

**APPLICATION OF THE SIMBA SYSTEM BY KENYA REVENUE
AUTHORITY TO ADDRESS THE CHALLENGES OF GLOBALIZATION**

By

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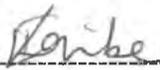
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DECLARATION

This research project is my original work and has not been presented for examination to any other University.

Signed 

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

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DEDICATION

This project is dedicated to my late father, Mr. Solomon Odinga Kaibe and my dear loving and caring mother Naomi Nambiro Kaibe, who sacrificed their all financially to ensure that all their children both male and female acquired an education. I would not have asked for more from such inspiring parents. May the blessings of the Lord God Almighty continually be upon my dear widowed mother.

ABSTRACT

Globalization challenges firms to become more streamlined and efficient while simultaneously extending the geographic reach of their operations (Hak-Min, 1999). Technology is an increasingly important element of globalization and of competitiveness.

Kenya Revenue Authority has 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, including those of the Customs Services Department. In international trade Customs plays a critical role in providing expedited clearing processes (KAM, 2007). Efficient and effective clearance procedures are important to the development and growth of the global marketplace and electronic commerce.

The objectives of this study were:-

- i. To establish the challenges brought about by globalization.
- ii. To determine how Kenya Revenue Authority is applying technology, i.e. the Simba System to address the challenges of globalization.

The case study was conducted on Kenya Revenue Authority's Customs Services Department. To facilitate the study, a structured questionnaire having open-ended questions, was used. The researcher personally administered the questionnaire to the interviewees. This study found out that globalization has positively impacted Customs at the Kenya Revenue Authority, by resulting in technological advancement and automation of Customs operations, including clearance processes.

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LIST OF ABBREVIATIONS

BOFFIN- Bishops Office Freight Forwarders Integrated Network

CRM- Customs Reform and Modernization

CSD-Customs Services Department

ICT- Information and Communications Technology

IMF- International Monetary Fund

IT- Information Technology

KAM- Kenya Association of Manufacturers

KRA- Kenya Revenue Authority

USAID- United States Agency for International Development

WCO- World Customs Organization

WTO- World Trade Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Globalization is the integration of economies throughout the world by means of trade, financial and technological flows, the exchange of technology and information and the movement of people, goods and services. This process is a combination of economic, technological, socio-cultural and political forces (Sheila, 2004). Globalization to Johnson and Scholes (2002) also refers to the strategy of approaching worldwide markets with standardized products. Such markets are commonly created by end customers who prefer lower priced standardized products, over the higher priced, customized products (Pearce and Robinson, 2003). Globalization challenges firms to become more streamlined and efficient while simultaneously extending the geographic reach of their operations (Hak-Min, 1999). Companies aspiring to meet the challenges of today's rapidly changing markets and increasing global competition require management decisions to be founded on well conceived strategies and plans that are vital if the firm is to achieve its objectives while optimizing the use of its limited resources. Intense global competition has forced many firms to examine their core business processes and to devise plans to respond to an increasingly competitive market place (Bradley, Hausman and Nolan , 2003).

Responses to globalization require organizations to change their strategy to match the environment and also to redesign their internal capability to match this strategy. Porter (1990) affirms that it is important that organizations be able to shift strategy with changes in the environment and match their capabilities to the selected strategy in order to survive, succeed and remain relevant.

Kenya launched a trade facilitation project in 2004. Under the overall coordination of the Ministry of Trade and Industry, the project recognized the critical importance of trade facilitation to importers, exporters, and the Kenyan economy as a tool for solving trade-related situations and supporting Kenya's bid to continue as a leader in the regional integration process. There is need to improve information and communications technology (ICT) capability, as a trade facilitation measure, to compete in the global arena. In addition to the revenue collection function, Kenya Revenue Authority (KRA) is also an important facilitator of local, regional and international trade. The Authority has 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, including those of the Customs Services Department. In this regard, electronic filing of customs documents has been introduced in Kenya. According to KRA's Fourth Corporate Plan 2009/10 – 2011/12, a central pillar of a reliable Customs administration is a stable automated Information Technology (IT) system that can facilitate rapid cargo clearance and electronic exchange of data with the trading community.

1.1.2 Concept of Globalization

Globalization refers to the broadening set of interdependent relationships among people from different parts of a world that happens to be divided into nations. The term sometimes refers to the integration of world economies through the reduction of barriers to the movement of trade, capital, technology, and people. Globalization enables us to get more variety, better quality, or lower prices. Various reliable indicators assure us that globalization has been increasing. Currently, about 25percent of world production is sold outside its country of origin, as opposed to about 7 percent in 1950 (Daniels et al, 2009).

A host of external factors influence a firm's choice of direction and action and, ultimately, its organizational structure and internal processes. These factors constitute the external environment, which includes the remote environment, industry environment and operating environment. Understanding the myriad and sometimes subtle nuances of competing in global markets or against global corporations is rapidly becoming a required competence of strategic managers (Pearce and Robinson, 2009).

Factors within the environment influence the functioning of organisations and, international business operates within the international business environment. The international business environment and its activities, also affect Kenya Revenue Authority (KRA). A host of external factors influence a firm's choice of direction and action and, ultimately, its organisational structure and internal processes. There is an interrelationship between the firm and its remote, its industry, and its operating environments.

The focus of the study is on the remote environment, which involves technological change. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products, for improvements in existing products, or in manufacturing and marketing techniques. Thus all firms, and most particularly those in turbulent growth industries, must strive for an understanding both of the existing technological advances and the probable future advances that can affect their products and services.

Key technological issues that a firm should ask herself include; What is the current state of the art? How will it change? What pertinent new products or services are likely to become technically feasible in the foreseeable future? What future impact can be expected from technological breakthroughs in related product areas? How will those breakthroughs interface with the other remote considerations, such as economic issues, social values, public safety, regulations, and court interpretations? Technology is an increasingly important element of globalization and of competitiveness. The acceleration in the rate of technological change and the pre-requisites necessary to participate effectively in globalization are making it more difficult for many developing countries to compete, Kenya included. Globalization requires every country to compete based on its productivity as a business platform, for a widening array of activities. Globalization, then, is driving rapid improvement in many aspects of the business environment (Claros et al, 2006).

The globalization of business and markets is making it essential for all the countries to conduct their international trade according to internationally agreed norms and standards. Trading that is based on outmoded procedures and documents results in higher costs, longer lead times and lower profits (KAM, 2007).

1.1.3 The Simba System

Prior to 2005, KRA's Customs Services Department, maintained an outdated IT system known as Bishops Office Freight Forwarders Integrated Network (BOFFIN). In a time release study conducted in 2004, BOFFIN was noted to be cumbersome for taxpayers. Recommendations in various International Monetary Fund (IMF) consultancy reports by

the Fiscal Advisory Division had repeatedly cited the lack of a reliable Customs system in Kenya, as a major impediment to international trade. Following this and as part of the Customs Reform and Modernization (CRM) programme, the management of Kenya Revenue Authority (KRA) undertook to search for an automated system that would address the bottlenecks in Customs operations (Diop, 2005).

When KRA began the search for an integrated systems architecture having the capacity to link all actors and documents involved within the tax and customs systems, it sought the experience of a range of countries. Delays, legislation, staffing/management, institutional conflicts, and capacity of the Customs Union all proved to be challenges during this process (Kefela, 2009). The answer to the long quest for a system came from Senegal. The Senegalese Customs department operated a system known as GAINDE 2000, which was a flexible and compatible Customs IT system that had proved to be successful for Senegal. Acquisition and customization of GAINDE 2000 by KRA was initiated and, finally came into use in July 2005. This marked the introduction of an internet-based Customs IT system dubbed “Simba 2005 System” (S2005S). Reviews show that most projects take longer to implement than was originally planned. Though Simba was first investigated in 2002, it was not introduced until 2005.

Implementation of trade reform and introduction of new electronic and customer service systems, have forced the Kenya Revenue Authority to undertake extensive change-management initiatives. In keeping with the government of Kenya’s larger results-based management strategy, the Authority embarked on an intensive training programme of its

staff and Clearing and Forwarding agents among other stakeholders so as to be able to successfully operate the Simba System, and get the expected results.

In the past, once documents were processed they would be counter checked by the officer in charge and then delivered to the release points in a diplomatic bag. In the event that there was no transport to deliver the documents, it resulted in delays, with cost implication and hindrance to trade. This also provided an opportunity for manipulation and/or substitution of documents in the bag. The Simba 2005 System has been at the centre of Customs modernization in Kenya and enabled the automation of about ninety percent of Customs operations and dispensed with the need for traders to physically visit KRA due to the web-based characteristic of the system. Today, traders can remotely lodge entries electronically if they have access to the internet and pay Customs Duties directly and other fees through local commercial banks (KRA, 2009).

The implementation of Simba 2005 system has yielded considerable gains in Customs clearance process. It has revolutionized the conduct of Customs business by introducing online lodgment of manifests and entries, electronic processing, automated reports and reconciliations, electronic presentation of Customs entries, automated calculation of duties and taxes and internal accounting. The system also provides audit trails and eliminates many human interventions, thus reducing the possibility of error or inappropriate practices. A USAID report released in 2007, also enumerated several benefits derived through application of the Simba System. According to the report; the clearance lead time for export-import documents has been reduced from five days to one day, clearance times at Mombasa Port have been reduced from an average of 17 days to between 10 and 11 days and there is perceived impact in terms of reduction of corruption.

Private sector users of the system report that there is less need to pay undocumented fees, as there are fewer 'officials' handling their documents and fewer documents being handled.

However, the system which performs several customs clearing functions is not without teething and technical problems. These are mostly due to service outages of the main network link. The Customs Clearing System was meant to speed up clearance of cargo and eradicate corruption at the port and several hitches to it always end up causing a backlog of consignments. This has resulted in businessmen and importers suffering more delays (USAID, 2007). Clearing and forwarding stakeholders have also urged Kenya Revenue Authority to link up its electronic cargo system with others in landlocked countries to ease the flow of transit goods through the Port of Mombasa. The introduction of online tax payment through the Simba System, they said was meant to reduce human contact and corruption. They suggest that the Simba System should be connected with other platforms in East and Central Africa to monitor transit cargo and share information and that the system should be used to cancel bonds online or share information with other systems of the landlocked countries (KAM, 2007).

When the Simba System was introduced in 2005 and did not immediately ease the backlog and hence hasten clearance procedures at the port, it encountered opposition from some stakeholders. The Kenya International Freight and Warehousing Association (KIFWA) initiated a court action because members felt that Simba imposed unfair and costly requirements such as the need for computerization and training. Such reactions were caused less by opposition to reform and more by failure to introduce the system properly. However, KRA and KIFWA have worked on a memorandum of understanding

focused on how to govern the design of the system and provision of training for freight forwarders and clearing agents (USAID, 2007).

Implementation of the Simba System, which prioritized quick wins to rapidly and significantly raise tax revenues (in real terms) has demonstrated considerable results, including the reversal, in a period of real GDP growth (2004-2007), of the decade long decline in tax to GDP ratio. The programme has also already accomplished significant outputs and outcomes in such areas of Information Communication Technology (ICT) applications including full computerization of the customs operations. The programme has definitely placed KRA on a firm modernization trajectory. With the Simba System, an average of 1,700 containers is cleared per day.

The deployment of the Simba 2005 System in the Customs Services Department has made it easier for clearing agents to make Customs declarations without coming to KRA's offices. This is possible through a web-based system that has reduced human intervention and decreased transaction-processing times to below 48 hours.

1.2 Research problem

Much less attention has been paid to the question of whether changes in technology and scope of international commerce are creating pressures for the globalization of taxation, or movement toward greater international harmonization and coordination of national tax policies. Globalization of taxation means that states will need to manage the more complex jurisdictional disputes and tax-collecting problems that arise from the

increasingly transnational character of international business (Alink and Van Kommer, 2009).

Factors within the environment influence the functioning of organisations and, international business operates within the international business environment. The international business environment and its activities, also affect Kenya Revenue Authority (KRA). A host of external factors influence a firm's choice of direction and action and, ultimately, its organisational structure and internal processes. There is an interrelationship between the firm and its remote, its industry, and its operating environments (Keen, 2008). The focus of the study is on the remote environment, which involves technological change. To avoid obsolescence and promote innovation, a firm must be aware of technological changes that might influence its industry. Creative technological adaptations can suggest possibilities for new products, for improvements in existing products, or in manufacturing and marketing techniques. Thus all firms, and most particularly those in turbulent growth industries, must strive for an understanding both of the existing technological advances and the probable future advances that can affect their products and services.

Key technological issues that a firm should ask herself include; What is the current state of the art? How will it change? What pertinent new products or services are likely to become technically feasible in the foreseeable future? What future impact can be expected from technological breakthroughs in related product areas? How will those breakthroughs interface with the other remote considerations, such as economic issues, social values, public safety, regulations, and court interpretations? Globalization seems to be unavoidable to many countries and numerous initiatives and efforts have been made to

adapt to it, with aims at taking the opportunities created from it to develop their societies and people.

Local studies have been done on globalization which include; challenges of globalization and their impact on Kenya Airways, (Gichira, 2007), implications of globalization on private hire vehicle companies in Nairobi (Hannah, 2007) and specifically, Mwasho (2007) did a survey on strategic responses to globalization by foreign commercial banks in Kenya, a case of Barclays Bank. These studies focused on globalization and responses to globalization on other organizations where none focused on KRA. There still exists a research gap which this study aims at filling by carrying out a study on the application of information technology, i.e, the Simba System to address the challenges of globalization. The questions that will be addressed, therefore, will be; what are the challenges of globalization? How has the Simba System been applied by Kenya Revenue Authority, to address these challenges?

1.3 Research Objectives

- i. To establish the challenges brought about by globalization.
- ii. To determine how Kenya Revenue Authority is applying technology, i.e. the Simba System to address the challenges of globalization.

1.4 Value of the Study

- i. Benefit to Kenya Revenue Authority since management and staff will have a better understanding of how globalization, affects Customs Operations and the challenges experienced with the *Simba System*.

- ii. Useful to the government for the formulation of the relevant policies and financial support for technological advancement, for Customs operations.
- iii. This study will be useful to researchers and academia in giving insight into technological focus by Customs Authorities.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter deals with the available literature that has been reviewed for the study. The literature is mainly on globalization, the environment, Customs and International Business and challenges of globalization and Evolving Technology.

2.2 Globalization

Globalization is the ongoing process that deepens and broadens the relationships and interdependence among countries. International business is a mechanism to bring about globalization. International business has been growing rapidly in recent decades because of technological expansion. (Daniels et al, 2009)

Globalization directly affects the conduct of fiscal policy. For example, financial globalization can increase revenue volatility and give rise to contingent liabilities. The effect of globalization can be seen in the financial institutions and other public/social sectors as the government desires to divert from doing business and concentrate on its core mandate (Porter, 1990).

World polity theorists (Boli and Thomas 1997; Drori, Meyer, and Hwang 2006) pose that the concept of a world society has only become possible with the onset of modernity and introduction of new forms of science, technology, industry, and set of universal values. The world polity model presented by Boli and Thomas (1997) is conceptualized as a global network of International Governmental Organizations (INGOs), states,

nongovernmental organizations (NGOs) and societies that produce a distinct world culture never before possible. World Polity theorists agree that the nation-state is becoming weaker and less significant as institutions and systems of belief become stronger at the global level (Hwang, 2006).

World culture theory focuses on the way in which participants in the process become conscious of and gives meaning to living in the world as a single place. In this account, globalization "refers both to the compression of the world and the intensification of consciousness of the world as a whole"; in other words, it covers the acceleration in concrete global interdependence and in consciousness of the global whole. The concept above all captures the form in terms of which the world has moved towards unicity. As global integration proceeds, individuals and groups struggle to increase their local identity vis-à-vis the global whole. (Robertson, 1992).

2.3 The Environment

Globalization has made the business world into one small village, which dictates that business, has to conform to what is largely accepted in other parts of the world. Due to the fact that the environment is constantly changing, it is imperative that an organization has to constantly adopt its activities to reflect to the new environment requirements. As past experience cannot be used to predict what to expect in the future, companies which would like to survive must adopt and adapt to the change (Porter, 1990). In an environment that is dynamic, the firm finds it necessary not only to be focused but also to be flexible and adaptive. They are forced to adopt more market driven strategic

approaches. The essence of strategy is to relate the organization to the changes in the environment (Ansoff, 1990).

Organizations, therefore, have to respond to relevant strategies that match the changed environment of which failure to respond may lead to organizational decline or obsolescence. *Strategy implementation has to be supported by resources and competencies of the organization.* These make up the firm's strategic capability. Just as there are outside influences on the organization and its choice of strategies, so are there internal influences. These comprise the organization's strengths and weaknesses (Johnson and Scholes, 2002). Thomson (1994) emphasizes on the internal processes that he says can add value to an organization. Porter (1998) also emphasizes on the importance of internal capability by pointing out that companies must be flexible to respond rapidly to competitive and market changes. They must nurture a few competencies in the race to stay ahead of the competition.

Tax systems, and particularly international taxation arrangements, can struggle to keep pace with globalization and market liberalization. Most of today's tax arrangements were developed in an era when tax authorities could rely upon exchange controls, highly regulated capital markets and technological constraints to protect them from the negative fiscal effects of global activities. These barriers to cross-border activities protected tax authorities from the full implications of the interaction between national tax systems. While corporations globalized, tax authorities remained constrained by national frontiers.

Yet governments have to function, and in order to finance the services voted for by their citizens, must be able to collect the right amount of tax in this new global environment. Governments can respond to the challenge of globalization in one of three ways. They can retreat behind national frontiers and try to move back towards an “isolationist” approach to global tax issues. The second option is to press for a harmonization of the international tax system: a sort of global tax code administered by a global tax authority. And third, they can respond by intensifying their co-operation, which includes putting in place transparent systems and sharing information across borders (OECD, 2001).

Globalization has accelerated many changes in the way organizations are structured, and that is certainly driving the recognition by many organizations of their need to become more boundary less, to become an agile, virtual organization. Technology, particularly driven by the internet, has and will be a major driver of the boundary-less organization. Businesses have discovered that being successful in foreign markets often demands much more than simply shipping their well-received domestic products overseas. Firms must assess two key dimensions of customer demand: customers’ acceptance of standardized products and the rate of product innovation desired (Pearce and Robinson, 2009).

As the external environment changes, organizations find themselves in unfamiliar environment and have to respond by integrating change and internalizing the ability to adapt to the new environment for survival and growth. According to Schendel and Hofer (1979), organizations respond to turbulence in the environment by formulating new strategies. These provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment. Pearce and Robinson (2009) urges that organizations have to respond to the turbulence by

crafting new strategies that they define as a large- scale, future –oriented plans for interacting with the environment. In an environment that is dynamic, firms find it necessary not only to be focused, but also be flexible and adaptive (Vels,1999).

2.4 Customs and International Business

Customs should aim at providing the best service possible to all carriers without causing problems or delays to trade and, help streamline and simplify Customs clearance procedures. In international trade Customs plays a critical role in providing expedited clearing processes (KAM, 2007). Allowing the free movement of goods and services across international borders and the increased use of computer-based technologies to track and clear parcels, can significantly reduce the cost and time delay that Customs procedures add to many cross-border shipments. Efficient and effective clearance procedures are important to the development and growth of the global marketplace and electronic commerce. International co-operation among Customs administrations and businesses is essential to streamline procedures and develop “best practices” in an effort to improve the quality of service and provide cost- and time- saving for everyone involved. (Botman et al.2007).

Technological advancements such as the Internet, electronic banking, and improved communications, have presented new challenges as well as opportunities to Revenue Administrations. Through the Internet, it is now possible for one to place an order for goods from the other side of the globe, and have them delivered up to their doorstep. The revenue authority is, therefore, required to assess and collect the right amounts of taxes

without causing undue delays or unnecessarily increasing the transaction costs for importers and exporters. In 2004, the Kenya Revenue Authority partnered with the World Customs Organization to conduct a Time Release Study, which measured the amount of time it took for cargo to be cleared through the various entry points. It was found that it took more than ten days to clear a container through the seaport of Mombasa. Indeed, such delays are an inhibition to international trade. Recognizing these and other challenges, Kenya Revenue Authority decided to adopt the latest technologies in revenue administration. Since 2003, the Authority has undertaken an extensive Revenue Administration Reform and Modernization Programme whose primary objective was to modernize and integrate its operations in line with international best practices and KRA's vision of being the leading Revenue Authority in the world respected for Professionalism, Integrity and Fairness (Waweru, 2006).

From the consumer point of view; what are the problems faced by consumers with respect to the shipping and handling of the goods they purchase? How might the Customs clearance process be revised to help meet consumer needs and allow them to more easily participate in the global marketplace without jeopardizing the protection of cross-border safeguards? Governments and businesses can help ease the burden placed on consumers, by reducing the costs of delivery and, in some cases, the return of goods and helping consumers to fully benefit from the global marketplace. A number of systems have been put in place to facilitate the clearance of international parcels. These systems offer a variety of package handling, tracking, and duty and tax collection alternatives that can potentially benefit both businesses and consumers in the expanding global marketplace. Efficiencies and reduced compliance costs produced by these systems, could translate

into savings for businesses that could, in turn, be passed along to consumers. System streamlining can also provide resource savings that Customs authorities could then re-target to other high priority areas (IMF, 2003).

In addition, the simplification of current Customs clearance procedures – especially when linked to the growth of business-to-consumer electronic commerce – could help to facilitate global economic growth. It is suggested that Customs clearance procedures are a major factor in high international transaction rates. With the growth in the volume of imports, the ability of Customs authorities to perform other vital parts of their mission also, may grow more difficult. Thus, Customs authorities should endeavor to find ways to streamline the clearance of goods, within the larger context of global efforts to simplify and facilitate international trade. Retail suppliers, manufacturers, transporters, service providers, governments and international organizations such as the World Trade Organization (WTO) and the World Customs Organization (WCO), are all working to eliminate barriers, reduce costs and speed up delivery of goods (IMF, 2003)

Customs administrations in a number of developing countries; this includes Kenya, have undertaken important reform endeavours in a context of significant changes in their operating environment in recent years. Increases in trade volumes and trade complexity have amplified demands on Customs administrations and laid bare the inefficiencies of outdated modes of operation. (KAM, 2007).

A series of pressing symptoms of malfunction have provided concerned countries some strong incentives to evolve. These were mainly unsatisfactory revenue collection and smuggling problems; corruption problems; heavy transaction costs for business; poor export competitiveness and investment attractiveness; and difficulties in implementing trade policy. Revenue enhancement appears as the strongest incentive for customs reform, as revenue loss in some countries was estimated to exceed five per cent (5%) of GDP. Furthermore, transaction costs imposed on businesses by inefficient customs operations were found to offset the competitive advantage of some countries due to their low labour costs (Masson, 2001).

Moves to ensure more effective coordination between the various government agencies charged with regulating cross-border trade and achieving meaningful rationalization of regulatory requirements, will require attention at the national, regional and international levels. While many different players are involved, it seems likely that Customs is the only agency with the national and international infrastructure in place to achieve this. Customs will increasingly rely on the intensive use of modern information technology to provide for seamless transmission of data to all interested members of the trading community. In the future, most Customs administrations will rely on electronic submission of manifests before cargo arrival, on direct trader input of import and export declarations and, on electronic payment of duties and taxes. Initiatives that have shown good results so far and that aim at electronically connecting all members of the trading community, as in Singapore, are likely to spread. This will speed up the granting of regulatory permissions and enable the collection of statistics (The World Bank, 2005).

The changed operating environment brought by globalization not only exacerbates, but also highlights a number of structural problems in the operation of Customs and other border agencies. In countries undertaking reforms, a series of quite pressing symptoms of malfunction have brought forth an equally pressing acknowledgement of the need to evolve. The major task of managers, therefore, is to ensure survival of the companies they manage. In order to achieve success, companies have to adequately adjust to meet environmental challenges (KAM, 2007).

The increases in world trade of recent decades have placed increasing demands upon Customs. In 2002, over US\$10 trillion worth of goods crossed international borders. Every shipment passed through Customs control at least twice, once on export and once on import, making Customs a key factor in the international supply chain and in the global economy. Frequently, there is no commensurate increase in Customs staffing and resources to keep pace with the increased workload and more complex environment. Often, Customs is not provided with the technological resources to facilitate and secure international supply chains, to keep pace with the billions of dollars spent by the industry. In view of Customs unique position at a country's borders, its management must satisfy both domestic and international constituencies. On the international front, businesses expect services that are uniform, predictable, easy to use, and consistent with international standards and conventions. For example, the Revised Kyoto Convention (International Convention on the Simplification and Harmonization of Customs

Procedures) provides the framework for processing goods in international commerce (The World Bank, 2005).

The formation of the East African Customs Union has provided major momentum to Kenya's trade reform process. Since the signing of the protocols in January 2005, the EAC Customs Union has gone into high gear to address critical areas of reform. Areas of reform include documentation rationalization and standardization, information communications technology, port services facilitation, border post cooperation, third party insurance, transit charges harmonization, tariff reforms (common external tariff), and standards harmonization. The reforms will install the risk management procedures needed to build this expanded "domestic market". Kenya's need to comply with the requirements of the new Customs Union will continue to be a major driver for trade reform and Customs modernization (USAID, 2007).

The World Customs Journal (Volume 1, Number 1) states that the traditional view of Customs as the gatekeeper to an impregnable fort is coming under increasing challenge, because the world has become more integrated and Customs has to embrace the concept of integrated supply chain management.

2.5 Challenges of Globalization

Globalization is not a phenomenon neither is it some passing trend. Today it is an overarching international system shaping the domestic politics and foreign relations of virtually every country and there is need to understand it as such. Globalization can be incredibly empowering and incredibly coercive; it can democratize opportunities and democratize panic. It makes whales bigger and minnows stronger. It leaves you behind

faster and faster while homogenizing cultures and, enables people to share their unique individuality further and wider. Globalization has made the business world into one small village, which dictates that business has to conform to what is largely accepted in other parts of the world. It further describes the ongoing global trend towards the free flow of trade and investments across borders and resulting integration of the global economy (Friedman, 2000).

The rapid growth in international trade and the emergence of a global economy call for information systems that can support both producing and selling goods in many different countries. To develop integrated, multinational information systems, business must develop accounting and reporting structures. A vast array of goods and services are being advertised, bought, and exchanged world-wide using the internet as a global marketplace. Increasingly the web is being used for business-to-business transactions as well. The global availability of the internet for the exchange of transactions between buyers and sellers is fueling the growth of electronic commerce (Laudon, 2002).

According to Ouattara (1997), the challenge facing the developing world, and African countries in particular, is to design public policies so as to maximize the potential benefits from globalization, and to minimize the downside risks of destabilization and/or marginalization. Globalization has resulted in changes in institutions, where organizations have a wider reach due in part, to technological changes and to the more wide-ranging horizons of their managers, who have been empowered by advances in communication. Thus, corporations that had been mainly focused on a local market have

extended their range in terms of markets and production facilities to a national, multinational, international, or even global reach (Vels,1999).

There are several sources of globalization over the last several decades. One such source has been technological advances that have significantly lowered the costs of transportation and communication and dramatically lowered the costs of data processing and information storage and retrieval. Electronic mail, the Internet, and the World Wide Web are some of the manifestations of this new technology. Environmental forces of change have increased pressure for globalization and the rate at which companies need to alter their strategies and structures in order to survive in the market. Today's intense competition requires that firms excel simultaneously in several areas without trade-off, including innovativeness and responsiveness to their customers. Rise in global competition has compelled firms to increase performance standards in many dimensions such as quality, cost, productivity, product introduction time, and smooth flowing operations. The capacity of a firm to maintain reliable and to continuously improve its business and manufacturing processes to meet the above challenges, appears to be a key condition for ensuring its market competitiveness in the long run (Lagace and Bourgault, 2003).

Challenges of globalization come from foreign competitors entering firms' domestic markets, and from domestic competitors reducing their costs through global sourcing, moving production offshore or gaining economies of scale by expanding into new markets. Globalization challenges firms to become more streamlined and efficient while simultaneously extending the geographic reach of their operations (Hak-Min, 1999).

Companies aspiring to meet the challenges of today's rapidly changing markets and increasing global competition require management decisions to be founded on well conceived strategies and plans that are vital if the firm is to achieve its objectives while optimizing the use of its limited resources. Intense global competition has forced many firms to examine their core business processes and to devise plans to respond to an increasingly competitive market place (Bradley et al, 2003).

For sustaining their competitiveness under pressures of e-globalization, strategy should match organization resources, changing environment and in particular markets and customers needs (Porter, 1998). In such a challenging environment, the capacity of a firm to maintain reliable and continuously improving business and manufacturing processes appears to be a key condition for ensuring its sustainability in the long run (Denis and Bourgault, 2003). According to Corbett and Campbell-Hunt (2002), companies should focus their energy and resources on an innovative product and its niche. According to Chanaron and Jolly (1999), global competitive strategies are increasingly becoming technology driven in the context of extremely dynamic and turbulent environments.

In this complex business environment, firms must develop themselves strategically in order to remain competitive, grow, and prosper (Mugler, 2002). Moreover, they must not only develop new product/market strategies, but also network strategies based on value chain integration and cooperation with key business partners (Fariselli et al., 1999). In Kenya Revenue Authority, there are reform initiatives and these aim at introducing modern technology to assist in document processing, hence the Simba System (KRA, 2009).

Organizations respond to turbulence in the environment by formulating new strategies. These provide directional cues to the organization that permit it to achieve its objectives while responding to the opportunities and threats in the environment (Schendel and Hofer, 1979). John (2000) argues that strategy is no longer about planning or visioning because we are deluded if we think we can predict or worse control our future. The concept of strategy can be seen as a multidimensional aspect that embraces all the critical activities of the firm providing it with a sense of unity, direction and purpose as well as facilitating the necessary changes induced by its environment (Hax and Majluf, 1996).

Globalization directly affects the conduct of fiscal policy. Due to the fact that environment is constantly changing, it is imperative that an organization has to constantly adopt its activities to reflect to the new environment requirements. As past experience cannot be used to predict what to expect in the future, companies which would like to survive must adopt and adapt to the change (Porter, 1980). In an environment that is dynamic, the firm finds it necessary not only to be focused but also to be flexible and adaptive. They are forced to adopt more market driven strategic approaches.

There are several sources of globalization over the last several decades. One such source has been technological advances that have significantly lowered the costs of transportation and communication and dramatically lowered the costs of data processing and information storage and retrieval. Electronic mail, the Internet, and the World Wide Web are some of the manifestations of this new technology. Environmental forces of change have increased pressure for globalization and the rate at which companies need to alter their strategies and structures in order to survive in the market. Thus, corporations

that had been mainly focused on a local market have extended their range in terms of markets and production facilities to a national, multinational, international, or even global reach. These changes in industrial structure have led to increases in the power, profits, and productivity of those firms that can choose among many nations for their sources of materials, production facilities, and markets, quickly adjusting to changing market conditions (Intriligator, 2001).

African governments have also made considerable strides in opening their economies to world trade. A good indicator of this is the fact that 31 Sub-Saharan African countries have accepted the obligations of Article VIII of the "Fund's Articles of Agreement", almost all of them since 1993. Most countries have moved ahead with trade and exchange liberalization, eliminating multiple exchange rates and non tariff barriers, and also lowering the degree of tariff protection. A recent qualitative study by the African Department of the Fund indicates that the number of countries in Sub-Saharan Africa with a "restrictive" exchange regime declined from 26 in 1990 to only 2 in 1995, while the number of countries with a "substantially liberal" trade regime rose from 26 to 38 over the same period (Vels, 1999),

In an environment that is dynamic, firms find it necessary not only to be focused, but also be flexible and adaptive. Liberalization has resulted into the opening up of various industries, therefore, leading to stiff competition in many sectors of the economy, some directly and others indirectly. As a result, many companies are facing greater challenges most of which are blamed on cut throat competition from the new entrants and has also

made firms change their activities and also adopt more market driven strategic approaches in order to survive (Vels,1999).

In general terms, the business environment consists of the forces which are beyond the control of management in the short run. Growth-conducive business environment plays significant role in the performance of organizations. Although business environment consist of many dimensions but present study focus on business cost elements, pressures from market and major constraints. Today's intense competition requires that firms excel simultaneously in several areas without trade-off, including innovativeness and responsiveness to their customers. Rise in global competition has compelled the firms to increase performance standards in many dimensions such as quality, cost, productivity, product introduction time, and smooth flowing operations. Different pressures on small enterprises are conformance to quality, i.e. low-defect rates, product features or attributes, competitive price and performance (Corbett and Campbell-Hunt, 2002). The capacity of a firm to maintain reliable and to continuously improve its business and manufacturing processes to meet the above challenges, appears to be a key condition for ensuring its market competitiveness in the long run (Lagace and Bourgault, 2003).

For sustaining their competitiveness under pressures of e-globalization, strategy should match organization resources, changing environment and in particular markets and customers needs (Porter, 1998). In this complex business environment, firms must develop themselves strategically in order to remain competitive, grow, and prosper (Mugler, 2002). Moreover, they must not only develop new product/market strategies,

but also network strategies based on value chain integration and cooperation with key business partners (Fariselli et al., 1999).

Networked Small Medium Enterprises provide much financial and organizational efficiency that enable development of technologies and markets essential to achieve “sustainable development”. Reforms initiatives implemented under Business Automation were aimed at introducing modern technology to assist in document processing in the department. With this in place, the organization was able to introduce system checks and audit trails as well as minimize interaction between customers and officers, which would greatly reduce breaches in integrity in the organization (Moore and Manring (2009).

According to The World Bank, accessing the Information Technology (IT) components is the biggest challenge since it is costly and requires experts in which the developing countries lack. Many argue that even though the developing countries may claim to have the IT expertises, there is still the need of integration in order to meet the growing challenge of globalization in the IT field. Rapid technological progress has had direct and indirect impacts on globalization. Among its direct impacts has been the shift to manufactured products from agriculture, especially for the developing countries that have difficulty in competing in food products with heavily subsidized rivals from the United States and Europe (receiving 20 percent to 35 percent subsidies, respectively). Communication and information technologies have facilitated exchanging information and conducting transactions quickly and cheaply, diminishing the barriers of distance and international borders. These changes have spawned new industries and created new

opportunities, as well as sparked debate about legislation to control them. The flow of information, in turn, accelerates the diffusion of innovation between countries.

2.6 Evolving Technology

Technology is one of the most important processes underlying globalization of economic activity. (Dicken, 2003). Whereas most labour-saving technologies in the past affected a small part of the economy; IT affects everybody, including the service sector. Providing better, more valuable services to consumers, without necessarily consuming more physical resources, is current economic strategy (Brame, 1996).

Information Technology (IT) is evolving rapidly and creating new markets more rapidly than new technologies have done in the past (Rifkin, 1994). The rapidly increasing pace of technological change will have a significant impact-positive and negative, direct and indirect- on tax administrations. Information technology which includes telecommunication and computerized systems, looks set to increase productivity substantially, with savings in time as well as money, while at the same time affording customers, a better service (Alink and Van Kommer, 2009).

Rapid technological progress has had direct and indirect impact on globalization. Communication and information technologies have facilitated exchanging information and conducting transactions quickly and cheaply, diminishing the barriers of distance and international borders. These changes have spawned new industries and created new opportunities. The flow of information, in turn, accelerates the diffusion of innovation between countries (Stiglitz, 2002; Walby, 2009). According to the World Customs Journal (Volume 1, Number 1), technology will continue to be a significant driver of

customs reform in the years to come. How do we apply the power to technology to process great amounts of information quickly across large distances?

There are several reasons for special concern about Information Technology (IT). First and foremost, it is ubiquitous. Whereas most labour-saving technologies in the past affected a small part of the economy, IT affects everybody, including the service sector. It is the service sector where all the employment growth in the developing countries and the western world has occurred over two or three decades, giving opportunity for most of the staff in full-time employment and part-time jobs (Brame, 1996). The future does not belong to Fortune 500 companies, but to networks within the network all over the world (Brame, 1996). The workplace is being transformed into the work “space” with the help of electronic communication. The concept of a distinct border between personal life and work life is disappearing (Brame, 1996).

Apart from being ubiquitous, IT is also evolving rapidly and creating new markets more rapidly than new technologies have done in the past. Advances in global communications, science and technology are contributing toward universalization. The quest is shifting toward descriptive principles of universal application, the search for universal solutions to particular problems, and the requirement of objectivity and impartiality. Science and business depend on rapid, open flow of information, facilitated by new, cheaper hardware and software, as well as by orbiting satellites: thus, the universal and continuing demand for improved computers, televisions, cables, fiber optics, microchips, and satellites. The trend is toward more integrative and interactive communications networks that give access to the masses of the earth’s peoples (Rifkin, 1994).

Diffusion occurs at different rates in different countries, and business leaders need be concerned about the rate of transfer of technologies between countries to manage cross-border innovation, develop new products and services for a global market, and protect intellectual property. They also need to look at the potential opportunities and threats created by the Internet and other technologies, particularly their second-order and third-order effects in transforming business models and markets. Capkun et al (2009) also observed the correlation between inventory and financial performances.

The costs and risks of moving too slowly or too quickly can be enormous, as telecom companies found in sky-high bidding for G3 wireless licenses in Europe at a time when the industry was retrenching. Communications technologies have increased the difficulties of managing exports. Before the internet, exports were customarily arm's length, ship-it-and-forget-it transactions. Contact with customers relied on hard copy documents either faxed or sent overnight. This allowed for the luxury of a wide gap in time to deal with export issues. Presently, the ease of contacting vendors via e-mail seeks greater real-time involvement in the details of the transaction (Daniels et al, 2009).

According to Chanaron and Jolly (1999), global competitive strategies are increasingly becoming technology driven in the context of extremely dynamic and turbulent environments. Technology operates on competitiveness in two ways. First, by altering the price structure through the development of more efficient and flexible processes and second by enabling the creation of better products of greater quality, better design, after sales service and short delivery periods, etc. (Vinas et al., 2001).

Advances in global communications, science and technology are contributing toward universalization. Business depends on rapid, open flow of information and the trend is toward more integrative and interactive communication networks. However, business leaders need to be concerned about the rate of transfer of technologies between countries to manage cross-border innovation and develop new products and services for a global market. They also need to look at the potential opportunities and threats created by the internet and other technologies (Roland, 2003).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides information on the research method and design used to establish the challenges brought about by globalization and how Kenya Revenue Authority has applied technology to address the challenges.

3.2 Research Design

This was a case study with KRA's Customs Services Department being the unit of analysis.

3.3 Population

The target population of this study was Customs officers currently deployed at both Customs Clearance Office and the Export Management Office and whose day to day operations entail continuous interaction with the Simba System. A total of four (4) officers, both at managerial and operational levels were interviewed.

3.4 Data Specification

The research relied on primary data whereby the researcher personally administered the questionnaire to the interviewees. Primary data is more reliable, authentic, objective and up to date (Kothari, 2004).

3.5 Data Collection and Analysis

The study relied on primary data by interview method. The primary data collection instrument was a questionnaire, a copy of which is available at Appendix 1. The questions were structured and open-ended thus enabling the researcher to collect qualitative data. The open -ended questions were used in order to gain a better understanding and gain more insight on the interpretation of the results from the study.

The employees interviewed were those whose day to day operations entail continuous interaction with the Simba System. This included both managers and operational staff, who were well versed with the application of the Simba System and, therefore, would give more insight in relation to the objectives of the study. The questionnaire was administered to the interviewees at their respective offices.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

This Section presents the research findings.

4.1 PROFILE- WORK EXPERIENCE

TABLE 4.1.2: CUSTOMS SERVICES DEPARTMENT (CSD)

| No. Of Years | Frequency | Valid Percentage |
|--------------|-----------|------------------|
| 0-10 | 2 | 50 |
| 11-20 | 1 | 25 |
| 21-30 | - | - |
| 31-40 | 1 | 25 |
| Total | 4 | 100 |

50% of the interviewees have worked in CSD for between 0-10 years; 25% of the interviewees have worked in CSD for between 11-20 years; 25% of the interviewees have worked in CSD for between 31-40 years. The employees work experience in the Customs Services Department was important, because these had the history of the department and appreciated the reform initiatives, which included the Simba System, being undertaken in CSD.

TABLE 4.1.3: DIRECT INVOLVEMENT WITH “SIMBA SYSTEM”

| Since introduction of Simba in 2005 | Frequency | Valid Percentage |
|--|------------------|-------------------------|
| 2007 | 1 | 25 |
| 2010 | 3 | 75 |
| Total | 4 | 100 |

25% of the interviewees indicated that they have been directly involved in operations of the “Simba System” for five (5) years; 75% of the interviewees indicated that they have directly been involved in operations of the “Simba System” for between two (2) to five (5) years. The fact that the interviewees interacted directly on a day- to-day basis with the Simba System, gave the researcher more objective and reliable responses.

4.2 Globalisation and effect on Customs Operations

TABLE 4.2.1: WHETHER GLOBALISATION HAS AFFECTED CUSTOMS OPERATIONS

| | Frequency | Valid Percentage |
|------------|------------------|-------------------------|
| YES | 4 | 100 |
| NO | - | 0 |

| | | |
|--------------|----------|------------|
| Total | 4 | 100 |
|--------------|----------|------------|

The research sought to know how globalization impacted on the operations of Kenya Revenue Authority. 100% of the interviewees indicated that globalisation has positively affected Customs operations. There has been the introduction of technology hence technological advancement and automation of Customs operations, including clearing processes, resulting in the electronic filing of import and export documents.

4.3 Simba System facilitating International Trade

TABLE 4.3.1: WHETHER SIMBA SYSTEM HAS FACILITATED INTERNATIONAL TRADE

| | Frequency | Valid Percentage |
|--------------|------------------|-------------------------|
| YES | 4 | 100 |
| NO | - | 0 |
| Total | 4 | 100 |

100% of the interviewees indicated that the “Simba System” has facilitated international trade, due to the faster Customs clearing processes and more accurate documentation. This is possible through the web-based system that has reduced human intervention and decreased transaction-processing times to below 48 hours. The process of Import and export clearance is now faster, due to the introduction of online lodgement of manifests

and entries, electronic processing, automated reports and reconciliations, electronic presentation of Customs entries and automated calculation of duties.

4.4 Stakeholders view of the Simba System

TABLE 4.4.1: HOW STAKEHOLDERS VIEW THE SIMBA SYSTEM

| | Frequency | Valid Percentage |
|-----------------------|------------------|-------------------------|
| POSITIVELY | 4 | 100 |
| NOT POSITIVELY | - | 0 |
| Total | 4 | 100 |

100% of the interviewees indicated that the stakeholders viewed the “Simba System” very positively. The processing of import and export manifests is faster and time taken to release goods from the port of entry and exit greatly reduced from 2-3 weeks to 2-3 days. Due to the reduction in processing time, the Simba System has greatly decreased operational costs and hence improved international trade. Deployment of the Simba 2005 System in the Customs Services Department has made it easier for clearing agents to make Customs declarations without coming to KRA’s offices.

CHAPTER FIVE

SUMMARY, CONCLUSION, RECOMMENDATIONS, LIMITATIONS, POLICY AND PRACTICE

5.1 Summary

Globalization has affected Kenya Revenue Authority's Customs operations positively in that Customs has adopted information technology and the processes are now automated. Automation has not only facilitated Customs operations but also international trade. Globalization has also resulted in uniformity of operations in Customs administrations.

In international trade Customs plays a critical role in providing expedited clearing processes. The role of Customs has evolved from the traditional function of revenue collection to ensuring national security from threats posed by terrorism and organized crime. There was need to merge the various Customs clearance documents into one single document and hence the "Simba System". The evolution of Customs role in the supply chain and the effective management of risks and resources (capital and human), has also resulted in the embracement of information technology.

The rapidly increasing pace of technological change has had a positive impact on Customs Authorities. The introduction of the internet-based Customs Information Technology System, "Simba 2005 System", by Kenya Revenue Authority, has resulted in benefits such as faster processing and clearing of imports and exports, facilitation of international trade, reduction in the average time taken to clear goods at the ports of entry and exit, from two (2) to three (3) weeks to two (2) to three (3) days.

The operation of the “Simba System” is, however, not without challenges. The challenges include: network failure and power outages slowing down the processing transactions, integrity of the system, especially since the system is accessed through the internet, inadequate staff to handle the supplementary processes, for example, verification and release.

5.2 Conclusion

In conclusion, the overall objectives of the study were to establish the challenges brought about by globalization and to determine how Kenya Revenue Authority has applied the Simba System to address the challenges.

This study found out that globalization has positively impacted Customs at the Kenya Revenue Authority, by resulting in technological advancement and automation of Customs operations, including clearance processes. There has been facilitation of international trade due to faster processing of documents, for both imports and exports. This is evidenced by the reduction in the average time taken to clear goods at the ports of entry and exit, from two (2) to three (3) weeks to two (2) to three (3) days. The deployment of the Simba 2005 System in the Customs Services Department has made it easier for clearing agents to make Customs declarations without coming to KRA’s offices. This is possible through the web-based system that has reduced human intervention and decreased transaction-processing times to below 48 hours.

The suggested area of improvement to the Simba System was the enhancement of the integrity of the system, by incorporating a risk management profile.

5.3 Recommendations for Further Study

This study recommends that study be conducted on the effects of Kenya Revenue Authority Customs Reform and Modernization (CRM) Programme, on international trade.

5.4 Limitations

The limitations of the study included inadequate information available in relation to globalization and how it has affected revenue authorities, as far as technological advancement is concerned. Very little has also been documented by to the Kenya Revenue Authority on the introduction of the “Simba System” and its impact on international trade.

Access to the interviewees was also hampered due to their busy work schedules. Some interviewees were also apprehensive in their responses, since they regarded the information as confidential. Responses might also have been subjective, because they were based on judgement by the interviewee.

5.5 Policy and Practice

The Kenya Revenue Authority’s Customs Services Department, should research on how globalization has impacted its operations and how the department has faced the challenges brought about by globalization. The Department should also have a mechanism to continually get feedback from their major stakeholders such as clearing and forwarding agents, aimed at improving the operations of the “Simba System”; hence facilitating international trade.

The Authority should also address the challenges of the “Simba System” which include: network failure and power outages slowing down the processing of transactions; integrity of the system especially since the system is accessed through the internet; inadequate staff to handle the supplementary processes, for example, verification and release.

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APPENDICES

APPENDIX 1

QUESTIONNAIRE

SECTION A

Background Information

Name of Interviewee (Optional) _____

Title of Interviewee _____

Programme/Section _____

Length of Deployment at Customs Services Department _____

Length of Deployment at the Programme/ Section _____

SECTION B

1) Do you think globalization has affected Customs Operations? Yes _____ No _____

If yes, how?

2) Before the introduction of the Simba System , how were goods being cleared at the port of entry and exit?

3) What prompted the introduction of the Simba System?

4) What was the average time taken to clear goods at the port before the Simba System?

4) Currently is there improvement in time taken to clear goods?

If yes, please state how long on average

5) What are the challenges if any, being experienced in operating the Simba System?

Please list them in relation to;

i. Customs Staff handling the system

ii. Clearing and Forwarding Agents

iii. Other stakeholders if any

6) In your view as management, can you say that the Simba System has facilitated transnational /international trade?

If the answer is yes, how?

So far, how do the various stakeholders view the system?

9) What improvements would you suggest to the System if any?
