

**CHALLENGES OF IMPLEMENTATION OF  
INTEGRATED TAX MANAGEMENT SYSTEM STRATEGY  
AT KENYA REVENUE AUTHORITY**

**BY**

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

**SEPTEMBER, 2012**

## DECLARATION

This research is my original work and has not been presented for examination in any other university.

Signed..... Date.....

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D61/71746/2008

This research project has been submitted for examination with my approval as University Supervisor.

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## **ACKNOWLEDGEMENTS**

I would like to acknowledge the support given to me by my lovely spouse Isaac Mbingi and my children, Prince, Richie and Cindy. They had to do without a wife or mother for along time but stood by me to the very end of the project. A special thank you, to my dear sister Edith, whose encouragement, guidance and support kept me going, and to my co-workers who supported me in all respect during the completion of the project. Lastly I would like to acknowledge the inspirational instructions and guidance of Prof. Martin Ogutu without which the research would never have been possible.

## **DEDICATION**

This work is dedicated to my late father, Johnson M. Ndombi and my mother Neddy Nanjala Maero who have been a constant source of inspiration. They have given me the drive and discipline to tackle any task with enthusiasm and determination. Without their support this project would not have been made possible.

## **ABBREVIATIONS AND ACRONYMS**

E-business – Electronic business

E-business technologies – Electronic business technologies

E-mail – Electronic mail

E-tax filing – Electronic tax filing

E-tax payment – Electronic tax payment

E-tax statement – Electronic tax statement

ICT – Information Communication Technology

IS – Information System

ITMS – Integrated Tax Management System

KRA – Kenya Revenue Authority

## **ABSTRACT**

Integrated Tax Management Systems is said to have transformed the way organizations go about the process of providing information systems. Instead of crafting each new information system locally, organizations are able to install well-integrated, internationally sourced packages seek to incorporate best practice from information technology systems world-wide. These packages also provide very rich choice in features and functions so that the adopting organization can tailor the package implementation to meet their very specific needs. They promise to provide an effective and efficient system to meet the needs of organizations. Despite the promise, there are many challenges which occur during the implementation of ITMS in organizations. The study investigates the challenges faced by organizations implementing ITMS with specific reference to Kenya Revenue Authority. The challenges are wide and they range from top management commitment, selection of personnel to carry out installations, dealing with resistance to change by the workers, costly information system packages amongst others. Realizing the benefits of ITMS requires that the organization implements measures to cap these technical, organizational and business challenges. Overcoming these issues requires a well defined road map with a solid understanding of where you are today, where you are going and the tradeoffs that will bound the road map. The findings of this study should provide to management of firms implementing ITMS a better understanding of the likely challenges they may face and the appropriate measures to help in mitigating the risk of implementation failures. This case study research focuses on the challenges that face organizations which implement ITMS systems with specific reference to Kenya Revenue Authority. The interviewees' response is that timely intervention by a committed management, clearly defined scope of implementation procedures, sensitization of personnel, aligning the organization structure and the processes and training of both implementers and the stakeholders, can avert collapse of implementation of integrated tax management systems.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Background of the study

The ongoing diffusion of new Information Communication Technology and e-business technologies among firms is a current example of the dynamics of technological change and economic development. On the conceptual level, there exists a clear link between the adoption of new e-business technologies and firm's performance. To confront the demands of changing business environments, tax authority across the world are increasingly turning their attention to particular ICT system.

The introduction of ICT such as integrated tax management systems (ITMS) has improved taxation administration efficiency in rendering services to taxpayers. Tax administration authorities are using the system to deliver a wide range of value added products and services to taxpayers (Steven, 2002). Successful development of ITMS is not guaranteed as failure can occur at various stages of ITMS development. Implementation is the final critical stage, and if not properly managed the entire efforts of ITMS development may fail and the system will not be delivered.

### 1.1.1. Strategy Implementation

According to Wu and colleagues (2004), strategy implementation is the process of transforming strategic intentions into actions. Implementation of the chosen strategy is by any measure one of the most vital phases in the decision making process; it embraces all those actions that are necessary to put the strategy into practice (Kiruthi, 2001). By themselves, strategies will not lead to action since they are merely statements of intent. The intent is realized by the tasks of implementation. Such tasks can be identified as resource allocation, design of structures and systems, functional policy formulation, among other tasks.

Information Systems strategy implementation process involves along range of planning for funds, human resources, services, and technical expertise, hardware and

software capabilities needed to exploit ICT opportunities which arise from time to time (Baker, 1995). According to Duhan et al (2001), IS implementation refers to anticipating and strategically managing the impacts of change of technology component such that information systems become fully operational as the organization comes to a post-implementation state. According to Bocij (2003) IS implementation involves the changeover from an old system to new system. Implementation begins with development of a cutover proposal by the project implementation team to the management informing them that, it's time to implement the new system.

Despite the proliferation of computer based applications in public sector, the implementation of systems remains a significant issue. A number of Information Communication Technology in public sector organizations is underutilized and they do not meet their potential or fail to be used at all. Information systems planning, design, development, operation and implementation in public sector organizations are performed in a uniquely challenging context. Tax authorities are often burdened with inflexible procurement rules, hiring and rewarding procedures and operate in a rigid institutional framework. Although they are rarely subjected to the challenges of the market competition they are often confronted with political pressures.

### **1.1.2. Integrated Tax Management System**

Integrated Tax Management System (ITMS) is packaged, complex business suites designed to integrate taxation administration, processes and functions in a real-time environment (Klaus et al 2000). Nah et al (2000) describe an ITMS system as a packaged business software system that enables tax authorities to enforce taxation efficiently and effectively as well as manage use of its resources (materials, human resources, finance, etc.) and administration of taxes by providing a total, integrated solution for the organization's information processing needs.

ITMS are popular because of their extensive use of information systems and because of their strategic improvement capabilities which enables tax authorities to enhance

tax collection and management to tackle the ever changing business environments (Markus and Tanis, 2000). Canzer (2003) defines ITMS implementation as a complex process involving mobilizing systems, making adjustments to the existing systems, communication with stakeholders and integration of work. Its' implementation involves a rigorous process of system scoping, user requirement definitions, system design, development, testing and implementation. It's a whole process of strategizing on how its component will suit the business needs of the organization.

### **1.1.3. Kenya Revenue Authority**

Kenya Revenue Authority was established in July 1995, as a central body for the administration and enforcement of the laws relating to assessment and collection of revenue. Since inception, Kenya Revenue Authority (KRA) has undergone a number of restructuring exercises over time geared towards improved performance (Oyugi, 2005). The Authority's 2004 Corporate Plan aimed at full automation of the Authority and ensuring that KRA's system is fully integrated allowing for a single view of the taxpayer to promote compliance. This was in realization that the key challenge that faced the tax administration was lack of an integrated tax system that provides a single taxpayer database (KRA, 2005).

KRA reviewed ITMS used in various countries such as, New Zealand, Ireland, and Netherlands before settling on the Chilean tax system as the basis of developing its own integrated tax management system. Implementation of the ITMS Project formally commenced in September 2007, after signing a Memorandum of Understanding (MOU) with the Chilean Internal Revenue Service. The latter was to provide technical assistance, training to technical personnel in relevant areas, quality assurance on the developed tax software and assistance in the design and implementation of appropriate technological platform to support the tax system (KRA, 2010).

KRA's ITMS was implemented in three stages, namely; business analysis and documentation, systems analysis and design, and lastly systems development and

implementation. So far the major components which have been implemented are: electronic tax registration, e-tax filing, e-tax payment, e-tax statement, enquiries and a facility to send e-mail. Once fully implemented, ITMS will provide more efficient service delivery in terms of faster responses and reduced compliance cost, enhance taxpayer empowerment by facilitating easier information access and transaction flexibility, improving integrity by minimizing human contact, facilitating seamless sharing of information across the authority and relevant third parties, provide a single view of a taxpayer, and generally improve tax collection.

## **1.2. Research Problem**

Strategy implementation is the translation of strategies and policies into action through the development of programs, budgets and procedures. Successful implementation is as critical and difficult as the strategic choice. It requires consideration of the resources to be used, human resource requirements, the structure, systems, and other changes. Implementing an Integrated Tax Management System strategy is generally an extensive challenge which involves setting up of the project to full operation of the system.

Many tax authorities across the world are embracing the ITMS technology. In effort to offer seamless services to its clients, KRA utilizes advanced technology in revenue collection, information management and communication. In line with this, challenges notwithstanding, the authority has implemented ITMS. Implementing an ITMS strategy is generally an extensive challenge with implementation extending from the setting up of the project to full operation of the system. If not well implemented, the operational functionality of the ITMS becomes a major problem to the entire organization. The performance of the firm usually gets worse before it becomes better and firms are expected to encounter the resistance throughout the stages of ITMS implementation (Ross, 2006).

It has been established that successful ITMS implementation rate is very low and many tax collection institutions are yet to exploit the full potential of the system

(Hawa et al, 2008). According to Martin (2008) about 90% of ITMS implementations are late or over budget and ITMS implementation success rate is only about 33%. Firms implementing of the ITMS lack of appropriate human resources (Hawa et al, 2002) as it require coordination of multidisciplinary teams, which contain experts from various areas.

A number of studies have been done on implementation of information system in several companies. Nyandiere (2002) studied the challenges facing Enterprise Resource Planning. Nyaga (2006) studied the critical success factors for the successful implementation of Enterprise Resource Planning systems while Kang'ethe (2007) studied evaluation of the successful implementation of Enterprise Resource Planning at Haco industries. These were case studies where a convenience sample was used. The results of findings were specific only to the area of study and would not be generalized to the other outside organizations; however the studies indentified several challenges that face organization in the implementation process. They found that information systems implementation process involves along range of planning for funds, human resources, services, and technical expertise, hardware and software capabilities needed to exploit information communication system opportunities which arise from time to time.

In addition the procurement processes of equipments, systems and man power has been slow occasioning delays in project implementation. Akkerman & Helden (2002) argued that the presence and attitudes of key stake holders influence the outcome of the project. Lack of a well integrated communication mechanisms that send formal and informal messages about the new strategy (Peng & Littlejohn, 2001). They pointed out that communication and cooperation between diverse participants within an organization have been recognized as crucial elements to maintain organizational stability and adaptation to change.

Preliminary review of Integrated Tax Management systems implementation in Kenya indicates that success rate is moderate at fifty percent (KRA, 2010). However, no

study has been conducted on challenges of the implementation of ITMS at KRA. This is the knowledge gap this study aims to fill. Due to the low rate of successful ITMS implementations in developing countries compared to developed countries, an assessment of challenges of ITMS implementation will offer insights into factors in both the external and organizational environments that could determine success. This leads to the question, “What challenges face Kenya Revenue Authority in the implementation of the Integrated Tax Management system?”

### **1.3 Objective of the Study**

The objectives of the study are:-

- i. To establish the challenges faced by Kenya Revenue Authority in implementation of Integrated Tax Management System.
- ii. To determine measures taken by Kenya Revenue Authority to address the challenges of implementing the Integrated Tax Management System.

### **1.4. Value of the study**

This study contributes to existing literature on Integrated Tax Management System implementation. The study will further add to the debate on information system success evaluation literature, focusing on the development of an integrative framework in the context of ITMS that could be beneficial to practitioners wishing to assess the success of such systems. For the body of knowledge on Integrated Tax Management Systems to grow, researchers must not shy away from investigating other aspects of the system.

Revenue Authorities such as KRA will gain a better understanding of the issues or factors to watch out for both at the internal and the external level vis-à-vis the assessment of the success of their ITMS. In some respect, the procedures used in this study and the insight it offer may help the management of Kenya Revenue Authority, overcome the purported lack of knowledge with regard to assessing its success or effectiveness of their acquired systems and related technologies. Given the pervasiveness of ITMS implementation worldwide, it is hoped that a study that aims to investigate the success of such systems in adopting firms would be of benefit to

practitioners using such systems or with interest in the technology. Management of firms that have adopted, or those with the intention of adopting the system will gain insights from such an effort highlighting relevant factors and relationships in the context of ITMS success assessment.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter provides background information about the Integrated Tax Management System software and its evolution. It reviews empirical literature on the past studies in this area and gives a critical evaluation of the research framework used in the study, highlighting the research questions and hypotheses for the various parts of the research framework.

### **2.2 Strategy Implementation**

According to Holland and Light (1999), in order to achieve the integration of all the basic units of the business transaction, Integrated Tax Management Systems rely on large central relational databases. This architecture represents a return to the centralized control model, where access to computing resources and data is very much controlled by centralized information technology departments. Thus according to O'Leary (2000), this strategy implementations are an inherent part of a general phenomenon of centralization of control of large businesses back to a central corporate focal point. The resulting standardization in business processes allows companies to treat demand and supply from a global perspective, consolidate corporate information resources under one roof, shorten execution time, lower costs in supply chains, reduce stock levels, improve on-time delivery and improve visibility of product assortment with respect to customer demand. (Klaus et al, 2004)

Depending on the tasks and processes involved in the installation process, there are several approaches to implementing Integrated Tax Management Systems. For instance, the organization can embark on an ambitious journey of revamping the whole enterprise using a complete integration (Bocij, 2003), or employ a franchising strategy of implementing a partial integration across a few divisions with uncommon processes. The franchise approach is employed by large or diverse companies that do not have many common processes across the organizations. Individual system's software packages with its own database are installed in each business division, while common processes sharing common information are installed across the organization.



This is a good strategy for companies who would like to ease into strategy implementation, by starting with a pilot installation and slowly moving into other business units.

According to Richins (1983) another approach is for small companies interested in experimenting with ITMS, by starting with a few key processes or a particular module. Such “canned” processes would require little reengineering, thereby maintaining minimal disruption to the daily business operations. However, such IT endeavors seldom result in extensive benefits to the organizations. The bigger the organization, the more complex the business processes are and the greater the difficulties in implementing the ITMS system. Organizations considering a partial implementation must deal with the problems associated with using multiple vendors. They also need to consider simultaneous versus piecemeal implementation because of the ripple effect caused by decisions made in one module. In general, in order to maintain a smooth transition of the business processes and operations, simultaneous integration of the whole system, instead of functional or departmental integration, is highly recommended (Richins, 1983).

Strategy Implementation can reap enormous benefits when successful or it can be disastrous when organizations fail to manage the implementation process. Holland and Light (1999) proposed a critical success factors model with strategic and tactical factors. The strategic factors include items such as legacy systems, business visions, top management support, and project scheduling and planning. The tactical factors include items such as client consultation, personnel, business processes change and software configuration, client acceptance, monitoring and feedback, communication and troubleshooting. May & Kettlhut (1996) proposed a number of steps that implementation caused problems could be avoided.

Alongside the technical issues there are other pertinent issues that must be put into consideration while implementing the Integrated Tax Management systems. The first issue is top management commitment. The Information Technology literature has

clearly demonstrated that for its projects to succeed top management support is critical (Markus & Tanis, 2000). Strategy implementation is not a matter of changing software systems; rather it is a matter of repositioning the company and transforming the business practices. Due to enormous impact on the competitive advantage of the company, top management must consider the strategic implications of implementing the system and must find out how the system would affect its competitive position, organizational structure and culture. Top management needs to constantly monitor the progress of the project and provide direction to the implementation teams (Holland & Light, 1999).

Secondly, implementing an Integrated Tax Management System involves reengineering the existing business processes to the best business process standard. All the processes in a company must conform to the new model (Hackney & Little, 1999). Sometimes business processes are so unique that they need to be preserved, and appropriate steps need to be taken to customize those business processes. An organization has to change its processes to conform to the package or customize the software to suit its needs. If the package cannot adapt to the organization, then organization has to adapt to the package and change its procedures.

Thirdly, the management has to ensure that skilled personnel are available. Integrated Tax Management System implementation demands multiple skills, such as functional, technical, and interpersonal skills. Again, consultants with specific industry knowledge are fewer in number. There are not many consultants with all the required skills (Martin, 2008). Fourth, according to Hawa, Ortiz, Lario & Ross (2008) companies intending to implement an Integrated Tax Management system must be willing to dedicate some of their best employees to the project for a successful implementation. Often companies do not realize the impact of choosing the internal employees with the right skill set. The importance of this aspect cannot be overemphasized.

Internal resources of a company should not only be experts in the company's processes but also be aware of the best business practices in the industry. Internal

resources on the project should exhibit the ability to understand the overall needs of the company and should play an important role in guiding the project efforts in the right direction. Most of the consulting organizations do provide comprehensive guidelines for selecting internal resources for the project. Companies should take this exercise seriously and make the right choices (May & Kettelhut, 1996). Fourth, training and updating employees on ITMS is vital for the operation and survival of the system. The people at the keyboard are now making important decisions on the input and output of the company. They need to understand how their data affects the rest of company and its clients.

Lastly, according to Donaldson (2001) employees working on strategy implementation projects put in long hours (as much as 20 hours per day) including seven-day weeks and even holidays. Even though the experience is valuable for their career growth, the stress of implementation coupled with regular job duties (many times employees still spend 25 to 50 percent of their time on regular job duties) could decrease their morale rapidly. Leadership from upper management and support and caring acts of project leaders would certainly boost the morale of the team members (Donaldson, 2001). Other strategies, such as taking the employees on field trips, could help reduce the stress and improve the morale.

### **2.3 Challenges of strategy Implementation**

Although ITMS implementation is an investment in technology infrastructure, its impacts go beyond IT, requiring cultural transformation throughout the organization (Bingi et al, 2002) Adaptation to change is not always easy for employees, where “improving productivity” often means reducing staff. ITMS brings new process models that must be adapted to the individual organization. Resistance to change is a key challenge as both organizations and processes evolve, and the old way of doing things is no longer acceptable.

The introduction of new technology poses technical challenges as well. The software selection process is a critical phase of the program because it touches most, if not all, on the core operations of the business. The ITMS packages don't usually meet all of

the specific requirements of the organization (Hackney & Little, 1999). The organization must choose whether to design the new processes first and select nearly matching software or select the software first and implement the best practices upon which it has been designed. Nyandiere (2002) found out that cost and complexity of the ITMS were major challenges. Further he found out that some vendor agents were not reliable as they could not provide users with adequate training.

One major benefit of the system comes from reengineering the company's existing way of doing business. All the processes in a company must conform to the Integrated Tax Management System model. The cost and benefits of aligning with the model could be very high. This is especially true if the company plans to roll out the system worldwide. It is not very easy to get everyone to agree to the same process. Sometimes business processes are so unique that they need to be preserved, and appropriate steps need to be taken to customize those business processes

Due the fact that the information technology market has grown so big so fast, there has been a shortage of competent consultants. The skill shortage is so deep that it cannot be filled immediately. Finding the right people and keeping them through the implementation is a major challenge. Strategy implementation demands multiple skills -- functional, technical, and interpersonal skills (Lau & Linda 2003). Again, consultants with specific industry knowledge are fewer in number. There are not many consultants with all the required skills. One might find a consultant with a stellar reputation in some areas, but he may lack expertise in the specific area a company is looking for. Hiring a consultant is just the tip of the iceberg. Managing a consulting firm and its employees is even more challenging. The success or failure of the project depends on how well you meet this challenge.

Training and updating employees on Integrated Tax Management System is a major challenge. People are one of the hidden costs of system's implementation. Without proper training, about 30 percent to 40 percent of front-line workers will not be able to handle the demands of the new system. Information systems are extremely complex and demand rigorous training. It is difficult for trainers or consultants to pass

on the knowledge to the employees in a short period of time. This "knowledge transfer" gets hard if the employees lack computer literacy or have computer phobia. In addition to being taught ITMS technology, the employees now have to be taught their new responsibilities. With ITMS you are continuously being trained. Companies should provide opportunities to enhance the skills of the employees by providing training opportunities on a continuous basis to meet the changing needs of the business and employees.

Other factors which have been identified as contributing to failed implementations include; lack of management commitment, failure to include key personnel on the project team, poor lines of communication, poorly written or incomplete needs analysis reports, conflicts and hidden agenda (Summer, 1999). Nyaga (2006) pointed out that teamwork and composition in the ITMS implementer-vendor-consultant partnership as a key factor influencing ITMS implementation success. Considering that ITMS covers a wide range of functional areas across functional ITMS core team is also a key factor. Finally change management program and culture where the employees share common goals and values and are receptive to change.

#### **2.4 Dealing with Challenges of Strategy Implementation**

However, for an organization to successfully implement an Integrated Tax Management System, the pertinent issues to be taken into consideration include; fundamental issues, people related issues, and the organizational change process. According to Liebowitz (1999), managers must consider the fundamental issues of system integration by analyzing the organization's vision and corporate objectives. For instance, the management has to fully understand its current business processes, and make implementation decisions in a timely manner.

Secondly, the management has to be ready to undertake drastic business process reengineering efforts to yield dramatic outcomes. Thirdly, the management has to be ready to make any changes in the structure, operations, and cultural environment to accommodate the options configured in the ITMS. Fourth, the organization has to be financially and economically prepared to invest heavily in an ITMS implementation.

Fifth, the management needs to decide on the key related implementation and business issues and how to proceed. Finally, organizations need to exploit future communication and computing technology to integrate the ITMS with e-business applications. Often times, additional new hardware and specialized professionals are needed to run the powerful software system.

According to Willcocks and Sykes (2003), people-related issues such as corporate philosophy and leadership style can play an important role in the ITMS implementation process. Research has concluded that active top management support and commitment are essential to the success of any system implementation. Frequently, executive councils and steering committees consisting of top managers are developed to plan and manage the IT initiatives. Such senior managerial involvement tends to increase the optimization of IT business values. Employees can be quite wary of any kind of change in the business processes, particularly during periods of economic downturn. Ill-trained employees who fight the changes in the business process tend to be poor performers.

Therefore, to increase the chance of a successful implementation and to reduce users' resistance to change, end users, especially those who are very knowledgeable with the operations, must be involved in all stages of the implementation process. Employees must also be educated about the ITMS installation. Such educational endeavor should include a concise introduction to the basic concepts and architecture of ITMS systems, including actual screen shots of the function modules (Tse & Wilson (1988). During these training sessions, it is important to discuss the managerial issues involved and to build a basic understanding of the integration concepts prior to the actual installation of the ITMS system.

Further, any Business-to-Business initiatives, reengineering projects, alliances, and the introduction of new technologies should also be addressed (Mabert et Al, 2003). Project managers must take charge of the implementation process at all times. They must oversee the reengineering of the key business processes, reassign job

responsibilities, restructure the organization's chart, and redefine work relationships. Further, they must also learn how to manage the software vendors and any outside consultants.

Integrated Tax Management System implementation requires organizations to reengineer their key business processes in fundamental ways, revamping old ways of conducting business, redefining job responsibilities, and restructuring the organization. Diesel et al, (2000) describes an eight-level process that managers can use to manage change. The first step is to create a comprehensive change vision and to make the vision operational. Then, a change strategy is defined to assess readiness change within the organization, to select the best change configuration, and to establish change governance. The third process is to develop leadership, in order to lead the change program and to develop leadership capability. Commitment from teams is built through communication, managing resistance, and transferring of knowledge and skills.

The fifth process is to manage employee and stakeholders' performance by establishing needs, and implementing performance management and people practices. Business benefits are delivered through the building of business cases, and quantifying and sustaining benefits. The next process is to develop culture in the organization by understanding the current culture, and then to design the target culture and to implement cultural change. The final process is to design the organization by understanding the current organization, and then to design the target organization and to implement organizational change.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter describes the proposed research design, data collection and the techniques for data analysis that was used.

### **3.2 Research Design**

The research design was a case study. According to Kothari (2004), a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, which could be a person, a family, institution, cultural group or even community. It is a method of study that focuses on depth rather than breadth and is used to determine the relationship amongst the variables influencing current behaviors or unit of the study.

The primary purpose of a case study was therefore, to determine factors and relationships among the factors that resulted in the behavior under study. Hence, the study was to identify the challenges that faced Kenya Revenue Authority while implementation the Integrated Tax Management System. In this light therefore, a case study design was deemed the best design to fulfill the objectives of the study as the results were expected to provide an insight in understanding the challenges that face Kenya Revenue Authority as it continues to implement the new strategy with an aim of improving service delivery to its clients on one hand and increase revenue collection on the other.

### **3.3 Data Collection**

Primary data and Secondary data was used in the research. The primary data was collected using an interview guide. An interview guide is a set of questions that the interviewer asks when interviewing the respondents (Mugenda, and Mugenda, 2003). The respondents interviewed were those involved in implementation of the Integrated Tax Management System at Kenya Revenue Authority. Respondents cut across different management levels and functions within the Authority. These people



were considered to be key informants since they are both implementers and users of the system.

### **3.4 Data Analysis**

Primary data was analyzed qualitatively whereas the secondary data provided additional information that was challenging to obtain, considering the limited time and resources available to carry out the research. Content analysis was used to analyze the data since the study was qualitative in nature. Content analysis is described as “any technique for making inferences by systematically and objectively identifying specific characteristics of messages (Nachamias & Nachamias, 1996).

According to Cooper & Schindler (2003), content analysis measures the semantic content or that aspect of the message. Its breadth makes it a flexible and wide ranging tool that may be used as a methodology or problem specific technique. It guards against selective perception of the content and provides for rigorous application of reliability and validity criteria. Being a case study this technique was ideal in getting areas of consensus and disagreements from various interviews and documented data.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

The objective of the study was to establish the challenges of implementation of Integrated Tax Management System Strategy at Kenya Revenue Authority in Kenya. This chapter presents the analysis and results with regard to the objective and discussion of the same. The respondents were comprised of the implementers and users of the Integrated Tax Managements System at Kenya Revenue Authority. In total all the five respondents were interviewed and envisaged in the proposal representing 100% response rate. All the respondents interviewed had university degrees and have worked for Kenya Revenue Authority for over three years and thus equipped with sufficient information regarding the challenges facing KRA in implementing ITMS.

#### **4.2 Challenges of Implementing Integrated Tax Management System**

Improved communication technology has seen growth in a convergence of corporate activities. The basic purpose of an information system is the provision of information to support decision making process. Though, Integrated Tax Management System, are considered to be beneficial to many corporate entities as they provide essential information systems infrastructure which is essential to be competitive in today's business world, successful implementation requires a great deal of planning.

Kenya Revenue Authority was prompted to change its system processes to integrated tax management system due to the various changes that the organization was undergoing in order to meet the stakeholder's demands of improved processes that lead to efficiency and increase in its revenue collection. However, Kenya Revenue Authority faced the following challenges in the implementation of its Integrated Tax Management System:-

#### **4.2.1 Selection of the implementation team**

The respondents agreed (100%) that selection of implementers to carry out the implementation process of integrated tax management system was a challenge to KRA. The team was not cohesive, having been selected from various department of the authority such as Medium and Small Taxpayers' Department, Large Taxpayers' Department, Information Communication Technology Department amongst others. Initially the selected officers who were deployed as implementers of the new system had dual reporting channels; to their divisional heads under the respective departments for the targets allocated in the operating financial year, and to the new appointed project manager.

Secondly, the personnel selected were solely picked by the management without consultation and participation of those affected, thus leading to low morale. There was no vetting carried out to determine whether the personnel were competent and interested in the project hence the team lacked enthusiasm to learn and carry out their assignment. Thirdly, the respondents agreed that some of the personnel selected had no prior training in information technology and therefore lacked skills to perform their new task. Lastly, both the management and the personnel were at a dilemma on whether to give priority to revenue collection targets for the period at hand or attend to the new task of system implementation.

#### **4.2.2 Resistance to change**

Culture oriented towards isolation and functional specialization by the department of divisions emerged as barriers to achieving an inter-functional integration. Members are usually confined to their departments which impair the ability to achieve overall understanding and coordination, and reduce the efficiency and effectiveness of communicating information across functions. The respondents (100%) response was that the implementation of the integrated tax management system changed the way business was carried out at KRA. Previously most functions such as registration, filing of returns, preparing reports were manually done. The employees were therefore, used to the old ways of carrying out business, which was no longer acceptable.

Secondly, certain power and political considerations considered was a major obstacle to inter-functional integration. This is because ITMS requires change in job descriptions and required skills. The respondents (80%) agreed that some managers felt insecure, since most the functions were being consolidated leading to either reduced resources for their units or loss of employment. Most of the managers were keen on maintaining their autonomy as head of divisions or sections and were weary since ITMS was encroaching on their functional niche.

#### **4.2.3 Implementation cost**

All the respondents (100%) unanimously agreed that introduction of new technology posed a technical challenge. The selection of the software for the diverse packages needed expertise and technical knowhow. The respondents indicated that the team involved in the selection of the software consisted of the system designer, the project management team, the business of management team, and the business analysis management team in collaboration with the job designers from Chile Revenue Authority. Thus, apart from the software cost, which was exorbitant, the consultation cost for the experts handling the implementation inclusive of training the local implementers within the authority was prohibitive.

The cost of the software and the consultation was too big a budget for the authority, leading to implementation of the system in phrases. The respondents (90%) indicated that the skill shortage has been a challenge to the implementation of the integrated tax management system. Finding the right people and keeping them throughout the implementation of the system has been difficult due to movements in the labor market. People who are equipped with required functional, technical and interpersonal skills are scarce and in high demand. The system designers from Chile were involved in other projects in their own country and therefore could not reside in Kenya during the whole implementation period. Due to the dual responsibilities, the personnel involved were interchanged many times, thus affecting the progress of the project and leading to low morale among trained implementers of the system.

#### **4.2.4 Training and updating of employees**

The respondents (100%) said that training of both implementers and the users of the integrated tax management system was a big challenge to the authority. The experts from Chile had to train the implementers of the system, who in turn had to train the users of the system. The cost in terms of time and money was exorbitant, since most of the personnel who were required to use the system had no computer knowledge. The respondents intimated that lack of refresher courses for the users had led to the slow pace of implementation of the system. The said that some of the users who had been trained at the inception of the process had not been taken for courses to be updated on the processes leading to poor usage of the systems.

In relation to the system designers who doubled as trainers, the respondents (25%) indicated that they had no proper method for evaluating the effectiveness of the training imparted to the trainees. The training was basically theoretical and the trainees lacked enthusiasm and therefore did little participation during training sessions. The issue of lack of knowledge or prior training in information technology was a big challenge to the trainers. The respondents (25%) intimated that there was lack of focus on training by the target group due to the dual reporting channels and therefore, it took a longer period for them to fully settle in class. 90% of the respondents agreed that there were inadequate resources to cater for all the trainees and therefore the trainers had to carry out the practical training in phrases.

#### **4.2.5 Management commitment**

The respondents were divided on the commitment of management on the implementation of the integrated tax management system as 80% said the management was fully committed to the implementation while the other 20% said the management was partially committed due to the time it has taken the authority to implement the system. The majority of the respondents backed up the response by the fact that the process is driven by the Commissioner of Domestic Taxes with a lot of support from the executive, who is the Commissioner General. This is evidenced in the fact that management ensures that

there is allocation of resources in the authority's budget for continuous implementation every financial year.

The respondents acknowledged the fact that management is needed to take charge of integration processes, especially those relating to expenditure allocation for software packages and training. The respondents intimated that administration support was vital for the implementation processes since it gives boost to both the implementers and the users. The minority position is backed up with the fact that it has taken the authority a long time to conclude the implementation of the system on one hand, and there is laxity in training of staff on the other.

#### **4.2.6 Aligning KRA processes to ITMS**

The findings of this study show that implementation of ITMS involved redesigning of the existing business processes and customization of the software to suit the needs of KRA. Business process re-engineering and customization considered simultaneously usually have a positive impact on ITMS implementation. The respondents agreed (100%) that aligning KRA processes to the ITMS model was a challenge due to lack of clear guidelines on the various processes. There was no set timeliness set to stop the usage of the old system based on functions of each department and/or divisions. This has led to the systems running parallel for a long period of time which is costly in terms of personnel and equipments.

Modern tax administration which requires segmentation of taxpayers into large, medium and small based on the old system is also viewed by the respondents (90%) as a major challenge since there would be need for new packages to cater for the changes. KRA has been changing its segmentation of taxpayers' frequently. Prior to 2002 there was an Income Tax Department, Value Added Tax Department and Customs Department, whose systems were independent of each other. Later, in 2004, Large Taxpayers' Office was hived of the Domestic Tax Department, thus creating a segment of taxpayers' whose turnover was over 750 million per year. Presently, KRA has re-designed its Domestic

Taxes Department, by segmenting its taxpayers into two groups, namely small and medium, ultimately changing its name to Small and Medium Taxpayers Department.

#### **4.2.7 Changes in government policies**

The respondents (80%) indicated that the implementation team had to revert to the system every year to make changes depending on the amendments made by the government in its budget speeches. Sometimes the changes are not structured and cannot be effected by the system without acquiring new packages. The respondents intimated that there is never prior consultation before the changes are made by the government. The other respondents (20%) were non committal on the issue.

#### **4.2.8 Aligning KRA structure to suit the implementation of ITMS**

The organizational configuration affects all stages of ITMS implementation, including the planning, selection, training, initial and longer term diffusion. KRA as an organization is composed of several department namely, Head Office manned by the executive, the Commissioner General, Small and Medium Taxpayer Department, Customs Department, Large Taxpayers' Department, Motor Vehicle Department, Finance Department, Procurement Department, Board Secretary and Administration, Legal Department and lastly, Investigation and Enforcement Department. The segmentation is based on the functions performed by each department.

Organization structure indicates activities done in the firm by determining routines, procedures and processes, and forms a support system that includes decision making levels, system of reporting and control, and coordinating system. Besides forming selection criteria for the firm top management. The respondents grossly divided on the issue of whether KRA's structure is suitable of the implementation of ITMS. Whereas 40% of the respondents agreed that the structure was conducive for implementation of ITMS, the rest at 60% disagreed. Those who agreed gave no reason for their stand, whereas those who disagreed said that KRA structure was previously function based while ITMS had integrated some of the functions hence the need to change the organization setup. There is need to align the structure will the new business processes effectively serve the stakeholders and improve efficiency in the authority.

#### **4.2.9 Feedback to stakeholders**

The Kenya Revenue Authority has embarked on the second phase of implementation of ITMS, which should handle all internal processes as well as boost the Authority's online operations. The phase will involve development and implementation of core tax modules including audit, compliance monitoring, debt management, external information management, management of statistics and refunds. The phase will also enable tax payers as well as KRA to access such services as technical support services, taxpayer services and online payment statements. ITMS phase one has enabled taxpayers to access online services such as pin application, income tax returns filing, VAT filing amongst other services.

The respondents were divided on whether the management gets feedback from the users of ITMS. 60% of the respondents agreed that management gets feedback through reports prepared by automation office on a monthly basis. On the other hand, 40% said there was no formal way of management receiving feedback from the users who include taxpayers. The 60% had limited the scope of those giving feedback to the ITMS implementers and the internal users, without considering the external customers who use the system.

#### **4.3 Measures for dealing with the challenges**

The need for an effective and efficient tax system has led to Kenya Revenue Authority to put in place the below elaborated measures to deal with the challenges that were facing the implementation of ITMS.

##### **4.3.1 Selection of implementation team**

Integrated tax management system implementation team should be composed of top-notch people who are chosen for their skills, past accomplishments, reputation, and flexibility. These people should be entrusted with critical decisions making responsibilities. Management should constantly communicate with the team, but should also enable empowered, rapid decision making. The study revealed that the implementation team is important because it is responsible for creating the initial, detailed project plan, and overall schedule for the entire project.



The respondents (100%) response was that a project team with diverse background in revenue administration matters has now been selected and put in place to oversee the selection and replacement of personnel to serve the integrated tax management system project. Testers have also been outsourced to back up the team from the local information communication technology office. The respondents indicated (90%) that selection is now done on merit and competitively through internal and external advertisements. Prior consultation is also done by the management before final selection is carried out by the project team.

#### **4.3.2 Resistance to change**

The study indicates that resistance to change is a psychological issue that is most difficult to resolve. These are the questions and issues that originate from the aspect of human nature that never accepts any change without seeing the visible advantages of it. It is recommended that management puts in place machinery to handle this problem at the initial stage of the project in order to reduce the potential negative impact of users' possible contra-collaborative activities. The best way is to have open communication channels, stimulate people to generate new ideas and provide suggestions, and organize interesting training and great effective feedback.

The respondents (50) indicated that since KRA put in place a Change Agent Network to sensitize staff and ensure cultural and other related issues are dealt with promptly. Other respondents (90%) agreed that the challenge of cultural diversity is effectively addressed during training and should be done continuously. On the other hand, 25% of the respondents indicated that cultural diversity had no relationship with the automation of the KRA system.

#### **4.3.3 Aligning KRA processes with ITMS model**

The study revealed that implementation of ITMS has forced the organization to reengineer its key business processes and develop other new business processes to support the organizational goals. Redesigned processes required corresponding

realignment in the organization control to sustain the effectiveness of the reengineering efforts. The realignment typically impacts most functional areas and many social systems within the organization. The resulting changes significantly affect organizational structures, policies, processes and employees.

The respondents (100%) said that a rigorous activity of business process re-engineering was carried out by appointed consultants. The respondents (90%) further said that a business team set by the management and tasked to review the user requirement and business system to align them with the ITMS model. On the other hand, the ITMS model was also adjusted to the requirement of the department functionalities to suit the needs of the authority. KRA has put in place training programs for both the implementers and users of the system to cope with the changes.

#### **4.3.4 Aligning KRA structure to suit implementation of ITMS**

The existing organizational structure and processes in most firms are not compatible with the structure, tools and types of information provided by ITMS. Even the most flexible ITMS was found to impose its own logic on the organization's strategy, structure and culture. However, the study shows that if proper change management techniques are utilized, the organization should be prepared to embrace the opportunities provided by the new system. The various functional departments or divisions if made flexible enough could benefit from the flow of information and enhance improvements in the processes.

The respondents (40%) indicated that there was re-organization within the authority to adjust to the ITMS processes. Personnel had to be redeployed to various created sections such as the help desk in the front office. Business automation office introduced interface between ICT and business to undertake analysis and handle change requests from stakeholders. On the other hand, 40% of the respondents were of the opinion that aligning KRA structure with ITMS model will be a continuous process since the system is not fully developed. The other 20% respondents are of the view that the process needs training.

The study revealed that integrated tax management system should not be static. It should be designed to taking into consideration the needs and requirements of the organization. KRA is mandated to collect government revenue which is diverse in nature. The rate of taxation is dependent on the social and political circumstance at any given time. Thus, there need to have a system that is reliable and flexible. On the other hand, a well trained team should be tasked to evaluate and monitor the changes in government polices at any given time in order to meet timeliness set by the legal notices or the budget report.

The respondents (50%) said that KRA has selected a budgetary team which work hand in hand with Treasury and in turn advise the integrated management system implementers of the proposed changes to be made in the system. The facilitation team makes it easier for the implementers to cope with the timeliness during implementation since some of the changes made during the budget are supposed to be effected immediately.

#### **4.3.6 Training of personnel**

End user training, organizational change and job design are critical components of a successful ITMS implementation. The study revealed that integrated tax management systems can create disruption among employees and might even start a panic if people do not understand how to use the software effectively. ITMS functional training should focus on business workflows and technical know-how rather than transactions. The ‘train-the trainer’ approach is a proven way to embed knowledge into the organization.

The respondents unanimously (100%) agreed that KRA has put in place change management and user programs for both implementers and users of integrated management system. 3 out of 5 respondents (60%) indicated that staff training and sensitization was essential for the successful implementation of the system. A further 2 out of 5 respondents (40%) suggested that stakeholders, inclusive of taxpayers who are users of the system for online filing of returns be sensitized on a weekly basis on the use of the new system.

#### **4.3.7 Selection of software for ITMS**

The study indicated that ITMS failure occurs when the new technology's capabilities and needs are mismatched with the organization's existing business processes and procedures. Thus the importance of software selection cannot be underestimated. The study revealed that the software selection should be based on the organization's corporate mission, objectives and strategy. Use cross-functional teams and executive-level input to identify, examine and rethink existing business processes. Thereafter, a team composed of respected individuals who are familiar with the various software packages, company processes and industry should be responsible for identifying the features and functions required for the software to effectively support each functional area as well as the overall organization's vision.

The respondents (60%) agreed that the challenge of selection of the software was resolved by KRA outsourcing for consultants who collaborated with the project team to come up with specifications which met the needs of the authority. One respondent (20%) indicated that acquisition of software was done as per the requirements of Procurement Authority, whereas the other respondent had no idea how the software was acquired.

#### **4.3.8 Implementation cost**

Given the large financial commitment that integrated management systems project requires for full implementation, it was vital to establish whether KRA's capability of meeting its obligation. However, from the study, it was established that KRA decided to implement the project in phases to avoid the heavy financial burden of purchasing the software at once. The other major costs involved in the implementation process include the hiring of consultants, training of technical staff and maintenance of the systems.

During the interview, 20% of the respondents indicated that Kenya Revenue Authority gets financial assistance from other institutions inclusive of the World Bank, and

therefore is not restraint by financial costs, whereas 60% of the respondents said that the amounts are budgeted for and included in the authority's corporate plan, whereas 20% were not aware if KRA had any financial constraints in regard to ITMS implementation.

#### **4.3.9 Feedback to stakeholders**

The study established that feedback from stakeholders was paramount to the implementation of the integrated tax management system. This has helped KRA adopt a strategy of learning based on the past failures. The interaction between KRA and the users of the installed information technology systems, who include both the employees and the taxpayers, has enabled the revenue authority to increase its efficiency in its systems.

The respondents unanimously (100%) agreed that KRA has set up a Help Desk that aids ITMS unit by receiving and giving feedback to all users. Further, 80% of the respondents indicated that KRA has sent up a website to sensitize the stakeholders and receive feedback on various issues affecting ITMS implementation. Lastly, 20% of the respondents said that feedback is received through taxpayers' seminars and sensitization programs carried out by the authority.

#### **4.3.10 Top management support**

Successful implementations of ITMS require strong leadership, commitment and participation by top management. Since executive level input is critical when analyzing and rethinking existing business processes, the implementation should have an executive management committee to oversee the project implementation. The project committee mandate should be to have a clear definition of objective, development of a work plan, resource plan and careful tracking of the project progress to its conclusion.

The study indicates that a successful project needs support from all top management to address problems such as conflicting business needs and enact solutions. The study reveals that regular project with executives or steering committee members help managers swiftly address issues as they come up and maintain a satisfying project

momentum. The respondents were divided on the commitment of management on the implementation of the integrated tax management system as 80% said the management was fully committed to the implementation of ITMS in KRA. Since the initial implementation in 2007, there has been continual improvement in the different phases of the project. The executive has ensured that resource allocation for ITMS is sufficient to sustain the project both in the field for the implementers and in-house for the users.

#### **4.4 Discussion of findings**

This study analyses the challenges that face ITMS implementation in KRA as the selection of the implementation team, resistance to change by personnel, implementation cost consisting of the software and consultancy fees, training of implementers, employees and other users, commitment of the management to the processes, aligning KRA processes to ITMS model, aligning KRA structure to suit the implementation of ITMS, changes in government policies and feedback to stakeholders.

Based on the analysis, top management has the greatest capacity and social status in influencing the behavior of other members and in resource allocation in organizations. Literally, with strong support from top management, necessary resources can be mobilized and the project put on top priority by altering the political agenda. The respondents agree with Markus and Tanis (2000) argument that top managements support is critical for strategy implementation. The idea of top management support literally means the management gives leads and gives direction to the project. The idea that top management should give priority to the project boosts Holland and Light (1999) argument that top management needs to constantly monitor the progress of the project and provide direction to the implementation teams. This action encourages the entire organization to focus on the ITMS implementation and motivates users to learn the new system and truly appreciate the project. The research has also found out that support and attendance from the top management has a positive impact in ITMS implementation. Their involvement in the processes through designing and controlling, gives the strength and confidence to employees thus boosting their morale and the project image.

According to Rashmi Jha et al (2004) effective communication is critical to ITMS implementation. Expectations at every level need to be communicated. Management of communication, education and expectations are critical throughout the organization (wee, 2000). The respondents intimated that the challenge of resistance to change was caused by inadequate information about the project by the management. My observation, and interpretation of the respondents response, on this issue is that KRA limited the task of ITMS implementation to a small clique of officers selected by managers without consultation. Sensitization to all stakeholders should be necessary for the project to be accepted and owned fully by the users. I agree with Sirigindi (2000) who says that one major factor for failure of implementation is that it is considered as a mere automation project instead of a project involving change management.

Shortage of information technology systems skills and radical process changes brought about by ITMS implementation made providing enough and timely training to project persons and users a critical requirement in ITMS implementation (Davenport & Markus et al, 2000). Importance of training was echoed by all the respondents. The research findings invigorate the importance of training as a means of change management during ITMS implementation. The respondents agree that ITMS skills were in acute shortage because of high demand for people with good understanding of business and the systems.

Therefore, organizations involved in implementation of information technology projects need to realize the importance of training in order to increase the chances of successful implementation of projects. They agree with the view that training should go beyond teaching the users how to operate with the new system and equip them with multiple skills such as functional, technical and interpersonal skills. The respondents agree with Martin (2008) that, there are not many consultants with the required skill to lead the implementation team throughout the installation phases, and therefore “the ‘train-the-trainer’ approach, where organizations develop key users in different work group to train and assist other users in their respective groups. This is a proven way to embed knowledge into the organization to counter the scarcity of skilled consultants who are also very costly.

In a study carried out by Kumar (2003) on implementation of ERP in organizations, about 38% of the organization found that they ran out of training budget. Training being expensive, underestimating training requirements and not budgeting sufficient resources were the stated reasons for exceeding the training budget. The respondents, though agreeing that insufficient finance could be a challenging factor, indicated that lack of basic training in information technology was a bigger challenge to the implementation of ITMS by KRA. The teams selected from diverse background were not cohesive and cooperative even during training sessions. Most of the personnel who had been redeployed unwillingly lacked morale. On the other hand the Authority has made great efforts in allocating sufficient funds for training for both implementers and users.

The issue of aligning old processes and organization structure with the new ITMS model show that incompatibility is an issue which is likely to be encountered by the organization while carrying out implementation and subsequently during its assimilations and usage. The case study points out that the new model is incompatible with the established ways of thinking and the norms of behavior embedded in the existing work routines. Some respondents argue that it is due to cultural differences and policy constraints that their ability to satisfy business requirement is limited and therefore, to achieve the objective of systems integration, firms should avoid rigid structures and routine processes, but also take into consideration the good cultural values of the old processes which should be incorporated in the new system to create harmony. This argument contradicts Hackney & Little (1999) who said that all processes in a company must conform to the new model.

Observation from the study indicates that local legislation did not have a great impact on ITMS implementation and usage except for the challenge of interruption caused in the processes. The respondents said that the challenge is experienced after the budget report is read, and it relates to timeliness, since some of the amendments which are supposed to be carried out immediately, cause interruption to the operation and flow of information. However the interviewees mentioned that they had to configure the system to conform to the taxation changes as spelt out in the legal notices and the budget speech every year.



The personnel involved in the configuring the changes are also few hence the challenge is not felt across board.

Based on the responses received from the respondents, the major challenges facing ITMS implementation are support of top management, implementation cost, and training, whereas the study by Chen (2008) argues that successful implementation is based on adequacy of training, competency in project implementation team, acceptance of changes and participation of external consultants. On the other hand, Kumar et al (2003) carried out a study to prioritize the issues affecting ERP system in medium scale fertilizer industry and the following factors were determined as, correct data, training and testing, never run parallel system, conference room pilot, employee retention, customization, and clarity in management objectives.

## **CHAPTER FIVE**

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

#### **5.1 Introduction**

A business organization must offer better value in the areas of quality, service, technological expertise and total cost to keep the stakeholders satisfied and to earn their trust. Continuous improvement in all areas is needed to remain competitive and maintain the sustainability of the organization. This study describes the challenges that Kenya Revenue Authority has faced in their implementation of integrated tax management system in their Endeavour to enhance efficiency and increase revenue collection as mandated by the government.

#### **5.2 Summary of findings**

The findings of the study were that the implementation of integrated tax management system at Kenya Revenue Authority was faced with various challenges.

##### **5.2.1. The challenges that faced KRA**

The challenges pointed out by the respondents were administrative, financial and technical. Administrative challenges include:- poor methods used by the management in the selection of the implementation team who were tasked to carry out the automation processes, resistance to change as most employees were used to the old ways of doing things, lack of commitment from the management resulting into a prolonged implementation period, aligning the KRA function based structure to an integrated processes structure suit the implementation of the ITMS and lack of feedback to both the management and the stakeholders as there were no proper procedures put in place for giving and receiving feedback.

Financial challenges that faced KRA faced during the implementation of the system included the cost of acquiring the software which is diverse and expensive, the cost of hiring the system designers who were scarce and charges exorbitant fees, training of the implementers to carry on the routine implementation and training of the all the users, undergoing the tedious and costly procurement process, equipping front offices with

equipments, personnel to give feedback to all stakeholders among others. The technical challenges involved training of implementer on the automation processes and users on how to access the system, aligning the KRA old function based processes which were literally manual to the ITMS model which has integrated many functions, designing the front office to be able to give feedback to all stakeholders and dealing with changes in the government policies which have no timeliness.

### **5.2.2 Measures taken to address the challenges**

However, Kenya Revenue Authority has put in place several measures to deal with the challenges facing its implementation of ITMS. The outlined measures were geared to improve implementation of ITMS: - Scientific method of selection of the implementation team which has increased efficiency and morale for staff. To solve the challenge of resistance to change by employees, KRA has employment of a Change Agent Network to sensitize staff and ensure that cultural diversity is fully addressed. To align the KRA processes with the ITMS model, KRA carried out a re-engineering by appointed information technology consultants who were tasked to review the system taking into consideration all the users requirements.

In order for KRA to achieve its objective to simplify, hasten and streamline tax compliance, there was need to have an effective system integrating all the processes. Thus, KRA has aligned its structure, moving from the function based organization structure to an integrated structure grouping together similar processes, with the intention of viewing the taxpayer from a single view. To enhance the processes, KRA has interfaced business office with information technology office to undertake analysis and handle change requests from stakeholders. To address the challenges of changes in government policies, KRA has selected a budgetary team that liaises with Treasury and updates the implementers of fiscal changes made that need to be effected on the system. To address the problem of training, KRA has increased its training budget for all technical officers.

The financial constraint faced by KRA in the implementation of ITMS has been eased by financial aid from the other financial institutions such as the World Bank. KRA has also increased its budgetary allocations to cater for the various phases of implementation. The problem of sourcing for the software was addressed by requesting the system designers from Chile to source for the various packages in collaboration with the KRA ICT and business office team. The public procurement Authority Office gave guidance on the method of acquiring the suitable software. Lastly, the question of feedback was addressed by KRA setting up a Help Desk that serves ITMS by receiving and giving feedback to management and all users.

### **5.3 Conclusion of the study**

In the present highly competitive market integration of processes and planning are very critical, especially for firms which have been in existence for a long time and have grown expansively. Lack of integrated planning always causes duplicate functions and ambiguously defined responsibilities. The resulting enterprise internal discord will affect operating efficiency in delivery of services to the stakeholders. From the research findings and the answers to the research questions, some conclusions can be drawn about the study. It can be concluded that the major challenges that face implementation of integrated tax management system strategy at Kenya Revenue Authority are selection of the implementation team, high implementation costs, training of employees, top level management commitment, cultural differences and government fiscal policies.

It is of paramount importance that the organization addresses the internal and external factors challenging the implementation of the system for effective and efficient management. To meet its objective of administration efficiency in rendering services to taxpayers and increase in revenue collections, the study has revealed that KRA has had to employ the following measures to deal with the implementation challenges:- Hire consultants to scientifically select employees to be deployed to as ITMS implementers, create a Change Agent Network to sensitize staff on cultural issues, reengineer the business processes, change the organizational structure to suit the needs of ITMS, select a team to facilitate changes in government policies, increase the budgetary allocations to

cater for training of staff, seek for financial assistance from other financial institutions to aid in catering for implementation costs for software and consultation.

The ITMS implementation project which is being carried out in phases is intended to promote integration of domestic taxes administration and the exchange of information between various departments such as customs and motor vehicles. The project seeks to enable a single view of the taxpayer across KRA functions, ensure efficient and effective revenue collection and attain operational excellence. The project undertakes to provide seamless sharing of information across KRA and interconnectivity with external systems of stakeholders to enable integrated e-processing of tax returns and efficient enforcement.

### **5.3 Recommendations**

In order to avoid challenges while implementing Integrated Management Systems, firms should first, focus on business processes and requirements during selection of software and personnel to ensure that it fits with the specific business needs. Secondly, a strong management and resource commitment is key to key direction and expertise during phase reviews and continuous implementation. Thirdly, commitment from organization executives is paramount to address problems such as conflicting business needs and also to maintain a satisfying project momentum. Fourth, the firm should ensure adequate training and change management to ensure seamless transition. Lastly, the firm needs to chart the course; launching an ITMS implementation necessitates clear communication about the project's purpose and expected benefits to all employees, end users and other stakeholders.

The study therefore, recommends that KRA should create a seamless connection between its people, processes and information to improve operation of ITMS across the board. The knowledge and experience gained by the implementers of the system for the last 6 years, the human capital, and the public relations and management systems put in place should all be geared to improve the system continuously.

#### **5.4 Limitation of the study**

Choices that were made during the course of designing this research brought with them some limitations. While the study covered all aspects of administrative and management challenges facing ITMS implementation, it was not designed to address technical issues relating to problems posed by various models. Issues of customization, re-engineering of the business processes and specifications for equipments and parts could be a major challenge that has not been addressed by this study.

Apart from Kenya Revenue Authority, there are various revenue organizations within the region that use similar information technology systems. It would have been wise therefore, to undertake a study in two or three other authorities, such as, Uganda Revenue Authority, Rwanda Revenue Authority or Tanzania Revenue Authority to establish the challenges they have faced in the implementation of their systems. But due to the limited time given to the study, it has not been possible to extend the research to these organizations for comparability.

#### **5.5 Suggestions for further research**

The study confined itself to the challenges that faced Kenya Revenue Authority in the implementation of integrated tax management system and the measures put in place to mitigate these risks. This research therefore should be replicated in other organizations in the region so as to establish whether they experienced the same challenges that KRA encountered in the process of implementing it integrated tax management system. It would be of importance to increase the sample size and compare whether the challenges facing the various organization are similar in nature.

#### **5.6 Recommendation for policy and practice**

Firstly, the management should assess organizational readiness for ITMS implementation and the availability of sufficient financial resources for the project. Secondly, once the decision about the project is made, the adopters ought to ensure that the system is a business-driven initiative, which should be reflected in the definition of appropriate project goals.

Thirdly, the assessment of the project feasibility should also consider the human resources needed for the ITMS implementation. The organization must assess the capabilities of the available people, their knowledge and education. Lastly ITMS adopters should periodically evaluate their implementation process using risk analysis tools for ensuring optimum benefits and avoiding any problems that may occur. Review and evaluation of projects are essential components to avoid unnecessary failure.

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## APPENDICES

### Appendix i: Letter of introduction

**University of Nairobi,  
School of Business Studies,  
NAIROBI.**

Dear respondent,

I am a postgraduate student at School of Business studies, University of Nairobi pursuing a degree in Master of Business Administration (MBA) in Strategic Management. As part of partial fulfillment for the degree I am conducting a research paper on the “Challenges of implementation of integrated tax management system strategy at Kenya Revenue Authority”.

I would be obliged played a part in this study by giving me information to the attached interview guide. The information given will be treated with strict confidence and will be used for academic purposes only. A copy of the final report will be availed to you upon request.

Your assistance and co-operation on this matter will be highly appreciated.

Yours Faithfully

**Dorine M.Ndombi**

MBA Student

**Prof. Ogutu**

Supervisor

## **Appendix ii: Interview guide**

### **Goals of the interview process**

The objective of the study is to investigate the challenges that affect Kenya Revenue Authority in the implementation of the Integrated Tax Management System.

### **Respondents Background**

- 1) What is your current position?
- 2) Which department do you work in the Authority?
- 3) What are your current duties and responsibilities?
- 4) How long have you worked in this department?

### **Challenges of ITMS implementation of Integrated Tax Management System**

- 1) When did KRA commence the implementation of ITMS?
- 2) When did you start using ITMS?
- 3) Were you involved in the implementation of ITMS? Please explain.
- 4) What challenges were encountered by the management in the selection of the team tasked to carry out ITMS implementation process?
- 5) What prompted KRA to consider implementation of ITMS?
- 6) Is KRA organization structure suitable for the ITMS implementation? If your answer is “No”, explain the challenges posed by the organization structure?
- 7) What were the challenges in aligning KRA processes to ITMS model?
- 8) What challenges do changes in government policies pose to ITMS implementation?
- 9) Who were involved in selection of the software for the implementation of ITMS and what problems did they encounter in carrying out this task?
- 10) What effect did introduction of ITMS have on both the management and other staff of KRA? Please explain.
- 11) Who prepared the initial training program for the KRA staff on the use of ITMS? Was the training sufficient?
- 12) What do you think were the main challenges that faced the ITMS trainers?
- 13) What problems did the trainees encounter during the ITMS training?
  
- 14) In your opinion, how often should KRA carry out refresher courses on the ITMS programs for users?
- 15) What can you say about employee commitment to ITMS project? Please explain.
- 16) Did the implementers find the KRA leadership and management supportive? Please explain.

- 17) Did KRA experience any financial strains during ITMS implementation? If yes, please explain its effect on the implementation process.
- 18) How is the flow of information between the management and the implementers of ITMS?
- 19) How often does management receive feedback from the users of ITMS? Is there a formal way of giving feedback on the performance of the system?
- 20) What challenges does KRA face in terms of data safety?
- 21) Other than factors listed above, please highlight other challenges that KRA might have encountered in the implementation of ITMS.

### **Measures taken to address the challenges to ITMS implementation**

- 1) What measures have been put in place to address the issues relating to selection of personnel tasked with ITMS implementation?
- 2) What measures were put in place to address the cultural issues in KRA in relation to ITMS implementation?
- 3) What measures were put in place to align the KRA processes to fit in the ITMS model?
- 4) How did KRA align its structure to suit the implemented ITMS?
- 5) How does KRA handle government policy changes affecting ITMS?
- 6) What training programs has KRA put in place to cope with its automation processes?
- 7) How does KRA deal with the issue of selection of software for ITMS implementation?
- 8) What measures have been put together to resolve the financial constraint experience during the ITMS implementation?
- 9) What mechanisms have been implemented to improve feedback from the internal and external users of ITMS?
- 10) Other than the measures listed above, please highlight other measures that you are aware of that KRA has put in place to improve the operation of ITMS.

### **Conclusion**

- 1) In your opinion has KRA achieved its objectives of increasing revenue collection and minimizing costs through the implementation of ITMS? Please explain.
- 2) As an employee of KRA, what recommendations would you make to the management to enhance the performance of ITMS?