

**STRATEGIC RESPONSES ADOPTED BY THE KENYA REVENUE  
AUTHORITY'S CUSTOMS SERVICES DEPARTMENT TO CHANGES  
IN THE EXTERNAL ENVIRONMENT**

BY:

**MARTIN MUEMA MAKUNDI**

*/ LOWER KABETE  
UBRARY*

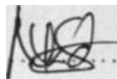
A Research Project Submitted in Partial Fulfillment of the Requirements for the  
Award of the Degree of Master of Business Administration (MBA), School of  
Business, University of Nairobi

October, 2012

## DECLARATION

This research project is my original work and has not been presented to any other University or Institution of Higher Learning for examination.

Signed



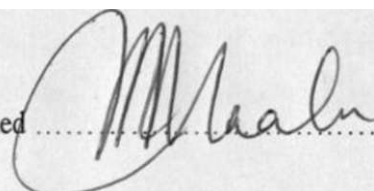
Date

15/05/2020

**Martin Muema Makundi**

**D61/70475/2009**

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

Signed 

Date 15/05/2020

**Dr. Jackson Maalu**

**Department of Business Administration,**

**School of Business,**

**University of Nairobi.**

## **ACKNOWLEDGEMENT**

This research project would not have been possible without the support of many people. I wish to express my gratitude to my supervisor, Dr. Jackson Maalu, who was abundantly helpful, available at all times and who offered invaluable academic assistance, support and guidance. Deepest gratitude is also due to the staff as well as fellow students and friends at the University of Nairobi, Mombasa Campus who all played a great role towards this success.

I am also quite grateful to the managers and officers of the Customs Services Department for the support they accorded me.

I reserve special mention and express my love and gratitude to my beloved family for their invaluable support, prayers, understanding and endless love which encouraged and strengthened me all the way. Much appreciation goes to Dr. B. M. Ikombi for his positive scholarly critique and guidance.

Lastly and probably most importantly, I thank the Almighty God as my source of all inspiration in allowing me good health, wisdom, strength and all that counts to undertake this project and my MBA studies.

## **DEDICATION**

My study is dedicated to my beloved daughter.

Thank you for your patience and understanding as I took off long hours undertaking my studies. God bless you abundantly.

## **ABSTRACT**

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy. Strategic response requires organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy. Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose.

The Customs Services Department (CSD) is the largest of the four revenue departments of the Kenya Revenue Authority. Its primary function is to collect and account for import duty and VAT on imports. The CSD is also responsible for facilitation of legitimate trade and has the mandate of protecting the society from illegal entry and exit of prohibited and dangerous goods through the land and sea border points. This study first sought to establish if there are changes in the external environment in which the Customs Services Department of KRA operates and then identified the various strategic responses, if any, that the CSD adopted as a result of the changing external environment.

The study collected primary and secondary data which was analysed through content analysis and presented in continuous prose. Primary data was collected through interviews guided by an interview guide. The study found that the CSD faced political, economic, social, technological, ecological and legal forces from the external environment. In response, the CSD implemented various strategies meant to counteract the effects of the environmental forces. The study concludes that the various response strategies adopted by CSD were proactive to the changes in the department's external environment and recommends that although CSD has been largely successful in responding to challenges brought about by the changing environment, it should develop an effective balanced score card that ties job descriptions to the various aspects of environmental scanning and strategic response.

# TABLE OF CONTENTS

Declaration.....	ii
Acknowledgement.....	iii
Dedication.....	iv
Abstract.....	v
List of Tables.....	viii
Acronyms.....	ix
 <b>CHAPTER ONE: INTRODUCTION-.....</b>	 <b>1</b>
1 1 Background of the Study.....	1
1.1.1 The Concept of Strategic Response.....	2
1.1.2 The Kenya Revenue Authority.....	5
1.1.3 The Customs Services Department.....	5
1.2 Research Problem.....	7
1.3 Research Objectives.....	9
1.4 Value of the Study.....	9
 <b>CHAPTER TWO: LITERATURE REVIEW.....</b>	 <b>11</b>
2.1 Introduction.....	11
2.2 Concept of Strategy.....	11
2.3 Organisation and Environment.....	12
2 4 Strategic Responses.....	16
2.5 Empirical Review.....	20
 <b>CHAPTER THREE: RESEARCH METHODOLOGY.....</b>	 <b>21</b>
3.1 Introduction.....	21
3.2 Research Design.....	21
3.3Data Collection.....).	22
3 4 Data Analysis.....	24
 <b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS.....</b>	 <b>26</b>
4 1 Introduction.....	26
4 2 Customs Services Department.....	26

4 3The Kenya Revenue Authority Corporate Plan.....	27
4 4 The Customs Reform and Modernisation Project.....	28
4 SEnvironmental Changes and Responses to the Changes.....	30
4 5.1 Political Environment.....	30
4 5 2 Economic Environment.....	34
4 5.3 Social Environment.....	38
4.5 4 Technological Environment.....	43
4 5.5 Ecological Environment.....	47
4 5 6 Legal Environment.....	49
 <b>CHAPTER FIVE: SUMMARY, CONCLUSIONS &amp; RECOMMENDATIONS.....</b>	<b>54</b>
5.1 Introduction.....	54
5.2 Summary and Conclusions.....	54
5.3 Challenges to the Study.....	58
5 4 Recommendations.....	59
5 5 Suggestions for Further Research.....	60
 REFERENCES.....	61
APPENDIX.....	66

## **LIST OF TABLES**

**Table 3.1:** Comparative Customs Regional Performance

**Table 4.1** Staff Complement in KRA

**Table 4.2** Cumulative Revenue Performance

**Table 4.3** Key Macroeconomic Parameters Affecting CSD



## ACRONYMS

AEO.....	Authorised Economic Operator
APSC.....	Air Passenger Service Charge
CAMIS.....	Cargo Management Information System
COMESA.....	Common Market for East and Southern African Common Market
COSIS.....	Customs Oil Stocks Information System
CRM.....	Customs Reforms and Modernization
CSD.....	Customs Services Department
CSR.....	Corporate Social Responsibility
DOE.....	Department of Energy
DPC.....	Document Processing Centre
FDI.....	Foreign Direct Investment
EAC.....	East Africa Community
EASSY.....	Eastern Africa Submarine Cable System
ECTS.....	Electronic Cargo Tracking System
EPZ.....	Export Processing Zones
GDP.....	Gross Domestic Product
IAO.....	Integrity Assurance Officers
ICT.....	Information Communication Technology
ISO.....	International Standards Organisation
IT.....	Information Technology
JICA.....	Japan International Cooperation Agency
KDF.....	Kenyan Defense Forces
KEBS.....	Kenya Bureau of Standards
KIFWA.....	Kenya International Freight Warehousing Association
KMA.....	Kenya Maritime Authority
KPA.....	Kenya Ports Authority
KRA.....	Kenya Revenue Authority
KRPB.....	Kenya Radiation Protection Board
KTA.....	Kenya Transporters Association
KWATOS	Kilindini Waterfront Automated Terminal Operating System
LION2.....	Lower Indian Ocean Network

MIS.....	Management Information System
MMS.....	Manifest Management System
MTP.....	Medium Term Plan
NNSA.....	National Nuclear Security Administration
NTC.....	National Targeting Centre
ODA.....	Overseas Development Assistance
OSBP.....	One Stop Border Posts
PCA.....	Post Clearance Audit
RADDEX.....	Revenue Authorities Digital Data Exchange
RRA.....	Rwanda Revenue Authority
RVR.....	Rift Valley Railways
SADC.....	Southern African Development Community
SCT.....	Single Customs Territory
SEZ.....	Special Economic Zones
TEAMS.....	The East African Marine System
TRA.....	Tanzania Revenue Authority
TREO.....	Tax Remission for Exports
TRS.....	Time Release Study
URA.....	Uganda Revenue Authority
US.....	United States
USA.....	United States of America
WCO.....	World Customs Organisation
WTO.....	World Trade Organisation

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

In today's global environment, change rather than stability is the order of the day and the environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Environmental forces of change have increased the rate at which organisations need to alter their strategies and structures in order to survive. Increased competition has created fundamental shift in economic environment whereas no organization can hope to stay afloat if it fails to come up with proper strategic responses (Ansoff and McDonnell, 1990).

In Kenya, the enactment of a new Constitution in 2010 came with it diverse changes to the operating environments of organisations as it came with it diverse legal rights, duties and obligations such as enhanced consumer and social rights. Globalisation, which is a concept that envisions a borderless globe has also brought with it challenges to organisations. Abdel-Bar (2006) defines globalization as the integration of economies throughout the world by means of trade, financial and technological flows, the exchange of technology and information and the movement of people, goods and services. Globalisation has meant not only internationalisation of trade but also global spread of ideologies such as terrorism.

Bockstelle, C. (2009), defines terrorism as political violence that is designed to induce terror and psychic fear through the violent victimization and destruction of non-combatant targets (civilians) with such acts meant to send a message from a clandestine organisation. In June 2012 the United States (US) Embassy in Nairobi issued an alert to all US citizens of an imminent threat of a terrorist attack aimed at the Kenyan coastal city of Mombasa (Embassy of the United States, 2012). This alert and several grenade attacks linked to terrorism in the country provide an indicator of the significant change in the political environment where security concerns have become a critical challenge.

The United States Department of Energy (2010), noted that the global ambitions of terrorist organizations in today's world has raised concern that terrorists may attempt to exploit containerized cargo to covertly transport nuclear and other radioactive materials or use it to deliver a nuclear weapon or radiological dispersal device. This increases the urgency of customs border control agencies to respond to this emerging threat by incorporating new strategies to detect dangerous materials and equipment that may transit through their ports of entry. In Kenya, the Customs Services Department (CSD) of the Kenya Revenue Authority (KRA) has the mandate of protecting the society from illegal entry and exit of prohibited and dangerous goods through the land and sea border points.

### **1.1.1 The Concept of Strategic Response**

Strategy according to Johnson and Scholes (2002) is the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a changing environment and fulfills

stakeholders' expectations. Strategic response therefore requires organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy.

Pearce and Robinson (2007) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the environment of organizations. Ansoff and McDonnell (1990) noted that strategic responses involve changes in the firm's strategic behavior's to assure success in transforming future environment and that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level of environmental turbulence. Survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Kotler, 2000).

Strategy is meant to provide guidance and direction for the activities of the organization. Since strategic decisions influence the way organizations respond to their environment it is very important for a firm to make strategic decisions and define strategy in terms of its function to the environment. According to Pearce and Robinson (2007), the purpose of strategy is to provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Survival and success of an organization occurs when the organization creates and maintains a match between its strategy and the environment and also between its internal capability and its strategy (Kotler, 2000).

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include objective setting, the vision and mission of the company, and competitive strategy where after considerations of the organisation's competitive strengths and weaknesses vis-<sup>^</sup>-vis competition and customer needs, the company establishes a position of competitive advantage (Lowesetal, 1994). Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of a firm to the best support of its long term competitive strategy.

To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive. One such strategy is the corporate turnaround strategy. A turnaround situation is one of pointing out to a new direction. It is a complete change in strategic direction of a firm after it has faced a corporate distress. Such a situation can easily lead to collapse of a company unless a plan of corporate survival and renewal is devised and successfully executed. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce and Robinson, 2007).

### **1.1.2 The Kenya Revenue Authority**

The Kenya Revenue Authority (KRA) is a Government agency charged with the responsibility of collecting revenue on behalf of the Government of Kenya. Its purpose is the assessment, collection, administration and enforcement of laws relating to Government revenue. The Authority is a Government agency that runs its operations in the same way as a private enterprise. KRA is divided into five Regions as Central, Rift Valley, Western, Northern and Southern region. In terms of revenue collection and other support functions, the Authority is divided into the following Departments: Customs Services, Investigations and Enforcement, Domestic Taxes, Large Taxpayers Office, Road Transport and Support Service Departments (About KRA, 2012).

Though the main role of KRA is to administer and to enforce written laws pertaining to tax assessment, tax collection and tax accounting it also does act as a watchdog for other Government agencies (such as Ministries of Health, Internal Security and Agriculture) by controlling exit and entry points to the country to ensure that prohibited and illegal goods do not pass through Kenyan borders. It does this through the Customs Services Department.

### **1.1.3 The Customs Services Department**

The Customs Services Department (CSD) is the largest of the four revenue departments of KRA in terms of manpower and countrywide operational network. The primary function of the Department is to collect and account for import duty and VAT on imports (Kenya Revenue Authority, 2012). Apart from its fiscal responsibilities, the CSD is responsible for facilitation of legitimate trade and has the mandate of protecting the society from illegal entry and exit of prohibited and

dangerous goods through the land and sea border points. A bulk of CSD's operations are in KRA's administrative Southern Region which covers the coastal region of Kenya where the port of Mombasa is located.

The port of Mombasa is the second largest port in Africa after the port of Durban in South Africa, in terms of tonnage and containers handled. Mombasa has an excellent location on the African east coast roughly midway between the port of Durban and major ports in the Red Sea and Middle East which makes it a strategic gateway to a vast hinterland for importers and the premier port of East and Central Africa. For exporters the port offers a wide range of shipping services to key destinations around the world (Port Performance, 2009). All import and export commodities at the port pass through customs control which reflects the critical role of CSD in regulating the movement into and outside the country of items that may be used for terror such as small weapons, materials for making improvised explosive devices and live explosive devices such as grenades and bombs. It also includes control of items that may be used for biological weapons such as bacteria and viruses. Kenya being a trusted trade partner of US, European and Asian countries may see the port of Mombasa used as a transit portal for export of dangerous goods.

According to Wafula (2012), the critical role of CSD has also come to light on its role in the East Africa Community (EAC) where the EAC common market protocol wishes to establish a single customs union or territory to facilitate free movement of goods in the region. This translates to a change in the main role of the CSD from tax collection to border controls as illustrated by the move by the Government of Kenya in the 2012/2013 Budget Statement proposing to rationalize the KRA with a view to establishing the CSD as an autonomous entity as in the current setting, KRA has



tended to focus on its primary role of collecting taxes at the expense of issues like security and facilitating trade. This move is aimed at realigning the operations of the CSD to the EAC common market protocol to mainstream its critical role of border controls and trade facilitation.

## **1.2 Research Problem**

The environment in which organizations operate is constantly changing with different factors influencing organizations. Quite often environmental analysis is based on private sector or business organisations which ignores the fact that public sector organisations are equally facing an environment that has become more volatile, unpredictable and very competitive. With Government policies such as performance contracting, decisions by managers in the public sector are increasingly having a strategic impact and affect the alignment between the organization's strategy and its environment. Hill and Jones, (2001) suggest that correct alignment helps an organization maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals.

The CSD plays a critical role in global trade as the port of Mombasa is a regional hub, serving the Eastern African countries which import through the port as well as countries to which these countries export their goods to. This gives the department a moral duty of care to all these destinations to ensure that the commodities are safe. Also the department has been blamed for delays resulting to port congestion due to increased trade volume and the expansion of the East African community from three countries to the current six. CSD capacity has been accused of not keeping pace with the throughput volumes, partly contributing to port congestion. Strategic responses are

required to create capacity to avoid scenarios where CSD gets overwhelmed by the environmental factors.

Locally, several studies on strategic responses to changing external environment by various organisations have been conducted. Orondo (2011) studied the strategic responses adopted by Kenya Ports Authority (KPA) to the environmental challenges and found out that it faced legal and technological changes as well as challenges brought about by economic factors, illegal entry of products, political instability and terrorism. KPA adapted pro-active strategies in response to the changes. Sheikh (2000) conducted a study on strategic response by insurance companies following liberalisation and concluded that the companies in the industry consider strategic plans to be important. Kombo (1997) in a study of strategic responses by firms facing changed environmental conditions found that as a result of the economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. Jacob (2008) did a study on the responses by the Kenya Revenue Authority to the challenges of the implementation of the Customs Reforms and Modernization (CRM). Kandie (2001) studied the strategic response of Telkom Kenya in a competitive environment and found that financial constraints and lack of managerial empowerment has limited the capability to respond to the environmental changes.

So far no study has focused on the strategic responses adopted by the Customs Services Department to counter changes in environment. This is despite the fact that the current changes brought about by globalization, terrorism, and changes in law such as enactment of the East Africa Community Act, have a direct effect on the roles of the CSD; hence affecting its strategic alignment to the environment. It is in this light

that this study aimed to fill the existing gap by seeking to answer the questions; what are the changes in the environment in which the CSD operates? How has the CSD applied various strategic responses to the changing environment?

### **1.3 Research Objectives**

This study had two objectives:

- i. To establish the changes in the external environment in which the Customs Services Department of KRA operates.
- ii. To identify the various strategic responses to the changing external environment by the Customs Services Department of KRA.

### **1.4 Value of the Study**

The study will contribute to theoretical developments in strategic management by serving as a basis for academic discussions on strategic responses by the public sector organisations to the ever changing environment.

The study will also be of major importance to policy makers in the Government of Kenya and East African Community Secretariat as it would give them insights on critical factors that need to be considered when formulating policies meant to enhance effective strategic response in border controls and related functions.

The study will in addition be important not only to CSD management but also other managers in the public sector. It would help them assess their strategic response to the changes to the environment and assist in their understanding of the strategic responses

in the changing environment. This understanding can help organizations to improve on their strategic behaviours.

The study results will also be useful to the Kenyan scholar for it will provide rich material for further research. It can also act as a source of secondary material for researchers.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter reviews literature related to the study objectives and looks into strategy, organisations and their external environment and strategic responses. Some relevant empirical studies are also reviewed here.

#### 2.2 Concept of Strategy

Strategy, which is a fundamental management tool in any organisation is a multi-dimensional concept that various authors have defined in different ways. Strategy according to Johnson et al, (2009) is the direction and scope of an organization over the long-term, which achieves advantage in a changing environment through its configuration of resources and competencies with the aim of fulfilling stakeholder's expectations.

Strategic decisions are likely to be concerned with the long-term direction of the organisation, the scope of the organisation's activities and are normally about trying to achieve some advantage for the organisation over competition. Strategy can be seen as the search for strategic fit with the organisation's environment as well as be seen as creating opportunities by building on the organisation's resources and competencies. Strategy will be affected not only by environmental forces and strategic capability but also by the values and expectations of those who have power in and around the organisation. (Johnson et al, 2009).

UNIVERSITY OF NAIROBI  
LOWE KABF  
LIBRARY

Henry Mintzberg, in his 1994 book, *The Rise and Fall of Strategic Planning*, points out that people use "strategy" in several different ways, the most common being these four: Strategy is a plan, a "how," a means of getting from here to there. Strategy is a pattern in actions over time, for example, a company that regularly markets very expensive products is using a "high end" strategy. Strategy is position; that is, it reflects decisions to offer particular products or services in particular markets. Strategy is perspective, that is, vision and direction.

Mintzberg argues that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called "realized" or emergent strategy. Porter defines competitive strategy as "a combination of the ends (goals) for which the firm is striving and the means (policies) by which it is seeking to get there." Thus, Porter seems to embrace strategy as both plan and position (Porter M., 1996).

### **2.3 Organisation and Environment**

A host of external and often largely uncontrollable factors influence an organization's choice of direction and action and, ultimately, its organizational structure and internal processes. These factors constitute the organisation's external environment. (Johnson et al, 2009). The emergence of environmental influences and their effect on organisational strategy has gained tremendous significance in the management literature in recent years.

According to Ellis and Williams (1995), environmental forces of change are increasing pressure for globalization of industry and have led to trade liberalization and opening of markets. These forces have also increased the rate at which companies need to alter their strategies and structures in order to survive in the market. There are many factors in the macro-environment in which an organization operates that will affect the decisions of the managers of any organization. These factors can be categorized as political, economic, social, technological, ecology and legal otherwise known as PESTEL analysis (Kagwe, 2009).

### **2.3.1 The PESTEL Framework**

The PESTEL analysis is a framework designed to provide managers with an analytical tool to identify different macro-environmental factors that may affect organizational strategies, and to assess how different environmental factors may influence organizations now and in the future. The framework categorizes environmental influences as political, economic, social, technological, ecological and legal forces. The analysis examines the impact of each of these factors on an organisation, and thus allows strategic planners to identify and take advantage of opportunities and prepare plans to guide against the threats

Political factors refer to government policy. Political decisions can impact on many vital areas for business such as infrastructure and the health and education of the workforce. Pearce and Robinson (2005) reckon that the direction and stability of political factors are major consideration for managers on formulating organizational strategy. The political environment includes elections, legislation, government structure, consumer protection, wars and conflicts.

Economic factors concern the nature and direction of the economy in which a firm operates and include the domestic economic situation, overseas economies and economic trends relevant to an organisation. Some of the economic factors on both national and international level that managers must consider include general availability of credit, the level of disposable income, the propensity of people to spend, interest rates, inflation rates, and trends in the growth of the gross national product. The economic conditions affect how easy or hard it is for a firm to be successful and profitable at any time. A firm must therefore include these factors in its strategy formulation. (Pearce and Robinson, 2005)

The social factors that affect an organization involves the beliefs, values attitudes, opinions and lifestyles of persons in the firms external environment, as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning, Pearce and Robinson (2005). Like other forces in the external environment, social factors are dynamic with constant change resulting from efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. For managers, informed judgment of the impact of changes in social; cultural factors are paramount. A social analysis includes demographics, lifestyle changes, population shifts, education, living standards, occupation and earning capacity, increased social awareness and media views.

Pearce and Robinson, (2005) observed that a technological breakthrough can have a sudden and dramatic effect on an organisation's environment. It may spawn new markets and products or significantly shorten the anticipated life of a manufacturing facility. Hence for an organization to stay successful, it must strive to understand both the existing technological advances that can affect its operations and the ability to



forecast future technological advances that help alert strategic managers to both impending challenges and promising opportunities. Technology can therefore reduce costs, improve quality and lead to innovation. A technological analysis thus covers the impact of new inventions, obsolescence of existing technologies, competing technological developments, technology legislation and innovation potential.

Pearce and Robinson (2005), define the ecology as the relationship among human beings and other living things and the air soil, and water that support them. Organizations are increasingly being called upon to pay attention to this by protecting the environment. With major climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for organisations to consider as in the recent years concerns have been raised over such issues as safe disposal of wastes especially the huge challenge of managing e-waste.

Legal factors are related to legal and litigious aspects that organisations operate in. A legal analysis of the environment reflects on the laws and regulations relevant to an organisation including whether the rule of law is well established and how easily and quickly laws and regulations can be reviewed, changed and the costs of regulatory compliance. In recent years there have been many significant legal changes that have affected organisations' behaviour. The new Kenyan constitution for instance has increased new legal provisions that impart new responsibilities such as recognition of minorities, gender and people with disability regulations. Legal changes can affect an organisation's costs (for example if new systems and procedures have to be developed) and change of demand (for example if the law affects the likelihood of customers buying the good or using the service).

### **2.3.2 Strategic Fit**

To be successful over time, an organization must be in tune with its external environment. There must be a strategic fit between the environment demands and what the organisation has to offer, as well as between what the organisation needs and what the environment can provide (Wheelen and Hunger, 1995).

According to Johnson and Scholes (2002), dealing with the environment is difficult because of three factors. First is the diversity of the different influences that affect a business. Identifying the environmental influences may be possible but it may not be of much use because no overall picture emerges of the really important influences on the organization. The second difficulty is the speed of change. Managers typically feel that the pace of technological change and the speed of global communications mean more and faster changes than ever before. Third is the problem of complexity. Managers are no different from other individuals in the way they cope with complexities; they try to simplify what is happening by focusing on those few aspects of the environment which have been important historically. It is important to avoid these tendencies whilst achieving an understanding of the environment which is both usable and oriented towards the future.

### **2.4 Strategic Responses**

Ansoff and McDonnell (1990) noted that strategic responses involve changes in the organisation's strategic behaviors to assure success in transforming future environment. Pearce and Robinson (2007) defined strategic responses as the set of decisions and actions that result in the formalization and implementation of plans designed to achieve an organisation's objectives. Therefore it is a reaction to what is

happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies and policies for utilizing the resources of an organisation to the best support of its long term competitive strategy

Ansoff (1980) asserts that when an organization fails to respond to a threat, the losses that results continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. Reactive management occurs if the start of the response is delayed past the trigger point. The start of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay and unfamiliarity delay (Ansoff and McDonnell, 1990).

Porter (1998) observes that for organizations to be able to retain competitive advantage, they need to examine their environment both internal and external and respond accordingly. Ansoff and McDonnell (1990) also point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to level environmental turbulence. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different organizational capabilities. Therefore, each level of environmental turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development.

### **2.4.1 Competitive Strategies**

Being ahead of the game requires that organizations employ competitive strategies that are sustainable and assures them of their market position. Pearce and Robinson (2005) states knowledge of these underlying sources of competitive pressure provides the grounds work for strategic agenda of action. The highlight of the critical strengths and weaknesses of the company, animate the positioning of the company in its industry, clarify the areas of strategic changes and may yield the greatest payoff.

According to Porter (1980) strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of three general types of strategies that are commonly used by businesses. The generic strategies are categorized as strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market to be targeted. Strategic strength is a supply-side dimension and looks at the strength or core competency of the organisation. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency). Porter further simplifies the scheme to the three best strategies: cost leadership, differentiation, and market segmentation (or focus). In formulating its strategic response to changes in its environment, an organization must have a first decided on a core idea of generic strategy about how it can best compete in the market place

The cost leadership strategy involves the organisation winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value

ratio (price compared to what customers receive). To succeed at this, the organization must be able to operate at a lower cost than its rivals. There are three main ways to achieve this. The first approach is achieving a high asset turnover. The second dimension is achieving low direct and indirect operating costs. This is achieved by offering high volumes of standardized products, offering basic no-frills products and limiting customization and personalization of service. The third dimension is control over the supply/procurement chain to ensure low costs.

Differentiation strategy is an approach under which an organization aims to develop and market unique products for different customer segments. Differentiation strategy is one of Porter's key business strategies. When using this strategy, a company focuses its efforts on providing a unique product or service. Since the product is unique, this strategy provides high customer loyalty (Porter, 1998). Pearce and Robinson (2005) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows the organization to capture the market share.

According to Hill and Jones (2001), focus strategy concentrates on serving particular market niche, which can be defined geographically, type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. Hence the company is specialized in some way. A focus strategy provides an opportunity for an entrepreneur to find and then exploit the gap in the market by developing an innovative product that a customer cannot do without. The firm has enormous opportunity to develop its own niche and compete against low-cost and differentiated enterprises which tend to be larger. It

differs from corporate strategy in that whereas corporate strategy involves decisions about the entire organization, strategic decision under the business units are basically concerned with how customers' or clients' needs can best be met. According to Johnson and Scholes (2002) "Business unit strategy is about how to compete successfully in particular markets".

Strategic responses to a changing competitive environment therefore entail substantial changes to organization long term behaviour. This adaptation may be gradual or revolutionary depending on the nature and circumstances facing the organization.

## **2.5 Empirical Review**

Locally, Sheikh (2000) conducted a study on strategic response by insurance companies following liberalisation and concluded that the companies in the industry consider strategic plans to be important. Kandie (2001) studied the strategic response of Telkom Kenya in a competitive environment. He found that financial constraints and lack of managerial empowerment limited the capability to respond to the environmental changes. Isaboke, (2001) investigated the strategic responses of the oil companies in Kenya to the threats of the new entrants. Responses included a combination of generic strategies. Kombo, (1997) in a study of strategic responses by firms facing changed environmental conditions found that as a result of the economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. Orondo (2011) studied the strategic responses adopted by KPA to the environmental challenges and found out that it faced legal and technological changes as well as challenges brought about by economic factors, political instability and terrorism. KPA adopted proactive strategies in response.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This section identifies the procedures and techniques that were used in conducting the study. It presents the research design used, the data collection method and instruments and how data was analysed and presented.

#### **3.2 Research Design**

The research design for this study was a case study. This design was deemed appropriate as it is focused on only one unit of study, which is the Customs Services Department of the Kenya Revenue Authority.

A case study is an in-depth investigation of an individual, institution or phenomenon and its primary purpose is to determine factors and relationships among the factors that have resulted in the behaviour under study. It therefore makes a detailed examination of a single subject, group or phenomenon. Kiptoo (2008) asserted that a case study research design is appropriate where a detailed analysis of a single unit is desired as they provide a focused and variable insight into a phenomenon.

The Customs Services Department provided a satisfactory unit of study as it is the largest of the four revenue departments of KRA in terms of manpower and countrywide operational network. The Department is composed of several units and sections reporting to the Commissioner of Customs Services.

### **3.3 Data Collection**

The study adopted in-depth personal interviews directed by an interview guide (appendix I) to collect primary data, which was recorded by way of writing the responses. The respondents were drawn from several units of the CSD and were derived from both management and non-management levels of staff. Secondary data was collected by use of desk search techniques from published reports and other documents and included journals, periodicals and information obtained from the internet. Documents used here included the KRA Corporate Plans, KRA performance reports and the Customs Reform and Modernisation Project write up.

The initial stage of data collection involved creating a rapport with the respondents in order to gain their consent, confidence and therefore cooperation. The researcher also discussed his intent to request copies of relevant documents. The second stage involved administration of the interview guide to the identified respondents. The interviews were administered personally to ensure uniformity and consistency in the data. The interview guide used open-ended questions. The open-ended questions were useful in enabling the researcher collect qualitative data in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the study. Bryman & Bell (2007) point out that open ended questions allow the respondents to include more information, including feeling, attitudes, and understanding of the issues.

The study established that a CSD study based on Mombasa achieved a balanced and satisfactory overview of CSD as Mombasa is the headquarters of the Southern Region operational division of CSD which represents the bulk of CSD operations as reflected



by performance as measured in terms of tax revenue collected (Table 3.1). The study also found that CSD has a policy of regular staff reshuffles and transfers which ensure that staff don't stay in one region and workstation for long durations. Due to this policy, most respondents interviewed had worked in several other stations both in and outside Southern Region, with a good number having had worked in Nairobi and border stations in Western and Northern Kenya.

Table 3.1: Comparative Customs Regional Performance

Performance as at	18/07/2012		13/10/2011	
Revenue Collected	Amount (shs)	%	Amount (shs)	%
Southern Region	9,668,185,191	82.6	5,749,395,246	80.6
Central Region	1,698,335,839	14.5	1,173,298,433	16.4
Northern Region	124,124,374	1.1	91,910,289	1.3
Rift valley Region	130,434,972	1.1	81,568,852	1.1
Western Region	82,673,030	0.7	37,689,224	0.5
Total	11,703,753,407	100	7,133,862,044	100

*Source: Customs Performance reports; 18.07.12 & 13.10.11*

A total of twenty CSD employees based in Mombasa were interviewed. They comprised CSD staff at the Regional Customs Headquarters, Mombasa Port Container Terminal and Transit Sheds as well as Container Freight Stations. Respondents were interviewed with a commendable response rate of one hundred per cent (100%), achieved because the researcher made frantic effort at booking appointments with the interviewees despite their tight schedules and making phone calls to remind them of the interview. In addition, he assured them of the confidentiality of the information gathered.

### **3.4 Data Analysis**

Mugenda and Mugenda (1999) observe that data analysis is the process of bringing order, structure and meaning to the mass of information collected. This study collected primary and secondary data. Secondary data, which had been collected by use of desk search techniques, was presented in the form of tables for easy interpretation and analysis. Primary data had been collected through personal interviews and before processing the responses, the completed interview guides were edited for completeness and consistency. Content analysis was then used to analyse the interviewees' views about the changes in the environment and the strategic responses to the changing external environment by the Customs Services Department.

Content analysis has been defined as a technique of making inferences by systematically and objectively identifying specific characteristics of messages and using the same to relate to trends. This technique thus involved observation and detailed description of objects, items or things that comprised the study. The similarities and differences were summarized into emerging themes and compared with theoretical approaches cited in the literature review. Content analysis provided the researcher with a qualitative picture of the respondent's concerns, ideas, attitudes and feelings

Since the respondents were drawn from a single unit of study, CSD, but from different departments, sections and levels of management, each respondent answered open-ended sets of questions. This type of analysis was important for it did not restrict respondents on answers and had potential of generating more information with much detail. Analysis also involved comparing the data obtained from the various sections

of the Customs Services Department to enable a more detailed investigation to determine whether the strategic behaviour is similar or otherwise across the department.

The data obtained was then presented in a continuous prose as a qualitative report on the strategic responses to the changing environment by the Customs Services Department

## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter presents the results and interpretations of the data collected. The data was sought to fulfill the study objectives, which were to establish the changes in the external environment in which the Customs Services Department (CSD) operates and to identify the various strategic responses by the CSD to the external environment.

#### 4.2 Customs Services Department

By the end of May 2009 and May 2012, KRA had total staff complement of 4,305 and 4517 respectively distributed as follows;

Table 4.1: Staff Complement in KRA

DEPARTMENT	May 2012		May 2009	
	Number	Percentage	K	Percentage
Customs Services Department	1461	32	1199	28
DTD-MST	1171	26	1074	25
Board Corporate Services	610	13	591	14
DTD-LTO	244	5	191	4
Finance	228	5	212	5
Road Transport Department	194	4	212	5
Investigation & Enforcement	164	4	119	3
Information C. Technology	151	3	126	3
Human Resources & KESRA	139	3	400	9
Marketing & Communication	65	1	61	1
Support Services	54	1	55	1
Internal Audit & Risk Management	38	1	25	1
Headquarters	34	1	40	1
Legal Services	18	0.4		0
<b>Total</b>	<b>4571</b>	<b>100</b>	<b>4305</b>	<b>100</b>

Source: KRA Corporate Plan

The staff complement shows that the CSD has highest staff complement at 32% in 2012 and 28% in 2009. However, the department is not the largest in terms of revenue performance (Table 4.2) as tax collection is not its only role. It has a secondary role of border control and trade facilitation which is an enforcement role.

Table 4 2: Cumulative Revenue Performance *{value in Kshs million}*

Financial Year		Customs Services Dept.	Domestic Taxes Dept.	Road Transport Dept.	Total
2008/09	Amount	179,361	298,799	2,409	480,569
	% Rating	37%	62%	0.5%	100%
2009/10	Amount	193,752	338,152	2,499	534,403
	% Rating	36%	63%	0.5%	100%
2010/11	Amount	223,468	408,787	2,648	634,903
	% Rating	35%	64%	0.4%	100%
2011/12	Amount	224,266	409,183	2,521	635,970
	% Rating	35%	64%	0.4%	100%
All Years	Amount	820,847	1,454,921	10,077	2,285,845
	% Rating	36%	64%	0.4%	100%

Source: KRA Revenue Performance Reports 2009, 2010, 2011, 2012

### 4.3 The Kenya Revenue Authority Corporate Plan

The Kenya Revenue Authority (KRA) presents its strategic plan in the form of Corporate Plans, with the current one being the Fifth Corporate Plan which covers the period 2012-2015. The Corporate Plan immediately preceding that was the Fourth Corporate Plan which covered the period 2009-2012. The Corporate Plans formally express the strategic direction for all KRA departments and therein one can get the strategic plans for the Customs Service Department.

The KRA Corporate Plan is prepared using a consultative process as provided for in the guidelines issued by the Ministry of State for Planning, National Development and Vision 2030. The process includes requesting memoranda from stakeholders, carrying out Focused Group Discussions (FGDs) with the KRA staff, reviewing key policy documents including the Government's Budget Policy Statement (BPS) and the first Medium Term Plan update as well as various surveys and policy documents. A Political, Economic, Social, Technological, Environmental and Legal environmental scan (PESTEL) analysis is carried out as well as a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis. The formulation of the plan involves input from the technical departments and the direct contributions of the top management. The Plan is also comprehensively reviewed by the KRA Board of Directors.

The current Corporate Plan (fifth) covering the 2012/13 - 2014/15 period, focuses on key relevant aspects of the country's development policy agenda. These include promotion of border security and regional integration, revenue mobilization with Government revenues expected to grow faster than nominal GDP necessitating additional revenue enhancement measures for the revenue target to be achieved, improving the business climate especially relating to paying taxes and trading across borders and contributing to the fight against corruption.

#### **4.4 The Customs Reform and Modernisation (CRM) Project**

The Customs Reforms & Modernization (CRM) Project aims at transforming and modernizing Customs administration in accordance with internationally accepted conventional standards and best practice. This also involves embracing the redefined

function of Customs to lay greater emphasis on trade facilitation and protection of society. This is being achieved through implementation of various reform initiatives such as the implementation of a web based Simba 2005 System and its subsidiary systems, the Cargo Management Information System (CAMIS) and Customs Oil Stocks Information System (COSIS). This has led to faster processing of customs procedures and increased accountability. Another initiative was the adoption of a twenty four (24) hour Document Procession Processing Centre (DPC) in 2006 for processing documents to replace the manual long-room concept as well as the embracement of risk management practices through the establishment of a National Targeting Centre (NTC) in 2009 to provide a focal point for risk management within the Customs Services Department.

The CRM oversaw the enhancement of cargo clearance by implementation of an electronic document exchange platform called ORBUSand expansion of the Authorized Economic Operator (AEO) programme. The uniformity of commodity valuation was enhanced by implementation of a Valuation Database while enforcement was strengthened by adopting the EAC recommended forms including Single Administrative Document (C17B); enhancing Post Clearance Audit (PCA); automating Air Passenger Service Charge (APSC); implementation of One Stop Border Posts (OSBP); implementation of Electronic Cargo Tracking System (ECTS); and adoption of X-Ray Cargo Scanners, Sniffer Dogs (K9 Unit) and Patrol Boats. The project also led to capacity building in various Customs operational areas.

## **4.5 Environmental Changes and Responses to the Changes**

According to the data collected, the Customs Services Department (CSD) has faced various changes in its external environment and has applied varying responses to the changes. The PESTEL Framework has been applied in analysing the data.

### **4.5.1 Political Environment**

Kenya's political environment during the recent years has been dominated by the constitutional review process which culminated in the promulgation of the Constitution of Kenya (2010), on August 27, 2010. The Constitution ushered in fundamental changes that saw the political environment being dominated by reforms in all areas of public administration, key among them the operationalization of the Constitution and enactment of new laws, electoral reforms, as well as a number of other commissions addressing various issues of governance. Provisions relating to taxation are covered under Chapter 12 on Public Finance, Section 201 which sets out principles governing public finance, and of relevance to taxation are the need for openness and accountability, including public participation in financial matters, the equitable sharing of the burden of taxation among National and County governments and revenue sharing provisions.

The Constitution of Kenya (2010) will change the way CSD operates due to the emergence of new governance status creating 47 Counties and the requirement that National State Organs should ensure reasonable access to its services in all parts of the Republic and the possibility of collecting County taxes. This, therefore, has required CSD to re-organize its regional structure in a manner that will bring services closer to Kenyans and position itself for the expected expanded role of collecting



County Revenue CSD's constitutional implementation activities are being spearheaded through membership in a KRA management committee whose roles include identifying challenges, constraints and opportunities arising from implementation of the new Constitution and staff sensitisation. In further response to the new constitution, CSD sought to align various laws, Acts, policies and administrative procedures in line with the new constitution and has also made sure that customs staff undergo continuous sensitisation about the provisions of the new constitution that affect their duties.

The final term of the third Kenyan President expected to culminate in the March 2013 general elections and the major risk for KRA generally is a change from the pragmatic proactive position adopted by the outgoing regime when it comes to tax matters not being sustained into the next regime. The outgoing political leadership has been especially supportive of revenue mobilization efforts, making it possible in general for KRA to adopt unpopular but necessary reform initiatives. Also; electoral cycles in Kenya normally lead to uncertainty and subdued economic activity.

Regional political developments also affect CSD as the region is debating the merger of three Regional Economic Blocs; Southern African Development Community (SADC), the East African Community (EAC) and the Common Market for East and Southern African Common Market (COMESA) into one East and Southern Africa bloc in order to establish a Free Trade Area. The main issues being negotiated are harmonization of the imported contents of goods to more than 60% of the cost, insurance and freight value of the cost of materials used in the production; value addition requirement; and change in tariff classifications. Regionally also, the political situation in Somalia has affected Kenya. Since the Kenyan Defense Forces (KDF)

intervened in Somalia, there has been increased fear and risk of terrorist threats leading to increased security precautions. A key function of the CSD relates to border control and border security. Indeed, CSD's border stations have suffered from the effects of instability of Kenyan neighbour's whose internal conflicts tend to spill over.

Several regional initiatives are also ongoing which will require regional political involvement. These include the implementation of the third phase of the East African Community (EAC) protocols with activities including negotiations on the Common Market Protocol, concessioning of the Kenya-Uganda Railways, implementation of EAC power master plan, extension of Eldoret-Malaba-Kampala oil pipeline, convertibility of East African currencies, convergence of macro-economic variables, (synchronising the budget, harmonising taxation and managing inflation) and starting of a consultative process of sensitising people on the fast tracking of East African Political Federation. These activities will have implications on the tax administration environment.

Within the EAC agreement, the implementation of Single Customs Territory (SCT) and introduction of tax payment at first point of entry requires CSD to develop an optimal revenue sharing agreement formula with partner countries which will lead to better coordination of revenue management, CSD needs to strengthen the computerized systems that will lead to reduced cost of doing business and ensure timely disbursement of revenues to EAC member countries. Therefore CSD will need to separate policy and oversight functions from implementation roles through addressing the non-tariff barriers that may inhibit free movement of trade. As a short to medium term plan, CSD has embarked on audit visits to partner states in order to increase governance in revenue management and also training of CSD staff on SCT

procedures and structure. Also on the background of the EAC and as part of the East African Trade and Transport initiative, 14 border stations are being rehabilitated or upgraded to One Stop Border Posts (OSBP). CSD has had to have the Malaba and Busia border stations operate a fully functional joint verification of cargo with Uganda Revenue Authority (URA). The same initiative is being implemented at Namanga border station with Tanzania Revenue Authority (TRA). Real-time monitoring system has been developed with aid Japan International Cooperation Agency (JICA) to facilitate faster clearance cargo movement at exit points.

Developments in the international political environment have seen changes at the international borders following growth of international trade and travel which have set challenges for governments to organize management of state borders. The concept of virtual border has emerged and become more important to the government. Protecting the border suggests that risk management based approach be adopted which concentrates on high-risk goods and passengers. Any coordinated risk management must recognize that different border agencies, address risks in different ways and that coordination is the key to effective border management. This realization led to the creation of a Coordinated Border Management (CBM) division within CSD. The importance of CBM includes effective delivery of services at border, increased savings through economies of scale occurring from common use of ICT systems, cross training and pooling of resources, development of a single window where transactions are done at the first point of entry, increased efficiency, improved security, facilitates smooth flow of trade, and ease of information sharing across borders.

Another effect of international forces reflecting on CSD has been seen on its adoption of the Megaports Initiative. This is an initiative to secure global cargo, initiated by the

United States of America's Department of Energy and through it the US Government collaborates with strategic and major international ports to scan all US-bound cargo. The goal is to target high priority ports and enter into partnership to scan as many containers (for imports, exports and trans-shipments) as possible regardless of destination with little or no interruptions to Port operations. Interventions include equipment, training, and technical support to international partners to enhance their ability to deter, detect, and interdict illicit trafficking of special nuclear and other radioactive materials in the global maritime system. At least hundred Mega-Ports are targeted for implementation by 2015, allowing for over fifty per cent of global shipping traffic to be scanned. Ultimately, no cargo will be allowed into the USA unless it has been scanned through by these ports.

#### **4.5.2 Economic Environment**

This mainly covers the domestic economic situation, overseas economies and trends of relevance to the Kenyan economy. The macroeconomic environment has not provided a promising platform on which to build a solid revenue base for CSD as poor macroeconomic conditions such as depreciation of Kenya shilling, inflation, drought, high crude oil prices, and global economic recession have affected the performance of the Kenyan economy thereby leading to below target performance for CSD. In addition, the global economic recovery is still faced with challenges arising from the Eurozone debt crisis among other threats. A weakening global economy undermines strong growth projections especially by weakening export growth. In the years 2010 and 2011, key economic parameters (Table 4.3) did not behave as forecast and thus did not provide a stable platform for revenue mobilisation. Improved economic growth was accompanied by worsening of other key indicators. In particular, the high oil prices led to lower than expected volumes being imported

undermining the Customs revenue base. In addition, with the inflation rate exceeding forecasts, consumption based taxes were adversely affected. The macroeconomic environment for fiscal year 2011/12 for instance was characterised by significant differences with that forecast in the Budget Policy Statement 2011. Key differences included a lower than the 6.1% forecast Gross Domestic Product (GDP) growth and a much higher than the forecast 5.6% inflation. There was also higher growth of 27.5% and 19.3% respectively in import values and world oil prices than projected. The Kenya Shilling exchange rate against foreign currencies such as the US Dollar, the Sterling Pound and the Euro was also seen to fluctuate between the financial years 2010/11 and 2011/12.

Table 4 3: Key Macroeconomic Parameters Affecting CSD

	2010/11	2011/12
<b>Economic Parameter</b>	rate	rate
GDP Growth	5.6%	4.1%
Inflation	6.8%	16.1%
TB	3.3%	14.3%
World oil prices (Murban ADNOC)	\$95	\$113.3
<b>Ksh Exchange Rate (Average)</b>		
US Dollar	82.45	888
Sterling Pound	131.21	1406
Euro	112.84	1191

*Source KRA Corporate Plan*

The economic environment also revolves around implementation of the Kenya Vision 2030 blue print which exerts pressure through the fulfilment of the Medium Term Plan (MTP) 2008-2012. In this light Budget Policy Statement 2012 indicates that the Government will continue with an ambitious development agenda with economic

growth averaging 5.9% over 2012/13- 2014/15, declining inflation and rising

investment. Revenue mobilization will be at a premium with revenue to GDP rising from 24% to 24.6%.The after effects of the 2007/2008 post-election violence, anxiety over the 2013 elections and the global financial crisis has affected the volume of imports and exports (international trade) hence all of these have a direct consequence on CSD tax collections.

The Kenya Vision 2030 is the country's long term development plan whose aim is to create a globally competitive and prosperous country with a high quality of life by the year 2030. It aims to transform Kenya into a newly industrialised, middle income country providing a high quality of life to all its citizens in a clean and secure environment. The Vision is implemented through successive five-year medium-term plans, the first being the Medium Term Plan 2008-2012 (MTP). Implementation of the MTP was undermined by post-election violence in 2008, drought, the global financial crisis, and rising commodity prices. In light of the poorer than expected economic performance, the Government has revised its MTP with less ambitious forecasts for the key economic parameters. The key macroeconomic and budget forecasts were further refined and updated in the Budget Policy Statement 2012. The key implications of the reviewed forecasts against the recent economic performance and which may affect CSD directly or indirectly have to do with economic growth, inflation, savings and investments, budget and current account deficits.

The economic growth is expected to rise gradually over the medium term and by 2014/15 will not have reached the 7% achieved in 2007 or the 10% required by Vision 2030. Inflation will be expected to decline fairly rapidly in 2012/13 and achieve the 5% target by 2014/15. There is expectation of a rapid increase in savings and investment, both projected to rise by 8.3 percentage points and 3.7 percentage points

of GDP respectively by 2014/15. The Budget deficit is expected to go below 4% by 2013/14, compared to being above 4% for all years since 2009/10. The current account deficit which has moved into unsustainable territory recently is expected to decline to a sustainable 6.1% by 2014/15

The underlying message is that the fiscal environment will continue to be constrained and the economy will not generate the rapid growth that can be expected to provide a boost to revenue growth. In addition, the commitment to increased public investment with positive long term growth standpoint means lower taxation from the Government due to preferential tax treatment to donor funded programmes and lower taxable expenditure component in investment goods. The post-election violence in 2008 both dislocated economic activity and undermined investor confidence. The drought conditions experienced in 2009 saw the Government declare the drought a national disaster, leading to reduced growth expected from agriculture. Since agriculture provides the main source of income for majority of Kenyan households, the bulk of merchandise exports which is the largest source of raw materials for industry, the drought conditions undermined other sectors of the economy as well. The global financial crisis whose effects are yet to be fully felt , but which has already led to a depreciation of the Kenyan currency, declining diaspora remittances, weakening export and tourism performance and is expected to lead to reduced Overseas Development Assistance (ODA) and Foreign Direct Investment (FDI).

It is thus evident that the CSD faces a constantly changing and turbulent economic environment but all the respondents interviewed had the opinion that there was nothing much that the CSD could do in response to the changing environment. Indeed, none of them could identify any strategic response by CSD to the changed or

changing economic environment. The respondents believed that the key economic parameters of GDP growth, inflation, world crude prices and foreign currency exchange rates affected CSD through the level of taxes collected but CSD had no control over them or their effects.

#### **4.5.3 Social Environment**

The key elements of Kenya's social environment are the increased educational achievements and living standards, increased social awareness occasioned by the constitutional review process and the expansion of social media. Demographic changes are also important mainly the ongoing demographic transition and the rural urban migration as well as lifestyle changes especially as the nuclear family becomes more prominent in the Kenyan society. There is also breakdown in communal links and changing occupational structure in the economy.

The social environment is particularly important in determining the success of CSD revenue mobilisation efforts. Public opinion is a critical determinant of the external environment for tax compliance. In addition, a society with a limited skills pool may limit the extent to which modern revenue mobilisation techniques and advanced technology can be applied. The social perceptions towards tax evasion and compliance and corruption are also critical determinants of the operating environment. A notable social change affecting CSD was the Kenyan Government commitment to deal with corruption and enhance integrity among public officers. This saw the enactment of the Anti-Corruption and Economic Crimes Act 2003 (an Act of Parliament to provide for the prevention, investigation and punishment of corruption, economic crime and related offences) and the Public Officers Act 2003 (an Act of



Parliament to advance the ethics of public officers by providing for a Code of Conduct and Ethics for public officers and requiring financial declarations from certain public officers). Concern was raised that CSD staff have not fully embraced the culture of integrity. New integrity challenges continue to emerge calling for more robust mitigation strategies. Fraud has shifted from manual to the automated environment making it harder to detect and resulting in high amount of revenue leakage. The automated environment has also exposed the KRA automated systems to hacking and other system abuse from both within and without.

CSD has on various occasions received adverse media mention where matters of integrity are concerned. This negative perception required reconsideration of the strategies to deal with integrity issues. This called upon CSD to revamp its part in the KRA integrity programme to implement measures that will permanently change the adverse perceptions about its staff. CSD Senior management participated in development programmes to enlighten them on principles of corporate governance. CSD also called upon its professionally qualified staff to register with professional bodies to provide another ethical anchor. To enhance integrity among its staff, CSD also participated in a memorandum of understanding with The Ethics & Anti-Corruption Commission (EACC) in which they conduct joint integrity testing programmes aimed at investigating allegations of corruption, malpractice and other unacceptable behaviour by CSD employees. The programme also extends to persons in interaction with CSD who is associated with any of the malpractice, in any capacity, regardless of whether or not those persons are employed by CSD.

The CSD also undertook deliberate actions to deal with integrity concerns by drafting Corruption Prevention Plans in line with the KRA Integrity Plan. Integrity Assurance

Officers (IAO's) were appointed to drive the plans. CSD was also part of the KRA web-based whistle blower system for reporting incidences of corruption. The Department has also been seen to collaborate with Kenya Wildlife Services (KWS) especially on deterring export of ivory and the Kenya Police in enforcement activities.

Another social impact seen was of the shifting consumption patterns for beer occasioned by decision to fully remit excise tax on non-malt "containerized" beer. Consumers preferred to consume the non-taxed beer with adverse effects to the revenue base. In the financial year 2011/12 the performance of excise taxes on beer which contribute on average, over half of the entire domestic excise taxes was undermined by shifting consumption patterns for beer with increasing preference for non-malt containerized brands whose volume growth for the twelve months stood at over 60%. Excise taxes on beer contribute, on average, over half of the entire domestic excise taxes.

The social environment is marked with positive demographic changes where Kenya's population structure has now reached the 'demographic dividend' stage. This is coupled with high educational outputs as a result of successful implementation of free primary education and free day secondary education which will lead to learned and better informed citizens. Interviewees did note that staff demographics had changed with more recruitment of younger more educated staff (Graduate Border Control Officers), which saw duties such as gate keeping, physical patrols and stock keeping being undertaken by graduates due to the increased adoption of specialised IT systems by CSD.

To appreciate and value all its stakeholders and to work with them in nurturing participatory social wellbeing CSD participates in Corporate Social Responsibility (CSR) programmes. The objective of programme is to project it as a customer friendly socially responsible corporate entity committed to welfare of its target audience in appreciation of their past and present support and anticipated future support. Of particular importance is the potential to use the CSR programme to increase tax morale. CSD officers are involved in CSR activities such as support of Government funded children's homes, donations to AIDs orphans, support of the various health-related marathon and charity walks. Officers also did interact with customers through taxpayer awareness initiatives during the annual Taxpayers Week celebrations. The year 2012 taxpayers' week celebrations were held between 15<sup>th</sup> and 19<sup>th</sup> October 2012.

Partnerships with various stakeholders such as Kenya Ports Authority (KPA), Kenya Maritime Authority (KMA), Kenya Radiation Protection Board (KRPB), Kenya Bureau of Standards (KEBS), Kenya International Freight Warehousing Association. (KIFWA) and Kenya Transporters Association (KTA) were noted. As a way of enhancing joint border surveillance with the East African Regional Revenue Authorities, CSD was involved in signing a memorandum of understanding on information exchange with the regional revenue authorities. In the fight against graft, the CSD suspended Customs Clearing Agents with outstanding issues and declined to cancel any entries whose request for cancellation was not supported by evidence of cargo being deposited at customs warehouses. Post clearance audit was also enhanced as well as intensified debt management. To curb export fraud, CSD implemented the exports project in April 2012 aimed at abating the abuse of export incentive schemes and especially the Tax Remission for Exports (TREO) scheme, where materials

imported for export manufacturing are used to make good for local consumption. The project yielded positive results with some affected firms registering significant drop in their exports over the three months period to June 2012 while others have completely stopped exporting since the project started.

CSD has increasingly faced a more informed taxpayer who fights for his rights and demands for satisfactory service. This has called upon CSD to pay specific attention to its customer focus. CSD has contributed to the KRA Taxpayer Charter and aligned service delivery to this charter through its internal standards. The Charter spells out the rights and obligations of taxpayers with the timelines on when they expect services. The core initiatives included improving service options to taxpayers, facilitating participation by all sectors and simplification of the tax process. A number of enhancements and integrations in Simba 2005 System led to the taxpayers being able to access generated tax information electronically to help them comply.

In addition, CSD maintained and updated its page in the KRA website to enhance communication with taxpayers as well as participated in taxpayer education seminars, tax lectures for educational institutions, tax clinics and talk shows on radio and television. In 2007, a Time Release Study (TRS) to measure release times of imports/transit was carried out in 2007 and recommendations implemented. Another strategy implemented was the establishment of partnerships with key stakeholders such as Kenya Police, Kenya International Freight and Warehousing Association (KIFWA) and Rift Valley Railways (RVR). A Memorandum of Understanding (MOU) signed with KIFWA aimed at addressing matters of mutual interest and emphasised on the need to instill professionalism on KIFWA members through structured training and development of Code of Conduct, among other issues.

As a motivation to faithful taxpayers and in a bid to improve voluntary compliance, there also has been implementation of the Authorised Economic Operator (AEO) concept which commenced in August 2008 and was geared at expediting clearance process for compliant importers and agents. The AEO status is granted to operators who have proved to be reliable traders and partners of customs administration. Such clients are given preferential treatment in dealing with transactions where they have proven track record of compliance with customs operations. By the end of 2008/09 there were 30 registered AEOs. By December 2011 the number had increased to 46.

#### **4.5.4 Technological Environment**

This covers the impact on CSD of new inventions, obsolescence of existing technologies, competing technological developments, technology legislation and innovation potential. Information and communication technology has revolutionised the way businesses are transacted and has also opened up opportunities for enhanced revenue collection and cost-effective revenue administration for CSD.

Kenya is currently connected to four undersea fibre optic cables which have the potential to substantially increase the internet broadband capacity. The Lower Indian Ocean Network submarine cable (LION2) landed in Kenya in April 2012 as an addition to SEACOM1, The East African Marine System (TEAMS) and the Eastern Africa Submarine Cable System (EASSY). Besides offering increased bandwidth connectivity, the cables will enhance internet speeds, data traffic and commerce and reduce the cost of electronic access. This is expected to promote usage of electronic services being offered in Kenya and been in CSD's favour as KRA adopted automation and increasingly relied on web based systems. In this regard, the CSD is

influenced by the stated strategic objective of KRA to full automation of and ensuring that KRA information technology systems are fully integrated allowing for a single view of the taxpayer and full utilisation of IT to promote compliance. This has seen the modernization of CSD systems.

In response to technological changes CSD has sought to upgrade its ICT practices in line with international best practice, especially in line with the requirements of the ISO 9001-2008 certification of KRA. CSD rolled out an automated import and exports declaration system known as the Simba 2005 System. This is a self-assessment system that promotes voluntary compliance and encourages correct declarations. There has been continuous improvement of the system since its launch in 2005 with roll out even to remote stations such as Garissa, Lamu, Moyale, Mandera, Wajir and Lokichoggio. The system was also enhanced by activating ORBUS and LEUK modules. Post-Simba, a Time Release Study (TRS) was carried out and its findings implemented. Enhancement of the Simba 2005 system continued with development of the Manifest Management module, Imports Declaration Reconciliation and Warehousing modules were completed and roll out of the Air Passenger Service Charge (APSC) module.

CSD also oversaw the implementation of the World Customs Organization (WCO) e-learning module module which offers interactive multimedia training of customs officers and is a comprehensive training tool which offers an integrated learning environment. A system to track to track transit cargo from ports to borders was introduced The Electronic Cargo Tracking System (ECTS) aims at minimizing diversion of transit cargo into the domestic market. The system allows tracking on real time basis. To assist in verification and detection of uncustomed goods and mis-

declaration of containerized cargo, CSD implemented a scanner strategy by acquiring a total of eight X-Ray Cargo Scanners. These were deployed to Kilindini Port, Swissport Cargo Services (JKIA Airport), the Inland Container Depot (ICD Embakasi), Mombasa and Eldoret airports. A marine unit was formed in 2007 to enhance the monitoring of coastlines and waterways and it saw the procurement of five high speed patrol boats which have been deployed in the Indian Ocean and Lake Victoria.

A twenty four (24) hour Document Processing Centre was operationalized to replace the manual long-room concept and caters for the centralised processing of import documents. Clearing agents and importers can now lodge their documents any time of day and from anywhere in the world. Entries are processed within 24 hours of being lodged. A web-based computer system, Customs Oil Stock Information System (COSIS), was introduced to manage the stock of all oil refined or imported into the country for domestic consumption or for export. The system has assisted in monitoring the stock held and drawn by individual oil marketers at any given time. CSD acquired a Valuation Database system to provide officers with a database where they can access benchmark values for imports and exports for uniformity in the application of values. This will allow uniformity in valuation and customs value consistent with the World Trade Organisation (WTO) requirements.

A data tracking system, Cargo Management Information System (CAMIS), was introduced and is aimed at improving service delivery and reducing compliance costs by providing a one stop center for taxpayers. It is currently deployed at Kilindini Port. Through the Revenue Authority Digital Data Exchange (RADDEX), CSD was able to initiate real-time data exchange with Uganda Revenue Authority (URA). Live data on

exports, ex-warehouse and transit goods is being exchanged between CSD and URA through the Simba 2005 System (KRA) and Ascyuda++ System (URA). This has enabled cancellation of bonds and confirmation of exports online. The second phase of the data exchange was rolled out to the Rwanda Revenue Authority (RRA) and Tanzania Revenue Authority (TRA) in December 2008.

CSD has also implemented the Manifest Management System (MMS) which is lodgement of a common manifest by shipping lines to Kenya Ports Authority and Kenya Revenue Authority to allow for a single view of importers. Implementation of phase 1 of the Manifest Management Module (MMS) during the year enabled reconciliation of manifests declared to KRA with the ones declared to KPA. Deterrent fines were imposed where material variances were detected. During the financial 2012/13, CSD will progress to Phase II of MMS which will focus on exports and airfreight cargo. CSD rolled out Manifest Management System (MMS) to all key release points, Document Processing Centre (DPC) and Post Clearance Audit (PCA). This tool has enabled identification of goods prone to undervaluation, source countries as well as importer profiles. There was also implementation of an electronic document exchange platform (ORBUS).

To monitor excisable goods the CSD is introducing a modern automated system for the real time monitoring of the production of excisable goods. The system uses enhanced paper stamps which has a digital code that enables the tracing of the stamp and excisable goods along the supply chain. Based on enhanced security features, all retailers and distributors will be provided with a device that will enable them to validate the stamps and the products before accepting them into their distribution and retail outlets. This system will address various challenges experienced in the old



having to hold expired goods that pose a danger to the health of its staff and the general populace. CSD also has the responsibility relating to protecting flora and fauna in particular under the various endangered species conventions or export bans.

With the high level of automation achieved in the Department, the issue of e-waste due to obsolescence of ICT equipment and ICT waste is a growing concern. The country lacks policies and strategies for dealing with e-waste though the government, through The National Environmental Management Agency (NEMA), is working towards developing sound legislation and policy guidelines to help curb the hazard of e-waste. As the institutional environment regarding waste disposal, e-waste and treatment of radioactive matter becomes clearer and more stringent, CSD encounters difficulty in the treatment of hazardous waste whether arising from waste disposal activities or its efforts to interdict restricted substances. The case of motor vehicles from Japan containing radioactive elements following the nuclear plant reactor accident in Fukushima Daichi of March 2011 is an example of this.

KRA and the Kenya Maritime Authority (KMA) signed a Memorandum of Understanding with Megaports Initiative on January 14, 2010 with an objective of protecting the environment from illicit trafficking of nuclear and other radioactive material. The Authority also received a donation of equipment from the US Customs and Border Protection for detection of narcotics, explosives, and radioactive materials. Through this Initiative, the CSD has been able to deal with the risk of any Japanese motor vehicles suspected of containing radioactive elements following the nuclear plant reactor accident in Fukushima Daichi.

#### **4.5.6 Legal Environment**

This relates to legal and litigious aspects that CSD operates in. It also reflects on the laws and regulations relevant to CSD including whether the rule of law is well established and how easily and quickly laws and regulations can be reviewed, changed and the cost of regulatory compliance.

With respect to the legal environment, tax laws facilitate economic development in any country by encouraging investors and lowering the cost of doing business. Tax policies affect investors; bad tax policies discourage foreign economic development and assistance. The higher the tax rate an investor is subjected to, the greater the impact of taxes on his investment, and therefore the greater the benefit derived from a tax efficient investment. Taxes are collected based on specific laws which often specify in some detail the administrative procedures to be followed.

Further, Government efforts to enhance tax incentives and shield various sectors of the economy from taxation may lead to unexpected revenue risks to CSD as these tax exempt schemes are abused or add additional administrative burden as CSD verifies that the incentives or benefits are being applied in the correct manner. Kenya will soon be revising the Export Processing Zones (EPZ) Act to convert these zones into Special Economic Zones (SEZ) and expand both the incentives and the scope of the programme. In addition, Government efforts to improve the business environment, while laudable, also have the potential of increasing revenue risks where legal provisions minimize CSD's interventions to tackle the risks that arise from taxation.

With operationalization of the Constitution of Kenya 2010, CSD will be required to align the various Acts, policies and administrative procedures in line with the Constitution. Given the very comprehensive changes brought about by The Constitution, it has a direct impact on how CSD conducts its business in terms of scope and effectiveness of service. CSD will be required to identify areas and provisions in revenue laws which it implements that may require amendments, adaptation, and/or fresh provisions and align these Acts, policies and administrative procedures to The Constitution of Kenya, 2010.

The implementation of The Constitution of Kenya 2010 has also come with an expanded Bill of Rights under Chapter 4. Rights to Fundamental Freedoms include the Authority of the Courts to uphold and enforce the Bill of Rights and grant appropriate relief including injunction, a Declaration of Rights, a Conservatory Order, an Order of Compensation; and an Order of Judicial Review under Article 23, Right to Privacy under Article 31, Article 35 Access to Information, Article 40 Protection of Right to Property, Right to fair administrative action (Article 47), Right to Fair Hearing (Article 50). These changes may require both amendments to various revenue statutes as well as changes to revenue administration. On the other hand, a key aspect of the Constitution is the recognition and promotion of Alternative Dispute Resolution (ADR) under Article 159. This provides CSD with the opportunity to engage taxpayers in resolving disputes outside court including involvement of quasi-judicial bodies established under the various revenue statutes.

Judicial reforms have led to a revamped and more robust Judiciary where tax related cases are moving faster but on the other hand means CSD also faces the challenge of increased litigation as Kenyans get more confidence in the reformed judicial system

and use the Court System to enforce their rights. The reforms mean that there is an opportunity to unblock the considerable tax revenues tied up in the court process if CSD is able to move in a proactive manner. However, with another tier of appellate jurisdiction having been established in the name of The Supreme Court, there is the real possibility of elongated litigation in tax cases especially those brought by way of constitutional petitions, from the subordinate court all the way to The Supreme Court.

Annually the Government Budget Statement (Finance Act) results to changes in taxes or procedures. In the financial year 2010/11 several tax heads adversely affected by tax policy changes. Reduction of taxes on petroleum products which were occasioned by the need to cushion Kenyans against rising prices impacted negatively on revenue collection from the petroleum sector. Excise taxes on cigarettes were adversely affected following a decision by parliament to peg its computation on retail prices, which resulted in an estimated revenue loss of ksh.2billion during the fiscal year. In the financial year 2011/12 several policy and administrative measures indicated in the 2011/12 Budget Statement did have various effects on CSD revenue performance. Tax policy measures which included the removal of excise tax on kerosene, continuing the stay of implementation of the Common External Tariff (CET) on rice to allow importation at 35% as opposed to 75%, remission on duty on imported wheat (from 10% to 0%) and remission of duty on imported maize for six months. The removal of excise duty on kerosene and the reduction of the excise duty on diesel saw a 41% decline in petroleum taxes in the twelve months of 2011/12 compared to financial year 2010/11. Excise duty on oil which accounted for 46.6% was the key driver registering a decline of 13.3%

Respondents did provide that the 2012/13 budget changes touching on the EAC Customs Union would have various effects on tax revenues. A Split of Harmonised (HS) code 7308.90.90 which provided for 10% import duty for Road Guard rails would lead to a drop in revenue as a result of reduction of duty rate from 25% to 10%. The HS code 7020.00.90 would be split to provide for 10% for inner in-fills for vacuum flasks leading to a possible drop in revenue as a result of lowering the rates from 25% to 10%. As well, increase of the duty rate on galvanized wire of HS Code 7217.20.00 from 0% to 10% leads to a rise in duty rate from 0% to 10% and a likely gain of Ksh 132,606,856 in revenues. A decrease in the duty rate on food supplements and mineral premix of HS Code 2106.90.91 from 10% to 0% leading to a likely loss of Ksh. 56,108,845. A 90% Duty remission on wheat grain of tariff numbers 1001.90.20 and 1001.90.90. Previous remission stood at 100% but current importations will attract 10% translating to a likely gain of Ksh 32,887,749.

In the 2012/13 Budget Statement there was also duty remission on inputs for manufacture of food supplements for infants and HIV/AIDS infected persons with an expected decrease in revenue expected since the inputs for these items are general goods. A likely decrease of Ksh 663,772 is expected from duty remission on cathodes and sections of cathodes of Tariff heading 7403 from a decrease in rate of duty from 25% to 0%. Duty remission on Palm Stearin, RBD of tariff no. 1511.90.40. Decrease in rate of duty from 25% to 0% translates to a decrease by Kshs. 2,517,650. There is an expected increase of Ksh 227,608,715 from a tariff revision of Towers and lattice masts of HS Code 7308.20.00 from 0% to 10%.

CSD also faces the challenge of complying with all legal requirements relating to health and safety which it has dwelt it by ensuring improved accessibility for people with disability and ensure implementation of work environment policies in its premises. It has through KRA built access ramps at Forodha House- JKIA (Jomo Kenyatta International Airport) and Forodha House-Community and Kisumu stations.

CSD has also employed other means and strategies in dealing with legal challenges. It has reviewed regulations, procedures, charters, and internal guidelines to align them with the Leadership and Integrity Act and ISO requirements as well as proposed amendments of statutory provisions that may violate the above statute or the Constitution. There has been utilization of the performance contracting, reward and recognition regulations to promote and reward professionalism, promotion of membership of professional institutions with a focus on facilitating officers to qualify for the same and focus on speedy implementation of complaints emerging from the Complaints and Information Centre (CIC) and monitor repeated complaints with a view to prioritizing interventions.

The country has also recently enacted amendments to the Communications Act (The Kenya Communications (Amendment) Act 2008) which among others, provided for legal recognition of electronic records and signatures, created regulatory, advisory and dispute resolution bodies to support implementation of national information and communications technology policy and provided for electronic commerce. These provisions will facilitate the expansion of the use of electronic means to ensure tax compliance. In addition, proposed changes such as the Arbitrators Bill and administrative changes in the management of tax cases in court have improved the legal environment.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents the summary of key data findings and discussions of the results of the research, the challenges, recommendations and areas of further research.

#### **5.2 Summary and Conclusions**

To be successful over time, an organization must be in tune with its external environment and there must be a strategic fit between what the environment demands and what the organisation has to offer, as well as between what the organisation needs and what the environment can provide. Strategic responses thus involve changes in an organisation's strategic behaviors to assure success in a transforming future environment.

This study sought to examine the strategic behaviour of the Customs Services Department amid changes in its external environment and had two objectives. The first was to establish the changes in the external environment and the second was to identify the various strategic responses that CSD applied in response to a changing external environment

### **5.2.1 Changes in the External Environment**

The study established that CSD faced various changes in its external environment. Political, economic, social, technological, ecological and legal forces influenced the operations of CSD. Both the primary and secondary roles of CSD which are taxation and border control respectively were affected by these forces; with the forces affecting either one or both.

Political goodwill by the Government, enactment of a new constitution in 2010 and adoption of performance contracting were the political forces found as having profound effect. The CSD role of taxation was affected by changes in the economic environment by way of taxes expected (treasury targets) and taxes collected. Influences noted here were Government pressures to obtain revenue for fulfilment of the medium term plan (MTP) 2008-2012 of the vision 2030, slowdown of imports due to the 2007/2008 post-election violence, anxiety over the 2013 elections and the global financial crisis. Socially, there were security threats posed by terrorism, integrity issues and high educational outputs translating to supply of younger but more educated staff as well as more learned and astute clientele.

The department did experience a push to embrace IT and change from manual to electronic systems as technology had its toll on CSD. On the legal front the annual budget statement presented annual changes to the Finance Act thus affecting some procedures. The global concerns about global warming affected CSD on its border control role of protecting the society from harmful goods.



### **5.2.2 Strategic Responses to the External Environment**

The second objective of the study sought to establish the strategic responses adopted by the CSD in response to the changes in its external environment. The study established that CSD implemented several strategies in response to the various environmental forces.

Changes brought about by the East African Community agreement mainly affected the border control role and CSD responded through diverse actions that were formally referred to by the Department as an enforcement strategy. The CSD created a new division-Coordinated Border Management-to handle issues emerging out of the provisions of the EAC agreement such as required procedural and system changes as well as implementation of the One Stop Border Posts (OSBP) concept. The department responded to the new Constitution by sensitising staff and seeking to align its policies and administrative procedures in line with the new Constitution.

The drafting of corruption prevention plans and appointment of Integrity Assurance Officers (IAO's) were seen as responses to the high integrity standards created by enactment of laws promoting integrity in the public sector. CSD staff participate in taxpayer awareness and corporate social responsibility exercises as interaction with customers. Interaction was also observed with various stakeholders involved in border control. The study did note that CSD was now recruiting younger more educated staff aptly called Border Control Officers to undertake jobs previously done by lesser educated officers due to change in job requirements such as higher IT skills.

In response to technological changes CSD has sought to upgrade its ICT practices in line with international best practice with adoption of Management Information Systems, an IT based 24-hour Document Processing Centre, an electronic document exchange platform named ORBUS and adoption of the WCO e-learning module. CSD responded to challenges in the ecological environment by implementing the Megaports Initiative which aims at controlling movement of radioactive and nuclear substances by installing radiation detection monitors at the port of Mombasa Partnerships with stakeholders developed staff risk management skills on hazardous and electronic wastes. The department reacted to legal changes through communication by sensitising staff on any changes in law that affect their duties. It also altered procedures where necessary

### **5.2.3 Conclusions**

The study concludes that the Customs Services Department did face external changes in its external environment and it adopted both reactive and proactive strategies to changes on its external environment.

The study observed that some changes could only be reacted to such as legal changes reflected in the Finance Act as presented through the annual Budget Statement. Also, the study could not identify any responses to the economic environment. However, most responses by CSD were proactive and this was best illustrated by the formal declaration of strategic direction through the KRA Corporate Plans and the CSD's Customs Reforms and Modernization (CRM) Project. The CRM project is an initiative aimed at transforming and modernising Customs administration in accordance with international best practice. Under CRM the department undertook various initiatives

such as capacity building in various Customs operational areas, implemented a Valuation Database and established a National Targeting Centre (NTC) to provide a focal point for risk management within the CSD. It also enhanced Post Clearance Audit (PCA); automated Air Passenger Service Charge (APSC), implemented an Electronic Cargo Tracking System (ECTS) and adopted X-Ray Cargo Scanners, Sniffer Dogs (K9 Unit) and Patrol Boats. The latest KRA Corporate Plan, The Fifth Corporate Plan, was launched on 27<sup>th</sup> July 2012 and, covers the period 2012/13-2014/15. The Corporate Plan did establish strategic direction for the CSD and incorporated an environmental analysis.

### **5.3 Challenges to the Study**

Respondents were very cooperative in responding to interview questions. But a major constraint in carrying out this research was that time available for them to give deeper and more elaborate explanations was limited. They complained that they were busy attending to other pressing office matters. As a result, they preferred giving brief responses to the issues raised. Some respondents who were scheduled to be on night shifts had to create time outside office hours for purposes of this study.

Respondents were also very careful on the information they divulged as the Public Officers' Code of Conduct has strict guidelines on unauthorized release of information considered to be confidential^ third parties. However this did not bar them from giving information that they considered to be factual and necessary.

## 5.4 Recommendations

From the discussions and conclusions in this chapter, the study recommends that although Customs Services Department has been largely successful in responding to challenges brought about by the changing environment, the Department should conduct comprehensive research studies to determine ways of responding to or influencing the economic environment. Although respondents did identify changes in the economic environment they were unable to adequately identify strategies applied in response to these changes.

The study also recommends that CSD develops an effective and documented balanced score card that directly ties job descriptions to the various aspects of strategic response and may include ability to scan the environment and proposal of quality and timely strategic responses. Suitable training programs with objectives crafted along various strategies should be incorporated whenever possible.

It is further recommended that CSD incorporates a participatory approach in the strategy process to include non-management staff as these being the implementer's of strategies need to own the strategic responses adopted. Some respondents though participating in implementing the strategies were of the opinion that there could be better alternative strategies. Various changes in procedure and policy can be recommended here such as reward policy and open door policy to encourage the employees to share information on progress.

Finally, the study also recommends that a monitoring and evaluation system with clear measurable goals be put in place to gauge the value of strategies adopted.

Respondents did point out some rapid results initiative's that over time were accepted as strategies though their realvalue was in the short-term and were counterproductive in the long run. An example of this is working overtime which led to burnout and diminished output in the long run.

## **5.5 Suggestions for Further Research**

Based on the results of this study, the researcher recommends that a replicastudy be done in other departments of the Kenya Revenue Authorityto find out what environmental forces they face and how they respond to them. Such a study would also establish whether the KRA departments apply standard approaches to strategic response or each department has independent approaches.

It is in addition recommended that a similar study be done on other public sector organisations for the purposes of benchmarking. One of the results ofthis study was that respondents could not identify any responses to changes in the economic environment and thus a study in this area is also highly recommended.

## REFERENCES

- Abdel-Bar, S., (2006). *Restructuring the Banking System and How to Increase its Competitiveness: A Study Based on International Experiences*. Contemporary Egypt Magazine, Egyptian Association of Political Economics, Statistics and Legislation, No. 483, Cairo.
- About KRA. (2012). Retrieved April 30, 2012, from <http://www.kra.go.ke/index.php/about-kra/about-the-authority>
- Ansoff, H. I. (1980), *Strategic Issue Management*, *Strategic Management Journal*, vol. I, pp. 131-148
- Ansoff, H. I. and McDonnell J.E. (1990) *Implanting Strategic Management*, 2nd Edition, Prentice Hall
- Bockstelle, C. (2008). *Jihadist Terrorist Use of Strategic Communication Management Techniques (PDF)*. GeoTge C. Marshall Center Occasional Paper Series (20). ISSN 1863-6039.
- Boseman, G. and A. Phatak (1989). *Strategic Management - Text and Cases*, John Wiley and Sons, New York.
- Bryman, A and Bell, E. (2007). *Business Research Methods*, 2nd edition, Oxford: Oxford University Press

- Customs Reforms and Modernisation Project (2012). Retrieved September 30, 2012, from <http://www.kra.go.ke/index.php/reform-and-modernisation/programmes/customs-crm>
- Ellis, J.H.M. and Williams, D R. (1995), *International Business Strategy*, Pitman, London
- Embassy of the United States. (2012). *Travel Warning for Kenya*. Retrieved June 22, 2012, from [http://nairobi.usembassy.gov/information\\_for\\_travelers.html](http://nairobi.usembassy.gov/information_for_travelers.html)
- Hill, C W.L and Jones, R.G. (2001). *Strategic Management Theory: An integrated Approach*. 5th Edition, Boston: Houghton Mifflin
- Isaboke S. (2001), *An Investigation of the Strategic Responses by Major oil Companies in Kenya to the Threat of New Entrants* An Unpublished MBA Project, University of Nairobi
- Jacob A.O, (2008) *Responses by the Kenya Revenue Authority to the Challenges in the Implementation of the Customs Reforms and Modernisation (CRM)*. An Unpublished MBA Project University of Nairobi
- Johnson, G and Scholes, K (2002) *Exploring Corporate Strategy*, Prentice Hall, 6th Edition
- Johnson, G., Scholes, K, and Whittington R. (2009) *Exploring Corporate Strategy: Texts and Cases*, 7th Edition, Pearson Education, UK.
- Kagwe, J, (2009), *Lecture notes, Management Practice*. University of Nairobi

Kandie P (2001) *A Study of the Strategic Responses by Telkom Kenya Ltd in a Competitive Environment*, An Unpublished MBA Project University of Nairobi

Kenya Revenue Authority (2009). *Fourth Corporate Plan, 2009/10 - 2011/12*. Nairobi: Author.

Kenya Revenue Authority (2011). *Performance Report for FY 2010/11*. Nairobi: Author.

Kenya Revenue Authority (2012) *About Customs Service Department*. Retrieved from <http://www.krago.ke/index.php/customs-services/about-customs>

Kenya Revenue Authority (2012) *Fourth Quarter Performance Report 2011/12*. Nairobi: Author.

Kenya Revenue Authority (2012). *Fifth Corporate Plan, 2012/13 - 2014/15*. Nairobi: Author.

Kiptoo, I.K. (2008). *Strategic Change Management at the University of Nairobi*, Unpublished MBA Research Project, School of Business, University of Nairobi.

Kombo Henry K. (1997) *Strategic Responses by Firms Facing Changed Environmental Conditions - A Study of Motor Vehicle Franchise Holders in Kenya*. An Unpublished MBA Project, University of Nairobi.

Kotler P., (2000) *Marketing Management: Analysis, Planning and Control*. Prentice Hall, Engle Wood Cliffs, New Jersey



- Lowes B, C. Pass and S. Saunderson (1994) *Companies and the Market: Understanding business Strategy and the Market Environment*, Oxford Blackwell, PP 24-26
- Mintzberg, Henry (1994), *The Rise and Fall of Strategic Planning*: Free Press, New york
- Mugenda O.M, Mugenda A G (1999), *Research Methods: Quantitative and Qualitative Approaches*. Acts Press, Nairobi
- Orondo J.F (2011), *Strategic Responses Adopted by KPA to the Environmental Challenges*. An Unpublished MBA Project University of Nairobi
- Pearce, J. A and Robinson, R. (2005) *Strategic Management: Strategic Formulation and Implementation* 3rd Edition. Richard D. Irwin Inc. U.S.A.
- Pearce, J. A., II and Robinson. R. B. Jr (2005), Jr. *Formulation, Implementation and Control of Competitive Strategy*, 9th edition, Chicago, IL, Richard D. Irwin, Inc.
- Pearce, J. A., II and Robinson, R. B, Jr.(2007), *Strategic Management: Strategy Formulation, Implementation and Control*, 10th ed, Chicago, IL: R D. Irwin, Inc.
- Port Performance for Year 2008.(2009). Retrieved April 30, 2012, from <http://www.kpac.co.ke/InfoCenter/Performance/Pages/default.aspx>
- Porter, M.E (1980), *Towards a dynamic theory of strategy*, *Strategic Management Journal*, Vol. 12 No.6, pp.95-117.
- Porter, M. (1998) *Competitive Advantage*. Free Press, New York USA.

Porter, M.E (1996) "What is Strategy", *Harvard Business Review*, Nov/Dec 1996.

Sheikh Abdul lahi O. (2000) *A Study on Strategic Response by Insurance Companies Following Liberation* An Unpublished MBA Project University of Nairobi

United States Department of Energy (2010) *Megaports Initiative*. PNNL-SA-74476.  
Washington, DC: Author.

Wafula, P (2012, June 25). Noose tightens on smugglers as Treasury reforms KRA. *The Daily Nation on the fWeb*. Retrieved June 26, 2012 from <http://www.nation.co.ke/>

Wheelen, Hunger, (1995). *Strategic Management and Business Policy*. Fifth Edition,  
Addison-Wesley publishing company, New york, 1995 "

## **APPENDIX I**

### **Interview Guide**

1. Name of your Section/Division/Unit within the Customs Services Department.

2. Are you in Management or Non-Management level?

3. Which changes in the political climate have affected your operations?

Indicate the strategies that were adopted to respond to the challenges.

4. Which changes in the economic environment have affected your operations?

Indicate the strategies that were adopted to respond to the challenges.

5. Which changes in the changes in the social environment have affected your operations?

Indicate the strategies that were adopted to respond to the challenges.

6. Which changes in the technological changes have affected your operations?

Indicate the strategies that were adopted to respond to the challenges.

7 Which changes in the ecological changes have affected your operations?

Indicate the strategies that were adopted to respond to the challenges.

8. Which changes in regulation policies have affected your operations?

Indicate the strategies that were adopted to respond to the challenges.

9. What are the other strategic responses that CSD has adapted to challenges posed by the external environment if any?

10. Which of the strategic responses led to fruitful results?

11. Are you involved in the formulation of any of the response strategies highlighted in any of above questions?

12. Do you consider the various response strategies adopted by CSD to be proactive or reactive to the changes in the Department's external environment?

**THANK YOU!!**