

# **STRATEGIC RESPONSES BY KENYA REVENUE AUTHORITY TO ITS OPERATING ENVIRONMENT**

By


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for the award of the Degree of Master of Business Administration (MBA), School of  
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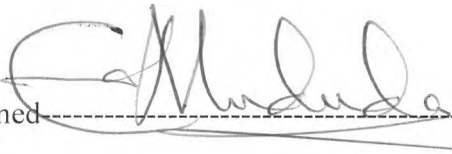
## DECLARATION

This Research Project is my original work and has not been presented for a degree programme in any University.

Signed  Date 11/11/2009

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This paper has been submitted for examination with my approval as a University Supervisor.

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## **DEDICATION**

To my mother Mary Chematui, who taught me from my tender age the virtue of hard work and shaped me to who I am today. She saw my capabilities and made me understand and come to realization that sky is my limit and I can make it in life through hard work and determination.

To my son Victor Kibet, who has been my source of encouragement. At the age of four, he understood that Mum had to go to school and always reminded me every moment that I had to attend my classes and work hard like him. He missed my company as I concentrated on my MBA programme including attending lectures and group discussions during evenings and weekends.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

AEO	Authorized Economic Operator
ATM	Automated Machines
BPR	Business Process Re-engineering
CAMIS	Cargo Management Information Systems
CCTV	Closed Circuit Television Camera(s)
CEO	Chief Executive Officer
CG	Commissioner General
COSIS	Customs Oil Stock Information Systems
CRM	Customs Reforms and Modernization
CSD	Customs Services Department
DC	Deputy Commissioner
DPC	Data Processing Centre
DTD	Domestic Taxes Department
ERP	Enterprise Resource Planning
ETR	Electronic Tax Register
FOSS	Free Open Source Software
GT	Graduate Trainee(s)
HR	Human Resource(s)



ICPAK	Institute of Certified Public Accountants of Kenya
ICT	information and Communication Technology
IMF	International Monetary Fund
ISO	International Organization for Standardization
IT	Information Technology
ITMS	Information Tax Management Systems
JKIA	Jomo Kenyatta International Airport
KAM	Kenya Association of Manufacturers
KIFWA	Kenya International Freight and Warehousing Association
KRA	Kenya Revenue Authority
KRATI	Kenya Revenue Authority Training Institute
LTO	Large Tax Payer Office
MOU	Memorandum of Understanding
PAYE	Pay As You Earn
PC	Performance Contract
PESTEL	Political, Economic, social, Technological, Economic, Ecological and Legal
PIN	Personal Identification Number
PSV	Public Service Vehicle

QMP	Quality Management Programme
RARMP	Revenue Administration Reforms and Modernization Programme
SAC	Senior Assistant Commissioner
SMS	Short messages
SWOT	Strength, Weakness, Opportunity and Threats
TLB	Transport Licensing Board
TOT	Turnover Tax
TP	Taxpayer
TQM	Total Quality Management
VAT	Value Added Tax
WB	World Bank

## **CHAPTER ONE: INTRODUCTION**

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

Kenya Revenue Authority was established in 1995 as a semi-autonomous government agency responsible for revenue administration. The overall objective was to provide operational autonomy in revenue administration and enable its evolution into a modern, flexible and integrated revenue collection agency. KRA is responsible for collecting about 93% of total government revenue. Kenya is unique in the region for having over 90% of its aggregate expenditure financed from domestic revenue. Thus the failure of KRA to meet its revenue targets has direct adverse effect on the economy with the government being forced into borrowing to finance the deficit.

Even though KRA operates in absence of competitors, the Authority like any other organization operates in the context of a dynamic and changing environment that creates new demands and focus for customers that requires strategic responses for success. Some of the critical aspects of operating environment include the national and regional political environment and the perceived legitimacy of tax collection functions, for tax to be seen as legitimate, it needs to be appropriate to the environment and enforceable, the societal ability and willingness to meet increased tax burden, financial and management accountability and civil servants incentives are a strong determinants of an effective tax administration. The study therefore focused on strategic responses of KRA to its operating environment.

#### ***1.1.1 The Environment of the Organization***

All businesses operate as open systems (Pearce and Robinson, 2002). They constantly interact with its environment to survive. Organizations are environment dependent. They depend on environment for survival. Organizations require money, equipment, Human Resources, etc from the environment as input. Resources go through transformation process in the company. The finished products as output go to the environment. It is important that the product has to be accepted in the environment for company's success. An Organization should be able to maintain the system, because any interference spells death for the organization. The firm's environment consists of remote environment,

industry environment and operating environment. The organization ought to know how and what to respond to; know whether the action should be proactive or reactive in order to increase market share and safeguard customers. This requires new skills to help counter these challenges in the environment. Failure to align the internal capability of the firm to its environment spells doom for the organization (Aosa, 1992).

### ***1.1.2 The Operating Environment***

The Operating environment, also called the competitive or task environment comprises factors in the competitive situation that affect the firm's success in acquiring needed resources or in profitably marketing its goods and services. Firms can be more proactive in dealing with operating environment (Pearce and Robinson, 1997). They include competitors, suppliers and creditors, human resources and customers. A firm's ability to attract and hold capable employees is essential to its success.

Customers consume company's products. They are the source of sales revenue. Development of a profile representing present and existing customers improves the ability of the Managers to plan strategic operations, to anticipate changes in the size of the market and to reallocate resources so as to support forecast shifts in demand pattern. KRA customers include both internal customers who are the staff and external customers. The external customers may be individuals, partnerships or corporate limited liability companies. They are also categorized according to their turnover tax per annum for example small taxpayers with turnover tax up to 5million, medium taxpayers with turnover tax of above 5million to 750million and large taxpayers with turnover tax above 750million. The needs of these customers have to be fully met in order for the organization to achieve growing revenue collection targets set by the Treasury.

Johnson and Scholes (2002), state that environmental changes shape opportunities and challenges facing the organization, the paces of technological change, speed of global communication mean faster change now than never before thus, the need to constantly adjust according to these changes to remain successful. According to Kottler (1997), marketing concept holds that the key to achieving organizational goals lies in determining

the needs and wants of the target market and delivering the desired satisfaction more effectively and efficiently than competitors.

This concept has been expressed in many colorful ways among others; the customer is always right, the customer is the king, at your service, your problem is our business, have it your way and you are the boss. A customer therefore is core to an organization and ought to be satisfied with the products of the Organization for it to succeed in an ever changing environment (Kottler, 1997). To survive in the dynamic environment, Organizational strategies need to focus on their customers and dealing with emerging environmental changes in its operating environment.

## **1.2 Kenya Revenue Authority**

KRA was established by an Act of Parliament on July 1<sup>st</sup> 1995 Cap. 469 for the purpose of enhancing the mobilization of Government revenue, while providing effective tax administration and sustainability in revenue collection. 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 written laws and the specified provisions of the written laws, to advise on matters relating to the administration of, and collection of revenue under the written laws or the specified provisions of the written laws and to perform such other functions in relation to revenue as the Minister of Finance may direct.

The Authority is a Government agency that runs its operations in the same way as a private enterprise. A Board of Directors, consisting of both public and private sector experts, makes policy decisions to be implemented by KRA Management. The Chairman of the Board is appointed by the President of the Republic of Kenya. The Chief Executive of the Authority is the Commissioner General who is appointed by the Minister for Finance.

In order to realize its mandate, the Authority administers written Laws relating to revenue. They legally constitute the functional departments and sections of Kenya Revenue Authority. In terms of revenue collection and other support functions, the Authority is divided into the following Departments; Customs Services Department, Domestic Taxes-Domestic Revenue Department, Domestic Taxes-Large Taxpayers, Road Transport Department, Investigations & Enforcement Department and Support Services Department (consisting of Research & Corporate Planning, legal affairs, Integrity and Total quality management) Each headed by a Commissioner.

In addition to the six Departments, the Authority has six service Departments that enhance its operational efficiency. These are as follows: Human Resources Department, Finance Department, Board Corporate Services & Administration Department, Internal Audit Department, Information & Communication Technology Department and Marketing and communication Department each headed by a Senior Deputy Commissioner. In order to offer better single-window services to taxpayers, KRA is divided into five Regions as follows: Rift Valley Region, Western Region, Southern Region, Northern Region, Central Region each headed by a Senior Deputy Commissioner. It is therefore clear that other than the enforcement of tax laws, KRA's operations impact directly and indirectly on the life of every Kenyan.

KRA's role in the Kenyan economy cannot be underestimated. They include among others; to administer and to enforce written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all revenues in accordance with these laws, advise on matters pertaining to the administration or and the collection of revenue under Written laws, enhance efficiency and effectiveness of tax administration by eliminating bureaucracy, procurement, promotion, training and discipline. KRA also ensures protection of local Industries and facilitates economic growth through effective administration of tax laws relating to trade and ensure effective allocation of scarce resources in the economy by effectively enforcing tax policies thereby sending the desired incentives and shift signals throughout the country.

KRA strives to facilitate economic stability and moderate cyclic fluctuations in the economy by providing effective tax administration as an implementation instrument of the fiscal and stabilization policies and, being a 'watchdog' for the Government agencies such as Ministries of Health, Finance, by controlling exit and entry points to the country to ensure that prohibited and illegal goods do not pass through Kenyan borders. This therefore means that KRA has to strategically respond to its operating environment. For KRA to maximize the much needed revenue collection for the Kenyan Government and Economy and realize its Vision of becoming the leading Revenue Authority in the world.

### **1.3 Strategic Responses to the Organization's Environment**

Strategic Management relates to positioning and relating a firm to its environment in a way that will assure continued success. In the past focus on long-range planning assumed that the future was not expected to be significantly different from the past so extrapolation of history was sufficient. Strategic planning assumes the future is not expected to be a resemblance of the past hence not extrapolable.

Environment is key to a firm's success. Environment can be relatively stable or highly turbulence. Each level of environmental turbulence; has different characteristics, requires different strategies and requires different firm capabilities (Ansoff and McDonnell, 1990). Thus there is need for continuous strategic diagnosis. Strategic Diagnosis is a systematic approach to determining the changes that have to be made to a firm's strategy and internal capability in order to assure the firm's success in the future environment. Based on appreciation that periodic planning systems are not able to perceive and respond to threats and opportunities in a turbulent/chaotic environment.

Timely response is critical to avoid adverse effects or missed opportunities. Costs of none response could be lost accumulative profits and cost of reversing the loss. Strategic Responses may include, development of new products, new markets, new process, new services, new strategies for attaching the market, restructuring, marketing, Information Technology, leadership and Culture change. During its first corporate plan which covered the year 2000 to 2003, KRA adopted a formal modern strategic planning and performance management techniques. This saw KRA drastically improve its revenue

yields, quality of service and saw tax enforcement and preventive programmes put in place.

KRA'S Strategic theme during the second corporate plan (year 2003-2006) was "Enhanced revenue collection, through enhanced quality service to our stakeholders, modernization of processes and revitalization of work force". This saw KRA exceed its revenue targets. The current third corporate plan (year 2006-2009), stressed on the importance of developing dedicated and professional Human Resources, Modern processes and technologies that will enable deliver focused customer service to enhance revenue collection.

#### **1.4 Research Problem**

Even though KRA enjoys monopoly from local competition, it does not operate in a vacuum and therefore it is environment depended. It has to strategically respond to challenges posed by the operating environment and more specifically the external customers, who are the taxpayers. KRA will continue to face significant environmental challenges. Over the last ten years the volume and complexity of their operations have continued to expand. Their customers' base has become diverse in tandem with ever changing environmental conditions in which they live and conduct business. The taxpayer continues to demand value for money and justification for their considerable tax burden.

The Kenya's economy also is changing in ways that will make it more difficult to collect taxes. With special emphasis on the growth of small and informal enterprises that are difficult to tax. With globalization also, e-commerce and the rise of large Asian economies is also affecting trading environment. KRA should therefore be prepared to respond to a more informed populace, a challenging regional and global environment as well as an ever increasing number of taxpayers with complex financial transactions and means and motive to resist the payment of taxes especially during difficult financial situations as now witnessed in Kenya, with ever increasing inflation that has made the cost of living escalate with each new dawn.



There are many local studies that have been done in Kenya regarding strategic responses to environment challenges. Some of them include; Kombo (1997), Motor franchise holders; Sheik (2000), Insurance; Kandie (2001), Telkom Kenya; Kiptugen (2003), Kenya Commercial Bank; Atheru (2007), Kenya Meteorological Department. Most of the studies focused on competitive environment as a result of liberalization of Kenya's economy. Examples of their findings were as follows; Kombo (1997) found out that motor vehicle made substantial adjustment in their strategic variables in order to survive in a competitive environment. Sheik (2000) established that firms in Insurance Industry in Kenya made moderate adjustments in their strategic variables in order to cope with increased competition. Kandie (2001) found out that although Telkom Kenya has responded to its environment, financial constraints and lack of managerial empowerment considerably limited the Organization's capacity to respond.

Kiptugen (2003) established that Kenya Commercial Bank responded to its changing competitive environment through restructuring, marketing, embracing information technology and culture change. Atheru (2007) found out that Kenya Meteorological Department did not have adequate capacity to respond to the needs of their customers. None of the studies had covered KRA. Most of the studies also focused on firm's competitive environment. No two organizations are perfectly similar and thus whatever works for one company may not work for the other. This is because the managerial processes at KRA are different from those of industries covered in previous studies due to the differences in environmental and organizational factors. Thus a gap of knowledge was left in the area of KRA strategic responses to its operating environment.

For KRA to be successful in meeting its objectives and realize its vision of becoming the leading revenue Authority in the world respected for its professionalism, integrity and fairness, it has to fit itself in the environment by providing well thought strategic responses to its operating environment and more so to the customer. The study therefore was aimed at answering the question; how had KRA strategically responded to the ever changing operating environment in meeting its customer needs?

### **1.5 Objective of the Study**

The objective of the study was to determine the nature of Strategic Responses by KRA to its operating environment.

### **1.6 Significance of the Study**

The study will be important to practitioners and academicians both in Public and private sectors by contributing to the existing body of knowledge in the area of strategic Management. The study will also be important to government Agencies whose interest lies in improving service delivery by responding strategically to its operating environment for the much needed economic development and creation of investor confidence.

Most importantly the study will assist KRA to improve service delivery to Taxpayers. KRA management also will be able to identify most needful areas that require strategic response to enhance taxpayer satisfaction and revenue collection. The study will also provide a platform for future research on strategic Responses by firms to changes in their environment and customer needs, both in private and public sectors and more so, KRA.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

In this chapter relevant literature has been reviewed on the concept of organizational dependence on the environment, SWOT analysis, Strategic Diagnosis and Strategic Responses.

### **2.2 External Environment and Organizations**

Organizations are environment dependent (Pearce and Robinson, 2002). They depend on environment for survival. Organizations require money, equipment, Human Resources, etc from the environment as input. Resources go through transformation process in the company. The finished products as output go to the environment. It is important that the product has to be accepted in the environment for company's success. A Company should be able to maintain the system, because any interference spells death for the organization (Aosa, 1992).

The firm's environment consists of remote environment, industry environment and operating environment. The remote environment comprises factors that originate beyond and usually irrespective of, any single firm's situation. This environment presents a firm with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence (Pearson and Robinson, 1997). PESTEL analysis is often carried out by Manager to enable them to develop more informed strategies mostly long term plans.

Industry environment concept was put forward by Harvard Professor Michael E. Porter. He developed a model that helps Managers isolate particular forces that are potential threats and thus affect how much profits organizations competing in the same industry can expect to make, in order to counter them. Operating environment, also called the competitive or task environment comprises factors in the competitive situation that affect the firm's success in acquiring needed resources or in profitably marketing its goods and services. Firms can be more proactive in dealing operating environment. They include competitors, suppliers and creditors, human resources and customers.

Development of competitive position help the firm to more accurately forecast both its short and long-term growth and its profit potential (Pearson and Robinson, 1997). Suppliers & Creditors pose dependable relationships between a firm and its suppliers and creditors are essential to the firm's long-term survival and growth. They provide the firm with financial support, services, materials and equipment. Human resources are a source of competitive advantage. A firm's ability to attract and hold capable employees is essential to its success. A firm's access to needed personnel is affected by its reputation, local employment rates, and the ready availability of people with needed skills. Customers consume company's products. They are the source of sales revenue. Development of a profile representing present and existing customers improves the ability of the Managers to plan strategic operations, to anticipate changes in the size of the market and to reallocate resources so as to support forecast shifts in demand pattern (Pearce and Robinson 2002).

### **2.3 SWOT Analysis**

The external environment has to be scanned in effort to gauge trends and conditions that could eventually affect that industry and adapt to them Thompson and Strickland (1993). Failure to do so leads to serious strategic problem characterized by maladjustment of organizations output and demands of the external environment (Ansoff, 1988). This is a tool used in Strategic Management planning. Burns (2000), states that Strategic Management focuses on the environmental assumption of winning market shares. SWOT analysis is therefore a systematic identification of these factors in internal environment and external environment (remote, industry and operating) and the strategy that reflects the best match between them.

The SWOT analysis addresses the question: Where are we now? This is the second most important question to be asked in the strategic planning process. It is difficult to move to where one wants to be if the current position is not known. The purpose of situation analysis is to understand the organization's present situation and to some extent its background i.e. where it has come from and how it has come to the present. SWOT analysis is based on the assumption that an effective strategy maximizes a business

strengths and opportunities but at the same time minimizes its weakness and threats. This simple assumption if accurately applied has a powerful implication for successfully choosing and designing an effective strategy.

### *2.3.1 Customer Analysis*

Customers are a significant component of a firm's operating environment. Generally, a customer is a person who buys a firm's products. The concept may be extended to cover those who have the potential to buy and employees as well. Although current customers are of critical importance, potential or prospective customers should also be given due consideration. Customer analysis like any external analysis mainly aims at identifying opportunities and threats that would require strategic attention (Pearson and Robinson, 1997). Customer analysis also aims at trying to understand the customer so as to develop appropriate strategies to attract and retain customers.

The essence of any business is the customer (Kottler, 2000). The realization that customers are very important is reflected in the following popular slogans for example; The customer is king, the customer is always right, a customer is the ultimate employer, our preoccupation is serving the customer, without customers there is no job, and the customer is the reason for our existence. Successful organizations tend to be market-oriented as follows: They maintain true customer focus, They make customers the focal point of all their activities, They make the customer the starting point of the organization action, In such organizations everyone defines their job in terms of satisfying customers, They conduct regular customer satisfaction surveys, They have effective customer feedback system, They encourage customers to give feedback, Customer's problems and complaints are taken seriously (Kottler, 2000).

There are two levels or phases at which issues regarding the customer may be addressed. In Phase one, Fundamental questions for basic knowledge regarding customers for example, understanding who the customers are, as well as, their buyer behaviour. The following five questions are important here: Who are our customers? Why do they buy our products or services? How do they buy our products or services? When do they buy our products or services? Where do they buy our products or services? In the process of

addressing these questions, opportunities and threats may be identified. There are various conceptual approaches for addressing most of these questions. Various marketing models and concepts help address these questions for example, development of customer profiles, the Maslow's hierarchy of needs model, the customer buying process models, and understanding the distribution channels available (Kottler, 2000).

Included in phase two are questions that are important for continued relationship with the customer. How can the behavior of our customers be explained? Customer profiles based on behavioral factors like occasions, benefits, user status, usage rate, loyalty status, readiness stage and attitude towards the service can give insights that are useful in effectively relating to customers. The insights may be useful also in identifying opportunities and threats that require strategic attention. This will help address the questions like; Are there any changes in our customers? Are all our customers the same i.e. homogeneous? if not, can the customers be segmented? Segmentation is based on customer profile, what do customers see as important? Here customer perceptions are measured and addressed accordingly. What are customer preferences? Are these effectively addressed? If not, what measures are needed? (Kottler, 2000)

## **2.4 Strategic Diagnosis**

Strategic Management can be defined as a systematic approach to a major and increasingly important responsibility of general management position and relates the firm to its environment in a way that ensures continued success and makes it secure from uncertainty (Ansoff and McDonnell, 1990). The term strategy refers to long-term goals and objectives of an organization, including taking actions and allocation of resources for achieving these goals Chandler (1962). Porter (1980), states a strategy as competition and the means by which an organization tries to gain a competitive advantage. Pearce and Robinson (1997), states that a strategy can be seen as building defense against competitive forces, or as finding positions in the industry where competitive forces are weakest.

According to Mintzberg et al (1998) there are five definitions of strategy. For example, Strategy can be referred to as a plan, pattern, ploy, position and perspective. Ansoff and McDonnell (1990) indicates that the first step in strategic management is to perform strategic diagnosis which is a systematic approach to determining the changes that have to be made to a firm's strategy and its internal capability in order to assure the firm's success in the environment.

The strategic diagnostic procedure is derived from the strategic success hypothesis which states that a firm's performance potential is optimal when the aggressiveness of its strategic behavior matches the turbulence of its environment for example, the strategy must match the environment and the capability must match the strategy. Strategic diagnosis determines the nature of firm's strategic problem.

Attached and marked as appendix I is a figure showing environmental dependence of organizations. Where environment shifts from E1 to E2, the original strategy has to change from S1 to S2 in order to adapt to changed environment conditions otherwise there will be a strategy gap. This is only possible if original internal capability is changed from C1 to C2. According to Johnson and Scholes (2002) there is needed to establish whether the original strategies continue to fit the environment in which it is operating considering the opportunities and threats that exist. He stated further that issues of strategy development are concerned with changing strategy capability better to fit the changing environment.

## **2.5 Strategic Responses**

Organizations are environment dependent and serving (Ansoff and McDonnell, 1990) note that strategic responses involve changes to organization's strategic behavior to assume success in transforming future environment. Strategy is a bridge between the firm's resources and the opportunities and risks the firm faces in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stakeholders. The choice of the responses depends on the speed with which a particular treat or opportunity develops in the environment. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining

competitive edge. Some of the Strategic Responses may include, development of; new products, new markets, new process, new services, new strategies for entering the market, restructuring, marketing, Information Technology, leadership and Culture change.

### **2.5.1 Restructuring**

Activities within a business value chain are more critical to the success of the business strategy than others. Business Process Reengineering popularized by consultants Hammer (1996) is one popular method. BPR is intended to regularize a company so that it can best create value for customer by eliminating barriers that create distance between employees and customers. It involves fundamental rethinking and radical redesign of Business Processes to achieve dramatic improvements for instance, costs, quality service and speed. Re-engineering and value orientation have led to downsizing, out-sourcing and self-management as three themes of influencing original structure.

Downsizing is eliminating the number of employee's particularly middle level management. It results to increased self management, larger span of control and more work for those that remain. Outsourcing means obtaining work that was previously done by employees inside organization from sources outside the company who can perform them better. It is a source of competitive advantage. Activities that can be outsourced include; information processing, various personnel activities, security among others.

Restructuring also entail removal of structural barriers and creation of learning organizations capable of continued re-generation from the variety of knowledge, experience and skills of individuals within a culture which encourages mutual questioning and challenge around a shared purpose of vision.

### **2.5.2 Marketing**

Marketing can be defined as a societal process by which individuals and groups obtain what they need and want in through creating, offering and freely exchanging products and services of value with others (Kottler, 2000). It can also be defined as the process of planning and exercising the concept of pricing, promotion and Distribution ideas, goods and services to create exchanges that satisfy individual and organizations objectives.



Marketers' argue that the company assets have little value without the existence of customers. The key company task therefore is to attract and retain customers.

Customers are attracted through competitive superior offerings and retained through satisfaction. A Marketer's task is to develop a superior offering and deliver customer satisfaction. Organizations therefore need to embrace marketing concept that rests on five pillars namely; marketing focus, customer focus, integrated/coordinate marketing, profit and competition.

The company must define the boundaries of its market. It should know those customers that are members of their market. This can be done through a process known as segmentation. The company should determine the needs and wants of the customers from the customers' point of view but not the company's (Kottler, 2000). Customers' needs must be identified and satisfied as these results into customer loyalty which is a source of company goodwill. When all company departments work together to achieve the consumers' interest, the result is integrated marketing which takes place at two levels;

The Marketing function, where the various marketing functions such as advertising, marketing research, sales, and branding must work together. They must be well coordinated from the customers' point of view.

Company-wide orientation where Marketing must be embraced by other departments. They must think customer. Marketing is not a department but much of a Co-wide orientation. Teamwork must be fostered among all departments. This requires the practice of internal as well as external marketing. Whereas the latter is directed at people outside the firm, the former is the task of hiring, training and motivating employees to serve customers well. Internal marketing must strengthen external marketing. Managers must consider customers as the true profit centers hence adopt a modern organizational chart. The ultimate purpose of the marketing concept is to help organizations achieve their objectives (Kottler, 2000). In the case of private firms, the major one is profit. However, they should aim for profits through customer satisfaction. The concept

recognizes the existence of competition. However a Company should offer superior customer value. It should serve customers better than competitors.

Most companies do not embrace the marketing concept until driven to it by circumstances. Various events forcing companies to adopt the marketing concept includes sales decline and slow growth in sales forces some companies to search for new markets. Most Companies therefore realize they need marketing skills to identify new opportunities and to address the issue of changing buying patterns where most companies operate in markets characterized by rapidly changing customer needs. Such companies need more marketing know-how if they are to track buyers' changing values (Kotler 2000). Increasing competition also force complacent companies to think about marketing

A number of strategic marketing variables can be manipulated in response to a changing competitive situation. They include adjusting of target market, diversification, and development of new product, distribution changes, advertising, promotion and establishment of relationship market.

Business Strategic Analysis models help the business answer the question how to succeed in the market place. A choice has to be made among various strategic options. The strategic option chosen must be one that will enhance the organization's competitive position (Ansoff and McDonnell, 1990). Attached and marked as appendix II is a figure illustrating a model by Igor Ansoff which a company can employ four different strategies. The company may chose to employ Market penetration by serving the present market with present products. The company will concentrate on protecting and building the market share .Product development strategy will entail serving the present market with new products using existing and new competencies and diversification. Market penetration strategy is used where the company decides to enter into new markets with present products. It may by identifying new product uses, or identifying new segments or new territories to serve. Diversification strategy is employed where the company decides to enter new markets with new products. This is the most challenging zone for a company to operate in. Success will depend on use of both existing and new competencies.

### ***2.7.3 Information technology***

The computer and developments in Telecommunication are most important aspects of Information Technology (IT) that have transformed business environment and processes. Automation of business processes has led to a drastic improvement in productivity and reduction in costs while Telecommunication has improved the speed with which information is transmitted thus facilitating speedy decision making. IT has become indispensable ingredient in organizations in several strategic to meet challenges of change they include internet, intranets, that support business operations and using it in BPR. IT is also used to develop new products, services, processes and capabilities that give a business a strategic advantage over the competitive forces it faces in its industry (O'Brian, 2002).

### ***2.7.4 Leadership and Culture***

The potential of changing the culture of a government is influenced by the beliefs of strategic leaders and the extent of strategic need. According to Kotter (1990), leadership is about coping with change. Leadership has become very important in recent years due to businesses becoming more competitive and volatile. Pearce and Robinson (2002), indicates that organizational leadership involves action in first guiding the organization to deal with constant change by embracing change, clarifying strategic intent and shaping culture to fit with opportunities and challenges that change afterwards. Also it entails identifying and supplying the organization with operating managers prepared to preside leadership and vision.

Organizational culture is a set of important assumptions, often unstated that members of an organization share in common. Organizational culture similar to an individual's personality is an intangible yet ever present theme that provides meaning, direction and the basis of action. Insightful leaders nurture key themes or dominant values within organizations that reinforce the competitive advantages they possess or seek, such as quality, differentiation, cost and speed. Most typical beliefs that shape organizational culture is belief in being the best; belief in superior quality and service, belief in

importance of people as individuals and a faith in their ability to make a strong contribution, importance of details of execution and customers should reign supreme.

Total Quality Management is one approach to develop a culture of quality. TQM ideas and principles focuses on management and continuous improvement of all operations, functions and above all, processes of work. it is built around an intense focus of customer satisfaction , on accurate measurement of every critical variable in business operation ,continued improvement of products ,services and work relationships based on mutual trust and teamwork. An important tool of TQM is bench marking whose objective is to identify the “ best practices “in performing an activity to learn how to lower costs, have fewer defects or other outcome linked to excellence are achieved

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter highlights the research design method used in the study, unit of study, data collection method and how data was analyzed and presented.

### **3.2 Research Design**

The research was conducted through case study. Case studies allow a researcher to collect in-depth information, more depth than in cross-sectional studies with the intention of understanding situations or phenomenon. It also helps to reveal the multiplicity of factors, which have interacted to produce the unique character of the entity that is subject of study. Case studies provide very focused and valuable insights to phenomenon that may otherwise be vaguely known or understood.

Cooper and Schinder (2005), states that case studies place more emphasis on a full contextual analysis of fewer events or conditions and their interrelations. Yin (1988) also asserts that Case studies contribute uniquely to our knowledge concerning the individual, an organization, social and political phenomena. Successful studies have been done in the past using case studies. Such studies include; Kandie (2001), Kiptugen (2003), and Atheru (2007).

### **3.3 Data Collection**

The study was carried out in KRA Head quarters, where departmental head offices are located. It is also where most policies are drafted and piloted before being cascaded to the regions. It was important to get detailed information on how KRA had responded to its operating environment in the effort to satisfy the customer. Senior Managers of rank KRA 4 and KRA 5 were interviewed. Attached and marked as Appendix III shows the interviewees schedule composed of twelve senior managers at the rank of Deputy Commissioner (KRA4) and Senior Assistant Commissioner (KRA5) from all the twelve departments.

The selection of one senior Manager from each department was judgmental and purposive in order to collect the desired information. This ensured representation from all the twelve departments. An introduction letter attached and marked as Appendix IV was shown to the respondents to solicit their cooperation. The Interview guide attached and marked as Appendix V was used to administer questions to the respondents. Secondary data was also used in the study collected through KRA strategic plans, KRA newsletters and other related documents.

### **3.4 Data analysis and presentation**

The research was qualitative in nature. Data was evaluated to determine its usefulness, consistency, credibility and adequacy. Data was therefore analyzed and presented qualitatively using content analysis. This method was used to identify and extract the key themes, concepts and arguments and arrive at inferences using a systematic and objective identification of specific messages and relating them to trends. Content analysis has been used successfully in similar studies in the past .Such studies included Kandie (2001), Kiptugen (2003), and Atheru (2007).

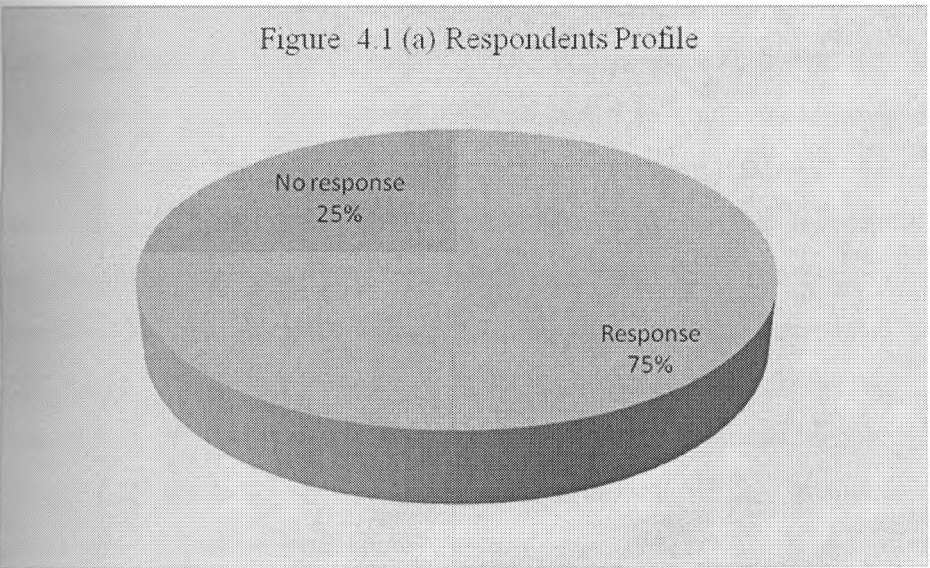
# CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

## 4.1 Introduction

This chapter is based on the analysis of data collected by the research through in-depth interviews of Senior Managers of Rank KRA 4 and KRA 5 at Kenya Revenue Authority. It includes highlights on respondents' profiles, KRA Customer needs, Planning and strategy, Strategic Responses to Operating Environment and strategic Fit.

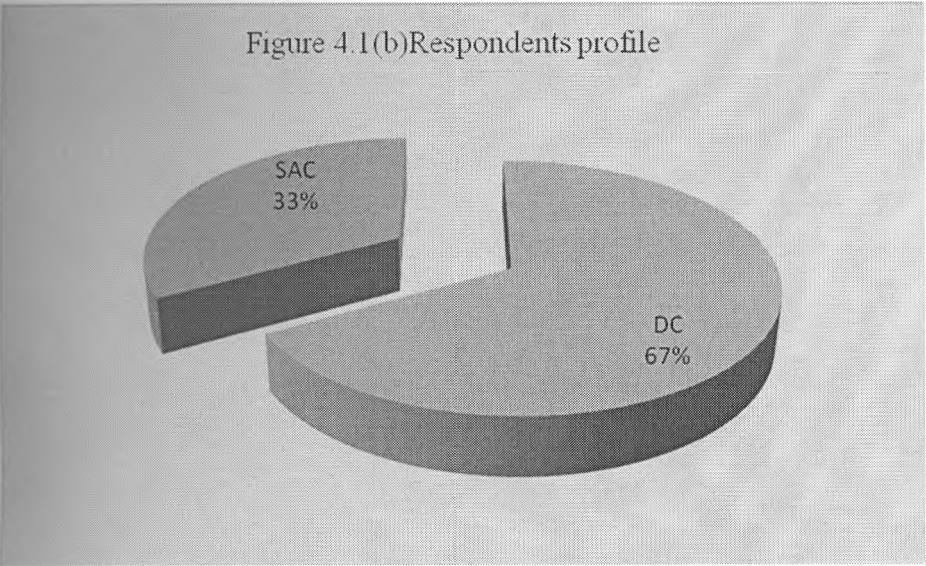
## 4.2 Respondents profiles

A response of 75% was obtained in this study as illustrated in Figure 4.1(a). None of the questions in interview guide was regarded as invalid. The respondents were long serving in the Authority and therefore had a wealth of knowledge and experience in the study of KRA strategic responses to its operating environment. Nine out of twelve respondents were interviewed and data collected. The other three respondents could not be reached due to their tight and busy work schedules.



Source: Researcher (Analyzed data)

The findings in this study indicated that majority of the respondents 6 (67%) were DC while 3 (33%) were SAC as indicated in Figure 4.1(b).



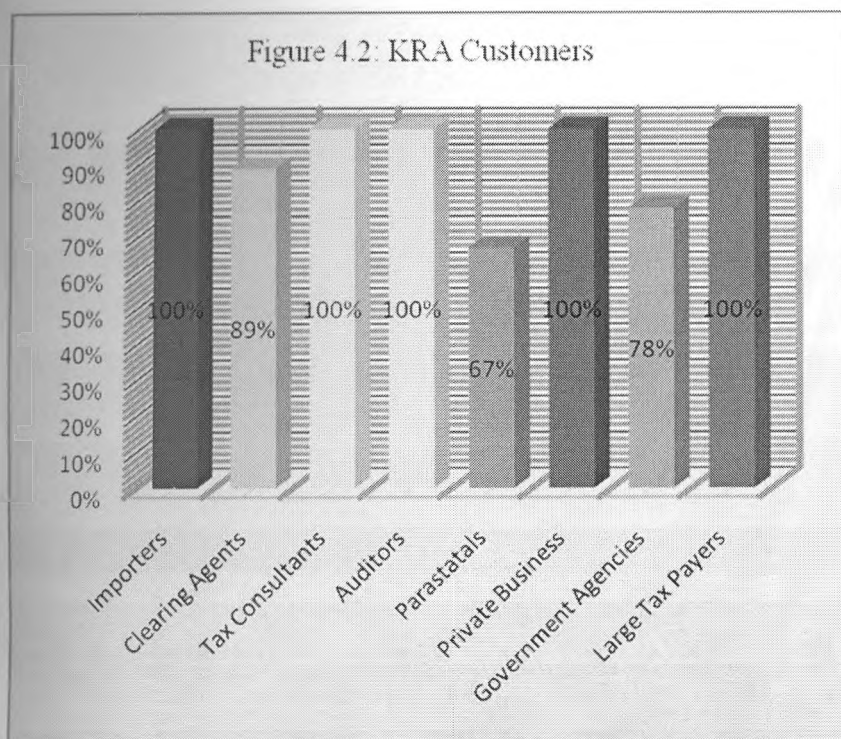
Source: Researcher (Analyzed data)

4.3 KRA Customer

KRA customers basically are taxpayers. KRA customers are many and they include the Government which is the organization’s principal, the importers, clearing Agents, Tax Consultants, Auditors, Parastatals, Private business companies, government agencies, Large Taxpayer Agents and anybody representing a taxpayer like KAM, service providers, the public and KRA Staff. According to the information obtained, 9 respondents, representing (100%), stated that KRA has five categories of customers namely; the importers, tax consultants, auditors, private companies and large/small taxpayers together with their agents. Another 8 respondents representing (89%), identified as comprising of clearing agents, Another 6 respondents representing (67%) Identified KRA customers as Government parastatals while 7 respondents representing (78%), stated government agencies as a customer. This is illustrated in Figure 4.2.



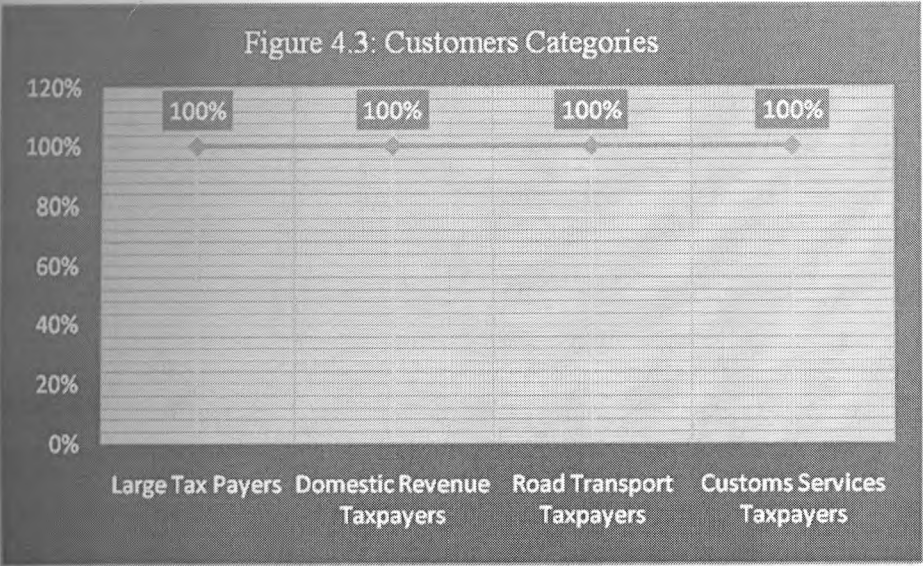
Figure 4.2: KRA Customers



Source: Researcher (Analyzed data)

#### 4.4 Categories of KRA customers.

Taxpayers have been categorized into sectors according to services offered and also according to annual turnover tax as illustrated in Figure 4.3. This was confirmed by 9 of the respondents representing 100%. They include large tax payers, Domestic Revenue taxpayers, road transport taxpayers and customs services taxpayers. The segmentation has allowed the authority to address unique needs for each category and offer better services and recognition to the customer especially the large taxpayer. KRA has kept a data bank for all its compliant taxpayers. Each revenue department keeps records of their customer in computerized systems for example the Simba System for CSD, Motor Vehicle systems for RTD and ITMS for DTD. A Data bank is also kept when customers file for PIN, VAT compliance certificates among others making it possible to trace history of a taxpayer.

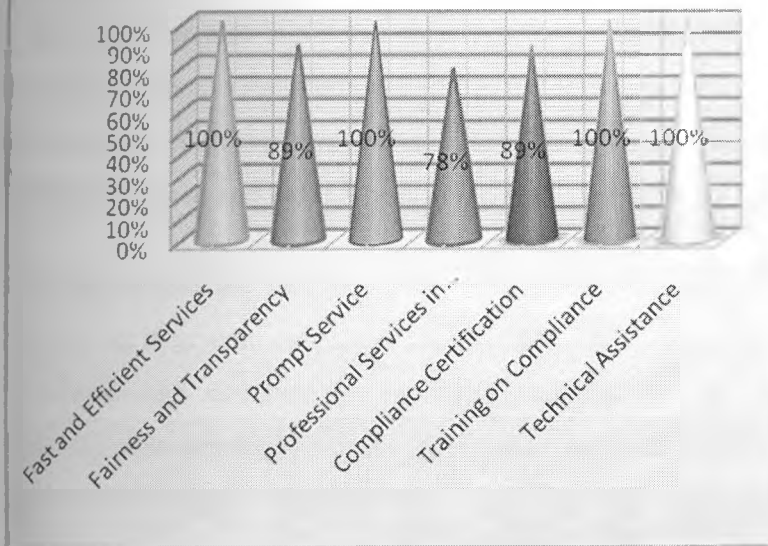


Source: Researcher (Analyzed data)

4.5 The needs of KRA Customers

KRA customer needs are many. To enable and enhance compliance with tax laws and administration, the taxpayers require information on the requirements of how and where to get the required services at the best convenient way possible, they need to know where to launch their complaints and compliments, they also require fast and efficient services with little administrative costs, they also require fairness and transparency in services offered by the authority, prompt services in respect with all their requirements of refunds, professional services during audits, compliance certification, education on what is expected for compliance with tax laws and technical assistance on tax related issues.

Figure 4.4 KRA Customers Needs



Source: Researcher (Analyzed data)

According to information obtained, and illustrated in Figure 4.4 above, 9 respondents representing 100% stated that KRA customers require to be trained on regulations and laws related to tax administration to enable them comply. They also stated that KRA customers require prompt service which is fast and efficient. They also narrated that KRA customers require technical assistance on tax related issues. Another 8 respondents representing 89%, stated that KRA. Customers require fairness and transparency in services offered by the Authority and also compliance certification when taxes are paid. Another 7 respondents representing 78% , reiterated that that KRA customers requires professional services from KRA during Auditing.

This implies that KRA has to continually work hard to meet the customer needs. In the effort to address these unique customer needs, the Authority has continued to endeavor to ensure that the products are tailored towards meeting the customer needs. KRA services have improved overtime through modernization and automation of processes and development of IT products. Sensitization of taxpayers has also been carried out on how to obtain and use new products. Cyber cafes and agents are trained at KRATI and given

certification to quality services. IT products for example PIN, tax returns online and online logbooks are also designed to deliver faster services at minimal cost and time. The taxpayer charter also stipulates clearly taxpayer rights and obligations. KRA has also developed internal standards for prompt service delivery and complying with ISO requirements. With the introduction KRA portal on the website also, customers and the public can browse and get information of whatever services they require.

KRA appreciates the fact that there have been teething problems in customer service delivery but in general customers are satisfied. This has been seen from improved level of compliance and compliments received whenever a new product is introduced. The Authority also conducts regular perception surveys for its large taxpayers to gauge customer satisfaction. Enforcement measures of compliance to make sure that the taxpayer is happy have also been instituted through TP recognition awards conducted every year to recognize the authority's top large taxpayers of the years. The customer therefore appreciates that there has been improvement overtime, but there is still room for improvement.

In the endeavor to provide quality services to TPs that is accessible, responsive and reliable at affordable cost, it has put in place specific measures to maintain client focus. For example Single premises and open office-plan has been successfully implemented countrywide, facilitating integration of all KRA Departments. The decentralization of Motor Vehicle to the port of Mombasa main entry point of import lessened congestion experienced at head office in Nairobi. Also, setting up more satellite centres has led to more return collection, cash receipting and reduction of cost of compliance, bringing services closer to taxpayers. Relationship Managers were also introduced in certain departments like LTO to provide target services and handle customer complains of their respective sectors. Complains and Information Centre set up in CG's office where the TP can phone-e-mail or come in person has helped address customer complaints therefore enhancing quality services and customer satisfaction.

Marketing and Communications Department was recently established to enhance aggressive publicity and Tax payer education to enhance effectiveness of taxpayer

education and improve coordination. Customer care desks were established in all KRA Regions. The activities are undertaken through the electronic and print media campaigns to raise the level awareness. The concept of “Tax Clinics” was also adopted, with service orientation approach during TP week carried out annually where tax payers are given a chance to air their grievances and make suggestions on service improvement. Other Services like issuance of PIN Card, VAT registration, ETR, Income Tax Returns, driving licenses, TLB, PSV Licenses for drivers and conductors and transfer of logbooks are provided on the site.

Quality Management Programme (QMP) has helped KRA in enhancing implementation of a tax administration quality assurance programme. This has led to KRA attaining ISO certification in 2008. Simplified Compliance procedures for example the implementation of Simba 2005 System reduced the single entry document for Customs and Road Transport. Budgets were also introduced for genuine clearing and forwarding agents. The initiatives were aimed at speeding up the processes and reducing long queues at the banking halls. To increase community visibility, the Authority participates in CSR activities and sponsored professional organizations in propagating corporate and ethical standards such as Financial reporting (FiRe) Awards, and Taxpayer day where the Authority appreciates and recognizes top and compliant taxpayers every year.

#### **4.6 Planning and strategy**

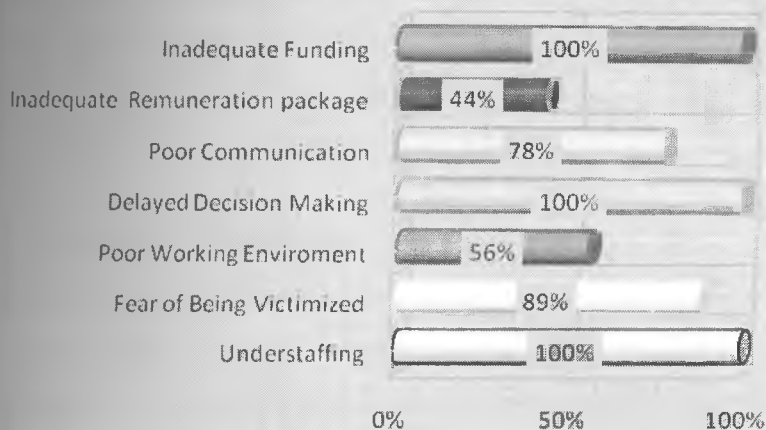
KRA's Mission statement describes their role and expectations of the public regarding how they should perform it. The parliament passes tax laws that require TP to comply. The TP needs to understand their rights and meet their tax obligations, KRA's role is to facilitate voluntary compliance and ensure that non compliant pay their fair share of taxes. In performing this role, KRA must meet highest standards of services and integrity at minimal cost. KRA's mission statement has not changed for the last ten years, but its objectives vary after every three years when the Authority draws up its strategic plans. The strategic plans enable the Authority to move in tandem with its vision of becoming the leading Revenue Authority in the world respected for professionalism, integrity and fairness and also meeting its objectives.

The objectives are stipulated clearly in the PCs of Top management that are then cascaded downwards. In their third corporate strategic plan for the period 2006/07-2008/09, one of their goals was to improve and expand TP services through improved service options to taxpayers, facilitating participation by all sectors and simplifying the tax processes. The respondents interviewed all had an opinion that KRA has so far done a commendable job in realizing this goal that saw the Authority increase its revenue collection and level of compliance and they all had sentiments KRA management led by the CG are proactive and positive towards attainment of organizational goals and that any shortcomings will be addressed in the following strategic plan for the period 2009/10-2011/12.

#### **4.7 Internal Challenges within KRA**

KRA Respondents interviewed all agreed that they are empowered to make decisions at their level. According to the data collected and illustrated in Figure 4.5, 9 respondents representing 100%, indicated three major challenges namely; inadequate funding, delayed decision making and understaffing. Another 8 respondents representing 89% stated fear of being victimized, 7 respondents representing 78%, indicated poor communication, whereas 5 respondents representing 56% indicated poor working environment. Another 4 respondents representing 44% stated that remuneration package for KRA staff still needed improvement to enhance competitiveness with other parastatals, and aid the Authority attract and retain staff with needed skills.

**Figure 4 5 Internal Challenges**



Source: Researcher (Analyzed data)

The research findings therefore imply that KRA has to address the internal challenges in order to respond more effectively to its operating environment. The respondents interviewed all consented that the few challenges that they face internally is not a discouragement to them because the KRA Board and Top management are very supportive and goal oriented. The internal challenges faced cut across and they include inadequate funding to carry out various projects and implementation. KRA like any other government organization presents its budget to Treasury for consideration. In most of the time what is given is below their budget they have to therefore prioritize their activities and leaving or delaying some and also seeking working externally for example from World Bank to carry out vital projects that cannot be delayed.

The challenge of delays in decision making faced occurred due to long procedures to be followed and bureaucracy. For example in case of understaffing in a section, it takes too long to fill a vacancy. KRA management has however tried to recruit graduate trainees annually in order to get enough revenue staff and service departments advised to make recruitment requests early enough. There is also fear of being victimized in decision making and CG has continued to encourage transparency and accountability. Poor working environment for staff has also been an issue for senior staff and they have

continued to make their recommendations and also trying to adhere to work environment policy and ISO standards. Trying to address non conformities has also led resistance to audits and the Auditors are trying to sensitize their clients and also conducting entry and exit meetings to solicit cooperation .They reiterated that top management support is crucial, short-term inspections and enough funding to address issues raised.

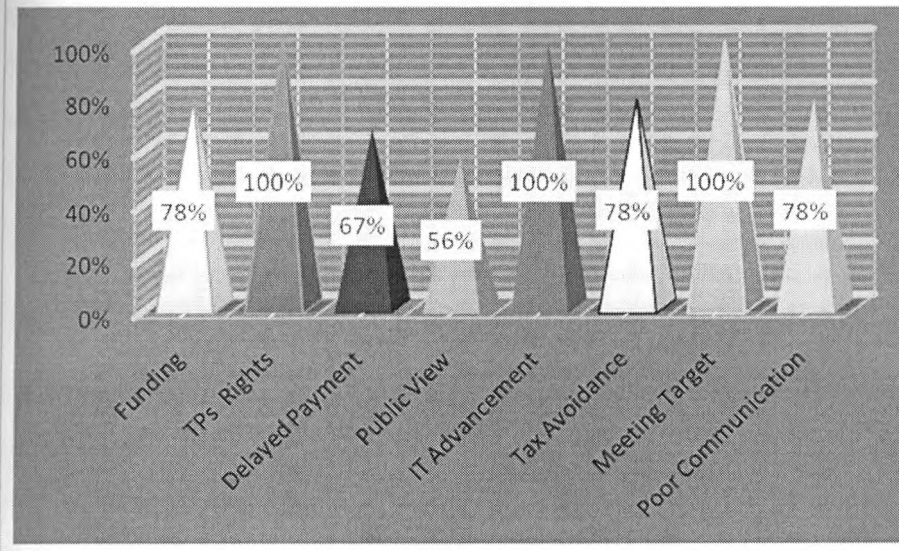
The respondents affirmed that KRA Top Management is positive and supportive in addressing the internal challenges faced.KRA has continually strived to motivate staff and keeping the Senior Managers on the know pertaining the bottlenecks that the Authority faces. They also stated that they get a lot of support from the CG. For example on current budget on reforms, the CG delayed signing of PC for 2009/10 with the Board in the effort to continue negotiating for increased budgetary allocation for KRA to allow the Authority carry play its role better. Continuous training and team building participation has also been done to develop and equip staff in order to address various challenges they face and also to enable the Authority meet its target set by the treasury.

#### **4.8 Operating Environmental Challenges**

KRA like any other organization does not operate in a vacuum; it operates in a dynamic environment that requires the organization to responds to it for it to be successful in meeting its objectives. All the respondents interviewed agreed that KRA will continue to face various challenges in its operating environment. According to research findings illustrated in Figure 4.6, 9 respondents representing 100%, highlighted three major challenges faced by KRA in its operating environment namely; TPs right, IT advancement and meeting the targets. Another 7 respondents representing 78%, indicated that KRA faced the challenges of inadequate funding, poor communication and tax avoidance in its operating environment. Another 6 respondents representing 67%, stated delayed payments while 5 respondents representing 56% indicated public view as a challenge.



Fig 4.6: Operating Enviromental Challenges



Source: Researcher (Analyzed data)

The research findings imply that KRA ought to continually respond to the challenges in its operating environment. The Government Vision 2030 means that KRA has a challenge of meeting the budget and funding projections of Government and therefore the targets set by the Treasury will be increasingly higher every year not forgetting the difficult economic situations the country is facing at large.

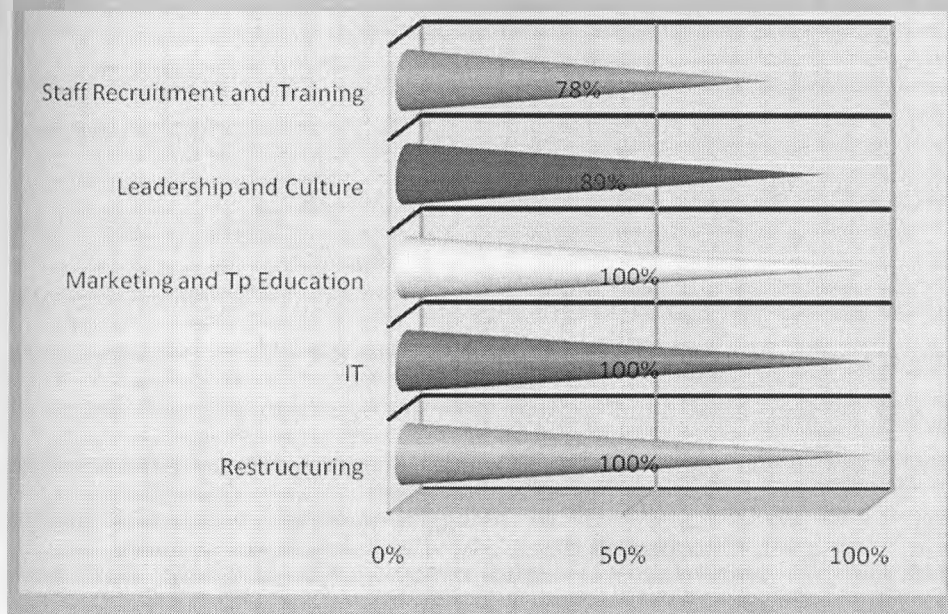
KRA is also faced with the challenge of dealing with the TPs who are now very much knowledgeable and informed of their rights and obligations. The TP want accountability for revenue collected by KRA, they demand quick and faster services to be availed to them with less administrative costs. KRA also faced the challenge of heterogeneous TP with varied need that require that categories be more defined broken further and the way of collecting TOT to include small TP who keep sales account only. There is also a challenge of delayed payment of refunds to TP due to budgetary constraints that leads to negative perception, customer complaints and dissatisfaction. KRA also still faces the challenge of being viewed negatively by the public as being too much aggressive and unfriendly to the TP. Tax aversion is increasingly becoming sophisticated with each new down. IT advancement is challenge in general for example some customers are much

ahead of the Authority in terms of Technology especially the corporate business customers. Also with emergence of ATM in banks, M-Pesa, Zap, SMS services from mobile telephony providers means that KRA has a challenge to address TP transactions because the customer wants more convenient, faster and cheap method of paying taxes. It also means that computer redundancy rate will continue to escalate the associated costs of keeping up with advancement in IT.

#### **4.9 Strategic Responses to Operating Enviromental Challenges**

KRA has proactively strived to strategically respond to challenges they face in the operating environment. According to data collected and illustrated in Figure 4.7, 9 respondents representing 100%, highlighted three major responses that have been undertaken to address the challenges posed by the operating environment namely; marketing and TP education, IT, and restructuring. Another 8 respondents representing 89%, stated that KRA has responded to its operating environment by leadership and culture change while 7 respondents representing 78% , narrated that KRA has responded to its operating environment through staff recruitment and training to address the issue of staff shortage, obtain the staff with most needed skill and also train those who have a skills gap.

**Figure 4.7: Strategic Responses to Operating Environmental Challenges**



Source: Researcher (Analyzed data)

According to the research findings, KRA has tried to adequately respond to challenges posed by its operating environment. In response to challenges identified, KRA has endeavored to modernized automated its processes and incorporate IT in coming up with the new products to serve the customer better, ease the cost of compliance and save money and time of the TP. It has also done a lot of restructuring to offer quality services to customers and also to create a one stop shop for the Tax payer. Marketing and Communication department was also created last year that also saw the creation of Call Centre and KRA re-branding of its logo last year (2008) to portray a different image of being gentle and to solicit mutual understanding with the TP and all other stakeholders. TP education programme is carried out continuously aimed at educating and informing the customer and enhancing TP awareness on tax laws and regulations.

Annual recruitment of graduate trainees who undergo two and half years training has enabled the Authority to solve the issue of staff shortages. A lot of Staff training is also done continuously to create and professionalism and also equip staff on new ways of

handling challenges in the operating environment. KRA Leadership has tried to embrace stakeholder involvement for example ICPAK and KAM and spearheading culture change programmes to nurture a positive culture that will support achievement of goals. Change management involving a lot of training for all staff has been carried out in the authority on culture and leadership supportive of organizational goals.

#### **4.9.1 Restructuring**

The respondents interviewed all consented that KRA has undergone a lot of restructuring since its inception with the aim of improving service delivery to the customer. They also reiterated that the objective of restructuring have been met by the Authority. The organization over the years has functional with more departments which have been created and some divisions elevated to department level. VAT and income tax department were merged together to form DTD department. This department was again split Domestic Revenue and Large Taxpayer department to take care of varied needs of the taxpayer. The implementation of functional based structures was also replicated in Support Services Departments. Various regional and satellite offices countrywide have also been created to bring taxpayers services closer to taxpayers.

Function based organizational structures to provide one stop facility encompassing taxpayer recruitment and registration, audit, return processing and payment were undertaken. In order to enhance the preventive services, especially the fight against drugs, KRA established the Customs K9 unit at JKIA and imported drug detector dogs to supplement the physical and scanning checks in the fight against narcotics and terrorism. ETR and the change of tax payment point for petroleum oil from various bonded customs facilities to the point of importation release from the refinery were implemented to improve compliance. A tax procedure code was developed to harmonize administrative procedures across tax heads. A petroleum monitoring unit was formed to work jointly with private bio-coding agencies and the Ministry of Energy to ensure that players in the industry are compliant and the new regulations introduced have yielded positive results. This subsequently led to a number of non-compliant businesses pulling out of the market.

An integrated debt/arrears management unit was implemented and a Debt manual developed. The debt management policy and review of debt portfolio was undertaken and analysis of debt stock classified into collectable and non- collectable. Aggressive collection initiatives were then implemented. The audit manual and computerized Audit Registers were also developed and staff trained on their use. Marketing and Communication department recently created has seen the introduction of a call centre where customer queries can be addressed via the phone or e-mail. The department has also been charged with the responsibility of aggressive marketing and publicity. This saw KRA to do re-branding of its Logo last year by to show that they are friendly with the customer.

To improve on integrity issues the Authority has created Internal Affairs office as a watch dog office to tackle this weakness in the strategy. The Department is charged to handle internal integrity issues related to corruption, fraud and abuse of office. Thorough investigation and prosecution are supported by a vigorous sensitization programme, case-specific communication and publicity of the results of oversight efforts. The review of operational procedures, open office plan and increased automation in the organization has helped minimize opportunities for corrupt behavior, reduced physical contact and limit individual discretion while monitoring operations of officers engaged in high risk areas. According the Authority's third corporate plan, the management reiterated that the integrity will also become an important component of promotion criteria in the Authority. The target is to remove KRA from the urban bribery index and decrease corruption related disciplinary cases by twenty percent annually.

The respondents interviewed cited that the objective of restructuring had been met; there is still room for continuous improvement. Through restructuring, synergy has been created in the Authority. However there was a feeling that some departments were not properly aligned to meet its objectives. For example for better synergy to be realized the Administration Division and Procurement Division which fall under Board, Corporate Services and Administration Department, could instead be aligned with HR and Finance Departments respectively.

#### **4.9.2 Information Technology**

IT has helped KRA to automate and modernize its processes. The aim was to develop effective and efficient processes that take a single view of the taxpayer and enhance efficiency and effectiveness and also offer quick services to the TP. Many systems and on-line products have been developed in order to realize this goal. The introduction of Simba systems, scanners, Online Logbooks, ITMS, online PIN, filing of returns online and call centre among others has improved service delivery and revenue collection. The ITMS phase already rolled out has enabled the TP register for VAT and PIN certificates at their own convenience and file VAT and PAYE returns online. Upon its completion the ITMS will enable the Authority create a data bank that can be reflected even in other organizations like banks. This will help the authority share information internally and also broaden its tax base and recruit the untapped 70% of the taxpayers.

Modernization of processes and use of IT was aimed at surpassing the set targets at the lowest cost, to broaden the tax base. This has also made it possible for KRA to carry out effective enforcement through an intelligence unit which was established to enhance KRA's capacity to generate and disseminate intelligence. X-ray scanners computerized with risk assessment capabilities were acquired and operationalised at Kilindini Port, JKIA, Moi international airport-Mombasa and Moi airport Eldoret. This yielded additional revenue as a result of detection/deference of mis-declaration, faster clearance and verification and small arms.

KRA undertook Time Release Study with collaboration with all stakeholders involved in imports and export processes, to establish time taken to clear and release cargo at Kenya's ports. The results were associated with manual clearance of goods and multiple regulatory agencies. It is against this background that KRA is implementing the Customs and Modernization project with a view of reducing the mean release time to facilitate trade. Computerization of cash receipting, data capture and imaging have been implemented to reduce revenue leakage and provide timely data access. Information Technology data security audit was undertaken to ensure compliance.

Computer based control systems were also implemented in high risk areas transit monitoring, bonded warehouses and cargo release centres as opposed to physical controls. KRA also embraced the use of wireless Technology to connect with its remote office countrywide. It also expanded its bandwidth to accommodate the high traffic during transactions with shipping agents, customs clearing agents, banks, KRA officers and general public visiting the KRA website. KRA also came up with interest free Laptop loan scheme to enhance more computerization and automation among staff. KRA also set up a website where the customer and the public can visit and obtain information on tax and other KRA related issues. The establishment of Lotus notes has made it possible for staff to share information and reduce paperwork.

The implementation of additional web-based systems such as COSIS and CAMIS in CSD has assisted in the reconciliation of wet cargo monitoring and accounting for all unentered cargo respectively. FOSS ERP system recently introduced in the organization will help reduce delays while obtaining services in service departments caused by paperwork in procurement process in procurement and Administration divisions, budget monitoring, evaluation and expenditure in finance department and management of leave application in HR.

Currently the Authority is undertaking CRM to assist in the achievement of the objectives of RARMP. Particularly, this project will aid in the implementation and expansion of TP services in CSD by improving clearance time through self assessment and implementation of a Valuation Database to give timely valuation rulings, the implementation and expansion of AOE among others will lead to more compliant TPs and further reduce the clearance time at the port. Plans are also underway for implementation of RTD online to review, automate and integrate RTD functions. This will allow the implementation of new generation number plates and smart card DL. This will also enable the Authority achieve full connectivity of RTD with all other Departments in order to ensure seamless flow of information.

The enhancement of the ICT infrastructure has led to major KRA stations being linked through Wide Area Networks. Service delivery to taxpayer therefore has continued to

improve with the implementation of better technologies and improvement in business processes. This has resulted to increased upward trend of customer satisfaction over the past five years. KRA modernization and Re-engineering of business processes led to attainment of ISO Certification making KRA one of the elite government institutions around the world.

#### ***4.9.3 Marketing and TP Education***

Even though KRA operates in absence of competition, it has developed a customer focus orientation in order to offer quality service delivery there by bringing the customer closer, widening the tax base and increasing revenue collection. KRA has done a lot of Marketing and communication in order to inform and persuade the TP to be compliant and meet their tax obligation. This has been achieved through aggressive publicity in both print and electronic media coverage.

The Authority also organizes TP education for customers and other stakeholders whereby they can be taught and informed on tax administration and other related issue. Annual TP week is organized annually where one week is dedicated to TP education countrywide with service orientation approach during where tax payers are given a chance to air their grievances and make suggestions on service improvement. run Services such us issuance of PIN Card, VAT registration, ETR, Income tax returns, driving licenses, TLB, PSV Licenses for drivers and conductors and transfer of logbooks are provided on the site.

Customer satisfaction levels have risen steadily. Customer satisfaction is need based and re-engineering in all departments and online services has made it easier for TP to be satisfied and comply. This has been manifested through less customer complaints received than in the past, improved compliance level and increased positive business relationship and attitude towards the Organization. KRA has recognized the fact that to attained its revenue targets and make the principal happy, the customer has to be satisfied with its products and this a process that starts first with satisfying and motivating the internal customer to enable them serve the customer better. This is because satisfaction is measured at service level in terms of quality service delivery, efficiency and



effectiveness. Over the last two corporate plans, customer satisfaction in KRA has improved drastically.

KRA has embraced an integrated marketing approach to promote the image of the Authority and satisfy the needs of the customer. KRA has tried to make tax payment acceptable as a way of life through intensive publicity and through corporate social responsibility done annually doing TP education week, where KRA gives back to the society. The public is education on the benefits of paying taxes to enable the government plan and avail social amenities vital to its citizens free primary education, road maintenance and contraction, health and sanitation facilities, security and defense. KRA also makes its recommendation to the government on how revenue can be spent prudently to benefit the nation as a whole.

#### ***4.9.4 Leadership and Culture***

According to the research findings obtained, KRA has an able CEO and Top management. To improve integrity assurance and enhance corporate image, the Authority implemented Government policy of Zero tolerance to corruption and fraud. A public complaints and information centre was set up. The disciplinary Committee was reconstituted; whole cases of corruption and fraud were dealt with firmly and publicized. Board commitment and management is involved and supportive of nurturing the right culture within the Authority. Change management initiatives are being driven by the Top management and regular feedback and meetings has helped a great deal.

KRA leadership has embraced stakeholder involvement in order to factor in their expectations and win their support. Examples of such stakeholders include KIFWA, ICPAK. KRA organized workshops and joint meetings with stakeholders to discuss concerns of stakeholders and agree on the way forward therefore winning their trust and support. KRA replaced Customs long rooms with DPC fitted with CCTV to reduce incidences of corruption by eliminating physical contact between Customs staff and clearing agents. The CG also declared a zero tolerance on corruption. This has continuously led to positive transformation of KRA corporate image every year.

KRA management has also developed mentoring programme to make existent knowledge to staff and building the positive organization culture. KRA organization culture has improved drastically over the last five years. Through restructuring, KRA has made it easy to improve its corporate image and culture. The functional HR structures adopted has made it easier to manage staff and instill the right corporate culture. The management has also championed for an anticorruption strategy and zero tolerance to corruption.

KRA is working on re-branding and is yet to be rolled out, as an image building strategy to resell itself. This came up as a result of negative public and customer perception, culture and beliefs that were not supportive of realization of organizational goals.

KRA being a government agency and like any other government organization, faces the challenge of dealing with outside political influence, nepotism and tribalism. This sometimes interferes with promotion and recruitment of staff leading to wrong placement of managers especially middle level managers thereby affecting performance and service delivery. The Respondents interviewed reiterated that for KRA to address this challenge, it requires consistent application of law and deliberate approach to address the challenges in the organization.

Culture change is a gradual process and KRA has already re-branded its logo to change the customer and stakeholder perception about KRA. The former lion which was more wild and aggressive was replaced with a more harmless, friendly lion meaning that KRA is more customers focused and friendly in its Endeavour to meet its revenue collection targets. The new KRA logo now appears in letter heads, envelopes and all other corporate publications. KRA has also endeavored to sensitize staff on culture change in order to instill the right positive culture in the organization. Team building seminars are continuously organized for managers and staff.

#### ***4.9.5 Staff recruitment and training***

The strength of an organization lies not only in its hardware or financial resources but also in its human resources. Focus on staff is important for them to perform their duties satisfactorily that will translate to quality service delivery and increased revenue

collection. To achieve its vision, KRA must strategically manage its HR to cope with dynamics of modernization of revenue administration systems and ensure that staffs identify themselves with the Authority Vision and Mission. KRA has therefore carried out modernization programme that also include improvement of working environment, and preparing the workforce to meet current and future challenges. In this regard, priorities in their third Corporate Plan included replenishing a maturing workforce, improving workforce skills and ensuring a continual leadership cadre for the future.

According to the research findings obtained, KRA has continued to recruit GT staff annually and carry out continuous training of its workforce in order to revitalize its HR. This was aimed at developing a work force for technical competence, professionalism and courtesy, as a result, the following activities were undertaken; Programmes were initiated to provide comprehensive career paths for all cadres of staff. The scheme of service for lower cadre staff was also reviewed. A new and improved medical scheme was introduced to enable more coverage and flexibility to staff. The pension scheme was also converted in line with international best practice. Capacity building was undertaken such as conversion and refresher courses for various revenue programmes to enhance technical competences.

A graduate trainee programme was also adopted annually to ensure replenishing and succession in the Authority. The Authority also recruited staff with technical qualifications for example it employed patrol boats staff from Kenya Navy trained on customs procedures and they work hand in hand with border control officers who are trained on patrol work. This has enhanced marine surveillance leading to reduced smuggling of goods and tax aversion. Implementation of annual training programme was undertaken with officers going for training both locally and abroad. Staffs are also encouraged to pursue various degrees and professional courses aimed at career development. Performance Management system was embraced by the Authority together with change management and communication initiatives was also implemented in order to develop a single corporate culture.

In their third corporate plan, the Authority dedicated itself to promote an environment that optimizes the use of talent and encourage employees to excel. Mentoring and leadership placement programmes will be implemented continuously to foster leadership succession. KRA has developed and implement performance reward criteria to motivate and recognize individual employee excellence where individual performance is linked to organizational goals through performance management system for the entire workforce. This will continue to create a “line of sight” from the individual’s responsibility to the objectives of the organization. The target was to expand the performance based pay system across the entire workforce to link an employee’s remuneration and office tenure in order to achieve the set targets. KRA will continuously review the remuneration of its staff with a view to ensure that KRA remains a competitive employer.

KRA also established a training institute called KRATI to improve the training infrastructure, resources and develop a curriculum for taxation at national, regional and international levels. KRATI with partnership of other organization with common vision works hand in hand to identify areas of knowledge transfer and extend the range of learning opportunities. The institute also liaises with other global training centres and enters into MOU to ensure that the skills need for KRA and the region are provided locally at KRATI.

#### **4.10 Strategic fit**

According to the information obtained, KRA strategic responses undertaken to counter its challenges in the environment were aimed at realizing quality service delivery to its customer in order to enhance the level of compliance and revenue collection. KRA has continued to invest in developing staff capability through continuous recruitment and staff training. This is aimed at equipping them to be able to address the challenges in its operating environment. The Respondents interviewed consented that KRA has used its available resources to adequately respond to challenges they face in the operating environment.

The strategic responses are reviewed yearly in accordance with various complaints and issues raised by the TP and other stakeholders though telephone, CIC, Call centre or e-

mail. These issues are addressed and every end of the year, strategies are reviewed in light of its operating environment that is dynamic. KRA has therefore aligned itself to its operating environment by recognizing the fact that quality service delivery is the only way the TP can comply and responding accordingly as per the dynamisms of the operating environment.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATION**

### **5.1 Introduction**

This chapter provides summary, conclusions and recommendations for the research findings in line with objectives of the study.

### **5.2 Summary**

The objective of the study was to determine KRA strategic responses to its operating environment and whether its capability matches the responses.

#### ***5.2.1 Findings on customer needs***

The needs of KRA TP has been identified and documented. This study has found out that the KRA customer require prompt, fast and efficient service delivery, professional services during auditing. They also require Technical assistance on tax related issues, fairness and transparency in services offered, training on tax relates laws and regulations to enable them comply and issuance of compliance certification after tax payments. The customer is never satisfied. When one need is satisfied a higher level need arises, due to change in levels of expectations as we operate in a dynamic environment. The research however found out that According to research findings, KRA customer satisfaction level has improved drastically over the last five years. KRA has been positive and proactive in enhancing and keeping the customer satisfied through quality service delivery and it is expected that the satisfaction level will continue to improve.

#### ***5.2.2 Planning and Strategy***

The study found out that KRA adopted formal corporate planning and strategy in the year 2000 when it came up with its first corporate plan which is tried together with performance contracts to enhance achievement of objectives and efficiency and effectiveness of work output. Over the years, this has seen the Authority improve on service delivery to customers and increase revenue collection every year.

### **5.2.3 Strategic responses**

KRA like any other organization operates in a dynamic environment that requires timely strategic responses in order to meet its objectives, stay successful and realize its vision of becoming leading revenue Authority in the world. The research established that KRA has employed adequate strategic responses to its operating environment .There is still room for improvement to respond to that which has not been done. Areas of necessity will be addressed in the following corporate strategic plans. In response to its operating environment, KRA has employed strategies like Restructuring, IT, marketing and TP Education, Leadership and Culture change and Staff recruitment and training.

### **5.2.4 Strategic fit**

Even though KRA experiences inadequate funding for its operations most of the times, it has employed cost reduction strategy by improving on its processes making them more efficient and the restructuring strategy that has improved synergy in the organization by maximizing and optimizing resources available. The study has also found out that KRA n though faced with HR shortage in some departments, has been endowed with professional and qualified staff that has enabled it to address the challenges in its operating environment more successfully; Thus Ansoff and MacDonnell logic has been met.

## **5.3 Conclusion**

In regard to the objective of the study, the aim of the research paper was realized. The study found out that KRA has endeavored to adequately respond to its operating environment using its capabilities. This is evident through increased level of compliance from TPs and increased revenue collection every year. The Authority's public image has also continued to improve every year and has attracted stakeholder trust and goodwill.

## **5.4 Recommendation**

The study recommends KRA to enhance the adoption integrated marketing approach where all departments work together with customer in mind to continually improve

service delivery and customer satisfaction. KRA should also strive to be more aggressive in marketing and TP education to reach the TPs who are still ignorant on KRA's Tax laws, procedures and regulations and to broaden the tax base by reaching the untapped TPs. This will enhance the level of compliance and increase revenue collection. KRA should also work towards continuous simplification of the tax forms in order to serve the customer better and take service closer to people who have not been reached countrywide.

Even though KRA has continued to embrace IT and modernization, it still has room for improvement on low level of computerization especially in regions for provision of better service delivery. KRA should also strive to embrace the challenge of catching up with advanced Technology in order to remain relevant and successful. The Authority should also strive at negotiating for enough budgetary allocations to fund its operations that will enable it realize its goals prioritizing the projects to be undertaken and also continue being proactive in sourcing for funds from international funding bodies like from WB and IMF to finance some of their projects. In order to continue being successful in response to its environment, KRA should benchmark with the best in all aspects of tax administration in order to remain successful and the world leading.

## **5.5 Limitations of the study**

This study focused mainly on operating environment and more specifically the KRA external customer and not the internal customer. The customer needs and KRA strategic responses in this study were compiled from the views expressed by KRA Senior Managers and not from the perception of the external customer. It would have been of much benefit if the views of the KRA external customer were obtained. However the time taken to carry out this study was very short to allow for such interviews.

## **5.6 Suggestions for further study**

This study should be extended to cover strategic responses of KRA to its internal customers. A study can also be undertaken on KRA strategic responses to its remote



environment. Also a cross sectional research of KRA Strategic responses to its operating environment can be carried out.

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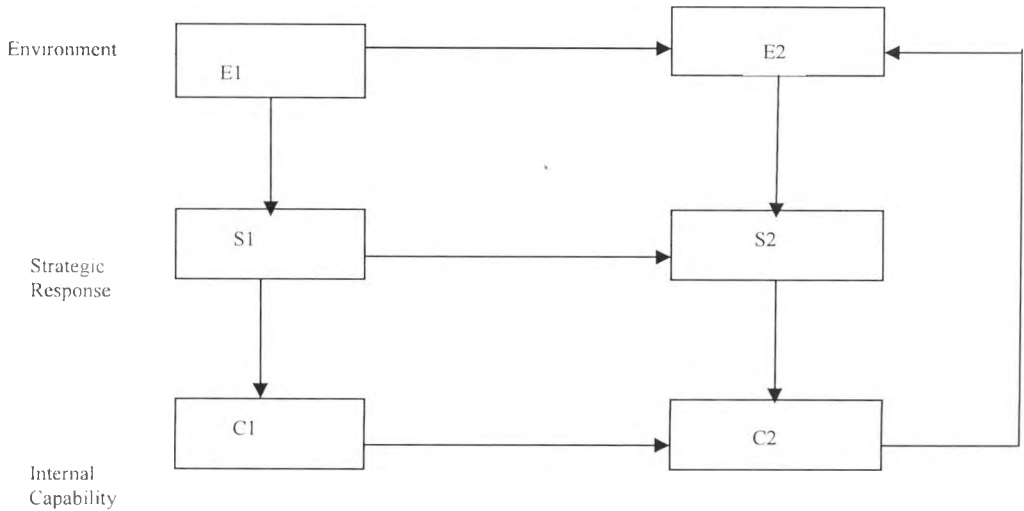
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## APPENDICES

**Appendix I: Figure 2.1 Managing the firm's adaptation to its environment.**



### Key

E1-Current Environment

E2-Future Environment

S1-Current Strategy

S2-Future Strategy

C1-Current Capability

C2-Future Internal capability

*Source: Ansoff and McDonnell (1990)*

**Appendix II: Figure 2.2 Product- Market Model by Igor Ansoff**

		Product	
		Present	New
Market	Present	Market Penetration	Product Development
	New	Market Development	Diversification

Source: Ansoff grid (1957)

### Appendix III: Schedule of interviewees

Department	Designation	Rank/Grade	No. of interviewees
Domestic Taxes-Domestic Revenue	Deputy Commissioner	KRA 4	1
Domestic Taxes - Large Tax Payers	Deputy Commissioner	KRA 4	1
Customs services	Deputy Commissioner	KRA 4	1
Road Transport	Deputy Commissioner	KRA 4	1
Support Services-Research and corporate planning	Deputy Commissioner	KRA 4	1
Investigations & Enforcement	Senior Assistant Commissioner	KRA 5	1
Marketing and Communication (M & C)	Deputy Commissioner	KRA 4	1
Human Resources	Senior Assistant Commissioner	KRA 5	1
Board CS & Administration	Senior Assistant Commissioner	KRA 5	1
Internal Audit	Deputy Commissioner	KRA 4	1
Finance	Senior Assistant Commissioner	KRA 5	1
Information & Communication Technology (ICT)	Senior Assistant Commissioner	KRA 4	1
<b>Total</b>			<b>12</b>

#### **Appendix IV: Letter requesting to carry out a case study research**

Senior Deputy Commissioner-Human Resources,

Kenya Revenue Authority.

P.o Box 48240,

#### **NAIROBI**

Administration Officer II (Administration),P/No.6336

Kenya Revenue Authority.

P.o Box 48240,

#### **NAIROBI**

Dear Madam,

#### **PERMISSION TO CARRY OUT A CASE STUDY ON KRA STRATEGIC RESPONSES TO ITS OPERATING ENVIRONMENT**

I'm an MBA student in the School of Business, University of Nairobi. In partial fulfillment of the requirements of the degree of Master of Business Administration (MBA), I'm conducting a case study on KRA strategic responses to its operating environment.

I therefore wish to request your permission to carry out the case study and document KRA strategic responses to its operating environment.

Your permission will enable me to complete the MBA Project and also document the strategic path that KRA has taken and the way forward.

Kindly approve. Thank you.

**Chemtingen L. Tibin**



Appendix V: Interview guide

Section A      Bio Data

Designation-----

Department-----

No. of years worked at KRA-----

What is your responsibility in KRA? -----

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Section B      Customer

1. Who are KRA customers? -----

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2. Are KRA customers categorized?(Yes)( No)

If yes, please elaborate your answer-----

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3. Are there procedures in place to categorize Taxpayers (Yes) (No)

If yes, please elaborate your answer-----

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4. What are the needs of KRA Customers?-----

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5. Are KRA products tailored to meet customer needs?(Yes) (No)

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11. Does KRA have a system in place to address customer complaints? (Yes) (No)

Please explain your answer-----  
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12. Does KRA have a mechanism in place for conducting customer satisfaction surveys?(Yes) (No)-----  
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13. Does KRA have good Organizational –customer relationship? (Yes) (No)

Please explain your answer-----  
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**Section C      Strategy and planning**

1. What is KRA mission statement? -----  
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2. Has it changed over the last 10 years? (Yes) (No)

If yes, please explain the changes-----  
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3. What are the goals of KRA?-----  
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  4. Have they changed over the last ten years? (Yes) (No)
  5. Does KRA develop strategic plan? (Yes) (No)
  6. Are senior managers empowered to make strategic decisions? (Yes) (No)
  7. What internal challenges have you faced within KRA?-----  
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  8. How have you responded to these challenges?-----  
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  9. Are there internal challenges that KRA has not responded to? (Yes) (No)
- If yes, please elaborate your answer-----  
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**Section D      Strategic responses**

1. Has KRA responded to operating environmental challenges?(yes) (No)
- If yes, Please highlight these challenges-----  
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2. Please explain how KRA has responded to challenges identified-----  
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3. Are there any challenges facing KRA that influence Taxpayers satisfaction that KRA has not responded to? (Yes) (No)

If yes please explain why?-----  
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4. What else do you feel that KRA should do to stay focused to the operating environment especially the taxpayer?-----

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5. Does the taxpayer feel satisfied how KRA has responded to their needs?(Yes) (No)

Please explain your answer-----  
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6. In your view, has KRA been successful in responding to customer needs? (Yes) (No)

Please elaborate your answer-----  
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7. Has the structure of KRA changed for the last 10 years? (Yes) (No)

If yes, please give mains causes-----  
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8. In your opinion has the objective of restructuring been met?(Yes) (No)

Please elaborate your answer

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9. Please state the strategies that KRA has used to improve service delivery in the last five years-----

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10. Please list any product development strategies that KRA has used over the last five years-----

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11. Is KRA culture and leadership supportive of quality service delivery to customers?(Yes) (No)

Please elaborate your answer -----  
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**Section E Strategic fit**

1. What factors has influenced responses taken by KRA? Explain-----

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2. Do you consider the organization’s strategic responses to Taxpayers adequate?(Yes) (No)

Please elaborate your answer-----  
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3. In your view, what actions should KRA take to strategically align itself to the operating environment in order to enhance customer satisfaction?-----

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4. Does KRA currently have the capacity to address the needs of customers?(Yes)  
(No)

If no please state the capabilities required-----

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**THANK YOU FOR YOUR CO-OPERATION**