THE EFFECTIVENESS OF TURNAROUND STRATEGY AT KENYA REVENUE AUTHORITY

BY

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A Management Research Project Submitted In Partial Fulfilment of the Requirements of the Award of the degree of Masters of Business Administration, School of Business, University of Nairobi

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DECLARATION

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

Signed.........................

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This management research project has been submitted with my approval as the University Supervisor

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Finally to my Family for your continued love, support and sacrifice, it made all the difference Your efforts were never in vain

May the Almighty God greatly bless all of you

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LIST OF ABBREVIATIONS

BAT	British American Tobacco
BSC	Balance Score Card
CEO	Chief Executive Officer
CG	Commissioner General
CIC	Complains Information Centre
CSR	Corporate Social Responsibility
DTD	Domestic Taxes Department
EABL	East African Breweries Limited
ETR	Electronic Tax Register
F Y	Financial Year
ICT	Information Communication Technology
I T	Information Technology
ITMS	Integrated Tax Management System
KCB	Kenya Commercial Bank
KRA	Kenya Revenue Authority
O E	Operational Effectiveness
PAYE	Pay As You Earn
TMS	Turnaround Management Strategies
TSC	Teachers Service Commission
VAT	Value Added Tax

ABSTRACT

The Kenya Revenue Authority is the sole body in charge of revenue collection and administration in Kenya It was established in 1995 as a semi-autonomous government agency with the overall objective to provide operational autonomy in revenue administration In the early years of its inception the Kenya Revenue Authority faced daunting challenges in terms bad corporate image, poor service delivery to taxpayers poor internal systems and processes a bloated workforce inability to attract and maintain a professional workforce political interference, low staff morale and poor use of information and communication technology as well as inability to meet stakeholders expectations

It was for these reasons that Kenya Revenue Authority has undertaken turnaround strategies to entrench changes in its strategic objectives and operations and in order to meet the increasing demands of its stakeholders It is due to the pressure of change exerted by both the external and internal environment that has lead to the board of KRA and its top management to embark on a turnaround programme whose primary objective was to modernize and integrate the operations of KRA in line with international best practices and to achieve its vision of 'being the leading Revenue Authority in the world respected for professionalism, integrity and fairness'

The research project set out to find out the effectiveness of the turnaround strategies implemented by the management of KRA The key objective of the study was to find out how effective the turnaround strategies were in achieving the targeted organisational objectives.

A comprehensive review of literature both local and international was done Strategy and in particular turnaround strategies as presented by various authors was analysed Various kinds of turnaround strategies were identified and in particular which strategies are applicable in what circumstances

To test the effectiveness of the strategies undertaken a distinguished taxpayers were identified based on different tax heads and targeted The respondents were chosen based on different tax heads administered by the

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Authority Secondary data obtained from the Authority's financial statement and corporate plans was also analysed

The respondents gave divergent views based on the strategies employed with some strategies having had a high positive impact on the respondents indicating high levels of efficiency whereas others did not have significant impact indicating low levels of effectiveness The respondents also gave insights as to what areas need to be addressed to make the Authority more effective in meeting their needs and expectations

From the study it was found that the turnaround strategies employed by KRA were highly effective in meeting organisational goals However some challenges were encountered in their implementation and other areas also need to be further addressed in order to make the organisation more effective The study also identified areas for further research

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Strategy

The concept of strategy has been defined in various terms by imminent scholars and business executives. Some of the definitions include; that strategy means making a clear cut choice about how to compete. Jack Welch, a former CEO of General Electric. Strategy has also been defined as a commitment to undertake one set of actions rather than another by Sharon Oster, a Professor at Yale University. Renowned author defines it as "A company strategy consists of the competitive moves and business approaches that managers are employing to grow the business, attract and please customers, compete successfully, conduct operations and achieve targeted levels of organizational performance." (Thompson et al. 2007 page 4).

Johnson and Scholes (2002) define corporate strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a changing environment to meet the needs of markets and fulfil stakeholder's expectations.

These two last definitions (Thompson and that of Scholes) bring about the following dimensions in relation to strategy. That it's a choice of conscious moves employed by the management of a company in a competitive environment. That the focus should be to retain existing customers as well as attract new ones in order to grow the business or organization and that the conduct of business operations should be shaped by strategy in order to help the organization achieve its intended objectives.

Scholes (2002) definition highlights the following pointers. That strategy is future oriented as it tries to identify and set where the business is trying to be that is its long-term direction. It identifies which markets a business should

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Scholes (2002) definition highlights the following pointers. That strategy is future oriented as it tries to identify and set where the business is trying to be that is its long-term direction. It identifies which markets a business should compete in and what are the scope of activities involved in such markets. It also emphasizes the configuration of a firm's resources with its environment. This infers to aligning the resources at the disposal of the firm in order to achieve a fit with its environment.

Depending on the frequency and magnitude of changes in the environment the firm operates in, it could be said to be a stable, dynamic or complex operating environment. Changes in both the external and internal environments pose major strategic challenges that must be evaluated and managed. A company or organisation must be willing and ready to modify in response to changes in its operating environment. Such changes include; changing market conditions, advancing technology, fresh moves of competitors, shifting buyer needs and preferences, emerging market opportunities, new ideas for improving the strategy and mounting evidence that the current strategy is not working well (Thompson et al, 2007).

Various strategies are available to the firm depending on the circumstances in the environment the firm operates (Situma, 2006). It therefore means that a company should make a choice of strategy that will maximise the opportunities available in its environment as well as minimize the threat posed by it by building on its strength and addressing areas of its weakness.

1.1.2 Corporate Turnaround Strategy.

A corporate turnaround may be defined as the recovery of a firm's financial performance following a performance decline. Turnaround strategies have been described in the business strategy literature as a master plan of actions necessary to reverse a declining business situation (Barker and Duhaime, 1997). Turnaround strategy could also be defined as a set of consequential, directive, long-term decisions and actions targeted at the reversal of a perceived crisis that threatens the firm's survival (Boyne, 2004).

Turnaround strategy falls under business level strategies. Most often a turnaround strategy will involve investments which set the amount and type of resources both human and financial that must be invested to gain a competitive advantage by the firm Two factors are crucial in choosing an investment strategy These are the strength of a company's position in an industry relative to its competitors and the stage of the industry's life cycle in which the company is competing in (Hill and Jones 2004)

1.1.3 Reasons for Business Decline.

A business can find itself in trouble for a large number of reasons such as, "taking too much debt overestimating the potential for sales growth, ignoring the profit depressing effects of an overly aggressive effort to buy market share with deep price cuts, being burdened with heavy fixed costs because weak sales do not permit near-full capacity utilization, failing to come up with innovations, use of poor technology in operations being too optimistic about the ability to penetrate new markets making frequent changes in strategy, (because the previous strategy didn't work out) and being overpowered by more successful rivals " (Thompson et al, 2007 page 257)

The main solutions to business failure is to undertake programmes of retrenchment (cutting staff and closing loss making plants) repositioning (re-branding and finding new markets) and reorganisation (especially bringing in new top executives) In many cases strategic managers believe a firm can survive and eventually recover if a concerted effort is made over a period of years to fortify distinctive competencies

A successful business turnaround can involve any of the following.

- Selling off assets to raise cash to save the remaining part of the business (asset reduction)
- Revising the existing strategy (Reorganization)
- Launching efforts to boost revenues (Revenue enhancement)
- Pursuing cost reduction
- Using a combination of these efforts (Thompson et al 2007)

Not all turnaround cases are successful. Hambrick and Scheter (1983) studied two hundred and sixty cases of turnaround and only fifty six had managed to recover over a four year period. The study suggests that turnaround especially in difficult operating environment like mature competitive industries is not easy. Turnaround failures represent harsh realities of liquidating a firm's asset to try returning some capital to shareholders, creditors or owners. Though liquidation presents a sad and drastic situation, it may however be the best thing to do rather than to go on into even sadder and worse situation like bankruptcy.

Sound implementation of a turnaround strategy not only contributes to addressing the current organizational crisis but also provides the organization with more permanent lessons that affects organizational processes and structures in the long-term. A successfully implemented turnaround strategy therefore results in a firm achieving a considerable improvement in performance.

1.2 Effectiveness and Efficiency in Turnaround Strategy

Effectiveness is the degree to which a goal has been achieved whereas effectiveness is not always directly related to resources consumed 'efficiency' (Mason & Synder, 1989). In simpler terms effectiveness is the degree to which performance objectives are achieved.

Effectiveness seeks to examine the organization in terms of its technological soundness. It seeks to answer such questions as is the organization properly equipped to perform its material tasks competently? Does the organization maintain constructive relationship with its consumers? It also involves needs assessment that is, can the organization recognize and prioritize the needs of the consumers it is supposed to serve? It also examines service delivery of the organization that is, is the organization able to provide proper services to its consumers?

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The concept of efficiency refers to the utilization of means or resources, whereas effectiveness relates to the goals of the organization and the two do not always reflect on each other (Banerjee 1999) The simplest measure of efficiency and therefore the lower its cost structure will be Therefore an efficient company has a higher productivity and lower costs than its rivals (Hill and Jones, 2004) Technically an efficient institution is one exhibiting a high ratio of output to input Performance measures should be customer sensitive, emphasizing effectiveness in meeting customer expectations as well as efficiency in service delivery

Factors necessitating a firm's turnaround are numerous. for a firm to successful undertake any turnaround programme efficiency in resource allocation and use among competing firm needs must be undertaken to ensure success of the turnaround effort

In the Kenyan public service context the State Corporation management culture emphasized inputs and conformity to laws, regulations, and procedures rather than on outputs, efficiency and cost effectiveness The government has committed itself to create a management culture in the State Corporations that is now focused on results (Odindo, 2008)

1.2.1 Organizational Effectiveness, Efficiency and Turnaround Strategies

The turnaround strategy probably is most appropriate when a corporation is in a highly attractive industry and its problems are pervasive but not yet critical This strategy (turnaround) emphasizes the improvement of operational efficiency (Hunger & Wheelen, 1996)

Arogyaswamy and Ycasai-Ardekani (1997) investigated the role that cutbacks, efficiency improvements and investment in technology play in the turnaround process They found that cutbacks and increases in efficiency were important factors for successful turnarounds as these actions improve profitability in the short run and allow the company to release resources that may be used elsewhere They can also play an important political role in winning back stakeholder support and help raise external resources to fund other strategies

From the above types of various turnaround strategies, it is clear that for an organization to effectively undertake and implement turnaround in a business it must focus on the two twin agendas of being effective and efficient in its operations as well as creating a unique and valuable position involving a different set of activities (strategic repositioning)

Operational effectiveness (OE) means performing similar activities better than rivals perform them, it includes but is not limited to efficiency. It refers to any number of practices that allow a company to better utilize its inputs, for example reducing defects in products or developing better products faster. In contrast strategic positioning means performing different from rivals or performing similar activities in different ways (Mintzberg et al, 2003)

1.2.2 The Link Between Operational Effectiveness and Strategy

The difference between O.E. and strategy is that while operational effectiveness is about achieving excellence in individual activities and or functions, strategy is about combining activities and creating fits that lock out imitators creating a chain that is as strong as its weakest link (Porter, 1996). The two could be seen as the same side of a coin since they are interlinked this is because simply being good at something (O.E) doesn't guarantee you success. You must have good direction and purpose (strategy). But, it should also be noted that if you are not at least as good at what you do as your competitors then the best strategy in the world won't help you

Porter's point is succinctly expressed by describing operational effectiveness as a necessary but not sufficient condition for organisational success. And, of course, the same thing can be said of strategy. So, as the diagram below illustrates, strategy and operational effectiveness sit side by side as equal partners in the game of enterprise

Figure 1: Strategy and Operational Effectiveness

Source [illegible] com. Accessed on 29th April 2008

As illustrated from the diagram above the relationship between these two factors goes a little deeper than simply mutual dependency. They inform each other as indicated by the broken line arrows in the diagram. Operational effectiveness is about having functions in the organisation that work well. These functions are the organisation's skill sets or 'core competencies' and therefore, as Porter points out, must fit together and work together to implement the strategy.

Because strategy is a comprehensive perspective of what an organisation does in order to achieve its goals, measures of performance must be broader than simply profit or growth. The strategic health of the company must be measured as this will entail a broad measure of variables that include employee satisfaction, market share of the company, public image of the company and customer satisfaction. This is consistent with the need for broad measuring of performance variables on organizational efficiency and effectiveness.

1.3. The Kenya Revenue Authority

Kenya Revenue Authority (KRA) was formed in 1995 as a semi-autonomous government agency with the overall objective to provide operational autonomy in revenue administration. The Commissioner General is the Chief Executive, and reports to an independent Board of Directors. However, the Minister for Finance is responsible for policy direction, since KRA is an agent of the

Government of Kenya During its formation KRA brought together the then Departments of Income Tax, Value Added Tax Customs and Excise which were departments from the Ministry of Finance as well as the Road Transport Department which was from the Ministry of Transport

During its earlier years of its inception KRA faced daunting challenges in terms of poor operating procedures and undocumented internal business processes It also faced poor and inadequate use of ICT in its operations There were also challenges of a negative corporate culture, lack of integration and collaboration among the revenue collecting departments, poor work ethic from its workforce leading to poor levels of integrity among staff and a poor public image from external publics The non integration of departments lead to lack of a common corporate culture lack of synergy in operations and duplication of efforts and structures due to poor organisation structure based on tax heads rather than on functional lines A June 2002 report by Transparency International – Kenya ranked KRA 14^{th} out of a sample of 50 public institutions on corruption this meant that the organisation was facing serious staff integrity challenges

1.4 Statement of the Problem

Turnaround refers to situations where firms reverse trends in declining profitability and business performance and move to profitability and satisfying stakeholder's expectations A declining firm will continue to decline and may eventually be forced out of business if the management does not act fast and correctly identifies the causes of performance decline and crafts proper and appropriate strategies to arrest this decline enhance performance and successfully Implement these strategies

Several studies have been done on the concept of turnaround strategy implemented in Kenyan firms These include (Ngaruiya 2007) and (Situma 2006) On the context of KRA several studies have been conducted including. Studies on Performance contracting (Odindo, 2008) The application of the balanced score card in implementation of strategy at KRA by (Mwangi 2006)

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This study therefore seeks to give some highlights of a public sector organization that has implemented and undergone successful turnaround to more adequately meet its obligations by enhancing its organizational performance In effect the study seeks to find out how effectively has KRA "turned around" to meet the challenges of achieving and sustaining increased revenue collection, improving its corporate image, enhancing service delivery to taxpayers improving internal systems and processes, maintaining and motivating a professional workforce, and improving use of information and communication technology in its operations and whether this strategies were effective in achieving their intended objectives

This research seeks to identify the strategies used to improve and sustain Increased revenue collection, improve staff morale optimize utilization of the organisation resources as well the degree to which the strategies implemented meet their intended objective(s)

1.5 Research Objective

This study had the objective of finding out

- The effectiveness of the implemented turnaround strategy in achieving their intended organisational objectives

1.6 Significance of the Study

The study Is of importance to the management and staff of the KRA as it gives feedback on their effectiveness of the implemented turnaround strategies in achieving intended goals and objectives It is also useful to members of other tax authorities, agencies and public organizations intending to undertake turnaround in their organizations To KRA stakeholders and other members of the public to warrant their continued support and help steer the Kenya Revenue Authority to greater heights Finally to academicians and other researchers will find this study useful as a point of reference and indeed to add to the existing body of knowledge by further research on this area

CHAPTER TWO: LITERATURE REVIEW

2.1 Turnaround Situation

A turnaround situation represents absolute or relative to industry declining performance of a sufficient magnitude to warrant explicit turnaround actions From the ecological perspective Cameron, Sutton, and Whetten (1988) described organizational decline as a two stage phenomenon The first stage of decline occurs

when an organization's adaptation to its domain or niche deteriorates The second stage occurs when the organization's financial and human resources begin to diminish Both stages of decline indicate that the organization has become less adapted to its micro niche and is less successful at exchanging its outputs for new inputs Weitzel and Jonsson (1989) characterized decline as the opposite of successful adaptation to the environment They suggested that organizations enter the state of decline when they fail to anticipate, recognize, avoid neutralize or adapt to external or internal pressures that threaten the organization's long-term survival

Turnaround situations may be as a result of years of gradual slowdown or months of sharp decline In either case the recovery phase of the turnaround process is likely to be more successful in accomplishing turnaround when it is preceded by a planned retrenchment that results in the achievement of near turnaround and the achievement of financial stabilisation For a declining firm, stabilisation operations and restoring profitability almost always entail cost reduction followed by a shrinking back to those segments of the business that have the best prospects of attractive profit margins

The immediacy of the resulting threat to a company survival posed by the turnaround situation is known as situation severity Severity is the governing factor in estimating the speed with which the turnaround response will be formulated and activated When severity is low a firm may have some financial cushion and stability may be achieved through cost retrenchment

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2.2. Symptoms and Causes of Business Decline

Symptoms of decline are not causes of failure but indicators that a company might be heading for failure Usually the symptoms are indicated through financial analysis such as ratio and variance analysis although other measures of measuring strategic health such as the balanced score card should also be used. The following are some of these symptoms; falling profitability due to inefficient operations, reduced dividends because the firm is reinvesting a greater percentage of profits, falling sales, increased debts as firm tries to avoid liquidity crunch delay in publishing financial results, declining market share, high turnover of managers Top management fears such that essential tasks and problems are ignored plus a lack of planning or strategic thinking reflecting a lack of clear direction (Barnejee, 1999)

These symptoms or even some of them should lead to deeper and sharper analysis to identify the underlying causes so that remedial actions might be taken Business may decline as a result of internal and external forces. Strategists believe that decline is due to the internal situations although managers rush to blame the external environmental variables (Situma, 2006) An important aspect of identifying early signs of business failure thus lies in understanding the effect that internal and external business environment have on business stability and profitability (Scherrer, 2003)

Hofer (1980) identified a number of management defects commonly found in declining firms They include lack of strong middle management and a failure to provide for orderly management succession by departing managers A faulty top management team may result in a firm's strategy being misaligned with its task environment whether or not the environment has changed Strategic misalignment may result in management's team failure to update product lines, overcome functional weaknesses and curtail operating expenses.

Inadequate or poor financial control is also a factor in business decline this could result from managements failure to institute tight financial controls implement audit recommendations, invest in labour conserving technologies and failure to realize economies of scale Lack of proper financial management controls such as budgets capital budgeting and cashflow projections could lead to cost overruns and financial distress leading to business decline

Increase in the input costs such as wages and raw materials could lead to a firm s financial decline Hofer (1980) Cost containment should therefore be a major management concern and failure to contain costs or rapidly raising input costs makes a firm to be inefficient as compared to competitors hence causing business decline

Overexpansion is another reason associated with business decline This is characterised by empire building strategies of an autocratic CEO or board of directors (Barnejee 1999) Although diversification is a good strategy over diversification may result in lack of control and inability to cope with recessionary conditions It could also lead to huge interest payments especially where expansion is associated with debt financing

New competition could also result in performance decline of business. New business could be caused by changes in the business operating environment as was witnessed when Kenya's economy was liberalised in the 1990s New competition is likely to erode the market share of a declining company especially if the new entrants have more innovative products, more advanced technology and superior value prepositions

Unforeseen shifts in demand can also cause business decline this could be caused by changes in technology, economic recession loss of government contracts and changes in social cultural norms (Slatter, 1984) These changes may result in opening up of new opportunities for new products but more often than not, they threaten the existence of many established enterprises. Also inadequate investment in new projects to compensate for mature declining products could be a cause of business decline.

Poor management of big projects could also result in business decline. Here big projects mean new and different products, entering new markets, new operating systems and building new plants and factories. The causes of failure of such project management may be many including, underestimating capital requirements, inaccurate estimation of development time, experiencing unforeseen start up difficulties and misjudging the cost of market entry (Banerjee, 1999)

2.3 Determinants of Successful Turnaround

2.3.1 Company Size

Pant (1991) found a statistically significant relationship between turnaround success and size; that is, turnaround companies were generally smaller than failed companies. He suggests that smaller companies may be more successful in enacting a successful turnaround as they are able to adapt to their changing environment more easily than large companies. However, a study from the bankruptcy literature LoPucki, (1983) found a statistically significant relationship between turnaround and size, but in the opposite direction; that is, successfully reorganised companies were generally larger than liquidated companies

White (1989) argues that larger companies are better equipped to raise the additional funds necessary to remain viable due to their previous success in raising external capital. Taffler (1983) notes the prevalence of a stock market strategy based on investment in under-performing large companies, as recognition of the perceived importance of firm size to corporate turnaround. Larger firms are likely to have a higher probability of survival as the potential losses to stakeholders are greater than in smaller firms

2.3.2 Chief Executive Officer and Senior Management

The chief executive of an organization plays a key role in any successful turnaround. The chief executive creates consensus with major stakeholders by setting direction of the change by identifying correctly the root causes of problems and creating momentum for change by actions that galvanize the staff and catalyzing numerous levels in the organization (Khandwalla, 2001)

Turnaround situations often require new Chief Executive Officer (CEO) Slatter, (1984) A new CEO is required to provide a new sense of direction, develop new financial and operating strategies and revitalise the firm A change in CEO may occur even if the performance decline was brought about by conditions beyond the control of the incumbent management For example, if the entire industry is not performing well due to an industry specific shock, management should not be held responsible for poor performance Even though CEOs may become scapegoats in those instances their removal signal to the stakeholders that something positive is being done to improve performance Slatter (1984) suggests that changes to the senior management team are an important step towards enacting a successful recovery New senior managers are able to offer fresh insights into the causes of decline and the skills and motivation necessary to bring about organisational change

Two main arguments for a positive effect of executive succession on organizational recovery have been proposed First, long-serving senior managers identify too strongly with the existing strategies that have led to failure and are reluctant to accept that change is necessary (Barker and Patterson, 2001) Attachment to the existing strategic posture may be reinforced by threat-rigidity effects when a performance crisis emerges (Barker and Mone, 1998) The replacement of senior managers also conveys the message that an organization is 'serious about recovery' This in turn may motivate staff and encourage external stakeholders to provide the resources and time required for performance improvement A positive relationship between leadership change and turnaround was found by Pearce and Robbins (1994)

2.3.3 Free Assets and Other Assets

White (1989) argued that the amount of 'free assets' was an important variable in distinguishing between distressed companies that were successfully reorganised and those that were liquidated He argued that distressed companies with sufficient free assets that is an excess of assets over liabilities or more specifically of tangible assets over secured loans are more likely to avoid bankruptcy because it increases their ability to acquire the additional funds necessary to enact a successful turnaround and it encourages the continued support of existing lenders as sufficient assets are available to repay the loan, if required Financially distressed companies with a larger amount of free assets available are more likely to turnaround successfully

2.3.4 Severity of Distressed State

The severity of the financial distress influences the ability of the firm to enact a recovery Severity is described as the immediacy of the resulting threat to a company survival posed by the turnaround situation Robbins and Pearce (1992) argue that severely financially distressed companies need to make aggressive cost and asset reductions in order to survive The severity of the distressed state will be determined by the components of the measure of distress, which themselves identify the major source(s) of distress, the direction and extent of change in severity may provide further support for the likelihood of turnaround

2.4 Requirements of Successful Turnaround Strategy

Pandit (2000) describes turnaround strategy as the actions taken to bring about a recovery in performance in a failing organization Successful turnaround strategy will involve the following steps singly or in combination

Change of management where often a new CEO is required to revitalise and provide new perceptions to the organisation. Strong central financial control, this is a prerequisite for a successful turnaround, because of the need to improve and install stricter financial controls Organisational change and decentralisation may be necessary if the firm is highly centralised to begin with, and could be a "trade-off" for the centralized financial controls required

New product market focus this will be vital if competitive forces are a contributory factor to the decline. Improved marketing particularly on elements of selling and pricing because poor management rarely appears to have a sound marketing plan. Growth via acquisition, this and specifically related diversification (offering products and services related to the firms core business). Asset reduction this may be an integral part of reorienting the product market focus because as the firm cuts out products, customers or entire units, the asset may be liquidated. Investment strategies these involve either reducing costs by asset replacement or promotion by growth

Cost reduction strategies are designed to increase product profitability and hence cash flow. Debt restructuring this applies to firms where gearing ratio is too high and involves either restructuring the firm's capital in agreement with the firm's lenders. For instance converting short term debt to long term debt or raising additional finance through issue of additional equity for example through a rights issue

The way the strategies are combined to produce an effective recovery strategy will vary according to factors such as the cause of decline, its severity, past strategy, industrial structure, cost price, and attitudes of stakeholders

2.5 Factors Influencing the Choice of Turnaround Strategies

Research on turnaround strategies has considered a number of factors that influence the likelihood of recovery. From an external perspective the firm's competitive environment and the maturity of the industry influences the choice and effectiveness of turnaround strategies (Mukherji, Desai, & Francis 1999)

2.5.1 The Environment

Weitzel and Jonsson (1989) characterized decline as the opposite of successful adaptation to the environment They suggested that organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organization's long term survival Mukherji Desai, and Francis (1999) concluded that a firm must develop a turnaround strategy to match the pressures of its multilayered environment in order to become competitive A faltering firm will most likely continue to decline and may eventually fail if its top management team lacks the amity to respond successfully to its external and internal environments

The environment is key to a firm s success, it can be relatively stable or highly turbulent Each level of environmental turbulence has different characteristics, requires different strategies and different firm capabilities There is need for continuous strategic diagnosis, which Is a systematic approach to determining the changes that have to be made to a firm's strategy and internal capability in order to assure the firm's success in the future environment Ansoff (1998) presents the strategic success hypothesis as follows A firm's performance potential is optimized when the following three conditions are met, Aggressiveness of the firm's strategic behaviour matches the turbulence of its environment, responsiveness of the firm's capability matches the aggressiveness of its strategy and the components of the firm's capability are supportive of one another

The response of a company to an environmental change is myopic in cultures resistant to change and far seeing in change seeking ones If the organisation is myopic as in the case of those facing crisis, there is no mechanism for advanced identification of environmental changes Thus there is an identification delay between the time that an organization's performance falls below aspirations level and when the management is informed about it (Banerjee, 1999)

The internal environment is the easier to manage than the external environment as the latter is considered hostile and uncontrollable. On some occasions the environment is so chaotic or competition so powerful that survival is the only sensible purpose all other aspects of purpose will need to be subordinated to this and it may even be that survival is not possible in which case an orderly exit should be the purpose (Lynch, 2003)

Modern day strategic management calls for real time issues management that timely responses to critical issues to avoid adverse effects or missed opportunities. It also calls for strategic issues management which is the analysis of the impact and response of the organization to significant developments in the environment. To survive in today's dynamic business environment a company's management team must be able to react to changes in the internal and external environment. By understanding its environment and its effects on its business a company's management can correctly deal with strategic and operational issues and correct such problems before they become unmanageable and cause business performance to decline this is an important step in management of a turnaround process (Scherrer, 2003)

2.5.2 Maturity of firms in an industry

Table 1 Choosing an investment strategy at business level

Stage of Industry life cycle	Strong Competitive Position	Weak Competitive Position
Embryonic	Share building	Share building
Growth	Growth	Market concentration
Shakeout	Hold and maintain or profit	Market concentration
Maturity	Hold-maintain or profit	Harvest, liquidation or divesture
Decline	Market concentration or harvest	Turnaround liquidation or divesture

Source Hill C W.L. Jones R G (2004) **Strategic management an intergrated approach sixth edition** Indian adaptation dreamtech press

As the table 1 above illustrates turnaround strategies are best employed by firms or organisations whose products are declining hence have low sales revenue and have a weak competitive market position as compared to rivals in its product markets However at any stage of the life cycle companies that are in weak competitive positions in an industry may apply turnaround strategies

2.6 Public Sector Turnaround

Joyce (2004) defined a public sector organization that experiences a recovery process as an organization moving from being a poor performer to being a good performer Accordingly, moving from being a poor performer to being a weak performer would not be considered as a significant recovery

The roots of turnaround management strategies can be found in the private sector However the turnaround management rhetoric is gaining popularity in the public sector as well Many of the ideas concepts, and models that have been developed in the private sector have at least some application to the public service As Paton & Mordaunt (2004) noted as a result of imperfect and erratic market-driven processes cycles of relative decline and recovery are commonly observed among companies, similar cycles occur in the public and non-profit setting

Public sector performance is currently a significant issue for management practice and policy, especially for organizations delivering less than acceptable results Jas and Skelcher, (2005) observed that the turnaround problem in public organisations is more complex than in a business environment The key difference between private sector and public sector organisations that are poorly performing is that the former will ultimately go out of business while the latter may continue The public sector organisation typically does not work in a market context rather it is the focus of a complex of competing value positions they are also formed on the basis of social considerations which impede the operation of economic or economic like forces that would sustain high performing organisations and shut low performers. Consequently these organisations continue in existence until a positive decision to the contrary is taken by the relevant source of authority.

Public service organisations in general do not fail in the same way that businesses do, that is by seeking a last-resort refuge in take-over, liquidation or bankruptcy. Public service organisations undertake functions that are defined through the democratic process as socially desirable and performance failure by a particular organisation does not absolve the state from providing that service (Ranson and Stewart, 1994). Performance in some public services is hard to define, comprising the subjective and relative experience of citizen and consumer. The use therefore of the term 'poor performance' expresses the contingent nature of the definition of organisational achievement. Performance is therefore defined in relation to a normative environment that changes over time and between groups and localities.

The public sector in Kenya has been faced with the challenge of poor and declining performance, which in turn has inhibited the realization of sustainable economic growth. The problem of poor performance in the public service is largely attributable to excessive regulations and controls, frequent political interference, multiplicity of principals, poor management, outright mismanagement and bloated staff establishment. In addition to regressing economic growth, declining performance in the public service has resulted in poor service delivery, degeneration of infrastructure and brain drain. Inefficiencies within commercially oriented enterprises (e.g. in utility and financial services institutions) have clear national, financial and fiscal implications as their activities impact directly on overall public and private sector expenditures and resources. It is for this reason that the Government of Kenya has come up with performance contracting for most public institutions in an effort to improve performance. Performance contracts typically commit the management of state corporations and other state departments to certain targets, objectives and courses of action within a stipulated time frame (Mwangi, 2007).

2.7 Types of Turnaround Strategies.

Schendel & Paton (1976), were among the first to contend that recovery strategies can be classified into two distinct groups efficiency-oriented and entrepreneurial-oriented strategies They argued that if the downturn is primarily due to inefficient operations, then the company should adopt efficiency-oriented recovery strategies such as cost cutting and asset reduction activities If the corporate strategy is no longer relevant, then the company must make changes so that it is more suited to its current or new market(s), that is, it should adopt entrepreneurial-oriented strategies

Correspondingly, two types of turnaround strategies are distinguished operating vs strategic turnaround strategies (Hofer, 1980) Strategic turnaround strategies should be used to solve external problems these are problems in the firm's external environment such as loss of market share, poor corporate image and unexploited markets. Operating strategies should be applied in the case of internal problems which include, problems in the firm's internal operating environment such as high employee turnover, high operational costs and poor product quality Operating strategies focus on improvement of firm efficiency and therefore are closely related to retrenchment of non-performing assets and overly high cost factors

Both types of turnaround responses, however, may include asset and cost cutting elements which are assumed to positively influence performance if closely tied to the assessment of current operating and strategic health of the firm (Hofer, 1980) According to Boyne (2004), there are three general, major Turnaround Management Strategies named the 3Rs Retrenchment, Repositioning and Reorganization

2.7.1 Retrenchment Turnaround Strategy

Retrenchment is a strategy that deals with efficiency and falls under efficiency oriented or operating type of strategy Retrenchment "entails deliberate reductions in costs, assets, products, product lines and overhead" (Pearce and Robbins, 1993)

It includes a reduction in the scope or the size of the organization One of the main objectives of these steps is to release resources from unproductive sections that can be reinvested in more productive ones

As a result of this reinvestment higher quality of performance and better outcomes would be delivered to the public (Boyne. 2004) The implementation of retrenchment in a public organization might be more complex than its implementation in the private sector Cessation or the reduction of the scope of a service would be determined not by the profitability test but other social considerations will be evaluated Although these complications might arise there is growing evidence that suggests that retrenchment is one of the basic and common sets of activities in successful recoveries

2.7.2 Repositioning Turnaround Strategy

The second strategy repositioning, deals with effectiveness and is a strategic turnaround type of strategy Repositioning has also been described as an entrepreneurial strategy (Hofer, 1980) Repositioning emphasizes growth and innovation A strategy of repositioning includes moving into new markets seeking new sources of revenue, developing new products, enhancing the value and features of current ones and altering the mission and image of a company

The emphasis is on change and innovation in market position and product portfolio In addition products and services may well be re-focussed into the niches which are thought to be most lucrative or defensible The main rationale for a repositioning strategy in the private sector is that it generates revenue from new sources As a response to failure repositioning suggests to redefine the core missions and activities of an organization Implementing repositioning includes, improving the existing services or supplying brand new services to current consumers or to new variety of consumers

The introduction of cost-effective services immediately improves the performance of the organization Nevertheless, implementation of repositioning strategies requires creativity and managers in failing organizations are usually stuck in traditional ways of working rather than innovative ones (Boyne, 2004) This may partly be achieved through external networking that enhances organizational reputation, for example by altering the perceptions of customers, suppliers and lending institutions (Arogyaswamy et al 1995)

2.7.3 Reorganisation Turnaround Strategy

The third type of turnaround strategy is reorganization It falls under efficiency oriented or operating type of strategy The strategy could be regarded as any internal organizational change, including changes within leadership personnel The purpose of reorganization is either to support the implementation of retrenchment and repositioning or simply to improve the organization performance Reorganization might involve for example, changes in the extent of centralization, changes in human resources management styles or in the organizational climate

Turnaround studies have neglected the potentially positive effect of a wider human resource management strategy that emphasizes the recruitment of new staff throughout the organization Recruitment of employees with expertise that fits the strategic purposes of an organization is associated with higher performance Thus recovery from failure may be especially likely if there is and increase in the proportion and quality of staff who have skills that constitute the 'core technology' of an enterprise (e g lawyers in a legal practice, doctors in a hospital or tax auditors in a revenue collection agency)

This reorganization strategy involves the replacement of non-core with core employees, and the recruitment of core employees with high level of expertise Thus the results for reorganization are consistent with the proposition that turnaround is associated not only with top management change but also with a human resource strategy that pays particular attention to core staff Prior work on turnaround has suggested that the impact of managerial strategies may be contingent on the severity of performance problems and the extent of environmental munificence

Regardless of their choice of retrenchment, repositioning and reorganization, organisations are more likely to improve if their external environments shifted in a favourable direction in line with the strategies being implemented. The extent of turnaround is also significantly influenced by all three types of managerial strategies.

A strategy of internal reorganization has a significant positive effect on performance improvement. Cost-cutting may work if an organization is facing only moderate decline, but a radical repositioning strategy is required if decline is severe (Hambrick and Schechter, 1983).

The principal advantages of the above three types of strategies is that they enable the company to phase out products in the decline stage of the product life cycle, eliminates mismatches with the firm's main strategy or sub strategies, eliminates mismatches of organizational fit and improves profitability by channelling resources into more productive and profitable areas. However greater emphasize should be laid on correctly identifying the cause of decline as this allows the turnaround response to be tailored to the specific problem.

2.8 Uniqueness of Turnaround Strategy

Strategies employed when a firm is undertaking turnaround management differ significantly from other strategies such as growth or defensive strategies. Johnson et al (2005) identified crisis stabilization, management changes, gaining stakeholder support, clarifying the target markets, refocusing and financial restructuring as the core elements of business turnaround.

Turnaround strategies differ from other operational strategies as discussed below. The aim of turnaround management strategies is to create a radical organizational change and not a minor upgrading of existing performance (Boyne 2004). The scope of turnaround management strategies is broader than the scope of improvements strategies and is described as radical. The strategies are substantial (Paton & Mordaunt's, 2004) and would probably affect all facets of an organization and its stakeholders (Boyne, 2004).

Turnaround management strategies are rapid and urgent (Paton & Mordaunt's 2004), and they occur in a defined and restricted period of time A recovery process is not an endless ongoing routine process, while improvement could be a persistent practice needed during all the organization's lifetime Urgency is seen because they are implemented as a reaction to a crisis or as an attempt to prevent one Improvement strategies are more moderate and consequently, they may be less efficient in urgent situations

T M S are usually forced inspected, and supervised by external stakeholders (Turner et al 2004) The leadership has less degree of freedom to choose whether when and which strategies to implement The leadership of an organisation could be under pressures and demands from the press, suppliers, shareholders the wider public and the government

Management replacement of the leadership was found as one of the most common and necessary turnaround management strategies. (Hofer 1980) Turnaround management strategies would be usually implemented either by an experienced but poor management or by new management who is unfamiliar with the organization.

T M S would be generally implemented in a negative climate For instance, the leadership would probably face lack of motivation antagonism, conflicts, and resistance to change by employees, consumers, and other external stakeholders (Balgobin & Pandit, 2001)

The nature of turnaround management strategies as discussed above differs quantitatively and qualitatively from organizational improvement strategies. A different set of strategies is required to recover a failing organisation than the set that is required to transform an organisation from being a good to being an excellent performer Consequently turnaround management strategies are the key for a successful recovery process However, any recovery process is unique and requires an adjusted and appropriate set of strategies Combining the nature and extent of these strategies with the characteristics of the organization is essential to the success of the process

2.9 Stages of Undertaking an Organizational Turnaround Plan

Several writers have tried to study the sequence of steps through which turnaround proceeds. Scherrer (2003) identified five stages of turnaround. These are, Analysis of the situation, Creation of the action plan, Implementation of the action plan, Stabilization and Return to growth

Analysis begins with the evaluation of business parameters over the past years. Financial ratios are a good starting point in evaluation of a business. Stable businesses tend to have consistent ratios from year to year where there are inconsistencies, it is important to find out the reason why. Extremely low ratios below the industry norms could be a source of further investigation

A turnaround plan is therefore an important element in the company turnaround process as it demonstrates preparedness, provides clear vision, prioritizes direction to action, changes attitudes and often sends a signal to all stakeholders of the company's seriousness. The focus in the planning stage is to present concrete solutions for the issues affecting the firm as identified in the analysis stage. It involves altering the operations of the business to correct the internal and external environment of the business. The turnaround plan is therefore a document that outlines the changes in the business environment and solutions so as to build stakeholders confidence in operationalizing the turnaround strategies

The next stage is the implementation and stabilization stage. Two major elements of the early phase of the turnaround process are reorganization of the business operations and restructuring a firm's financial capability. Financial restructuring requires time, but investment of time will help stop the business decline. The implementation and stabilization stage begins by recreating a budget and then strictly enforcing financial stability through budgetary control, cashflow analysis, capital budgeting and prudent financial management to help reorganize the firm's financial system. Customer analysis Is also an important factor in the turnaround process as it enables the organization undertake niche marketing and focus more on profitable market segments

The final stage is the return to growth phase it must be noted that the success of business is never guaranteed To remain successful a company must be maintained and external factors accounted for The key is to cement the gains made in the stabilization stage by continuously monitoring the environment for opportunities presented by it so as to take advantage of them and to counter threats posed by it

2.10 The Turnaround Process and Turnaround process Model

Turnaround is considered to have occurred when a firm recovers adequately to resume normal operations, often defined as having survived a threat to survival and regained sustainable profitability (Barker and Duhaine, 1997).

Pearce and Robbins (1993) and Arogyaswamy et al (1995), viewed the turnaround process as consisting of two stages decline stemming and recovery strategies The primary objective of decline stemming strategies is to stabilise the company's financial condition and includes actions such as gathering stakeholder support, eliminating inefficiencies, stabilising the company s internal climate and decision processes The severity of the distressed state and the resource slack available ultimately determines the extent to which the decline stemming strategies are applied and succeed Once the company's financial position has stabilised it must decide on its recovery strategy that is whether or not it will continue to pursue profitability at its reduced size or implement growth-oriented (entrepreneurial-oriented) strategies

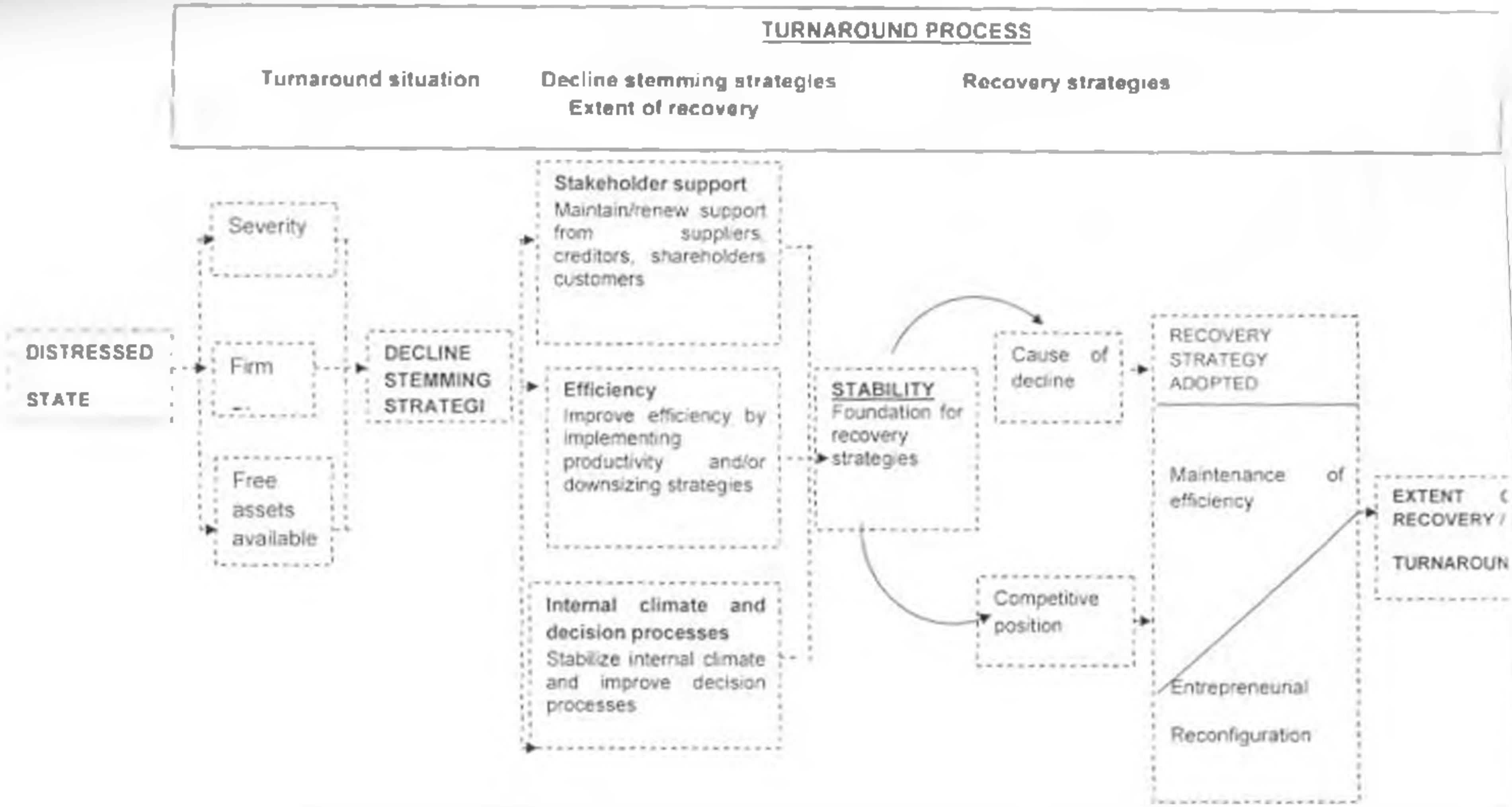
Robbins and Pearce (1992) concluded that, regardless of the cause of the decline, adopting efficiency-oriented recovery strategies is essential for any successful turnaround When management formulate and implement informed strategies their firms can turnaround even when facing declining environmental munificence, increasing environmental dynamism, escalating internal problems or limited slack resources (Robbins and Pearce, 1992)

Turnaround studies typically assume that the extent of performance improvement varies with the content of managerial strategies As Thietart

(1988) argues "No business that is performing poorly is doomed to failure" Organizational leaders achieve recovery from failure by selecting appropriate strategies that are universally successful, or by adapting their strategies to market conditions This perspective suggests that turnaround is driven by internal choices rather than external constraints Success is attributable to good management and failure can be blamed on bad management

To achieve a successful turnaround a management team must first stem a firms decline and select an appropriate strategy for recovery This often requires increasing a firm's efficiency stabilizing its internal operations and renewing stakeholders support Once the management team has stabilized the firm s performance, it must necessarily address the causes of the business decline to effect recovery of business to obtain the desired result. (Pearce and Robinson 1993) Based on existing turnaround models, their components, and subsequent research, the model depicted in Figure 2 evolves

Figure 2: Turnaround Process Model



Source *Smith, M Graves C (2005)* Corporate turnaround and financial distress **Managerial Auditing Journal** Vol 20 No 3 pg 308

This model depicts the turnaround process as a series of integrated steps within two key phases – the decline stemming phase and the recovery phase Ultimately, the severity of the financial distress, the amount of free assets available and the company's size, influence the company's ability to stem the decline In order to stabilise the company, senior management must strengthen stakeholder support undertake retrenchment activities to improve efficiency and cash flows, and improve the internal management and decision-making processes The aim of the recovery phase is to ensure that the causes of the decline are addressed and overcome Distress can be due to external factors, internal factors or a combination of both. As a result, recovery strategies adopted may focus on maintaining efficiency, an entrepreneurial reconfiguration or a combination of both

2.11 Challenges and Problems of Turnaround Implementation

There are several problems or challenges encountered in turnaround strategy evaluation and implementation These include the application of a single financial criterion (mostly profitability or performance targets) to different organizations in different industries This falsely assumes the existence of universal and objective criteria of measuring organizational performance In practice, definitions of decline and improvement whether in the public or the private sector, are socially and politically constructed by key stakeholders (Arogaswamy et al, 1995) Thus measures of whether organizations are performing poorly or badly should be based on the judgements of researchers not on the perceptions of key stakeholders in an industry (e g suppliers customers or competitors)

A second measurement problem is the assumption that the relevant period for measuring turnaround can be set at a few years The periodicity' of failure and recovery is likely to vary across industries For example the time taken to implement a repositioning strategy may be much shorter in a service industry like the hotel industry than in the tax collection industry. This is because legislation is required before new taxes (new products) are passed and introduced to the public (market) and this takes quite a while as opposed to new products in a hotel such as tourist packages which can be introduced after a few days

Firm size is also another challenge in turnaround management. Several studies have suggested that recovery from failure is more difficult and takes longer in bigger organizations. Problems may arise, for example in communicating new strategies effectively to a large and possibly dispersed workforce and in winning their support for a change of direction. The results of the small number of empirical studies of turnaround that include a test of size effects are consistent with this view (Pant 1991).

Finally, Barker and Mone (1994) argue that a measure of the extent of failure should be included in tests of turnaround strategies because organizations with the worst problems have more scope for large improvements in performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter highlights the methods and procedures to be adopted in carrying out the study. It clearly defines the research design, data collection and data analysis methods. The main objective of the study was to establish the effectiveness of the turnaround strategies undertaken by KRA.

3.2 Research Design

This was a survey as it sought to carry out an independent evaluation of the effectiveness of KRA's turnaround strategy as viewed by taxpayers. This being a descriptive type of study it sought to obtain information that describes existing phenomena by asking individuals about their perceptions and values on the services levels offered by KRA so as to identify how effective the turnaround strategies were in enhancing organisational performance.

A survey was found to be the most suitable method as it is an excellent method for the measurement of characteristics of large population and the best method in collecting original data for the purposes of describing a population which is too large to observe directly (Mugenda and Mugenda, 1999). For this study the survey method was found to be more superior because it had low cost and required minimal staff, the respondents could fill the questionnaires at their convenience due to their busy schedules. Many of the study variables could not be observed as required under observation methods.

3.3 Data Collection

Primary data was collected using a semi structured questionnaire which was standardised to allow for comparisons of results among the various respondents (see appendix II). Open ended questions were included so as to gather non-empirical data which was considered crucial for the study.

Stratified random sampling was used to select taxpayers who were the respondents The strata was based on payments of different tax heads which are Corporate tax, PAYE, VAT, Customs duties and Excise tax. the population consisted of the top 100 taxpayers in each category for the year 2007 The goal was to achieve desired representation from various subgroups in the population of taxpayers

Stratified random sampling has been defined as a sample selection method where the population is divided into two or more groups using a given criterion and then a given number of cases are randomly selected from each subgroup (Mugenda and Mugenda, 1999) This sampling technique is advantageous because it leads to high precision as the tax head of the respondents chosen have big differences, it is administratively convenient to stratify a sample in characteristics of interest and the method ensures comprehensive coverage of both homogeneous characteristics of each stratum and heterogeneous characteristics of taxpayers' population

A total of ten firms were selected, two firms from each tax category The firms which were randomly selected and targeted for drop and fill questionnaire included EABL, TSC, Equity Bank, University Of Nairobi, Ministry of Health, Glory Driving School Toyota Kenya Kenya Airways, Safaricom Kenya and BAT Kenya The research questionnaire was administered to Finance managers and Chief Accountants or to any other relevant officer as the researcher was directed They were dropped at the respective organization's office, to be filled out by the intended respondent and picked up later Due to the inherent nature of most organisations work environment a drop and pick questionnaire system was considered to be the most convenient method for data collection hence was adopted

Additional data for the study was collected from secondary data from internal publications of KRA such as published financial statements and corporate plans

3.4 Data Analysis Methods

The nature of data that was collected was mainly qualitative, hence qualitative data analysis methods were used Descriptive statistics was used in the form of percentages Percentages are extremely important, especially if there is need to compare groups that differ in size (Ngau & Kumssa 2004) Graphs were also used to analyze secondary data from financial statements

The structured questionnaire items were coded and pre-tested to ensure ease and accuracy in data entry after administration of the survey The data was later analyzed using the Statistical Package for the Social Sciences (SPSS)

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1 Analysis of respondents

This chapter presents the analysis and findings of the research The research sample comprised of 20 respondents and 14 were collected representing a response rate of 70 %

4.2 Data analysis

When asked to rank their experiences of their most recent visit to KRA, 21 4%, 28 6% and 43% of the external respondents ranked their experience as excellent very good and good respectively whereas 7% ranked the experience as poor This means that taxpayers experience with KRA is ranked as good and above by 93% of the respondents

In terms of the frequency of visits to KRA, 14 3%, 7 1% and 43% of the respondents visited KRA daily, weekly and monthly, respectively 15%, 7% and 7% of the respondents visited KRA on a quarterly, semi-annually and annually basis 7% of respondents rarely visited KRA

When asked to rate the way KRA dealt with their complaints, 50% of the respondents rated KRA handling of the complaints as good and above while 50 % of the respondents rated complaint handling as fair and poor.

On ease of obtaining information from KRA 14 3%, 42 8% and 28 6% of the respondents indicated that it is very easy, easy and fairly easy respectively to obtain information from KRA Thus 85 7% of the respondents felt that it is easy to obtain information on tax issues in KRA The ease in getting information resulted from the initiatives undertaken by the Authority in being more visible to consumers through a functional website, increase presence in the print and electronic media and improving service delivery by promptly responding to customer's enquiries

The level of awareness of services offered by KRA was 92 9% an insignificant number of the respondents (7 1%) were unaware of the services offered by the Authority The high level of taxpayer awareness is due to the comprehensive taxpayer education program that has been implemented in the last three years The Authority should maintain the awareness level through continuous education of taxpayers on new products and services

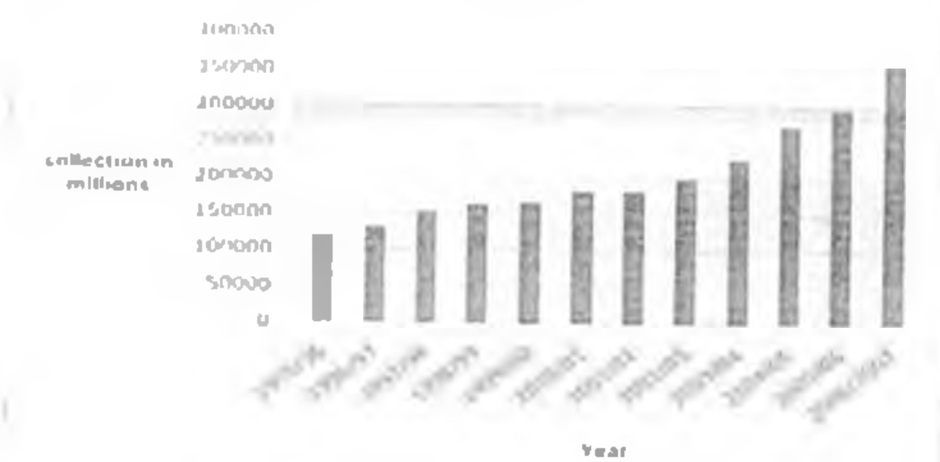
When asked about the level of service delivery 85 7% of the respondents rated the level of service delivery as excellent, very good and good It is evident that service attributes such as recent experiences, ease of getting information from KRA customer focus, increased awareness of services offered by KRA and improved service quality during the turnaround period that driving have increased the level of customer satisfaction

In regard to the most convenient mode of obtaining information, 50% of the respondents prefer personal visits followed by KRA Website (35 7%) and Print Media (14 3%) Thus, personal visit is the most preferred mode of obtaining information from KRA

4.3 The effectiveness of the Turnaround strategies

KRA's core function is to collect and account for government revenue therefore consistent increase in revenue correction is a strong indicator of efficiency by constantly achieving and surpassing set organisational targets The graph below represents the total amount of revenue collected by the Authority in millions

Figure 4 3 1 Graph indicating revenue collection todate



Graph indicating revenue collected by KRA in millions the data has been sourced from KRA's past financial statements. The consistent increase in the graph indicates that the Turnaround strategy employed by the Authority has been effective

On the extent of various turnaround strategies employed to enhance service delivery the following was observed as their impact by analysing respondent's feedback

TABLE 2: ANALYSIS OF TURNAROUND STRATEGIES

Reform Initiative	Significant Improvement	Moderate Improvement	Little Improvement.	No Improvement.
a) Decentralisation of KRA offices to the regions	64 3%	28 6%	7 1%	0
b) Payment of Taxes through banks	71 4%	21 4%	7 1%	0
c) X-Ray Scanners in Customs and services	35 7%	42 9%	14 3%	7 1%
d) Centralized Document Processing Centre	28 6%	50[illegible]	14 3%	7.1%
e) Simba 2005 System	50%	35 7%	14 3%	7 1%
f) Joint Audits in Domestic Taxes Department	35 7%	35 7%	21 4%	7 1%
g) Downloading of Electronic Tax Returns	50 %	35 7%	14 3%	7 1%
h) Customs Oil stock Information System (COSIS)	35 7%	35 7%	21 4%	7.1%
i) VAT on Commercial Buildings	21 4 %	42 8%	21 4%	14 3'|
j) Electronic Tax Register	50%	28 6%	14 3%	7 1%
k) Turnover Tax	35 7%	42 9%	21 4%	14 3%
l) KRA Integrity programme	35 7%	35 7%	14 3%	14 3%

From the table, it is evident that out of the listed reforms, decentralisation of KRA offices and payment of taxes through banks recorded the highest effects on service delivery (92 8%) followed by the downloading of the electronic tax returns from KRA Website & Simba 2005 system (85 7%)and ETR TOT and

Centralised data processing (78.6%) It is also evident that there is an improvement on the effect of decentralization of KRA services. X-Ray Scanners and Downloading of Electronic Tax Returns reforms on service delivery

The respondents felt that the following should be enhanced in order to improve service delivery more taxpayer education, more information and awareness on changes on tax issues should be communicated to taxpayers Customer care should be enhanced by members of staff becoming more customer-friendly and faster dispute resolution Communication to taxpayers should be improved through mostly use of electronic media such as emails and more decentralisation of services to the regions

4.6 Challenges faced in the implementation of the turn around strategy

The Authority faced numerous challenges key among them being both internal and external resistance. Internal resistance by some members of staff who preferred the status quo to remain as it was beneficial to them. This was witnessed when the Authority moved from manual receipting to computerised receipting: the former was susceptible to fraud due to the printing of duplicate receipts. External resistance was well witnessed during the implementation of the Simba system and the introduction of electronic tax register (ETR)

Only 21.4% of the respondents felt business processes within the Authority were highly automated. It is envisaged that with the procurement and implementation of Enterprise Resource Planning software interlinking the operations of the various support departments, the Authority's level of automation in its business processes will raise from being fairly automated to very highly automated

TABLE 3: AUTOMATION AT K.R.A

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Highly Automated	3	21.4	21.4	21.4
	Fairly Automated	9	64.3	64.3	85.7
	Inadequately Automated	2	14.3	14.3	100.0
	Total	14	100.0	100.0	

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Turnaround strategy at KRA

The study had an objective which was to determine the effectiveness of the turnaround strategy undertaken by the Kenya Revenue Authority which is an agency body mandated to collect government revenue on behalf of the Kenyan government

KRA as an organisation has undergone a turnaround in its business operations as can be attested by this research The strategies employed were in line with the BSC model whose four perspectives are People, Internal Processes, Customer and Revenue enhancement On people the Authority sought to develop a dedicated and professional team through provision of tools training & implementation of a competitive based pay system On internal processes the Authority sought to increase scope of electronic interaction with taxpayers to boost staff productivity and taxpayers services On customers it sought to help taxpayers understand their tax obligations and make it easier for them to comply by encouraging voluntary compliance Finally on revenue enhancement was to surpass revenue collection targets at least cost

For any organisation seeking to undertake turnaround strategy it must seek to better its operations to world class standards In a lot of cases business decline which is the situation that warrants a business turnaround is caused by inefficient business operations A business must therefore seek to reform and modernise its internal procedures and processes which should be benchmarked and continuously monitored to ensure that they are up to international standards It is for this reason that KRA s business processes were independently evaluated leading to the achievement of ISO certification by the Authority The challenge for any organisation is to ensure the maintenance of this quality standard in their operations

In order for KRA to cement this gains it made during the turnaround period and make a clear demarcation from the past it rebranded its logo as a symbol of this turnaround A brand new logo of a prouder lion in black and red was unveiled during the ISO certification of the Authority in 2008 This was a symbol of the complete turnaround of the Authority to be able to be recognised and identified afresh by its various publics

5.2 The effectiveness of the turnaround strategies

The turnaround strategies implemented at KRA were effective in the fact that they lead to the consistent increase in revenue collection or the Authority's topline Revenue collection represents KRA's core function and therefore consistent increase in revenue collection as can be attested by the research findings indicates that the Authority was effective in the implementation of the said strategies as it lead to the surpassing of the set organisational targets Though it can be argued that other favourable factors came into play to help the Authority achieve this such as a conducive external environment brought about by consistent economic growth and lack of political interference the said meteoric rise in revenue collection of about 15% per annum could not be achieved without well crafted and executed turnaround strategies such as modernisation business processes and having a dedicated and motivated workforce and customer focused organization

In the service industry customer satisfaction is a prime indicator of effectiveness Repeat business is based on the ability to meet customers' expectations In the revenue collection service this is not different Voluntary compliance is enhanced with better service delivery levels to customers As attested by the findings of this research over 80% of the respondents felt that the levels of service delivery at KRA was good This is a significant improvement from an organisation which had a poor public image during its formative years When there is perceived quality and value of services to taxpayers where taxpayers' complaints are addressed and taxpayers' expectations are met by the Authority there will be overall customer satisfaction, efficiency in internal processes quality service delivery, staff motivation, voluntary tax compliance and revenue collections will be enhanced When taxpayers are dissatisfied with service delivery and the dissatisfaction is not well addressed, the public's trust in the Authority can be badly damaged This may reduce tax compliance and revenue collection and also other support from external stakeholders may be withdrawn

5.3 Recommendations

Taxpayers should be encouraged to use electronic methods of communication and obtaining information from the Authority so as to reduce personal visits and long queues at KRA This could be done by ensuring KRA Website is highly interactive and continuously updated to promote its usage Feedback from taxpayers on the effect of various reforms on service delivery and their businesses should be encouraged from such forums as tax clinics, print media and KRAs website this will ensure that the Authority continuously improves on the internal processes, service quality and service delivery levels in order to meet increasing customer expectations

Marketing and Communication department needs to educate taxpayers more on their rights, responsibilities and obligations and services offered by KRA Taxpayers also need to be educated on the existence of the CIC and the dispute resolution mechanisms in the Authority This means that taxpayers need to be educated on the existence of this centre so that they can forward their complaints through the centre for centralized follow-up to ensure that the complaints are addressed Changes in the form of reforms and modernization initiatives being undertaken by the Authority also need to be summarised and disseminated to the taxpayers The Authority needs to provide more information on tax matters by informing and updating taxpayers and other stakeholders frequently on the importance of paying taxes through seminars, tax clinics, community based organizations (CBO) civic education, KRA website, print media, electronic media, telephone billboards, posters, brochures, advertisements and regular visits to taxpayers premises This will go along way in ensuring that the taxpaying population is informed on their rights and obligations and comply with the existing tax code

There is need to automate the communication systems in the Authority so as to reduce personal contact between KRA officers and taxpayers This can be done by encouraging the use of electronic methods of communication such as

E-Mail and the use of the KRA website This is a faster method of obtaining information that reduces frequency of the visits to KRA It is envisaged that with the intended implementation of a Call Centre at the Authority will greatly address taxpayer's complaints and further improve service delivery

In regards to change management "people involvement" in change processes is critical There is need to adequately prepare staff for the imminent change and particularly on how the changes are going to affect them The organization should train staff and win them over to embrace the expected strategic change In this regard there is need for business processes analysis to identify possible pockets of resistance and involve representatives of staff in executing the reform initiatives To ensure that departmental objectives are well meet junior members of staff need to be told the "Why" for most of the changes as opposed to simply the how In the absence of credible information from management regarding an impending strategic change, workers resort to the unofficial grapevine, which tends to exaggerate the expected impact of the programme leading to unnecessary resistance to the change.
The practice in modern organizations is to popularize reforms through change champions who can easily break ice with different cadres of staff to support the change Change champions should be people who are acceptable across the board and have themselves fully understood and embraced the intended changes

To counter external resistance continuous taxpayer education needs to be undertaken as well as an ambitious CSR programme that will make the Authority more visible in the community In addition, other measures need to be undertaken to enhance the connection between taxpayers and the authority in order to bridge the gap and nurture a more partnership like relationship with taxpayers KRA's Corporate Social Responsibility (CSR) needs to be more visible and its impact felt in the community KRA should invest in media campaign and corporate social responsibility and emulate other institutions that are successful in that field like KCB and Safaricom by sponsoring events such as sport tournaments and highlighting this in the

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KRA should further decentralise its services. research has shown that when tax services are moved closer to the taxpayers, the whole idea of taxation is demystified and with time voluntary compliance is enhanced In addition, posting tax officers closer to the taxpayers gives them an ample opportunity to learn more about the behaviour of taxpayers, which helps to stem tax evasion

KRA should hasten the process of complaints handling, settlement of taxpayer's refunds and dispute resolution so as to instil confidence and reduce perceived corruption KRA should act on complaints within reasonable time and put in place a communication system that provides prompt feedback on matters relating to dispute and any issues arising with taxpayers

5.4 Limitations of the study

The limitations of the study included the sample size chosen was also small, a bigger sample would have yielded more diverse opinions but this was not possible due to limited resources and time constraints

In using survey data collection method, the following are some of the inherent limitations of the method, Some respondents misunderstood the questions, thereby giving irrelevant or insufficient information and that some information may not have been got from the right person in the organisation Also information unknown to the respondents could not be tapped in the survey

5.5 Conclusion.

In conclusion the above findings show that KRA has satisfactorily implemented an effective turnaround strategy Along the way, KRA has consequently won various awards and recognition for this turnaround effort it has implemented and to mention a few includes the East Africa Most Respected Companies Award (public sector), Computer Society of Kenya award (use of ICT in operations) Financial Reporting Award (FiRe) 2007, CATA Award 2007

It is envisaged that the momentum of the growth provided by this strategy will be maintained and further developed to propel the organisation into greater heights as the organisation continues to reap from economies of scale and learning curve effects of the changes implemented during the turnaround period and to continuously analyse its environment so as to be able to take advantage of new opportunities, counter threats by building on its strength and core competencies and address areas of its weaknesses

5.6 Recommendations for further Research

The study recommends that further research could be done on The impact of taxpayer cooperation and collaboration on improvement of revenue collection at KRA , The effects of automation of KRA's business processes on service delivery to taxpayers' and The impact of changes in the external environment on revenue collection in Kenya

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APPENDICES

Appendix 1

LETTER OF INTRODUCTION

11th August 2008

Dear respondent,

I am a postgraduate student at the University of Nairobi pursuing a course leading to the award of masters in business administration, strategic management option. In partial fulfilment of the requirements of the stated course, I am conducting a management research project entitled 'The effectiveness of turnaround strategy at the Kenya Revenue Authority. Turnaround strategies are hereby defined as strategies employed by a business or organisation to reverse business decline and failure.

To achieve this objective you and your organisation have been selected for the study. To this end, I kindly request your assistance to complete the attached questionnaire which forms an integral part of this research project. The information is needed and will only be used for academic purposes, it will be treated with strict confidentiality.

Findings of the study shall upon your request be availed to you. For further clarifications or enquiry my contacts are [illegible] or cellphone number 0721531825

Your assistance and co-operation is highly appreciated

Yours Faithfully,

Peter Saigilu

Encl

Appendix 2

A QUESTIONNAIRE DESIGNED TO COLLECT DATA ON THE EFFECTIVENESS OF TURNAROUND STARTEGIES AT KRA

	1	2	3	4	5
1. For how long have you dealt with KRA?	Less than 6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years

	1	2	3	4	5	6	7
2. How often do you seek KRA services?	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually	Rarely

	5	4	3	2	1
3. How do you rate the overall level of service delivery?	Excellent	Very good	Good	Fair	Poor
4. How do you rate the overall quality of service?	Excellent	Very good	Good	Fair	Poor

	Custom Services	Domestic Revenue	Large Taxpayer Office	Road Transport Department	Support dept (finance, ICT, Procurement, Legal)
5. List service areas that have improved.					
6. List areas that require improvement.					

	1	2
7. Are you aware of the reforms and modernization being implemented by KRA?	Yes	No
8. If YES to 7, overall, have the reforms and modernization improved service delivery?	Yes	No

	4	3	2	1
9. In your opinion, what has been the impact of the following reform initiatives on KRA service delivery?	Significant Improvement	Moderate Improvement	Little Improvement	No improvement

a) Decentralisation of KRA offices to the regions				
b) Payment of Taxes through Banks				
c) X-Ray Scanners in Customs Services Department				
d) Centralized Document Processing Centre				
e) The Simba 2005 System				
f) Customs Oil Stock Information System (COSIS)				
g) Joint Audits in Domestic Taxes Department				
h) Downloading of Electronic Tax Returns				
i) VAT on Commercial Buildings				
j) Electronic Tax Register (ERR)				
k) Introduction of Turnover Tax				
l) KRA Integrity Programme				

10 How do you obtain information on tax matters?	Personal visit	Written inquiry	Brochures & tax clinics	Fax	Telephone	TV/ Radio	KRA Website E-mail	Print Media
11 Which mode is most convenient to obtain information?	Personal visit	Written inquiry	Brochures & tax clinics	Fax	Telephone	TV/ Radio	KRA Website E-mail	Print Media

	5	4	3	2	1
12. Department recently visited	Domestic Revenue	Large Taxpayers	Customs Services	Road Transport	Support Department
13. How would you rate the level of knowledge of KRA's employees of on issues you were sought clarification	Excellent	Very Good	Good	Fair	Poor
14. How easy was it to get information from KRA?	Very Easy	Easy	Fairly Easy	Difficult	Very difficult
15 How do you rate customer care at KRA?	Excellent	Very Good	Good	Fair	Poor

a) Decentralisation of KRA offices to the regions				
b) Payment of Taxes through Banks				
c) X-Ray Scanners in Customs Services Department				
d) Centralized Document Processing Centre				
e) The Simba 2005 System				
f) Customs Oil Stock Information System (COSIS)				
g) Joint Audits in Domestic Taxes Department				
h) Downloading of Electronic Tax Returns				
i) VAT on Commercial Buildings				
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13.How would you rate the level of knowledge of KRA's employees of on issues you were sought clarification	Excellent	Very Good	Good	Fair	Poor
14.How easy was it to get information from KRA?	Very Easy	Easy	Fairly Easy	Difficult	Very difficult
15.How do you rate customer care at KRA?	Excellent	Very Good	Good	Fair	Poor

16. How would you rate KRA's staff in terms of professionalism and integrity?

Excellent	Very good	Good	Fair	Poor

17. Do you believe that KRA s corporate image has improved during the recent past

(A) Yes (B) No

18 What measures do you feel KRA should undertake so as to serve you better?
....
....
....
....
....
....
....

19 Do you believe KRA is facilitating easier compliance to tax laws with the reforms it's instituting and initiating?

(A) Yes (B) No

20 If your answer to question 20 above is No what measures should KRA undertake to facilitate easier compliance to tax laws?

21 How would you rate the level of automation of the business processes currently being undertaken by KRA (Please tick one)

5	4	3	2	1
Very highly automated	Highly Automated	Fairly highly Automated	Inadequately Automated	Poorly Automated

THANK YOU FOR TAKING YOUR TIME TO COMPLETE THIS QUESTIONNAIRE