration No. D61|68070|2011

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS

05 SEP 2014

MOMBASA COUNTY GOVERNMENT

P.O.Box 90440-80100,
Mombasa County.   Email: countysec@mombasa.go.ke

REF: MCG/ST.8   **DATE:** 18/09/2014

MARTIN NYONGESA NAPISA
UNIVERSITY OF NAIROBI
P.O BOX 30197
NAIROBI.

RE: APPROVAL TO CONDUCT RESEARCH

The above refers and your letter dated 9th September, 2014.

This is to inform you of the County Government of Mombasa's approval to your conducting the stated research. We further request you to kindly share any and all findings collected during your survey.

By this letter, the Chief Officer – Finance, is hereby requested to accord you with any necessary information towards a successful research.

Hamisi Mwaguya
COUNTY SECRETARY

Cc.   Chief Officer – Finance
       County Executive Member – Finance, Mombasa County

APPENDIX II1: INTERVIEW GUIDE

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender: Male [ ]   Female   [   ]

2. Age:

   Between 18-25   [ ]   Between 26-35   [ ] Between 36-40   [ ]

   Between 41-44   [ ]   Between 45-50   [ ]   50 and above   [ ]

3. Highest level of education:

      Secondary   [ ]   College   [ ]   University   [ ]

      Others   [ ] Specify……………………………………………………………

4. Years of service:

   - Less than 1 year   [ ]   6-10 years   [ ]

      1-5 years   [ ]   Over 10 years   [ ]

5. Please indicate your designation …… ……………

PART B: REVENUE COLLECTION STRATEGIES

6. Has the Mombasa County adopted any revenue collection strategies?

7. If yes, which of the following strategies did the county incorporate as part of revenue

collection strategy since the adoption of County government?

   i.   Cost leadership …………………………………………………………………..

   ii.   Growth and development……………………………………………………………..

   iii. Differentiation……………………………………………………………………………

   iv.   Market focus…………………………………………………………………........

8. Did you plan for implementation of these strategies?

……

……

9. If yes, what did the plan entail?

Diversification

……

……

Training the labor force

……

……

Outsourcing revenue collection services

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……………………………………………….

Innovation

……

………………………………………………………………………………………………………..

Automation

……

……

Sensitizing

……

……

10. Which formal approaches were used in implementing these revenue collection strategic changes?

………………………………………………………………………………………………

…………………………………………………………………………………………..

11. What were the notable challenges faced during the implementation of these revenue collection strategies?

………………………………………………………………………………………………

………………………………………………………………………………………………

12. In your opinion, were the strategies effective towards improved revenue collection?

i. Diversification………………………………………………………………………

ii. Training the labour force…………………………………………………………...

iii. Outsourcing revenue collection services…………………………………………...

iv. Innovation…………………………………………………………………………..

v. Automation…………………………………………………………………………

vi. Sensitizing………………………………………………………………………….

13. In your opinion, why were the changes as mentioned not effective?

Diversification

………………………………………………………………………………………………

………………………………………………………………………………………………

Training the labour force

………………………………………………………………………………………………

………………………………………………………………………………………………

Outsourcing revenue collection services

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Innovation

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Automation

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Sensitizing

……………………………………………………………………………………………………

……………………………………………………………………………………………………

14. What are some of the challenges facing the County in revenue collection?

……………………………………………………………………………………………………

……………………………………………………..

15. In your view, what measures are taken by the county to ensure that it attains its revenue collection targets?

…………………………………………………………………………………………………

………………………………………………………………………………………………..

THANKS YOU FOR YOUR PARTICIPATION