

**STRATEGIC RESPONSES AND PERFORMANCE AT THE KENYA
REVENUE AUTHORITY**

**BY
MUTINDA JUSTINA NZEMBI**

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

2015

DECLARATION

This research project is my original work and has been presented for a degree in this or any other university

Signed.....

Date.....14/11/2015

MUTINDA JUSTINA NZEMBI

D61/64276/2013

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

Signed.....

Date.....16/11/2015

DR. REGINAH KITIABI

DEPARTMENT OF BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENT

I would like to acknowledge the support, advice and tireless efforts of my Supervisor Prof. Reginah Kitiabi during the research work and in writing of this research project report. I also appreciate the support of the employees at the Kenya Revenue Authority who supported me in this project by completing the questionnaires administered to them. Your efforts are sincerely appreciated.

I would also like to acknowledge any assistance given to me by the staff at the School of Business, University of Nairobi. May God bless you. Finally, there are people who contributed in one way or the other in completion of this study but their names have not been mentioned. To them I am most grateful.

DEDICATION

This study is dedicated to my family who have borne the burden of supporting me up to this level. May God bless you. To the Lord God Almighty I give all Thanks, Praise and Glory for bringing me this far.

ABSTRACT

The Kenya Revenue Authority (KRA) was established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on 1 July 1995. The Authority is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. On the other hand, The National Treasury's functions are strategic in several ways. As a main function, the Ministry is charged with the responsibility of formulating financial and economic policies. It is also responsible for developing and maintaining sound fiscal and monetary policies that facilitate socio - economic development. This responsibility makes the Ministry strategic and central to the country's economic management, as all sectors of the economy look upon the Ministry to create an enabling environment in which they can operate effectively and efficiently. The Ministry regulates the financial sector which is central to the development of the country and on which all other sectors depend for investment resources. At the end of every financial year i.e. June, the government, through the treasury cabinet secretary, tables estimates in parliament that the Kenya Revenue Authority (KRA) should collect in tax revenues over the next financial year. This is meant to supplement collections by ministries and departments, which are referred to as appropriation-in-aid. The government's aim to fast track self-sustainability of the economy without external funding relies heavily on the strategies deployed by the tax collection agency to ensure efficiency in revenue collection. The country is also facing additional budgetary needs arising from the management of the devolved system of government as well as a surging wage bill. In the 2013/2014 financial year, the treasury set a target of Ksh 880 billion for the agency, 22% higher than the previous year's budget. In June 2014, the Kenya Revenue Authority announced that it had surpassed the target set at the onset of the fiscal year by raking in Ksh. 963.7 billion, reflecting a 100% performance in its endeavor and a rise of 16.4 % over the immediate previous year collection. The current target set by the treasury is Ksh. 1.3 trillion that KRA is expected to meet by the end of the 2014/2015 fiscal year. The aim of this study will be to highlight the policies and strategies deployed by the management of the Kenya Revenue Authority resulting in the attainment of the set targets and streamlining the tax collection process. The agency has adequately coped with challenges such as poor performance of the Value Added Tax (VAT) particularly in relation to domestic taxes and the delayed Pay As You Earn (PAYE) remittances from county governments owing to delayed harmonization of staff payrolls in the devolved units, lower than expected economic growth and lower than expected growth in exchange rate and import values. The strategies deployed by the agency to enable it overcome the challenges and evade shortfalls in its mandate to collect revenue that will sustain the operations of the government as well as fuel development initiatives are of great interest to the intended study.

TABLE OF CONTENTS

DECLARATION	ii
ACKNOWLEDGEMENTS.....	iii
DEDICATION.....	iv
ABSTRACT.....	v
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background	1
1.1.1 Concept of Strategic Responses.....	2
1.1.2 Organizational Performance.....	3
1.1.3 Strategic Responses and Organizational Performance.....	4
1.1.4 Financial Services in the Public Sector.....	4
1.1.5 Kenya Revenue Authority.....	5
1.2 Research Problem.....	6
1.3 Research Objectives.....	8
1.4 Value of the Study.....	8
CHAPTER TWO: LITERATURE REVIEW.....	10
2.1 Introduction	10
2.2 Theoretical Foundation	10
2.2.1 Resource based view Theory.....	10
2.2.2 McKinsey 7's Theory Framework.....	11
2.2.3 Porter's Five Forces Model.....	11
2.3 Strategic Responses in Organizations.....	12
2.4 Organizational Performance Measurements.....	13
2.5 Empirical Studies and Research Gaps.....	16

CHAPTER THREE: RESEARCH METHODOLOGY.....	17
3.1 Introduction.....	17
3.2 Research design.....	17
3.3 Data collection.....	18
3.4 Data analysis.....	18
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION	
4.1 Introduction.....	20
4.2 Respondents profile.....	20
4.3 Causes of Poor Performance.....	20
4.4 Strategic Responses.....	21
4.4.1 Strategic Responses to Changes in Economic Environment.....	21
4.4.2 Responses to Changes in Regulation/Policies.....	22
4.4.3 Response to Changes in Political Climate.....	22
4.4.4 Response to Increased Demand for Revenue	23
4.4.5 Response to Changes in the Regulatory Environment.....	23
4.4.6 Response to Changes in the Technological Advancement.....	24
4.4.6 Discussion of Results.....	26
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS	
5.1 Introduction.....	32
5.2 Summary of Findings.....	32
5.3 Conclusions.....	36
5.4 Limitations of the Study.....	36
5.5 Recommendations.....	37
5.6 Recommendations for Further Research.....	38
5.7 Implication for Policy and Practice.....	38
REFERENCES.....	39
APPENDICES.....	41
Appendix 1: Interview Guide	41
Appendix 2: Overview of studies on revenue collection strategies.....	43

ABBREVIATIONS AND ACRONYMS

- BRB** - Bangladesh Revenue Board
- CSD** - Customs Service Department
- DTD** - Domestic Taxes Department
- ERS** - Economic Recovery Strategy
- FY** - Financial Year
- I & E** - Investigation and Enforcement
- LRA** - Lesotho Revenue Authority
- LTO** - Large Taxpayers Office
- MST** - Medium and Small Taxpayers
- NTSA** - National Transport and Safety Authority
- RARMP** - Revenue Administration Reform and Modernization Program
- RTD** - Road Transport Department
- SARS** - South African Revenue Service

CHAPTER ONE

INTRODUCTION

1.1 Background

Strategy is the sustained pattern of resource allocation by which organizations align themselves effectively to their external environment. Analysis of the strategic responses that an organization adopts start in the macro-environmental context in which industry finds itself. Smith (2002) observes that this is a period of unparalleled change, driven by factors such as genomics, information technology, demographics, health economics and globalization. Each of these factors individually would call for a considered response from the industry, but taken together they represent a fundamental change in the market environment. This implies a concomitant fundamental response by the industry. Organizational performance is measured through procedural organizational assessments. An organizational assessment is a systematic process for obtaining valid information about the performance of an organization and the factors that affect performance. It differs from other types of evaluations because the assessment focuses on the organization as the primary unit of analysis (Nelson, 2013).

Theories that govern this sphere of strategic management vary in aspects. Porter (1985) highlights the basic concepts and premises of the Porter's five forces theory as useful due to the guidelines for analyzing organization-environment relationships with an emphasis on the social rules, expectations, norms, and values as the sources of pressure on organizations. Resource dependence theory, on the other hand, proceeds from the indisputable open-systems proposition that organizations are not able to internally generate all the resources required to maintain themselves and therefore must enter into exchange transactions with elements in the environment to ensure a stable flow of resources (Akio, 2013). Coupling the two theories helps to examine the ways in which an individual organization reacts to different levels of uncertainties and multiple actions of other social structures in its environment.

The motivation for the researcher to carry out the research is to contribute to the body of knowledge that details the strategic responses that a key agency of the government such as KRA. The researcher wants to be a part of the wider innovative community of business researchers who find solutions to strategic issues plaguing the capabilities of an organization within its operational environment.

The study will focus on the performance of the public financial sector in regards to the strategies formulated. Kenya Revenue Authority is the government agency mandated with collection of revenue and financing the operations of the central and county governments. Hence, the study will look at the elements, both internal and external, which affect the operations of the authority and the strategic responses that the management of the agency formulate then implement to facilitate attainment of objectives set at the onset of each government financial year.

1.1.1 Strategic Responses

Pearce and Robinson (2003) define strategic responses as a set of decisions and actions that result in the formulation and implementation of plans tailored to enable an organization to attain its set objectives. The strategy has to be matched to the entity's value propositions and differentiation capabilities. Pressure from dynamic operating environments prompt organizations to adapt their internal configurations to reflect external realities which directly influence the performance of the firm. Strategy as a concept was borrowed from the military and adapted for use in business. Inyange (2014) refers to strategy as a high level plan to efficiently utilize available resources to achieve one or more goals under conditions of uncertainty.

Strategic responses demand that an organization reorganizes its internal designs to match the set strategies which act as the blue print to enable it attain its purpose. The extent of the effectiveness of these strategies is determined by the geographical location. Social, economical and environmental conditions have direct implications on the choice of responses (Grant, 2000). If the strategy is not matched to the organization's environment, a strategy gap arises which gives rise to inadequacies occasioned by the strategy gap. Strategy, if well managed, can be the pillar of success of an organization as it strives to

meet its core objectives in line with its mission and vision. Charagu (2012) observes that lack of proper strategy is the cause of the failure of organizations in the long run as it promotes the thriving of unwarranted factors. The resultant complexity disregards the expert execution of the formulated strategies and plans due to its tendency to crop new challenges that can strain both the financial and manpower resources of the organization.

1.1.2 Organizational Performance

Organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance (Kazmi, 2011). The performance of an organization is the analysis of its productivity measured against internal metrics such as its goals and objectives. No business scenario can guarantee economic stability, and the ability to control organizational performance during a financial crisis becomes more difficult. An organization in difficulty must be able to identify those measures that enable it to respond effectively to new problems to adapt as quickly as possible to changes in the business environment.

Malcolm (2010) argues that organizations seeking to improve their performance regularly conduct assessments of the current output. Assessments might be planned, systematic and explicit (these often are the best kinds of assessments) or unplanned and implicit. Well-done assessments typically use tools, such as comprehensive questionnaires, SWOT analyses, diagnostic models etc., along with comparison of results to various "best practices" or industry standards.

1.1.3 Strategic Responses and Organizational Performance

The relationship between strategic responses and performance has gained increasing prominence in organizational studies. In cases where cognition and action are linked, it is intuitively apparent that both should be linked to performance. The output in an enterprise is dictated by the effectiveness of the plans laid out in terms of strategy and policy (Nelson, 2013). The premise that strategy must “fit” with organizational or environmental factors to be effective may be incomplete. Rather, a strategy – to be successful – should also fit with the psychological characteristics and constraints of the managers responsible for its formulation and implementation.

Muita (2012) understands that within the corporate sphere, organizational performance is measured through analysis of three outcomes: financial performance, market performance and shareholder value performance. Organizations are constantly trying to adapt, survive, perform and influence. However, they are not always successful. The performance of public organizations has been the subject of much attention following recent demands for a more efficient and effective system of governance. Mintzberg (1994) emphasizes that the strategic responses adopted by organizations in light to the evolving operational environment are directly proportional to the performance of the firm in the long run.

1.1.4 Financial Services in Public Sector

Kenya Revenue Authority operates in the financial sector. Matundura (2008) observes that the Kenyan financial sector is one of the fastest rising in the economy today. It plays major roles in the country contributing immensely to the GDP of the country. However, there are also a number of challenges facing the industry. Financial distress is one of these challenges and if left unchecked it can lead to failure of the institutions crippling the economy. The sector contributed 48.6% of the country’s GDP in 2014. As the government body mandated with the collection of revenue, it liaises with other players in the industry to facilitate compliance.

1.1.5 Kenya Revenue Authority

KRA is a semi-autonomous government agency established by the Kenya Revenue Authority Act of 1st July 1995 (Chapter 496) by the National Assembly of Kenya. Its main purpose was defined as the central body for the assessment and collection of revenue, for the administration and enforcement of the laws relating to revenue and to provide for connected purposes. The authority is a government agency that runs its operations in the same ways as a private enterprise and for better service administration is divided into the following regions: Rift Valley, Western, Southern, Northern and Central. It is divided into the following departments, each headed by a commissioner: Customs Services Department (CSD), Domestic Services Department – Medium and small taxpayers (MST), Domestic Taxes Department- Large Taxpayers Office (LTO), Investigations and Enforcement (I&E), Technical Support Services and Corporate Support Services.

The roles of the Kenya Revenue Authority in the economy include administration and enforcement of written laws or specified laws pertaining to assessment, collection and accounting for all revenues in accordance with these laws, advise on matters pertaining to the administration and/or collection of revenue underwritten laws, enhance efficiency and effectiveness of tax administration by eliminating bureaucracy, procurement, promotion, training and discipline, eliminate tax evasion by simplifying and streamlining procedures and improving tax payer service and education thereby increasing the rate of compliance, promote professionalism and eradicate corruption amongst KRA employees by paying adequate salaries that enables the institution to attract and retain competent professionals of integrity and sound ethical morals.

It also restores economic independence and sovereign pride of Kenya by eventually eliminating the perennial budget deficits by creating organizational structures that maximize revenue collection and facilitates distribution of income in socially acceptable ways of effectively enforcing tax laws affecting income in various ways and finally, being a 'watchdog' for the government agencies (such as ministries) by controlling exit and entry points to the country to ensure prohibited and illegal goods do not pass through Kenyan borders.

1.2 Research Problem

Porter (1985) describes strategy as a bridge that links the gap between policy and tactics. He proposes that competitive strategy is all about being different. Each entity operates within the confines of its internal and external environment. The environment harbours elements which directly and indirectly affect the performance of an organization due to the dynamic nature. As a result, organizations have to focus on the environment and align their activities to the environmental conditions. This is done through readdressing of the policies and ways of conducting operations in response to the changes in the environment. Organizational performance is the catalyst which necessitates the achievement of the set objectives. It is a direct result of the strategies laid out as a game plan by the management in its effort to steer the organization to profitability.

The performance of the public financial sector is greatly influenced by strategies formulated and implemented both at the national and county government level. Kenya Revenue Authority is the government agency mandated with collection of revenue and financing the operations of the central and county governments. Its performance dictates the ability of the government to meet its financial obligation within a given financial year. 70% of the government expenditure is financed by revenue collected by the agency, the deficit is bankrolled by domestic and foreign borrowing as well as grants from donors. Hence, the importance of this agency cannot be underestimated. The strategies it deploys in response to fluctuations in the economic sectors of the country should be able to boost its performance and enable it carry out its mandate effectively.

Goldreich (2011) emphasizes envisions coping with questions raised over the viability of a government agency's strategy and its outcome. His assumptions suggest that strategy sheds light on the unplanned occurrences and manifestation of new, metamorphic characteristics of challenges which threaten the success of an organization with the ultimate outcome of rewarding it with failure. Gidisu (2014) notes that complex systems can affect the components of a project in a critical manner, leaving the status of the project lying on the border between order and chaos. Burton (2012) argues that

developing effective ways in revenue collection has been an important matter in tax and revenue collection. The advent of new instruments to help businesses work more efficiently affects the way taxes and revenues are collected. Malcolm (2010) adds that the aim of every tax collection agency is to significantly enhance revenue collection in all Departments. Implementation of innovative revenue collection strategies will improve organization structures, training, manpower planning, developing teamwork among management and staff, new approaches to reward management and adaptation of total quality management.

In *Adoption of Knowledge Management as a Strategic Approach by KRA*, Musembi (2014) describes the strategic alignment of the key elements of KRA as an organization: Structure, Culture and Core Competencies with the metrics of the knowledge management framework in an undertaking that raised the need for further research in reference to the challenges and difficulties experienced by organizations to implement the strategies without altering the essence of the organizations. Matundura (2008) magnified the issues faced by the public organizations in Kenya when he described the strategies formulated and implemented as skeleton-like without any long term objectives, usually politically aligned to the prevalent government. Inyange (2014) observes that many public organizations in Kenya have had to deal with turnarounds as a result of poor management decisions and lack of concrete professional input in policy formulation.

Arresting the decline and spurring back growth requires careful analysis of the situational severity, taking into account the importance of recognizing the relationship between cause and response being imperative for the success of the process. Kamunde (2010) concludes that existing policies including guidelines, methods, procedures, rules, norms and administrative processes are a hindrance to strategy implementation in state corporations.

The performance of KRA in revenue collection over the past four years has been remarkable: Ksh.634.9 billion against a revised target of Ksh.630.7 billion in FY 2010/2011, Ksh.717 billion against an initial target of Ksh.733.4 billion in FY 2011/2012, Ksh.963.8 billion against a revised target of Ksh.963.7 billion for the FY

2013/2014. The researcher has observed that most studies concerning this topic cover up to the year 2012. This study will aim to fill the void existing due to lack of studies on the recent strategies that KRA has put into place that enable it meet the revenue collection targets set by the National Treasury on an annual, consistent basis.

The researcher will aim to answer the following critical question:

1. How does strategic response influence KRA performance?

1.3 Research Objectives

The study will aim to highlight the:

- i. To determine strategic responses adopted by KRA.
- ii. How the strategic responses influence KRA performance.

1.4 Value of the study

Kenya Revenue Authority is the state agency through which the government implements efficient tax collection as part of its long term strategy for Wealth and Employment Creation in the Vision 2030. The success of KRA's revenue collection endeavors is key to the Government and citizens at large in providing the funds necessary to fuel development projects and cover government expenses while at the same time minimizing reliance on foreign borrowing. Therefore this research will offer data that can be used as a point of reference to the mandate of other government agencies of similar nature. It will provide important empirical data to the current and future scholars who are interested in studying strategy in relation to public sector management.

The study will contribute to the body of knowledge. The study will bring out differences arising from different environmental and organizational complexities that affect a wide range of organizations. At the height of increased competition, unfair competitive practices and poor strategy implementation, some organizations might experience poor performance. The research findings will be useful to such players who might embark on adopting new strategies.

This study will facilitate the making of sound decisions regarding strategic management in the government agencies, especially for the state corporations competing with private sector entities. The conclusions made by the researcher will avail a platform for managers to rethink their approach to strategy with regard to the unique challenges faced by their organizations as they work to bring the firms they manage to success. Hence, the results attained by Kenya Revenue Authority will ensue in it being used as a benchmark among its peers.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical review, empirical review, summary of literature and conceptual framework on the strategies deployed by the Kenya Revenue Authority in its efforts to meet the revenue collection targets on which the basis of the study is entrenched.

2.2 Theoretical Foundation

Notable studies have been conducted by researchers and scholars on the topic. Relevant theories have been discussed in the subsections below.

2.2.1 Resourced Based View Theory

Resource based theory is of the view that fundamental sources and drivers to an organization's success and superior performance are mainly associated with attributes of their resources and capabilities which are valuable and costly to copy (Haslinda and Alimin, 2009). The application of tangible and intangible resources at the disposal of an organization to attain competitive advantage is indisposable.

Kyengo (2010) observes that to transform a short-run competitive advantage to a sustainable competitive advantage demands that these resources are heterogenous in nature and not perfectly mobile. The emphasis of this theory is on knowledge of the organization's crucial resources and whether they are able to be the driving force behind the entity's improved performance. It highlights the organization's anticipatory resources, with an understanding that its sustained competitive advantage relies a great deal on both internal and external elements impacting on its resources (Burton, 2012). In view of the other theories, this is the best fit theory in terms of relevance to this study because it highlights the capabilities and value propositions of KRA as metrics against its ability to meet the tax collection targets set by the national treasury.

2.2.2 Mckinsey 7s Theory Framework

Waterman and Peters in the 1980s developed a strategy model tool intended to analyze an organization's design by looking at the 7 key internal elements: Structure, Systems, Strategy, Shared Values, Style, Staff and Skills. Scholars argue that it is an approach based on mitigating aspect against any chink in an organization's policy as it competes in the volatile corporate environment. The required resources and capabilities for such a theory to be applicable are diverse and varying. On the onset, a deep understanding of the human resource capabilities, obtained via a detailed study and supported by aggregated and granular metrics is core. Similar understanding should be extended to knowledge of the inter-connectedness of the elements. Despite its in-depth focus on the integral elements of the organization, it's not quite suitable in conclusively highlighting the core value propositions and differentiation capabilities of KRA in light of the challenge at hand.

2.2.3 Porter's Five Forces Model

Micheal Porter's five forces model is based on the premise that an organization's corporate strategy should adequately meet the opportunities and threats in its external environment. In his understanding, a competitive strategy should be modeled to be adaptable to the evolving industry structures. An understanding of the industry dynamics based on the five forces will enable the top management in any organization to effectively take advantage of the opportunities availed by the changes in the industry and attain competitive advantage (Porter, 2008). The five forces analysis took into perspective the barriers that exist, threat of substitutes, ease of entry into a market for new competitors and the ease of substitution of a product in the market.

Additionally, Porter (1985) presented three generic competitive strategies that organizations can adopt to navigate an aggressive competitive market environment: Focus, cost leadership and differentiation strategies. Firms can focus on specific segments of the market and avail products/services tailored to suit the consumers there specifically or they can come up with new products/services when the market is heavily saturated and strong competition is prevalent. Firms can also adopt the new market

development strategy when internal factors suggest addition of new markets for existent products is prudent due to greater distribution strengths (Kyengo, 2010). This theory is not quite suitable in conclusively highlighting the core value propositions and differentiation capabilities of KRA in light of the challenge at hand hence not entirely useful in the study.

2.3 Strategic Responses in Organizations

A recent study by the University of Nairobi's School of Business on the strategic responses to changes in the external environment deduced that all organizations exist and carry out their activities within the environment. The environment provides the resources used to by its internal processes to give outputs that are then released back to the environment. Therefore in order to survive in the environment, organizations have to pay attention to the environment and align their core capabilities to the environmental conditions. The environment can be classified into the external and the internal environments. The external environment is made up those factors that are beyond the firm's control but which affect its operations. This environment is made of political, economic, socio-cultural, technological, ecological and legal variables. The internal environment on the other hand consists of factors within the firm's control, which also influence the firm's activities. The internal environment is composed of factors like financial resources, technology, human resources, structures and processes. The environment is dynamic and keeps changing. Since the external environment is uncontrollable, the firm has to match its operations to the external environment in order to survive and succeed.

Ansoff (1965) argues that entities which fail to respond to threats incur losses that results in long term financial constraints. 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. Lagat (2011) observes that the onset of response is delayed past the rational trigger point due to four factors; systems delay, verification delay, political delay

and unfamiliarity delay. Effective strategic responses may enable a business to influence the environment in its favor and even defend itself against competition hence the need to understand competitor strengths in the market and then position one's own offerings to take advantage of weaknesses and avoid head on clashes against strengths.

2.4 Organizational Performance Measurements

Sustainability in any economy since the onset of organized governance has always hinged on the ability of the establishment to generate revenue that finances its operations. Construction and maintenance of public infrastructure is costly both in terms of monetary resources as well as consequential in the case of neglect by any government. These infrastructures drive manufacturing and private enterprises, in turn spurring growth in the economy and boosting employment as well as off-shoot entrepreneurial opportunities (Awitta, 2010). The onset of the Vision 2030 has yielded increased demand for budgetary allocations to fund diverse projects. Enhancement of revenue remittance to the central government has grown to be a pillar of sound governance, supported by ideologies fronted by IMF and the World Bank as they midwife the transition of developing countries from being dependent of foreign aid to self-sufficiency through revenue generation within their autonomous economies.

Muller (2014) asserts that more aggressive tax planning from multinational companies over the past decade has become a growing risk for revenue services and authorities worldwide. Such a risk should be incorporated in any government tax collection strategy valuation. But because transparency about where companies pay their taxes remains low, it is difficult for governments to assess the risks associated with companies' tax practices. Bird and Zolt (2013) note that in developing countries ideas, interests, and institutions play a central role in shaping tax policy. Attaining set targets necessitates revenue authorities to incorporate in rather broad terms both some important theoretical and philosophical developments related to tax policy and also some equally important ways in which circumstances in different developing countries may call for different tax policy designs.

The strategic plan of National Board of Revenue in Bangladesh underlines that mobilization of domestic resources is one of the major tasks of overall fiscal management. Financing the recurrent expenditures and undertaking of development projects largely depends, apart from foreign assistance, on the extent of domestic resources mobilization. It is a tool by which dependence on external assistance can be kept to a minimum level or reduced substantially. It demonstrated that as per the Public Money & Budget Management Act, 2009, the government has to keep the budget deficit at a sustainable limit and to do so substantial domestic resource mobilization is a basic condition. That particularly required the adoption of an explicit fiscal policy and a strengthened tax policy regime.

The plan constituted that what was needed was a comprehensive tax policy that could be pursued as a consistent guideline over the terms. Bangladesh's tax to GDP ratio is among the lowest (around 9.0 percent) in South Asia due to mainly: low tax base, weak management and low taxpayers compliance. The government has therefore been initiating various steps to enhance revenue generation and attain a standard level in comparison to the South Asian region.

The Lesotho Revenue Authority's 2011-2014 strategic plan highlighted that the 2007-2010 strategic period marked the beginning of a paradigm shift in the way that the LRA approached the fulfillment of its mandate. As the world shifted to consumerism, customer-centricity became a requirement for all successful organizations around the world. Focusing efforts on the needs of the customer proved to be a robust and rewarding strategy, which subsequently saw adoption by revenue authorities globally. Taxpayer-Centricity and Trade Facilitation became the new way of doing business in revenue administrations globally.

Gregory (2013) observes that tax design in developing countries is strongly influenced by economic structure. Many developing countries have a large traditional agricultural sector that is not easily taxed. Many transitional and developing countries have a significant informal (shadow) economy that also is largely outside the formal tax

structure. The potentially reachable tax base thus constitutes a smaller portion of total economic activity than in developed countries. The size of the untaxed economy is in part a function of tax policy. The resulting lower tax revenues often lead governments to raise tax rates, further exacerbating incentives to evade taxes. Improving tax administration is thus central to the choice of tax structures and to improving taxation in developing and transitional countries.

As such, the Lesotho Revenue Authority (LRA) was no exception to this trend, buying into the notion that voluntary compliance was a more effective strategy than increasing enforcement activities. There was need to emphasize the ideology of putting the taxpayer first by the LRA with the focus now being extended to service excellence. The emphasis of this period continues to be on enhancing compliance to tax laws, while also ensuring that service excellence underpins each and every operation within the Authority and also ensuring that the LRA effectively takes over collection of revenue from all other Government's ministries. In this plan, the LRA also places integrity, innovation and performance as the key pillars for the LRA of the future.

The South African Revenue Service 2012-2013 annual report reconstructed performance and organizational highlights that saw it achieve its set targets. This included efforts such as differentiated service offering in the customs department, adoption of a whole of government view at border posts, customs audits, increased tax compliance, enhancing risk management in the tax environment, continual outreach programs to all South Africans in order to build a culture of fiscal citizenship, implementation of tax administration act and reduction of administration burdens in the revenue service. As a result, the SARS continued to deliver exceptional performance. Its revenue collection efforts reached R813.8 billion, R3.7 billion above the revised estimate and more importantly, R71.2 billion more or 9.6% above revenue collection in 2011/12. Furthermore, the cost of revenue collection (calculated by dividing the cost of internal operations by total tax revenue collected) – an important indicator of the efficiency of a revenue administration – has remained between 0.98% and 1.17% during the past six years. The ratio in financial year 2012/13 was 1.07%. That was slightly lower than the

previous year and indicates a consistent trend in-line with the 1% international benchmark.

The national treasury set a target of Numerous studies have been conducted by professionals and scholars on the topic over the years. However, with the changing financial needs of the central government, coupled with the increased demand for revenue disbursement from county governments occasioned by the induction of the new constitution, the study findings have fallen short on addressing emergent issues in the revenue collection sphere in Kenya.

2.5 Empirical Studies and Research Gaps

Awitta (2010) analysed the effectiveness of revenue collection at KRA by measuring revenue growth as the indicator. The conclusion was that modernization of tax collection coincides with increased revenue remittance as per the resource based view theory. Despite the intricate findings, the enhancement of the existing systems 'reliability and security to the current ones is not covered in the research. Mutune (2010) evaluates the customer and revenue strategy framework adopted by KRA and concludes that strategies formulated and implemented evolved to focus on the customer in the long run. The study did not reflect the minimizing of customer compliance costs and enhancing customer service that has been recently implemented by the authority.

Charagu (2012) observes strategic responses by KRA to the economic environment and changes to improve tax administration in Kenya. The study highlights how the changing demographics prompt the realignment of organization structures but does not take into consideration the restructuring of KRA along functional lines e.g. Implementing Internal Audit function. Gidisu (2012) studied the automation system procedure of the Ghana Revenue Authority on the effectiveness of revenue collection. The main finding was that automation of the taxpayer database enhanced record keeping and transparency. Muita (2011) studies factors that influence adoption and use of E-Filing system of KRA among large taxpayers. The findings underlined the organization's value cost-saving initiatives at the expense of value addition in output. The main gap in this study was inclusion of the taxpayer recruitment drives such as the countrywide iTax roll-out program in 2014-2015.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology that was used in the study. The chapter has been arranged to present the research design, data collection procedures and data analysis techniques that will be used in the study.

3.2 Research Design

Crawford & Richardson (2009) define a research design as “a blueprint for conducting a study with maximum control over factors that may interfere with the validity of the findings”. David (2013) further describes a research design as “a plan that describes how, when and where data are to be collected and analyzed”. He further defines a research design as “the researcher’s overall for answering the research question or testing the research hypothesis.

The study was carried out in the form of a case study whose purpose is to collect in-depth information strategic responses adopted by the Kenya Revenue Authority to attain tax collection targets set by the national treasury. A case study provides a very valuable and focused insight into phenomena that may be vaguely understood or comprehended. Gerring (2004) defined a case study as an intensive study of a single unit with an aim to generalize across a larger set of units. He further clarified that the case study method is correctly understood as a particular way of defining cases, not a way of analyzing cases or a way of modeling causal relations.

It is a very powerful form of qualitative analysis that involves a careful and complete observation of a social unit, which could be a person, a family, an institution, a cultural group or even a community. It is a method of study that drills down rather than casts wide and is used to determine the relationship amongst the variables influencing the current behavior or status of the subject unit of study. It is a published report about a person, group, or situation that has been studied over time. An evaluation of how an individual, business or corporation operates in relation to other groups in the same field of operation.

3.3 Data Collection

The data collected was qualitative in nature, in the form of ideas and themes that are related to knowledge management. This allows an in-depth view of strategic responses adopted by the Kenya Revenue Authority to attain tax collection targets set by the national treasury. Primary and secondary data was used in the research. Primary data will be collected through the interview guide, where the respondents were Deputy Commissioners of the Domestic Taxes Department, ICT, Human Resource, Customs and Border Control sections. The guide will serve as the best tool for enhancing confidentiality and precision.

Secondary data was sourced from the company information such as annual departmental reports and strategic plans. Previous surveys and scholarly researches on the operations of the Kenya Revenue Authority also provided a reliable source of data that enhanced the stature and credibility of the study. Benchmark strategic responses reports from audit firms in the industry will give a clear insight on how the state agency manages knowledge within its confines to enhance performance.

3.4 Data Analysis

Content analysis was used in the case study. It is described as any technique for making inferences systematically objectively identifying specific characteristics of messages. All three approaches of content analysis: conventional, directive and summative will be considered to derive the meaning from the content of text data and hence maintain adherence to the natural paradigm of the research. Content analysis will aid in the case study inquiry as it copes with the technically distinctive situation in which there will be many more variables of interest than data points. As a result, output will rely on multiple sources of evidence, with data needing to converge in a triangulating fashion, and another result is benefits from the prior development of theoretical propositions to guide data collection and analysis.

Cooper and Schindler (2006) state that content analysis measures the semantic content or the “what” aspect of the message. Its breadth makes it a flexible and wide ranging tool that may be used as a methodology or problem-specific technique. It guards against selective perception of the content, provides for the rigorous application of reliability and validity criteria. The analysis was based on meanings and implications which emanated from the respondents information and documented data on strategic responses adopted by the Kenya Revenue Authority to attain tax collection targets set by the national treasury.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION.

4.1 Introduction

This chapter presents the research findings and discussions on strategic responses adopted by the Kenya Revenue Authority, respondent's profile, causes of poor performance and the role of the top management in the turnaround process to improve performance.

4.2 Respondents Profile

Turnaround strategies are corporate level strategies. The respondents were chosen from the top level management and comprised Deputy Commissioners of the Domestic Taxes Department, ICT, Human Resource, Customs and Border Control sections. They are all based at the head office and have over five years of experience at the authority.

4.3 Causes of Poor Performance

The decline in business performance at the Kenya Revenue Authority can be attributed to both internal and external factors. The corporation's lack of a clear corporate strategy and long-term oriented goals was a major cause of poor performance resulting in unattained tax collection targets.

Inability to source competitively and access new taxpayer pools and later poor administrative practices occasioned by an inefficient corporate structure aggravated the situation. Sufficient stations to cater to the wide expanse of taxpayers were inexistent hence shortcomings arose from the mediocre implementation of the strategies formulated. This had quite a negative impact due to the complexity of the sector. Insufficient retail outlets in the Nairobi region, existence of one depot each in the capital city as well as Mombasa, lack of filling plant and blending plant therefore frustrating alignment of cross function relations.

High government expenditure, economic conditions, insecurity, lack of infrastructure and corruption certainly play a big role in not attaining revenue targets. Another key factor that is generally ignored is the tax code and short-term policy making. Poor knowledge management practices resulted in unsatisfactory knowledge sharing within the structures of the authority. Lack of coordination was the result, non compliance by taxpayers riddled the economy and disgruntled employees lacked motivation to carry forward the ideals of the authority.

4.4 Strategic Responses

Bibeault (1982), Pearce and Robbins (1993) view strategy formulation and implementation in the modern corporate environment as consisting two stages; decline stemming and recovery strategies. The declining performance at the Kenya Revenue Authority was as a result of both internal and external causes. As a result, the authority adopted various sets of strategies to curb the declining performance and enhance its performance to meet targets set. The research findings indicate that the authority embarked on cost reduction measures (operational restructuring) to improve efficiency and margin by reducing direct costs and slimming overheads in line with volume.

4.4.1 Strategic Responses to Changes in Economic Environment

The respondents were asked to highlight the changes that have had the most impact on the authority's operations from the economic environment. From the responses, the respondents were adamant that the economic environment was very dynamic with distinct technological change, evolving need to maintain high quality services due to taxpayer enlightenment, changing legal environment such as devolution occasioned by the new constitution, reforms and modernization, introduction of service level charters, introduction of performance contracts, freeze of donor funding from development partners and political changes.

The respondents acknowledged that KRA responded to the economic environment changes through preparation of service charters by all departments, automation of processes, integrity awareness to stakeholders, taxpayer education initiatives introduced,

development of internal standards, retrenchment of staff who do not add much value to the organization, introduction of the balanced score card tool in staff evaluation, automation of business processes, introduction of Electronic Tax Register (ETR) and introduction of integrity programs.

4.4.2 Response to Changes in Regulation/Policies

The interviewees also reiterated that the changes in regulation/policies that have affected their operations include various policy documents developed, performance contracting, performance evaluations, review of code of conduct, restructuring of departments, merging of departments, the adoption of new constitution, adoption of the VAT Act 2013 and a revised code of conduct.

The interviewees intimated that KRA responded to the changes in regulation/policies by purposely embracing policies to take care of such changes, gender mainstreaming as guided by the constitution, sensitization of staff on the rights of taxpayers and aligning them with current developments to avoid litigation on cases where there is contravention of the constitution. They also indicated that there has been adequate sensitization of staff regarding the same so that VAT collections can be boosted to a level within the set expectation on the tax head, aligning the code of conduct to the constitution to ensure no staff's rights are violated and development of new policies.

4.4.3 Response to Changes in Political Climate

To the question on the changes that have taken place due to political climate, the interviewees cited recruitment of CEO via consultants, use of aptitude tests when recruiting graduate trainees, regional balancing during appointments, gender balance during appointments, physically challenged persons given equal employment opportunities, top management staff vacant positions are now competitively applied for and filled, taxation of all persons including members of parliament and KRA intends to partner with county governments in collecting revenues.

To counter these changes that have taken place in the organization due to political climate, KRA has adopted competitive recruitment where advertisement of all positions which were earlier based on political patronage, publicity of applicants and results, conduct mobile tax clinics and engaging with the parliamentary service commission and the MP's on the importance of complying with the provisions of the constitution on taxation of all citizens.

4.4.4 Response to Increased Demand for Revenue

The study proceeded to determine the changes brought about by the increased demand for revenue. All the interviewees agreed unanimously that due to increased demand for revenue, there has been integrity initiatives introduced for stakeholders, introduction and adoption of performance contracting in all carders' of staff, thirteen month salary for staff when targets are surpassed, reward system to performing staff, industrial actions by civil servants in search for higher pay, introduction of ethics and integrity department to address integrity issue and business automation to enable taxpayers pay from any corner of the republic.

They further indicated that responses adopted by KRA to cope with the increased demand for revenue with the coming of the devolved government include governors engagement via seminars, research on county's economic activities, expanding the tax base via new initiatives like real estate taxation and having consultative forums with governors to sensitize them about tax planned opening of offices in all counties to ensure there is presence countrywide.

4.4.5 Response to Changes in the Regulatory Environment

The study also proceeded to determine enumerate the changes in the regulatory environment. The interviewees concurred that the changes in the regulatory environment include performance contracting and evaluation of Government departments and parastatals and ranking of the same, target setting by the KRA principals (Treasury) with KRA Board, quarterly report submission to Treasury and performance Contracting in Public Sector is now under Devolution Ministry.

The interviewees also indicated that to cope with the above changes in the regulatory environment, KRA has embraced performance contracting and complied with requirements and formation of a unit within Corporate support Services department responsible for Performance Contracting.

4.4.6 Response to Changes in the Technological Advancement

On the areas in which technology has taken toll, the interviewees indicated that some of the technological changes experienced include ETR by DTD, SIMBA by CSD, VMS by RTD, K9 Unit by CSD, Scanners us by CSD, ITax by DTD, ERP by support services and Mobile Taxpayer Unit. They also intimated the taxpayers are always ahead in technology hence the organization has to align itself with the changes. Online filing was adopted to reduce paperwork and queues. Further, long - room issues on queues and integrity led to the introduction of the Simba system under Customs Services Limited.

The interviewees further intimated that to respond to the above technological changes, the strategies that have been put in place to achieve the appropriate changes include sensitizations done for stakeholders, publicity on the changes done, training of staff on capacity building and procurement of hardware for use. They also indicated that KRA is in the process of rolling out ITAX system which will enable taxpayers launch their returns online while giving the officers have a single view of the taxpayer. In addition, there are plans to roll out GPS enabled ETR machines are on the pipeline too which will reduce cases of misuse of these machines. The interviewees also cited that KRA is also taking staff through change management programs to enhance acceptance levels in the initiatives put in place.

The interviewees were also in accord that there has been improvement in performance owing to this technology adoption as depicted in improved service delivery, efficiency boosted, client focus, complaints reduced, delays and long queues reduced and Itax for Domestic Tax is a one stop shop for taxpayers to enhance a single view. It will be very key in the success of e - government objectives. They however indicated that ETR although it has had challenges, its introduction was very handy in VAT management. The

data findings showed that the interviewees had been involved in the formulation of any of the response strategies.

The interviewees were in accord that the responses led to fruitful results include publicity campaign and conducting of sensitization seminars saying that the turnout of stakeholders during seminars and issuance of brochures and Q&A helped in buy in by the taxpayers of the initiative. They also intimated that renewal of DL via NBK is a success case.

To the question on the type of strategic responses to the changes in the company's external environment, the interviewees intimated that strategic responses were both proactive and reactive to the changes in the company's external environment. They indicated that the Corporate Plan carries out a PEST analysis of the organisation and develops appropriate measures. KRA is the first Public Institution to adopt BSC tool in evaluation and was in place even earlier than the introduction of performance contracting.

The interviewees were in accord that the other strategic responses that KRA has adapted to the challenges posed by the external environment include responding to press complaints on time, organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others, conducting tax clinics country wide in all regional offices, implementing corporate social responsibility by sponsoring Heart Run, Freedom from hunger walk, support children Homes among others, responding to press complaints on time and organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others.

On what else Kenya Revenue Authority Limited should do to cope with the changes in the operating environment, the interviewees indicated that KRA need to scan the environment and come up with proactive strategies to cope with identified risk before they happen, lobbying with other government bodies and county to collect revenues and fees on agency basis as this will increase the authority's income hence reducing dependence on the exchequer, KRA need to scan the environment and come up with proactive strategies to cope with identified risk before they happen. The interviewees

further said that since superior service delivery is critical for Kenya Revenue Authority competitiveness, hence internally, the company's business segments (departments) should work closely together in ensuring that there is an efficient customer service. The interviewees also recommended that the company should be involved in more corporate social responsibility to give back to the society through their corporate social responsibility policy which is one way of increasing its influence on the lives of Kenyans and thus enhancing customer loyalty in tax remittance.

4.4.7 Discussion of Results

Strategic responses to the ever changing environmental conditions present an act as the yardstick within which improvement of the firms dealings can be attained. According to Choi, Gupta & Wilemon (1985), the changes in the environment therefore have far reaching implications on nature of opportunities and risks they expose firms to. It is therefore paramount for organizations to align themselves with the environment demands for their continuity, survival and sustainability. In line with this, the study found that the economic environment was very dynamic with distinct technological change, increasing need to maintain high quality services due to taxpayer awareness of their rights, changing legal environment such as new constitution dispensation, reforms and modernization, introduction of service level charters, introduction of performance contracts, freeze of donor funding from development partners and political changes.

On how KRA has responded to the changes, the study deduced that there was preparation of service charters by all departments, automation of processes, integrity awareness to stakeholders, taxpayer education initiatives introduced, development of internal standards, retrenchment of staff who do not add much value to the organization, introduction of the balanced score card tool in staff evaluation, introduction of Electronic Tax Register (ETR) and introduction of integrity programs. This is consistent with Pearce & Robinson (2005), who observed that for firms to be efficient and effective resulting in successful business operations they must continuously take on the environmental turbulence and tap on any opportunity presented and handle any environmental conditions that are likely to cause any business challenge by strategically responding to the same.

The researcher also found that the changes in regulation/policies that have affected their operations include various policy documents developed, performance contracting, performance evaluations, review of code of conduct, restructuring of departments, merging of departments, the adoption of new constitution, adoption of the VAT Act 2013 and a revised code of conduct. The study further found that KRA responded to the changes in regulation/policies by purposely embracing policies to take care of such changes, gender mainstreaming as guided by the constitution, sensitization of staff on the rights of taxpayers and aligning them with current developments to avoid litigation on cases where there is contravention of the constitution. Given the fact that strategies are time consuming and they take in a lot of resources it is necessary for the firm to consider a cost effective strategy that maximizes on costs. The tactical responses on the other hand are basically meant to fine tune the company strategy (Smart & Vertinsky, 2006). The study also established that there has been adequate sensitization of staff regarding the same so that VAT collections can be boosted to a level within the set expectation on the tax head, aligning the code of conduct to the constitution to ensure no staff's rights are violated and development of new policies.

On the changes that have taken place due to political climate, the study established that recruitment of CEO via consultants, use of aptitude tests when recruiting graduate trainees, regional balancing during appointments, gender balance during appointments, physically challenged persons given equal employment opportunities, top management staff vacant positions are now competitively applied for and filled, taxation of all persons including members of parliament and KRA intends to partner with county governments in collecting revenues.

To counter these changes that have taken place in the organization due to political climate, KRA has adopted competitive recruitment where advertisement of all positions which were earlier based on political patronage, publicity of applicants and results, conduct mobile tax clinics and engaging with the parliamentary service commission and

the MP's on the importance of complying with the provisions of the constitution on taxation of all citizens.

The changing technologies, reduced natural resources, changes in customers' demands and needs in addition to unpredictable economic and weather conditions have the resultant effect of a complex business environment and business transactions it is therefore necessary that firms across industry need to come up with responses strategies so as not only survival but have sustainable development (Burnes, 2000).

In line with this, the study deduced that the changes brought about by the increased demand for revenue include integrity initiatives introduced for stakeholders, introduction and adoption of performance contracting in all carders' of staff, thirteen month salary for staff when targets are surpassed, reward system to performing staff, industrial actions by civil servants in search for higher pay, introduction of ethics and integrity department to address integrity issue and business automation to enable taxpayers pay from any corner of the republic.

It was clear that responses adopted by KRA to cope with the increased demand for revenue with the coming of the devolved government include governors engagement via seminars, research on county's economic activities, expanding the tax base via new initiatives like real estate taxation and having consultative forums with governors to sensitize them about tax planned opening of offices in all counties to ensure there is presence countrywide. This is consistent with Johnson and Scholes (2002) who deduced that it is necessary for capacity and team building across the entire organizations to effectively manage environmental changes. Team work across departments, product differentiation, processes of control planning and evaluation in addition to business planning therefore are key in the way of responses to the environment by firms (Porter, 1990).

A change in strategy work in practice if the relevant structure is put in place in terms of processes, boundaries and relations and their interactions at the same time there must be enabling thus creating of support mechanisms in the organization in order to support

strategy implementation and development (Bryson, 1995). The study therefore found that changes in the regulatory environment include performance contracting and evaluation of Government departments and parastatals and ranking of the same, target setting by the KRA principals (Treasury) with KRA Board, quarterly report submission to Treasury and performance contracting in Public Sector is now under Devolution Ministry.

To cope with the above changes in the regulatory environment, KRA has embraced performance contracting and complied with requirements and formation of a unit within corporate support Services department responsible for performance contracting.

Rapid technological change, easier entry by foreign competitors, and the accelerating breakdown of traditional industry boundaries subject firms to new, unpredictable competitive forces. Modern firms, operating in dynamic market contexts, often deal with these contingencies by implementing strategies that permit quick reconfiguration and redeployment of assets to deal with environmental change. Strategic responses mean strategic change (Klinger, 2004). On the areas in which technology has taken toll, the study deduced that some of the technological changes experienced include ETR by DTD, SIMBA by CSD, VMS by RTD, K9 Unit by CSD, Scanners us by CSD, ITax by DTD, ERP by support services and Mobile Taxpayer Unit.

Further, the taxpayers are always ahead in technology hence the organization has to align itself with the changes. Online filing was adopted to reduce paperwork and queues. Further, long-room issues on queues and integrity led to the introduction of the Simba system under Customs Services Limited. Strategic responses require organizations to change their strategy to match the environment and also to transform or re-design their internal capability to match this strategy.

The organization, therefore, has to harness both its intangible and intangible assets to maintain a strategic fit in its environment and strategy (Stacey, 2009). Consistent with this, the study deduced that the strategies that have been put in place to achieve the appropriate technological changes include sensitizations done for stakeholders, publicity on the changes done, training of staff on capacity building and procurement of hardware for use. KRA is in the process of rolling out ITAX system which will enable taxpayers

launch their returns online while giving the officers have a single view of the taxpayer. In addition, there are plans to roll out GPS enabled ETR machines are on the pipeline too which will reduce cases of misuse of these machines.

Further, KRA is also taking staff through change management programs to enhance acceptance levels in the initiatives put in place. This is consistent with Greenstein (2001) who opined that firms can focus on specific markets or specific products or even product new products to suit niche markets. New product development strategy is used when the external factors suggest that the market is saturated or that stronger competition or other threats to market exist and the internal factors show weakness in distribution or strength in product development.

According to Burnes (2000), corporate perspectives on changing environmental conditions are likely to be premised upon views of climate science, expectations of regulatory responses, and the market potential for mitigation technologies. In line with this, the study revealed that there has been improvement in performance owing to this technology adoption as depicted in improved service delivery, efficiency boosted, client focus, complaints reduced, delays and long queues reduced and Itax for Domestic Tax is a one stop shop for taxpayers to enhance a single view. It will be very key in the success of e-government objectives. However ETR although it has had challenges, its introduction was very handy in VAT management.

Firms can adopt the environment organization structure related strategic responses which include strategic business units, matrix structure and delayering flat organization structure. Equally firms can use process related strategic responses of quality strategies, international quality, certification programmes, just – in –time inventory and benchmarking.

The strategic responses are holistic in nature as they involve the whole firm and constitute decisions made at the corporate and business levels (Baron, 2005). Consistent with this, the study further established that the responses led to fruitful results include publicity campaign and conducting of sensitization seminars saying that the turnout of

stakeholders during seminars and issuance of brochures and Q&A helped in buy in by the taxpayers of the initiative. The renewal of DL via NBK is a success case.

According to Wagner (2001), firms can respond to environmental changing conditions formulating new strategies in their operations. Firms' operational strategies can be in the functional level of a firm take and its strategic business unit. Here strategies can be on the areas of marketing, finance, operations, research and development and human resource functions. In line with this, the study revealed that the other strategic responses that KRA has adapted to the challenges posed by the external environment include responding to press complaints on time, organizing seminars with professional bodies like ICPAK.

LSK, Hindu council among others, conducting tax clinics country wide in all regional offices, implementing corporate social responsibility by sponsoring Heart Run, Freedom from hunger walk, support children Homes among others, responding to press complaints on time and organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations were drawn are in quest of addressing the research question or achieving at the research objective which is the strategic response by Kenya Revenue Authority to the changing environment.

5.2 Summary of Findings

The study found that the economic environment was very dynamic with distinct technological change, increasing need to maintain high quality services due to taxpayer awareness of their rights, changing legal environment such as new constitution dispensation, reforms and modernization, introduction of service level charters, introduction of performance contracts, freeze of donor funding from development partners and political changes.

On how KRA has responded to the changes the study deduced that there was preparation of service charters by all departments, automation of process, integrity awareness to stakeholders, taxpayer education initiatives introduced, development of internal standards, retrenchment of staff who do not add much value to the organization, introduction of the balanced score card tool in staff evaluation, introduction of Electronic Tax Register (ETR) and introduction of integrity programs.

The researcher also found that the changes in regulation / policies that have affected their operations include various policy documents developed, performance contracting, performance evaluations, review of code of conduct, restructuring of departments, merging of departments, the adoption of new constitution, adoption of the VAT Act 2013 and a revised code of conduct. The study further found that KRA responded to the changes in regulation / policies by purposely embracing policies to take care of such changes, gender mainstreaming as guided by the constitution, sensitization of staff on the

rights of taxpayers and aligning them with current developments to avoid litigation on cases where there is contravention of the constitution. The study also established that there has been adequate sensitization of staff regarding the same so that VAT collections can be boosted to a level within the set expectation on the tax head, aligning the code of conduct to the constitution to ensure no staff's rights are violated and development of new policies.

On the changes that have taken place due to political climate, the study established that recruitment of CEO via consultants, use of aptitude tests when recruiting graduate trainees, regional balancing during appointments, gender balance during appointments, physically challenged persons given equal employment opportunities, top management staff vacant positions are now competitively applied for and filled, taxation of all persons including members of parliament and KRA intends to partner with county governments in collecting revenues.

To counter these changes that have taken place in your organization due to political climate, KRA has adopted competitive recruitment where advertisement of all positions which were earlier based on political patronage, publicity of applicants and results, conduct mobile tax clinics and engaging with the parliamentary service commission and the MP's on the importance of complying with the provisions of the constitution on taxation of all citizens.

The changes brought about by the increased demand for revenue include integrity initiatives introduced for stakeholders, introduction and adoption of performance contracting in all carders' of staff, thirteen month salary for staff when targets are surpassed, reward system to performing staff, industrial actions by civil servants in search for higher pay, introduction of ethics and integrity department to address integrity issue and business automation to enable taxpayers pay from any corner of the republic. It was clear that responses adopted by KRA to cope with the increased demand for revenue with the coming of the devolved government include governor's engagement via seminars, research on county's economic activities, expanding the tax base via new initiatives like

real estate taxation and having consultative forums with governors to sensitize them about tax planned opening of offices in all counties to ensure there is presence countrywide.

The changes in the regulatory environment include performance contracting and evaluation of Government departments and parastatals and ranking of the same, target setting by the KRA principals (Treasury) with KRA Board, quarterly report submission to Treasury and performance contracting in Public Sector is now under Devolution Ministry.

To cope with the above changes in the regulatory environment, KRA has embraced performance contracting and complied with requirements and formation of a unit within corporate support Services department responsible for performance contracting.

On the areas in which technology has taken toll, the study deduced that some of the technological changes experienced include ETR by DTD, SIMBA by CSD, VMS by RTD, K9 Unit by CSD, Scanners us by CSD, ITax by DTD, ERP by support services and Mobile Taxpayer Unit. Further, the taxpayers are always ahead in technology hence the organization has to align itself with the changes. Online filing was adopted to reduce paperwork and queues. Further, long-room issues on queues and integrity led to the introduction of the Simba system under Customs Services Limited.

To respond to the above technological changes, the strategies that have been put in place to achieve the appropriate changes include sensitizations done for stakeholders, publicity on the changes done, training of staff on capacity building and procurement of hardware for use. KRA is in the process of rolling out ITAX system which will enable taxpayers launch their returns online while giving the officers have a single view of the taxpayer. In addition, there are plans to roll out GPS enabled ETR machines are on the pipeline too which will reduce cases of misuse of these machines.

Further, KRA is also taking staff through change management programs to enhance acceptance levels in the initiatives put in place.

The study also revealed that there has been improvement in performance owing to this technology adoption as depicted in improved service delivery, efficiency boosted, client focus, complaints reduced, delays and long queues reduced and Itax for Domestic Tax is a one stop shop for taxpayers to enhance a single view. It will be very key in the success of e-government objectives. However ETR although it has had challenges, its introduction was very handy in VAT management.

The study further established that the responses led to fruitful results include publicity campaign and conducting of sensitization seminars saying that the turnout of stakeholders during seminars and issuance of brochures and Q&A helped in buy in by the taxpayers of the initiative. The renewal of DL via NBK is a success case.

They also indicated that strategic responses were both proactive and reactive to the changes in the company's external environment. Further, the Corporate Plan carries out a PEST analysis of the organization and develops appropriate measures. It was clear that KRA is the first Public Institution to adopt BSC tool in evaluation and was in place even earlier than the introduction of performance contracting.

The study also revealed that the other strategic responses that KRA has adapted to the challenges posed by the external environment include responding to press complaints on time, organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others, conducting tax clinics country wide in all regional offices, implementing corporate social responsibility by sponsoring Heart Run, Freedom from hunger walk, support children Homes among others, responding to press complaints on time and organizing seminars with professional bodies like ICPAK, LSK, Hindu council among others.

5.3 Conclusion

In the modern world of changing operating environment, Kenya Revenue Authority has been able to keep pace with the increased revenue demand scenario by adopting various response strategies. From the study findings, the researcher concludes that the challenges in the external environment that affect the operations of the organization were such as new constitution dispensation, reforms and modernization, introduction of service level charters, review of code of conduct, restructuring of departments, regional balancing during appointments, introduction of performance contracts, industrial actions by civil servants in search for higher pay, freeze of donor funding from development partners and political changes.

The study also concludes that the responses to the changing environment that have led to fruitful results were automation of processes, preparation of service charters by all departments, taxpayer education, introduction of the balanced score card tool, competitive recruitment, mobile tax clinics and training of staff. Strategic responses adopted by Kenya Revenue Authority are both proactive and reactive to the changes in the external environment. It was clear that although ETR has had challenges, its introduction was very handy in VAT management.

The study further concludes that KRA has responded to the increased demand for revenue with the coming of the devolved government by engaging governors via seminars, research on county's economic activities, expanding the tax base via new initiatives like real estate taxation and taxing all civil servants including the parliamentarians.

5.4 Limitations of the Study

Being that this was a case study on one company the data gathered might differ from strategic responses that other parastatals have adopted to match the changing environment. This is because different institutions adopt different strategies that differentiate them from their counterparts. The study however, constructed an effective

research instrument that sought to elicit general and specific information on the strategic responses that companies adopt to match the changing environment.

The study faced both time and financial limitations. The duration that the study was to be conducted was limited hence exhaustive and extremely comprehensive research could not be carried on strategic responses to changing environment. Due to limited finances the study could not be carried out on the other branches of Kenya Revenue Authority. The study, however, minimized these by conducting the interview at the Kenya Revenue Authority headquarter since it is where strategies are made and rolled out to other branches that operate on the blue print.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about the Kenya Revenue Authority. The researcher handled the problem by carrying with him an introduction letter from the University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes

5.5 Recommendations

From the discussions and conclusions in this chapter, the study recommends that although there Kenya Revenue Authority has been successful in neutralizing the challenges brought about by changes in the operating environment, Kenya Revenue Authority should scan the environment and come up with proactive strategies to cope with identified risk before they happen.

The study further recommends that Kenya Revenue Authority should undertake appropriate, persuasive and sustained advertisement, marketing and campaigns on the importance of paying tax so as to change the negative perception on their mandate, increase its revenue collection and customer satisfaction. The Kenya Revenue Authority should also be involved in more corporate social responsibility to give back to the society through their corporate social responsibility policy which is one way of increasing its influence on the lives of Kenyans and thus enhancing customer loyalty in tax remittance.

The study also recommends that the Kenya Revenue Authority should recruit workers who have the necessary knowledge and competencies in its business to minimize on the induction and training costs. The staff should also be remunerated fairly and have better work condition and terms to ward-off staff poaching by other parastatals and the private sector.

The study also recommends that there is need for lobbying with other government bodies to collect revenues and fees on agency basis as this will increase the authority's income hence reducing dependence on the exchequer. Since superior service delivery is critical for Kenya Revenue Authority competitiveness, internally, the company's business segments (departments) should work closely together in ensuring that there is an efficient customer service.

5.6 Recommendations for Further Research

The study recommends that further research should be done on the other institutions in the public sector so as to get comprehensive information on how the other players in the sector have responded towards changing external environment.

More research needs to be done to determine what effect the strategic responses adopted towards changing external environment on the performance of the Kenya Revenue Authority. The contribution of strategic responses to the overall performance of Kenya Revenue Authority should be explored.

5.7 Implication for Policy and Practice

These findings imply that KPA is faced with various challenges brought about by the changing external environment as such the one experienced currently the organization should engage in more of the proactive strategies by coming up with new innovations in order to keep pace with the changing world.

REFERENCES

- Aosa, E. (1992). *An Empirical Investigation of Aspects of Strategy Formulation and Implementation Within Large Private Manufacturing Companies In Kenya*. Unpublished PhD Thesis, University of Strathchide: Glasgow
- Awitta, M.(2010)*Effectiveness of Revenue Collection Strategies at Kenya Revenue Authority in Nairobi*.(Unpublished MBA project), School of Business, University of Nairobi.
- Burton, D. (2012) *Challenges of Strategy Formulation in a Taxation Regime: Automation of Remittance*. Blackburn: Oxford
- Charagu, J.(2012)*Strategic Responses by the Kenya Revenue Authority to the Economic Environment and Changes to Improve Tax Administration in Kenya*.(Unpublished MBA thesis).School of Business, Jomo Kenyatta University of Agriculture and Technology.
- Crawford, L & Richardson, J. (2009) *Fitting Project Management Capability to Strategy: Managing the Continuum of continuity and complexity*. Cookie-Davies: Washington
- David, F.(2013) *Strategic Management: A competitive Advantage Approach, Concepts and Cases*. Hardcover: Boston
- Fullan, G.(2006) *Change Management Strategy: Managerial Guide to Implementing Change in The Modern Corporate Environment*. Hillsbridge, Hannover: Golden
- Gidisu, E.(2012) *Automation System Procedure of the Ghana Revenue Authority on the Effectiveness of Revenue Collection: A Case Study of Customs Division*. (Unpublished MBA thesis). Accra State University.
- Goldreich, D. (2011) *Strategy: Managing Effectiveness*. Harvard Business School.
- Haslinda, F & Alamin, N. (2009) *Deciphering the Sequential Matrix For Strategy Formulation*. Delhi: Penguin
- Inyange, M. (2014) *Turnaround Strategies Adopted by The National Oil Corporation of Kenya to Improve Performance*. (Unpublished MBA thesis) School of Business, University of Nairobi.
- Kamunde, D. (2010) *Turnaround Strategies Adopted by the Development Bank of Africa*. (Unpublished MBA thesis) School of Business, University of Nairobi.
- Kazmi, A. (2011) *Strategic Management and Business Policy*. Tata McGraw-Hill: Mumbai

- Kyengo, E.(2011) *Effectiveness of Online Filing System: Case Study of Kenya Revenue Authority*. (Unpublished MBA thesis) School of Business, Kenyatta University.
- Lesotho Revenue Authority *Corporate Plan for the Period 2011-2014*. LRA: Maseru
- Malcolm, S.(2010) *Strategic Management Accounting: Performance Measurement and Management*. Hillbury: New Jersey
- Matundura, J. (2008) *Strategic Advances in Knowledge Management at The Kenya Revenue Authority*. (Unpublished MBA thesis). School of Business, University of Nairobi
- Mintzberg, H. (1994) *The Rise and Fall of Strategic Planning: Reconciling Roles for Planning, Plans and Planners*. Free Press: New York
- Muita, E. (2012) *Factors that Influence Adoption and Use of E-Filing System of KRA Among Large Taxpayers*. (Unpublished MBA thesis).School of Business, Jomo Kenyatta University of Agriculture and Technology.
- Musembi, C.(2014) *Strategic Implications of Business Process Reengineering: A Case Study of The National Bureau of Statistics*. (Unpublished MBA thesis) School of Business, University of Nairobi.
- Mutune, P.(2010)*Evaluation of Customer and Revenue Strategy Framework Adopted by the Kenya Revenue Authority*. (Unpublished MBA project).School of Business, University of Nairobi.
- National Board of Revenue, Bangladesh (2013) *NBR Modernization Plan 2013/2014*
- Ndirangu, D.(2014, June 10) Rules on Transfer Pricing to Rein In Rogue Global Firms. *The Business Daily*. Retrieved from <http://www.businessdaily.com>
- Nelson, M. (2013)*The Effect of Interest Rates Volatility on The Growth of Real Estate Market in Kenya: A Corporate Perspective*. New York: Penguin
- Porter, M.(1985) *The Competitive Advantage: Creating and Sustaining* New York: Free Press
- Rothaemel, F. (2014) *Strategic Management: Concepts and Cases*. University of Washington: Washington
- SARS (July, 2014) *South African Revenue Service Annual Report 2013/2014*.
- Turner, M.(2013, July 9). Why Kenya's Real Estate Sector is Robust. *The Business Daily*. Retrieved from <http://www.businessdaily.com>

APPENDIX 1: Interview Guide

Section A

Position held in the authority.....

Department

No. of years of experience at the authority.....

Section B

1. What was the perception of knowledge creation and sharing prior to 2013
2. What has been your role in strategy formulation and implementation within the authority?
3. What innovative approaches were adopted by the authority to attain treasury tax collection targets
4. What were the strategies put in place to enable KRA to attain the tax collection targets?
5. What factors influenced the choice of strategic responses mentioned above?
6. What challenges were faced in the adoption of the new strategies in KRA?
7. Was the communication of the new strategies to the employees effective?
If yes, please explain how
8. How were other employees in the organization involved in the strategic responses adoption process?
9. How have the new strategies changed how information is communicated to the taxpayers?
10. What conditions, if any, facilitates strategy formulation and implementation within the authority?
11. How do the new strategies enable you to complete tasks more efficiently?

12. In your view were the strategies employed to enhance tax collection effective?

13. Comment on the Kenya Revenue Authority then and now

14. Where do you see the Kenya Revenue Authority in the next 5 years?

Thank You.

APPENDIX 2: Overview of studies on revenue collection strategies

No.	Author (s)	Topic	Analysis	Context	Measures	Main Findings	Gaps/Focus	Theoretical base
1	Awitta (2010)	Effectiveness of revenue collection strategies at KRA in Nairobi	Descriptive statistics	Kenya	Revenue growth	Modernization of tax collection coincides with increased revenue remittance	Enhancing of existing systems reliability and security (ITMS, Simba 2005, COSIS, CAMIS)	Resource Based View Theory
2	Mutune (2010)	Evaluation of customer and revenue strategy framework adopted by KRA	Content analysis	Kenya	Taxpayer recruitment, Revenue Growth	Strategies formulated and implemented evolved to focus on the customer	Minimizing of customer compliance costs and enhancing customer service	McKinsey 7S framework model
3	Charagu (2012)	Strategic responses by KRA to the economic environment and changes to improve tax administration in Kenya	Content analysis	Kenya	Revenue growth	Changing demographics prompt the realignment of organization structures	Restructuring of KRA along functional lines e.g. Implementing Internal Audit function	McKinsey 7S framework model
4	Gidisu (2012)	Automation System Procedure of the Ghana Revenue Authority on the effectiveness of	Descriptive statistics	Ghana	Taxpayer enrollment, Revenue growth	Automation of the taxpayer database enhanced record keeping and transparency	Implementation of commercial power back ups, the LAN, WAN	McKinsey 7S Framework model

		revenue collection: A case study of the customs division					and data center infrastructure upgrade	
5	Muita (2011)	Factors that influence adoption and use of E-Filing system of KRA among large taxpayers	Content analysis	Kenya	Taxpayer enrollment	Organizations value cost-saving initiatives at the expense of value addition in output.	Taxpayer recruitment drives such as the countrywide iTax roll-out program in 2014-2015	Micheal Porter's 5 five forces model.