

**THE EFFECT OF REVENUE ENHANCEMENT STRATEGIES ON
FINANCIAL PERFORMANCE OF KENYA REVENUE
AUTHORITY**

BY

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DECLARATION

I, the undersigned, hereby declare that this research project is my original work and has not been presented for academic award or other work to any institution or university. I further declare that I followed all the applicable ethical guidelines in developing this proposal.

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I would like to dedicate this project to my parents, Mr. Dobson Kondo and Mrs. Susan Kondo who have sacrificed so much to see me get an education and have been a source of inspiration in my life.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBB	Central Budgeting Bureau
CBDT	Central Board of Direct Taxes
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IT	Information Technology
KRA	Kenya Revenue Authority
KRA	Kenya Revenue Authority
OLS	Ordinary Least Squares
TDS	Tax Deducted at Source
UNCTAD	United Nations Conference on Trade and Development

ABSTRACT

The Kenya Revenue Authority plays a critical role of assessment of taxes, collection of revenue, administration and enforcement of Laws relating to revenue on behalf of the government of Kenya. In addition, according to the Act of Parliament Cap 469, KRA is also tasked with the role of enhancing and mobilization of government revenue, providing effective administration and sustainability of revenue collection. This noble objective can only be achieved if the authority lays down effective strategies. However, the current business environment is quite turbulent and as such risks abound in the realization of KRA objectives. The objective of the study was to establish the effect of revenue enhancement strategies on the financial performance of KRA. This study analyzed items that influence financial performance of KRA based on seven four namely; tax payer education, computerized operations, staff training and revenue collection points. This study relied on secondary data that was obtained from published annual reports and the fourth and fifth corporate strategic plans for thirteen (13) financial years from 2002-2003 up to 2014-2015 based on the study's variables i.e. financial performance as affected by tax payer education, computerized operations, staff training and revenue collection points. The data was analyzed using descriptive statistics including frequencies, mean scores and correlation analysis. Regression models were used to determine the existence, if any, of the relationship between financial performance and the strategies adopted to enhance financial performance by KRA. In addition, regression model were used to measure the quantitative data to establish the extent to which independent variables affect the dependent variable as shown by the size of the beta coefficients. It was established that tax payer education and revenue collection points have strong, positive and significant effect financial performance of KRA while computerized operations and staff training have strong, negative and significant effect on financial performance of KRA. More training on the reforms and modernization at KRA should be enhanced so as to improve on the skills, knowledge and professional capacity of the employees to increase revenue. In addition, more revenue collection centers need to be established since they have been effective in enhancing financial performance by the Authority. Finally, the study recommends that the revenue collection process should be continuously revised so as to ensure that the number of transaction increases and that tax evasion is avoided. Policy makers should come up with policies that prevent the tax evasion in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Organizations depend on the environment as a source of inputs in the form of resources and as an outlet for their output. They obtain their inputs from their environment and after transformation they discharge their outputs into the same environment (Porter, 1985). Since the organization initially has to interact with its environment, it must therefore establish a match between itself and its environment of operation (Pearce and Robinson, 2003). However, the changing environment, brought about by globalization and liberalization, has stimulated greater interest in planning of all corporate functions as a means of dealing with environmental uncertainty (Capon, 1987).

The organization's external environment consists of all the conditions and forces that affect its strategic options and defines its competitive situation (Pearce and Robinson, 2003). Therefore, for an organization to succeed in achieving its objectives, it must pay close attention to its external environment. Porter (1985) argued that as competitive pressures mount, organizations are compelled to consider strategies that will help them become more innovative, productive, and efficient. It is essential that organizations maximize all resources to optimize the effectiveness of their operations.

However all organizations, regardless of the structure of the market in which they operate, are assumed to have as their sole objective the maximization of profits (Porter, 1998). For organizations dealing with collection of state revenue such as the Kenya

Revenue Authority (KRA), alternative strategies to enhance revenue collection range from introducing initiatives such as quarterly and annual revenue targets, performance appraisal measures, public education through taxpayer education forums, provision of information services, and the introduction of management information systems department.

1.1.1 Revenue Enhancement Strategies

A strategy is the direction and scope of an organization over a long term; which gives advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of markets to fulfill owners' expectation (Biggadike, 1976). Andrews (1971) argues that with respect to corporate strategy; strategists address what the firm might and can do as well as what the firm wants to do. Mintzberg (1994) states that strategy is viewed as a long-term approach to implementing a company's plans and the resources needed to achieve its goals and objectives.

There has also been a consistent analysis of the importance of strategy to technology, change and innovation over the last four decades (Cummings and Worley 2005), which clearly demonstrates the significance of increasing the understanding of the role of strategy in managing technologies to improve operational performance. In order to remain afloat and generate more spending power to the government, KRA had adopted a number of strategies as a way of enhancing revenue collection. The revenue enhancement strategies in KRA are multifaceted. They include tax payer education, computerized operations, flexible tax regime and compliance and staff training.

1.1.2 Financial Performance

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). Richard et al. (2009), organizational performance includes multiple activities that help in establishing the goals of the organization and monitor the progress towards the target. It is used to make adjustments to accomplish goals more efficiently and effectively. Organization Performance is what business executives and owners are usually frustrated about. This is so because even though the employees of the company are hard-working and are busy doing their tasks, their companies are unable to achieve the planned results. Results are achieved more due to unexpected events and good fortune rather than the efforts made by the employees (Manyasi, 2012).

However, for any business to be successful, functions must be defined and accomplished. It is important for an organization to develop strategies that should be designed around the skills that would enhance the performance of the organization. There are a number of indicators by which company performance may be judged. The balanced scorecard offers both qualitative and quantitative measures that acknowledge the expectations of different stake holders and related an assessment of performance in choice of strategy. In this way performance is linked both to short term outputs and process management (Johnson et al. 2006). An organization measurement system strongly affects the behaviour of managers and employees. Traditional financial accounting measures can give misleading signals for the continuous improvement and innovation required by today's competitive environment demands (Kaplan and Norton, 2001).

The performance of firms in the modern business-operating environment can be judged using various parameters. The ultimate goal of a firm employing various competitive strategies is to gain an edge over its competitors hence improve performance. Behavioural parameters include management style, human resources, product quality, service quality, customer care, firm's image or reputation, marketing effectiveness, technological status, location and processes or systems, (Kaplan and Norton, 2001).

1.1.3 Effect of Revenue Enhancement Strategies on Financial Performance

Without a strategy, the management has got no roadmap to guide the organization towards desired performance levels. Robinson (1983) argued that performance could be measured in two ways: objectively or subjectively. Objective measurements are generally based on financial data such as financial results as is the case of revenue collecting organization such as the Kenya Revenue Authority (KRA). Strategies pursued by firms to enhance organization performance will depend on their objectives which can differ from one firm to another. To succeed in an industry, an organization must select a mode of strategic behaviour which matches the levels of environmental turbulence, and develop a resource capability which complements the chosen mode (Acur and Englyst, 2006).

As noted by Thomson and Strickerland (2007), strategies are at ends and these ends concern the purpose and objectives of the organization. They are the things that organizations do, the paths they follow and the decisions they take in order to reach certain points or level of success. It is the direction and scope of an organization over the long-term: which achieves advantage for the organization through its configuration of

resources within challenging environment, to meet the needs of markets and to fulfil stakeholder expectations (business growth, financial performance and market leadership).

Some of the strategies adopted by KRA are discussed as follows;

1.1.3.1 Tax Payer Education Strategy

The process of reforming the Kenyan tax system began in earnest in 1986 when the Kenyan government adopted the Tax Modernization Programme, which was followed in 1987 by the Budget Rationalization Programme. The two, in combination, were an attempt to address large, and widening, budget deficits by increasing revenue and controlling spending. As corruption and political reticence to carry out unpopular actions led to the non-implementation of many of the tax reforms put forward, document after document released by the Kenyan government over the 1990s has been forced to reaffirm a commitment to tax reform to satisfy conditionality agreements with lenders in order to maintain a flow of funds (Cheeseman and Robert, 2005).

Pre-reform, tax revenues came from the very heavy taxation of a very small base of people and the high taxation of imports and exports. The system was further characterized by high levels of avoidance and corruption. The modernization programme of that year laid out the following policy goals: Raise the tax revenue GDP ratio from 22% in 1986 to 24% by the mid 1990s, reduce compliance and administrative costs through low and rationalized tax rates and wider tax bases, improve tax administration by sealing leakage loopholes, making wider use of computers and enhancing audit surveillance, enhance the institutional capacity to manage tax policy by establishing

effective database management systems (Kenyan Ministry of Planning and National Development, 2003). In 1992, these objectives were expanded to include: Raising the revenue–GDP ratio to 28%, invigorating the growth of the fledgling capital market, emphasizing self-assessment systems, strengthening taxpayer education and service and, implementing organizational reforms that would modernize tax administration (Kenyan Ministry of Planning and National Development, 2003).

1.1.3.2 Computerized Operations Strategy

Many tax administration reforms developed in the past ten years have given a strong focus to computerization. Many have believed that automation alone would be the key to modernizing operations. However, this is not the case. The automation of obsolete and inefficient processes has been particularly disastrous in tax administration. There is widespread acceptance now of the notion that a comprehensive review and redesign if necessary of business processes (usually to eliminate, reduce, and simplify) must take place before automation is undertaken. In fact, such activities are a pre-requisite to the development of Information Technology (IT) strategies.

In the Fourth Corporate Strategic Plan 2009/10 - 2011/12, KRA anticipates taking the Revenue Administration Reform and Modernization Programme (RARMP) to the next level as KRA conducts Business Process Improvements and increases the scope of electronic interaction with taxpayers to boost staff productivity and taxpayer service. The main initiatives to achieve these objectives include; modernizing and integrating IT systems and tools, implementing IT standards and procedures in accordance with IT best

practices, implementing IT and information security programmes, developing disaster recovery and business continuity plans, re-engineer business processes to provide more efficient services and, achieving and maintaining ISO 9001/2000 certification.

1.1.3.3 Flexible Tax Regime Strategy

With a modern system of revenue collection, government can mobilize additional revenue by increasing collection efficiency as well as by expanding its revenue base. With increased reach and fiscal depth, the many challenges facing government can be addressed in some measures by simply having access to more financial resources. As such, the primary aim of computerized revenue collection must be to increase cash receipts in order to effectively sustain the utility and generate an acceptable return on investment related to the system. Leakages that occur because of untimely collection, fraud and under-collection could be reduced by streamlining and automating the revenue collection process. Penalties may be automatically applied to late payments. Daily reporting of cash receipts and due payments to be collected should be automatically generated by the system (Kamolo, 2014).

1.1.3.4 Staff Qualification, Experience and Training Strategy

Staffs are the key implementers of the change management programmes at KRA and therefore they ought to be equipped with the necessary skills. Staff training is mainly concerned with development of strategies for the provision of learning, development and training opportunities in order to improve individual, team and organizational performance. It is development that arises from a clear vision about people's abilities and

potential and operates within a business framework (Harrison, 1977). It takes the long term view on how human resource development policies and practices can be of benefit to the business plans or strategies.

Changes in staff behaviour do not occur automatically or overnight, so a series of targeted interventions must be made into each group. These may include workshops, training sessions, peer reviews and joint planning and implementation, as well as celebrations. The training is usually driven by the organization's future business strategy (explicit or implicit) and the corresponding staff requirements (Bowsher, 1998; Ban, Faerman, and Riccucci, 1992). As Awitta (2010) noted, in personal assessments-based training, the training is geared more to increasing the human capital of the staff member, the training increases the employee's skills but the new skills may be only generally applicable to current or future assignments at the workplace. To create and maintain a training program, the organization must make adequate provision for the expense of training in its annual budget and develop a training plan (Bowsher, 1998).

1.1.4 Kenya Revenue Authority

The Kenya revenue Authority (KRA) was established by an Act of parliament, chapter 468 of the laws of Kenya, which became effective on 1st July 1995. The Kenya Revenue Authority was established for the purpose of enhancing the mobilization of government revenue, while providing effective tax administration and sustainability in revenue collection. In particular, the functions of the Kenya Revenue Authority are to assess, collect and account for all revenues in accordance with the written laws and the specified

provisions of the written laws, advise on matters relating to the administration, and collection of revenue under the written laws or the specified provisions of the written laws, and perform such other functions in relation to revenue as the Minister may direct. In order to achieve these objectives, the organization has been divided into five segments namely; Support services, Road transport, Customs, Domestic and Large taxpayers Office (Kenya Revenue Authority, 2015).

The Board and Management of KRA have since its inception spent time and resources setting up systems, procedures and the adoption of new strategies aimed at enhancing the operational efficiency of the Authority's processes. In particular, the functions of the Authority are: to assess, collect and account for all revenues in accordance with the specified provisions of all revenue collection laws; to advise on matters relating to the administration, and collection of revenue under the specified provisions of all revenue collection laws and, to perform such other functions in relation to revenue as the Minister of Finance may direct. In fulfilling its mandate, KRA administers 17 revenue Acts, with the key ones (in terms of revenue importance) being the Value Added Tax (VAT) Act(Cap. 476), the East African Community Customs Management Act (EACCMA), the Income Tax Act (Cap. 470), the Customs and Excise Act (excise provisions) (Cap. 472)and the Traffic Act (Cap. 403).

The KRA has faced daunting challenges since its inception. These include poor operating procedures, undocumented internal business processes, and lack of a service ethos across all customs management levels, adversarial relationship between custom sand businesses,

insufficient or inefficient supporting infrastructure, and lack of a facilitation culture in other government departments, corruption and illicit trade. However, despite these challenges, the Authority has evolved into a modern and fully integrated revenue administration agency. According to the KRA Revenue Performance Report 2013-14 financial year, Authority collected Kshs.963.8 billion compared to KES. 800.5 billion collected in 2012/13fiscal year which represented a revenue growth of KES. 163.3 billion or 20.4percent. This growth is the highest recorded since 2007/08 financial year.

1.2 Research Problem

Slanislav (2006) highlighted that the heightened interest in internal controls is, in part, as a result of significant losses incurred by several organizations. He explained that, an analysis of the problems related to losses indicated that they could probably have been avoided had the organizations maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of problems that led to losses in the banking industry, thereby limiting damage to the organization. This same idea is reflected in (Kaplan and Schultz 2007), that, poor standards of corporate governance had led to insufficient controls being in place to prevent wrong doing in the United States in the 1990s, as demonstrated by the collapse of Enron and WorldCom as reported by (Mwachiro 2013).

The incidence of internal control weaknesses, unsatisfactory and deteriorating service delivery have the undesired effect of not only weakening the company's ability to effectively collect revenue but also encourages collusion, fraud, embezzlements, loss of

cash (revenue), assets conversion, genuine and deliberate mistakes, corruption, lack of transparency and accountability for revenue collection and other assets. Despite considerable investment, service delivery is unsatisfactory and degenerating. For the enhancement of the attainment of the mission and goals of the company, it is therefore necessary that these hindrances be removed. The management of the company should familiarize themselves with internal control procedures that will ensure effective service delivery and the desired revenue generation, (Mwachiro 2013).

These risks include scenarios of the macro economy not performing as forecast, tax evasion and tax avoidance, not meeting revenue collection targets, political interference, sabotage of the systems by stakeholders and weak laws governing tax collections. The end result of successful strategic direction setting must therefore be the capacity of the organization to craft and implement revenue enhancement strategies towards attainment of the same objectives, (Mwachiro 2013).

The Kenya Revenue Authority plays a critical role of assessment of taxes, collection of revenue, administration and enforcement of Laws relating to revenue on behalf of the government of Kenya. In addition, according to the Act of Parliament Cap 469, KRA is also tasked with the role of enhancing and mobilization of government revenue, providing effective administration and sustainability of revenue collection. This noble objective can only be achieved if the authority lays down effective strategies. However, the current business environment is quite turbulent and as such risks abound in the realization of KRA objectives, (Kenya Revenue Authority, 2015).

Various researchers have provided valuable insight into the general area of strategic planning. In the Kenyan context, these studies include those done Mwambingu (2002) who investigated the influence of change on revenue collection by KRA; Karingi and Wanjala (2005) who studied tax reforms experience in Kenya; KIPPRA (2001) on revenue design: Kenyan experience, and Kieleko (2003) on the effect of tax reforms on tax productivity in Kenya found out that tax reforms have a bearing on the level of tax collected; and Muriithi and Moyi (2003) on tax reforms and revenue mobilization in Kenya. These studies in general found out that tax reforms had made it possible for KRA to realize higher revenue collection. However, none of these studies focused on effects of revenue enhancement strategies on financial performance of the Kenya Revenue Authority. Therefore, there is a research gap that this study intends to fill and provide an understanding of how revenue enhancement strategies affect financial performance at KRA. This study therefore aims to investigate revenue enhancement strategies at the Kenya Revenue Authority and seeks to answer the following question; what are the effects of revenue enhancement strategies on financial performance of the Kenya Revenue Authority?

1.3 Objective of the Study

To establish the effect of revenue enhancement strategies on the financial performance of KRA.

1.4 Value of the Study

The study will be important to the management and staff of KRA as it gives feedback on revenue enhancement strategies implemented in achieving set performance levels. Findings of this study will also help members of other tax authorities, agencies and public organizations intending to implement revenue enhancement strategies in their organizations.

The study findings will be useful to the government, regulators and the policy makers as they can use the finding as reference for policy guidelines on revenue enhancement strategies in the public institutions and parastatals. They will be able to use the findings of the study to formulate viable policy documents that effectively will in turn boost productivity. These may relate to regulating those aspects that threaten to adversely impact on the operations and development of such organizations.

Academicians and other researchers will find this study useful as a point of reference. The findings will increase stock on the existing pool of theoretical knowledge and empirical knowledge on revenue enhancement strategies in public organizations. Effects of revenue enhancement strategies will also be learnt so as to aid future researchers to come up with other dimensions to the above subject matter.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter gives the theoretical framework on the revenue enhancement strategies in which the study is grounded. It reviews empirical literature on the past studies in this area and gives a critical evaluation of the literature identifying the gaps to be filled. Finally the operational conceptual framework used in this study is outlined, conceptualizing all the variables.

2.2 Theoretical Review

This study will be guided by transactions cost theory and change management theory.

2.2.1 Transaction Cost Theory

According to Khan and Hildreth (2004), transaction cost theory is a promising perspective for financial management for two main reasons: the ambiguity of transactions, and the widely accepted value of efficiency in this area. In principle, revenues could be collected with three different types of contracts between the revenue collecting authority and the revenue collector: wage, share and fixed-rent contracts. Fixed rent contracts occur when the revenue collectors agree to pay a pre specified sum to the government in return for the right to the entire revenue proceeds (Kahneman and Amos, 1979). The wage contract is the dominant form of revenue collection in modernized systems, so much so that other methods of collecting revenues are seen as anomalous.

Many issues in expenditure management also are contracting, expenditure management is a three stage administrative process that is determination of the policies, objectives, and resources needed, allocation of resources needed for those objects and assurance that specific tasks are carried out economically, efficiently and effectively. Transaction costs (bargaining and decision costs) are involved in determining expenditure policy because such policy is essentially an expenditure contract between elected officials (with assistance of central budgeting bureau, or CBB) and spending agencies which occurs in creating expenditure, a political transaction cost (Rabin and Mathew, 1998).

2.2.2 Change Management Theory

Today change is constant and organizational leaders who anticipate change and react rapidly and responsibly are successful. However, the organizational leaders who anticipate and invent the future are even more successful because those who initiate change are the leaders in their industry (Romanelli and Tushman, 1994). Other organizations are followers that adapt to change. Still others are the organizations that do not survive. There are many models that can be used for successful organizational change. It is important for organizational leaders to identify and use a model for transformation that will help their organizations survive the dynamics in the external environment (Romanelli and Tushman, 1994).

In change management process, the critical aspect is the organisations ability to win the buy-in of their organization's employees on the change. Effectively managing organizational change involves four-step processes which include recognizing the

changes in the broader business environment, developing the necessary adjustments for their company's needs, Training their employees on the appropriate changes and winning the support of the employees with the persuasiveness of the appropriate adjustments (Romanelli and Tushman, 1994). As a visible track on transformation projects, organizational change management aligns groups' expectations, communicates, integrates teams and manages people training. It makes use of performance metrics, such as financial results, operational efficiency, leadership commitment, communication effectiveness, and the perceived need for change to design appropriate strategies, in order to avoid change failures or resolve troubled change projects (Reiss, Albert, Roth and Jeffrey, 1993).

2.2.3 Agency Theory

Agency theory is the supposition that explains the relationship between principals and agents in business. Developed by Jensen and Meckling in 1976, agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals (such as shareholders) and agents of the principals (for example, company executives). The two problems that agency theory addresses are: 1) the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify (because it difficult and/or expensive to do so) what the agent is actually doing; and 2) the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

An agency, in general terms, is the relationship between two parties, where one is a principal and the other is an agent who represents the principal in transactions with a third party. Agency relationships occur when the principals hire the agent to perform a service on the principals' behalf. Principals commonly delegate decision-making authority to the agents. Agency problems can arise because of inefficiencies and incomplete information, (Jensen and Meckling 1976). In finance, two important agency relationships are those between stockholders and managers, and stockholders and creditors. The theory will help the study by examining the strategies of revenue generation by KRA, the agent as it collects taxes and revenue for government, the principal and to a larger extent the Kenyans.

2.3 Determinants of Financial Performance of State Corporations

The analysis of corporate financial performance has a special significance for the management, in their attempt to maintain the company's stability and to increase its market share (Valentin, 2012). Effectiveness of company managers and resource efficiency affect directly the development of the state in which they operate, by obtaining positive financial results. Some of the determinants of financial performance are outlined as follows;

2.3.1 The Anglo-Saxon Corporate Governance

This measure focuses on maximizing shareholder value. This principle provides a conceptual and operational framework for evaluating business performance. The value of shareholders, defined as market value of a company is dependent on several factors: the

current profitability of the company, its risks, its economic growth essential for future company earnings (Brief and Lawson, 1992).

2.3.2 Financial Performance of a Firm

This is directly influenced by its market position. Profitability can be decomposed into its main components: net turnover and net profit margin. (Frankel and Rose, 2004) argues that both can influence the profitability of a company one time. If a high turnover means better use of assets owned by the company and therefore better efficiency, a higher profit margin means that the entity has substantial market power.

2.3.3 Size of the Firm

The size of the company can have a positive effect on financial performance because larger firms can use this advantage to get some financial benefits in business relations. In the classical theory, capital structure is irrelevant for measuring company performance, considering that in a perfectly competitive world performance is influenced only by real factors. (Frankel and Rose, 2004)

2.3.4 Capital Structure

Recent studies contradict the theory that firm capital structure does not influence firm performance, arguing that capital structure plays an important role in determining corporate performance. Barton and Gordon (1988) suggest that entities with higher profit rates will remain low leveraged because of their ability to finance their own sources. On the other hand, a high degree of leverage increases the risk of bankruptcy of companies.

2.3.5 Total Assets of a Firm

Total assets of a firm is considered to positively influence the company's financial performance, assets greater meaning less risk. A large volume of sales (turnover) is not necessarily correlated with improved performance. Studies that have examined the relationship between turnover and corporate performance were inconclusive. (Frankel and Rose, 1998)

2.3.6 Long term Objective of the Firm

The main objective of the company has evolved over time; the need for short term profit is replaced by the need for long-term growth of the company (sustainable growth). Therefore, a sustainable growth rate higher than 1 would have a positive impact on performance and the companies listed at the stock exchange, its ability to distribute dividends is a proof of stability. However, until now there was no proof of a link between this factor and profitability, since profits can be used for purposes other than to distribute dividends. (Frankel and Rose, 1998)

2.4 Empirical Review

Requirement of governments to provide public goods and execute other developmental projects that would improve living standard of citizenry as well as meet its recurrent expenditure necessitate intensified revenue generation efforts both internally and externally. Collection of taxes is one of the formidable options to generate revenue. The public revenue collection challenge should be broadly conceptualized within the tax reform initiatives. System modernization is key in improving the efficiency and

effectiveness in revenue collection. No doubt the traditional form of fiscal receipts will always be an essential part of the tax administration system (UNCTAD, 2008). Through system automation, a tax collection agency will be able to meet their revenue collection targets at the grassroots as well as less tax avoidance and evasions.

2.4.1 International Evidence

A study by Falkinger and Walther in 1991 in London, United Kingdom looked beyond punitive factors and considered persuasive factors. Their evidence suggested that a tax system that combines both penalties and rewards is more effective in maximising compliance than a system that focuses solely on sanctions.

There two main methods of revenue collection, namely electronic revenue collection and manual systems. Electronic Revenue Collection System (ERCS) is a comprehensive solution for the electronic collection of government fees, taxes and custom duties (Agbeyegbe, Terence, Stotsky and Mariam, 2004). This method serves as a means to achieve a cashless environment via the introduction of virtual funds and automates all revenue collection processes, allowing government agencies to exploit the full capabilities of the technology to transform its services to the public.

Agbeyegbe et al, 2004 in examining the empirical evidence on the relationship between trade liberalization, exchange rates, and tax revenue is mixed. This paper examines these linkages anew. Using a panel of 22 countries in Sub-Saharan Africa, over 1980-1996, we perform Generalized Method of Moment regressions to test this relationship. They

deduced evidence that the relationship between trade liberalization and tax revenue is sensitive to the measure used to proxy trade liberalization, but that, in general, trade liberalization is not strongly linked to aggregate tax revenue or its components-though with one measure, it is linked to higher income tax revenue.

Singh and Sharma (2007) made an attempt to study the perception of tax professionals with regard to Indian Income Tax System by collecting primary data from 100 tax consultants operating in Punjab and Haryana. They tried to investigate the role of tax consultants played in the revenue collection process by helping their clients in understanding the complex tax system and meeting their legal obligations. Factor Analysis of data showed that seven factors reduction in tax evasion, extension of relief to taxpayers, incentives for dependents and honest taxpayers, broadening the tax base, e-filing of returns, adequacy of deductions and impact of exempt-exempt tax system played an important role in determining the effectiveness of Indian tax system. It was observed that most of the tax consultants were satisfied with tax rates.

However, majority showed dissatisfaction with regard to price level adjustment. It was also observed that most of the taxpayers consulted tax experts because they found it cheap. While concluding the authors suggested for adjustment of income tax rates according to price level changes, broadening of tax base, strict measures against tax evaders, extensive use of TDS, consideration to number of dependents for tax rate purpose and establishment of good relationship with taxpayers.

Datar (2010) in his article entitled "Why the Code must be shelved" expressed his views about proposed Direct Taxes Code in India. He opined that people would have to waste a lot of time in understanding the new provisions of income tax law and CBDT would have to issue numerous circulars and frame several rules all over again. He expressed his apprehension that proposed Code would neither improve efficiency nor tax collection due to deep rooted corruption. He felt that fault is not with existing Income Tax Act, but the manner in which it is administered. In the end, he concluded that there is no ground for wholesale replacement of the existing Act rather amendments could be carried out. Empirical studies related to Income Tax System have highlighted certain weaknesses of Income Tax System such as inadequate structure of Income Tax Department to meet the challenges posed and responsibilities cast on it, overburdened income tax officials, unhealthy service conditions in the department, lack of systematic plan for computerization and increase in number of pending assessments and outstanding refunds.

According to Aderemi, Oladele and Uduma (2013) in their study; Revenue Generation and Engagement of Tax Consultants in Lagos State, Nigeria: Continuous Tax Evasion and Irregularities, had set out to investigate the role of tax monitors and consultants in a bid to increase revenue generation in the state of Lagos, Nigeria. From the study, the researchers conclude that tax evasion and avoidance is imminent and of course has significant relationship with revenue generation of Lagos State. Regardless of present improvement revenue generation recorded with the engagement of tax consultants. There was a general consensus in the literature that tax avoidance and avoidance reduce revenue inflow, this can largely be checked by plugging the loopholes in the tax laws and

Carefully drafting of all new tax legislation. It is also suggested that all the tax laws should be further codified and harmonized.

2.4.2 Local Evidence

Governments are working towards maximizing on their revenue collection methods to ensure that they raise enough revenues to run and manage the affairs of the county government at the grassroots. Increase in revenue collection can be achieved through employing county revenue instruments for tax collection as well as exploiting and harnessing all available sources of revenue in their localities and devising a cost effective means of collecting revenues.

According to Mitullah, Odhiambo and Kichamu (2005), in their study of management of resources by local authorities there was need to designate revenue collection points for convenience and efficiency. In addition, losses through corruption and tax evasion need to be reduced by applying stiffer penalties to corrupt officials and tax evaders. This can be achieved by contracting collections to a private collection agency; thus increasing revenues from existing sources and also reducing cost. Measures are required to enhance taxpayers' compliance and to improve the accountability of tax collectors.

Muriithi and Moyi on their study tax reforms and revenue mobilization in Kenya in 2006 recommend that the tax authorities should pay more attention to taxpayer education, compliance and tax audits. With complex tax laws, taxpayers have to bear additional costs in order to interpret the law and process tax returns. This tends to give the taxpayers

an incentive to evade tax and, therefore, provides a rationale for aggressive taxpayer education. For example, the Income Tax Act has not been reviewed since 1989 even as many social and economic changes have taken place over the period. Tax audits ensure that individuals and corporations maintain proper books of account for tax purposes.

Otieno et al, (2013), in their study of the effect of Information Systems on Revenue Collection by Local Authorities in Homa Bay County, Kenya set out to investigate the effect of Information Systems on revenue collection of Local Authorities in Homa Bay, Kenya. The study findings concluded that investment in ICT is very important to Local Authorities. This is because computerized Information Systems has a positive effect on revenue collection. Computerization of council activities such as revenue collection enhances efficiency as a result of timely revenue collection, enhancing management integrity, provision of clear records among other factors.

Ochieng, Wawire, Manyasa and Thuku, (2014) in their study on Effects of Tax Reforms on Buoyancy and Elasticity of the Tax System in Kenya: 1963–2010, a study carried to examine the effect of tax reforms on tax buoyancy and elasticity estimates since 1963 up to 2010. Although the reforms analyzed had positive effect on both tax buoyancy and elasticity, the results indicate that this was not sufficient to help generate adequate revenue to finance the ever increasing government expenditure. With an inelastic tax system, the Kenya government has to re-evaluate the implementation strategies and pursue further reforms for it to fully exploit the tax revenue potential in the economy.

2.5 Summary of the Literature Review

The study has reviewed wide range of literature covering from international writer and journals to local authorship including unpublished students thesis. In all the literature none has previous been done focusing on the revenue enhancement strategies adopted by the Kenya Revenue Authority hence giving credence in carrying out the research. From the above studies, it is evident that most of these studies have laid more focus on the back end solution to revenue collection and adoption of technology as solutions to maximizing revenue generation (Otieno et al; 2013). Transactional monitoring is very advanced, with instant reporting to various departments, this makes it difficult for officials to making changes of reports to favor a required output. None these studies have focused on strategies that have been used to enhance the collection and maximization of revenue by the Kenya government and this study is out to reveal such strategies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the method that was used to collect data pertinent in answering the research question. It provides an overview of the research design, description of research instruments, description of data collection procedures and data analysis procedures.

3.2 Research Design

The research design used in this study was descriptive survey, guided by four independent variables (tax payer education, computerized operations, staff training revenue collection points) that influence the dependent variable (performance at KRA). The descriptive design was expected to derive proper and concise recommendations to the management of Kenya Revenue Authority on the most appropriate revenue enhancement strategy for enhanced revenue administration. Descriptive studies describe characteristics associated with the subject population portraying an accurate profile of persons, events or situations (Saunders, Lewis and Thornhill 2009). According to Cooper and Schindler (2003), descriptive statistics discover and measure cause and effect relationships among variables. This design also seeks to provide insights into research problems by describing the variables of interest with a view of defining, estimating, predicting, and examining associated variables.

3.3 Data Collection

This study relied on secondary data. Secondary data was obtained from published annual reports and the fourth and fifth corporate strategic plans. The data collected was divided into the five parts as per the areas of investigation i.e. financial performance as affected by tax payer education, computerized operations, staff training and revenue collection points.

3.4 Data Analysis

The data was analyzed using descriptive statistics including frequencies, mean scores and correlation analysis. Regression models were used to determine the existence, if any, of the relationship between financial performance and the strategies adopted to enhance financial performance by KRA. This helped in analyzing the information in a systematic way in order to come to useful conclusions and recommendations, whose findings were presented in tables for easy interpretation and understanding. In addition, regression model were used to measure the quantitative data to establish the extent to which independent variables affect the dependent variable as shown by the size of the beta coefficients.

3.4.1 Analytical Model

The regression model will thus be as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Whereas:

Y = Financial Performance as measured by revenue collected;

α = Constant term;

β_i = Coefficients of independent variable i which measures rate at which the dependent variable is changing for each unit change in the independent variable.

X_1 = Tax payer education as measured by the number of taxpayers recruited;

X_2 = Computerized operations as measured by the cost of computerization;

X_3 = Staff training as measured by the cost of staff training

X_4 = Revenue collection points

ε = Error term

3.4.2 Test of Significance

In this study, the level of significance was 5% which means that all statistical tests were done and compared against the 5% level of significance.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter presents an analysis of the data collected. Descriptive statistics, correlations and regression analysis are presented, interpreted and findings discussed in relation to the stated research objective. The general objective of the study was to establish the effect of revenue enhancement strategies on the financial performance of KRA.

This study relied on secondary data that was obtained from published annual reports and the fourth and fifth corporate strategic plans for thirteen (13) financial years from 2002-2003 up to 2014-2015 based on the study's variables i.e. financial performance as affected by tax payer education, computerized operations, staff training and revenue collection points.

4.2 Descriptive Statistics

The descriptive results in Table 4.1 presents the number of observations, mean scores and standard deviations based on data from thirteen (13) financial years (fifty two quarters)

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Performance	52	46.07	315.66	134.4285	70.44084
Tax payer education	52	.00	36.24	15.0060	10.51796
Computerized					
operations	52	.00	91.06	17.0192	22.35534
Staff Training					
Revenue collection	52	10.62	74.55	42.6086	21.19107
points	52	3.00	40.00	6.9808	9.47958

Source: Research Findings

4.3 Inferential Statistics

Inferential statistics was applied in order to understand the study best.

4.3.1 Correlation Analysis

Table 4.2 shows the correlations results. As indicated from the coefficients, there were correlations among the variables used in the study.

Table 4.2 Correlation Matrix

		FINPF	EDUC	COMP	STAFF	POINTS
FINPF	Pearson					
	Correlation	1				
	Sig. (2-tailed)	.				
	N	52				
EDUC	Pearson					
	Correlation	.292(*)	1			
	Sig. (2-tailed)	.035	.			
	N	52	52			
COMP	Pearson					
	Correlation	-.100	-.194	1		
	Sig. (2-tailed)	.479(**)	.168	.		
	N	52	52	52		
STAFF	Pearson					
	Correlation	.060	.521(**)	-.167	1	
	Sig. (2-tailed)	.672(**)	.000	.236(*)	.	
	N	52	52	52	52	
POINTS	Pearson					
	Correlation	.742(**)	.063	.125	-.140	1
	Sig. (2-tailed)	.000	.656(**)	.377	.323(*)	.
	N	52	52	52	52	52

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Source: Research Findings

The Pearson's Product moment correlation results described in Table 4.2 shows that revenue collection points showed strong and significant positive relationship with financial performance at KRA, showing a correlation coefficient of $r = 0.742$, $P < .01$. The results in Table 4.2 showed that strong and significant positive relationships are observed between staff training and financial performance at KRA ($r = 0.672$, $P < .01$). The results in Table 4.2 showed that a weak but positive relationship was observed between tax payer education and financial performance at KRA ($r = 0.292$, $p < .01$). It was noted that revenue collection points had the highest effect on financial performance at KRA.

4.3.2 Regression Analysis

The study's main objective was to establish the effect of revenue collection enhancement strategies on the financial performance of KRA. A multivariate regression model was applied to determine the relative importance of each of the variables with respect to financial performance of KRA.

Table 4.3: Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Sig.
1	.796 ^a	.634	.603	44.36887	0.000

a. Predictors: (Constant), tax payer education, computerized operations, staff training and revenue collection points.

b. Dependent Variable: Financial Performance at KRA

Source: Research Findings

Table 4.3 indicates that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variable) R-Squared was 0.634. This implied that 63.4 percent of the variation in financial performance of KRA was explained by tax payer education, computerized operations, staff training and revenue collection points leaving 36.6 percent unexplained.

The P –value of 0.008 (less than 0.05) implied that the model of financial performance of KRA was significant at the 5 percent significance level. It was clear that the strategies significantly contributed to the financial performance levels at KRA.

4.3.3 ANALYSIS OF VARIANCE

An analysis of variance (ANOVA) was conducted to establish the variability or spread of scores in the sample and the results were as shown in Table 4.5.

Table 4.4: ANOVA Table

	Sum of Squares	df	Mean Square	F	Sig.
Regression	160533.458	4	40133.364	20.387	.015(a)
Residual	92524.028	47	1968.596		
Total	952903.406	51			

a. Predictors: (Constant), tax payer education, computerized operations, staff training and revenue collection points.

b. Dependent Variable: Financial Performance at KRA

Source: Research Findings

From the information presented in the ANOVA table, given that the probability of variation, (.015) is more than the critical value (0.05), then the effect of variability is insignificant. Hence, the regression model is statistically significant in that, all the independent variables put together are significant. This implied that it was a suitable prediction model for explaining how tax payer education, computerized operations, staff

training and revenue collection points impacted on the financial performance of KRA. Thus, Financial Performance at KRA was as a result of tax payer education, computerized operations, staff training and revenue collection points.

From the regression model in Table 4.3, tax payer education, staff training and revenue collection points have strong, positive and significant effect financial performance of KRA while computerized operations and negative and significant effect on financial performance of KRA.

Table 4.5: Coefficients of Regression Equation

	Un-standardized		Standardized		
	Coefficients		Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	78.283	16.777		4.666	.000
Tax payer education	1.308	.709	.195	1.845	.071
Computerized operations	-.474	.287	-.150	-1.653	.105
Staff Training	.128	.351	.039	.364	.717
Revenue collection points	5.604	.676	.754	8.288	.000

a Dependent Variable: financial performance of KRA

Source: Research Findings

The established multiple regression equation becomes:

$$Y=78.283 + 1.308X_1 - 0.474X_2 + 0.128X_3 + 5.604X_4$$

4.4 Interpretation of the Findings

The study sought to examine the effect of revenue enhancement strategies on financial performance of KRA. The study found out that taxpayer education significantly affected the financial performance of KRA. A unit increase in taxpayer education led to 1.308 increase in financial performance.

The findings indicated that taking all other independent variables at zero, a change in computerized operation led to 0.474 change in financial performance of KRA in the opposite direction. At 5% level of significance, computerised operations had a beta value of 0.071. These findings negate assertions by Otieno et al, (2013), in their study of effect of Information System on Revenue collected by Local Authorities in Homa Bay County, Kenya

The study asserted that an increase in staff training led to 0.128 increase in financial performance of KRA. At 5% level of significance, staff training had a beta value of 0.717 hence implying that staff training had a strong positive relation with financial performance.

Taking all other independent variables at zero, an increase in revenue collection points led to a 5.6004 increase in financial performance of KRA. This was in line with Mitullah, Odhiambo and Kichamu (2005) who noted that there was need to designate revenue collection points for convenience and efficiency.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the findings of the study in relation to the research objective. This chapter presents a summary of the findings, conclusions and recommendations for policy implications drawn in relation to the study objectives in addition to suggestions for further study.

5.2 Summary

This section presents a summary of the study findings in relation to study objective. As discussed in chapter one, the general objective of the study was to establish the effect of revenue enhancement strategies on the financial performance of KRA. This study analyzed strategies that influence financial performance of KRA based on four strategies namely; tax payer education, computerized operations, staff training and revenue collection points.

This study relied on secondary data that was obtained from published annual reports and the fourth and fifth corporate strategic plans for thirteen (13) financial years from 2002/2003 up to 2014/2015 based on the study's variables i.e. financial performance as affected by tax payer education, computerized operations, staff training and revenue collection points. Analysis of the data indicated that tax payer education, staff training and revenue collection points have strong, positive and significant effect financial

performance of KRA while computerized operations had a negative and significant effect on financial performance of KRA.

5.3 Conclusion

Overall, results indicate that financial performance of KRAs affected tax payer education, computerized operations, staff training and revenue collection points. Findings present evidence that there exists a relationship between tax payer education, computerized operations, staff training and revenue collection points and financial performance of KRA. It also emerged that the individual effects of these factors on financial performance of KRA were significant.

An interesting finding was that computerized operations had a negative effect on financial performance of KRA. This could be a pointer that employees have not fully applied their knowledge or have not fully enhanced their level of understanding of computer operations in relation to tax administration.

5.4 Recommendations for Policy and Practice

More training on the reforms and modernization at KRA should be enhanced so as to improve on the skills, knowledge and professional capacity of the employees to increase revenue. In addition, more revenue collection centers need to be established since they have been effective in enhancing financial performance by the Authority. Finally, the study recommends that the revenue collection process should be continuously revised so

as to ensure that the number of transaction increases and that tax evasion is avoided. Policy makers should come up with policies that prevent the tax evasion in Kenya.

5.5 Limitations of the Study

The sample used was relatively small considering Kenya Revenue Authority has been operating since 1995.

The period under study was relatively short hence the trend displayed may not be sufficient to represent the years that have not being incorporated.

The data used was historical and due to the changing economical factors and trends, this may not be a good representation of what may happen in the future.

5.6 Areas for Further Research

Given that the study focused only on strategies for revenue enhancement based on the Authority's secondary data, it is recommended that a similar study on the concepts of taxpayers' attitudes towards tax systems, the factors which influence taxpayers' attitudes and the relationship between attitudes and financial performance by the KRA be undertaken.

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APPENDICES

Appendix I: Data Collection Form

The form is meant to collect information on the effectiveness of revenue collection strategies at KRA. Kindly fill in the required information.

Financial Year Output Strategy	2002/2003					2003/2004				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Revenue Collected										
Cost of Taxpayers' Education										
Cost of Computerization										
Number of Collection Points										
Cost of Staff Training										
Financial Year Output Strategy	2004/2005					2005/2006				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Revenue Collected										
Cost of Taxpayers' Education										
Cost of Computerization										
Number of Collection Points										

Cost of Staff Training										
------------------------	--	--	--	--	--	--	--	--	--	--

Financial Year Output Strategy	2006/2007					2007/2008				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Revenue Collected										
Cost of Taxpayers' Education										
Cost of Computerization										
Number of Collection Points										
Cost of Staff Training										

Financial Year Output Strategy	2008/2009					2009/2010				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Revenue Collected										
Cost of Taxpayers' Education										
Cost of Computerization										
Number of Collection Points										
Cost of Staff Training										

Financial Year Output Strategy	2010/2011					2011/2012				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Revenue Collected										
Cost of Taxpayers' Education										
Cost of Computerization										
Number of Collection Points										
Cost of Staff Training										

Financial Year Output Strategy	2012/2013					2013/2014				
	Q1	Q2	Q3	Q4	TOTAL	Q1	Q2	Q3	Q4	TOTAL
Revenue Collected										
Cost of Taxpayers' Education										
Cost of Computerization										
Number of Collection Points										
Cost of Staff Training										

Financial Year Output Strategy	2014/2015				
	Q1	Q2	Q3	Q4	TOTAL
Revenue Collected					
Cost of Taxpayers' Education					
Cost of Computerization					
Number of Collection Points					
Cost of Staff Training					

Appendix II: Revenue Collection Points

1	Cash
2	Central Bank of Kenya
3	National Bank of Kenya
4	Kenya Commercial Bank
5	Co-operative Bank of Kenya
6	Equity Bank
7	Housing Finance Corporation of Kenya
8	Eco Bank
9	CFC Stanbic Bank
10	ABC Bank
11	UBA Bank
12	Family Bank
13	I & M Bank
14	NIC Bank
15	Gulf Bank
16	Chase Bank
17	Bank of Africa
18	Post Bank
19	Prime Bank
20	K-Rep Bank
21	First Community Bank

22	Commercial Bank of Africa
23	Guarantee Trust Bank
24	Citi Bank
25	DTB Bank
26	Transnational Bank
27	M-Pesa
28	Airtel Money
29	Orange
30	Dubai Bank
31	Victoria Commercial Bank
32	Consolidated Bank
33	Imperial Bank
34	Standard Chartered Bank
35	Credit Bank
36	Barclays Bank of Kenya
37	Equatorial Bank
38	Paramount Bank
39	Fidelity Bank
40	Guardian Bank

Source: Kenya Revenue Authority Resource Library

Appendix III: Raw data of Revenue Collected

FINANCIAL YEAR	PERIOD	AMOUNT (Billion Ksh.)
2002/2003	Q1	46.07
	Q2	49.938
	Q3	48.719
	Q4	57.257
	TOTAL	201.984
2003/2004	Q1	50.771
	Q2	55.2
	Q3	56.602
	Q4	66.782
	TOTAL	229.355
2004/2005	Q1	64.524
	Q2	71.344
	Q3	63.609
	Q4	74.775
	TOTAL	274.252
2005/2006	Q1	69.692
	Q2	73.584
	Q3	71.827
	Q4	82.819
	TOTAL	297.922
2007/2008	Q1	99.803
	Q2	119.698
	Q3	96.263
	Q4	118.394
	TOTAL	434.158
2008/2009	Q1	108.864
	Q2	121.802
	Q3	110.197

	Q4	139.866
	TOTAL	480.729
2009/2010	Q1	124.022
	Q2	136.787
	Q3	123.057
	Q4	150.541
	TOTAL	534.407
	2010/2011	Q1
Q2		162.743
Q3		141.35
Q4		190.528
TOTAL		634.89
2011/2012	Q1	160.998
	Q2	177.196
	Q3	160.428
	Q4	208.739
	TOTAL	707.361
2012/2013	Q1	177.868
	Q2	202.756
	Q3	179.734
	Q4	240.097
	TOTAL	800.455
2013/2014	Q1	228.398
	Q2	242.479
	Q3	209.474
	Q4	284.613
	TOTAL	964.964
2014/2015	Q1	249.268
	Q2	269.196
	Q3	235.478
	Q4	315.656
	TOTAL	1,069.60

Source: Kenya Revenue Authority Resource Library