A STUDY OF THE TURNAROUND STRATEGY ADOPTED BY THE KENYA REVENUE AUTHORITY (KRA)

BY:

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Declaration

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

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D61/8825/2005

This project has been presented for examination with my approval as appointed supervisor

Signed: ______________________ Date: 14/10/2009

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Dedication

This study is dedicated to first and foremost to God for seeing me through thick and thin in this life. To my adoring parents, I extend my uttermost appreciation for their encouragement and support during my entire life time. To my beloved wife and children who stood by my side during the entire course, many thanks to them. To all my relatives, friends and workmates who believe in me, many thanks to you all. And above all I give thanks to God.

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The journey to completion of this course has been challenging and inspiring at the same time. The successful completion of this study has been achieved by combined efforts of some other people who helped me with their various talents, instructions, experience and above all their valuable time. I wish to express my sincere gratitude to the following individuals who in one way or another gave me valuable support during the study;

I thank our Almighty God for his grace and sustenance that has seen me complete this course successfully. I want to return praise to him for the free life he has given me, wonderful opportunities that I have had, the knowledge to share with others and the strength to write this research project.

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Abbreviations

BSC	Balance Score Card.
CG.	Commissioner General.
DPC	Document Processing Centre.
DTD	Domestic Taxes Department.
EDI	Electronic Data Interchange.
HIV	Human Immuno Deficiency syndrome.
HOD	Head of Department.
HR	Human Resources.
ICPAK	Institute of Certified Public Accountants of Kenya.
IMF	International Monetary Fund.
IT	Information Technology.
KACC	Kenya Ant- Corruption Commission of Kenya
KRA	Kenya Revenue Authority
LTO	Large Taxpayer Office.
PC	Performance Contracting
PMBO	Project Management Business Office
VAT	Value Added Tax.
VMS	Vehicle Management System
WB	World Bank

Abstract

Many firms experience trends of deteriorating financial performance at some point in their organizational life cycle as a result of market erosion and/ or maladaptive decisions by management. Based on a deterministic perspective this organizational decline can be attributed to environmental factors while the voluntaristic perspective attributes decline to internal factors, particularly management actions and perceptions. It is for this reason that the researcher deemed it necessary to conduct a study on the strategy adopted by the Kenya Revenue Authority.

The study was modeled on a case study design whereby qualitative data was collected focusing on the turn around strategy adopted by the Kenya Revenue Authority. Information was collected on the strategic planning and implementation and strategy and implementation at KRA. Primary data was collected using an interview guide. The interview guide was divided into two sections: section A contained questions on the background information of the respondents. Section B contained questions on strategic planning and implementation and strategy and implementation. Content analysis was used considering the qualitative nature of the data collected through in-depth personal interviews.

Based on the findings it can be concluded long term planning is important for the KRA success due to the following reasons; it ensures commitment to the set objectives, it makes it possible to check performance against set objectives, It helps in clarifying the vision of the organization and it also helps in articulation of the mission statement of the organization, It helps in rallying the staff to move in the same direction as well as setting priorities in use of the resources.

The management of Kenya Revenue Authority should consider creating understanding of the current strategic plan to both top management as well as supportive staff. It is equally important that the supportive staff understand the organization's current strategic plan because they are part and parcel of the organization. Resistance to change by the

employees may also be addressed by involving every employee in decision making processes regardless of their positions. In so doing they will feel more responsible to bring change and embrace new ideas. The challenge of inadequate expertise may be addressed through continuous training to sharpen their management skills. Role conflict may also be dealt with by defining the roles of each and every employee before bringing them on board.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Many firms experience trends of deteriorating financial performance at some point in their organizational life cycle as a result of market erosion and / or maladaptive decisions by management. Based on a deterministic perspective this organizational decline can be attributed to environmental factors while the voluntaristic perspective attributes decline to internal factors, particularly management actions and perceptions. Whether causality is attributed to external factors, internal factors, or both, managers can respond by selecting strategies that redirect resources in an attempt to improve their firm's competitive position.

Two basic theories have dominated the management literature on organization failure. A deterministic perspective in classical industrial organization and organization ecology literature suggests that managers are constrained by exogenous industrial and environmental constraints and therefore their strategic choices have limited impact (Morrow, et al., 2004). A more voluntaristic perspective in organization studies and organizational psychology literature suggests that managers' actions and perceptions are the fundamental cause of organizational failure (Mellahi and Wilkinson, 2004).

1.1.1 Turnaround Strategy

Weitzel and Johnson (1989) characterized decline as the opposite of successful adaptation to the environment. They suggested that organizations enter the state of decline when they fail to anticipate, recognize, avoid, neutralize, or adapt to external or internal pressures that threaten the organization's long-term survival. Mukherji, et al., (1999), conclude that firms must develop turnaround strategies to match the pressures of its multilayered environment in order to become competitive. Chowdhury and Lang (1996) posit that turnaround strategies emphasize the improvement of operational efficiency through cost reductions and asset reductions.

Most prior research in the strategic management literature has focused on turnaround strategy when firms are in decline (Schendel, et al., 1976; Hofer, 1980; Hambrick and Schecter, 1983; O'Neill, 1983; Pant, 1991). Pearce and Robinson (1992) observe that the two principal types of turnaround strategies, contraction and consolidation, are used when a corporation's problems are not pervasive. However, most researchers have ignored the possibility that firms may choose a growth strategy when experiencing declining performance. Ramanujam and Varadarajan (1989) advance that the two basic growth strategies are diversification at the corporate level and concentration at the business level.

Prior studies have proposed that strategic choice for declining firms is contingent upon past financial performance trends. Hofer (1980) indicates that firms substantially below financial break-even may initiate asset reduction strategies, while firms operating near break-even may implement revenue generation or cost reduction strategies. Pearce and Robinson (1992) link strategic choice for declining firms to financial performance. They suggest that as severity of decline increase, retrenchment strategies should progress from cost reduction to asset reduction strategies. Sudarsanam and Lai (2001) also indicate that the intensity of decline is a contributing factor in whether the firm recovers and since severity is a success factor, past financial performance should therefore be considered as a factor in the strategic choice.

1.1.2 Kenya Revenue Authority (KRA)

The Kenya Revenue Authority (KRA) was established by an Act of Parliament, Chapter 469 of the laws of Kenya, which became effective on 1st July 1995. A Board of Directors consisting of both public and private sector experts makes policy decisions to be implemented by KRA Management. The Chairman of the Board is appointed by the President of the Republic of Kenya. The Chief Executive of the Authority is the Commissioner General who is appointed by the Minister for Finance.

The role of KRA in the Kenyan economy include; administering and enforcing written laws or specified provisions of written laws pertaining to assessment, collection and accounting for all revenues, Advising on matters pertaining to administration and collection of revenue under written laws, Enhancing efficiency and effectiveness of tax administration by eliminating bureaucracy, procurement, promotion, training and discipline and Eliminating tax evasion by simplifying and streamlining procedures and improving tax payer service and education thereby increasing the rate of compliance.

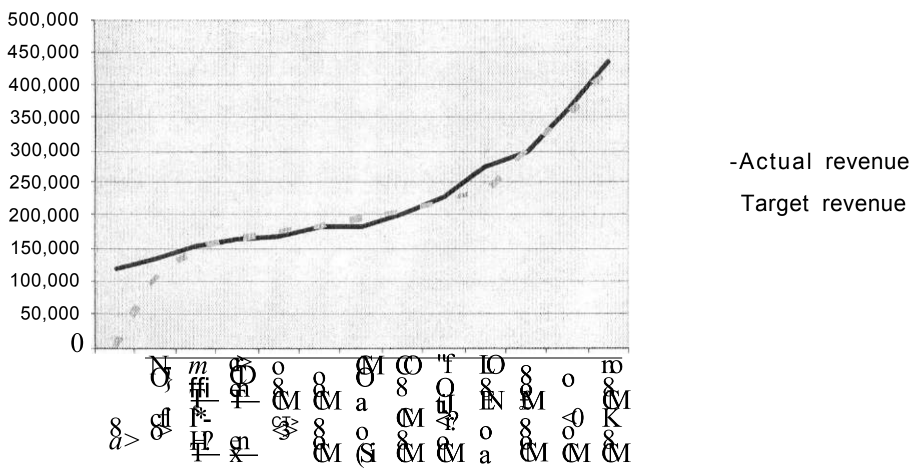
The Kenya Revenue Authority envisages a vision of being the leading Revenue Authority in the world respected for Professionalism, Integrity and Fairness. In order to offer better single-window services to taxpayers, KRA is currently divided into five Regions namely: Rift Valley Region, Western Region, Southern Region, Northern Region and Central Region. In terms of revenue collection and other support functions, the Authority is divided into five departments that are each headed by a commissioner as; Customs Services department, Road Services department, Investigations and Enforcement department and Domestic taxes department. The Domestic taxes department is further subdivided into the Domestic revenue department and the Large tax payers Office. The mission statement of KRA is to promote compliance with Kenya's tax, trade, and border legislation and regulation by promoting the standards set out in the Taxpayers Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at the least possible cost for the socio-economic well being of Kenyans.

1.2 The Research Problem

Heany (1985) posit that the need for turnarounds is attributable to factors such as increased competition, overinvestment in technology, more knowledgeable shareholders, and a willingness to gamble on the part of managers. Di Primio (1998) note that turnaround management is a process that involves establishing accountability, conducting diagnostic analyses, setting up an information system, preparing action plans, taking action, and evaluating results.

According to Welch and Welch (2005), most Companies' underperformance is due to breakdown between strategy and operations. Many Companies have learned how discussions about bad operations inevitably drive out discussions about good strategy implementation. When Companies fall into this trap, they soon find themselves limping along making or closely missing their numbers each quarter but never examining how to modify their strategy to generate better growth opportunities or how to break the pattern of short term financial shortfalls.

The Kenya Revenue Authority (KRA) is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. The statistic of average revenue collection as compared to the target revenue for the Authority since inception in 1995 can be exhibited as:



Source: KRA annual revenue and targets data base

After inception in 1995, the Authority exceeded the targeted collections till 1998/1999 financial year when it fell short of meeting the target revenue collection. This trend of declining performance in revenue collection persisted till the 2003/2004 financial year when the Authority recovered and surpassed the revenue collection targets, a performance that has been upheld till date. Though studies have been carried out on the concept of turnaround in private corporations, no study known to the researcher has addressed the turnaround strategy adopted by public sector institutions with specific reference to the Kenya Revenue Authority. This study intended to seek responses to the research question: What turnaround strategy has been implemented by the Kenya Revenue Authority (KRA) that has seen their continued exceptional performance on surpassing government revenue targets.

1.3 Research Objectives

The research objective of this study was to determine the turnaround strategy adopted by the Kenya Revenue Authority (KRA) in government revenue collection.

1.4 Importance of the Study

This study will provide managers and employees of the Revenue Authority with information on the turnaround strategy that attributes to the continued improved performance of the authority and the areas that require improvement. It will be an insight to government policy makers on the role of strategic management in public institutions. The study is intended to add to the body of knowledge, specifically in regard to strategies in government departments thereby arousing the need for further research on public sector strategy formulation and implementation.

CHAPTER TWO: LITERATURE REVIEW

2.1 The Concept of Strategy

Evered (1983) indicate that strategy is about winning. The concepts and theories of business strategy have their antecedents in military strategy. The term strategy derives from the Greek word strategia meaning "generalship," formed from stratos, meaning "army," and -ag, "to lead." Hart (1968) defines strategy as: "the art of distributing and applying military means to fulfill the ends of policy." Steiner (1979) notes that strategy entered the management literature as a way of referring to what one did to counter a competitor's actual or predicted moves.

Johnson and Scholes (1993) define strategy as the direction and scope of an organization over the long-term, which ideally matches resources to its changing environment and its particular markets so as to meet stakeholders' expectations. This definition identifies three key components of strategy. First, the need to define the scope and range of an organization's activities within the specific environment it faces. Second, the needs of customers and markets are matched against resource capability to determine long-term direction; and third, the role that the stakeholders have on the strategy articulation because of their influence over the values, beliefs and principles which govern organizational behavior and business conduct.

Andrews (1980) presents this definition of strategy: "Corporate strategy is the pattern of decisions in a company that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organization it is or intends to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers, and communities." Andrew's definition obviously anticipates Mintzfierg's attention to pattern, plan, and perspective. Andrews also draws a distinction between "corporate strategy," which determines the businesses in which a company will compete, and "business strategy," which defines the basis of competition for a given business.

Schendel and Hofer (1979) observe that the purpose of strategy is to provide directional cues to the organization that enable it to achieve its objectives while responding to the opportunities and threats in the environment. According to this definition, strategy is a match between organization's resources and skills and the environmental threats and opportunities as it endeavors to achieve its targeted goals and objectives. Chandler (1992) define strategy as the determination of basic long term goals and objectives, the adoption of action to achieve them and the allocation of resources as being as central to the concept of strategy.

Mintzberg (1994) points out that people use "strategy" in several different ways, the most common being these four: Strategy is a plan, a "how," a means of getting from here to there; strategy is a pattern in actions over time; for example, a company that regularly markets very expensive products is using a "high end" strategy; strategy is position; that is, it reflects decisions to offer particular products or services in particular markets; strategy is perspective, that is, vision and direction. He argues further that strategy emerges over time as intentions collide with and accommodate a changing reality. Thus, one might start with a perspective and conclude that it calls for a certain position, which is to be achieved by way of a carefully crafted plan, with the eventual outcome and strategy reflected in a pattern evident in decisions and actions over time. This pattern in decisions and actions defines what Mintzberg called "realized" or emergent strategy.

Pearce and Robinson (2007) asserts that because the firm's strategy is implemented in a changing environment, successful implementation requires strategic control, an ability to steer the firm through an extended future time period when premise, sudden events, internal implementation efforts, and general economic and societal developments will be sources of change not anticipated or predicted when the strategy was conceived and initiated. He further argues that the overriding concerns in executing strategies and leading a company are survival, growth, and prosperity. In a global economy that allows everyone everywhere instant information and instant connectivity, change often occurs at lightning speed.

Mintzberg (1983) considers strategy as a pattern that can be observed from a stream of actions and decisions. He introduces the concept of emergent strategy, which holds that strategy can only be observed after the event that it governs. There are two extremes of strategy; the completely deliberate strategy and the completely emergent strategy. In practice however, strategy tends to be a mix of the two. According to Thomson and Strickland (1992), strategy is the managerial action plan for achieving the objective. It is a pattern of moves and approaches devised by management to produce the targeted outcomes. Schendel and Hofer (1997) on the other hand observe that the purpose of strategy is to provide directional cues to the organization that enable it achieve its objectives while responding to the opportunities and threats in the environment. This definition clearly articulates that strategy is a match between an organization's resources and skills and the environmental threats and opportunities as it endeavors to achieve its targeted goals and objectives. Strategy can therefore be said to be a management tool for achieving strategic targets.

Tregoe and Zimmerman (1980), define strategy as "the framework which guides those choices that determine the nature and direction of an organization." Ultimately, this boils down to selecting products (or services) to offer and the markets in which to offer them. They urge executives to base these decisions on a single "driving force" of the business. Although there are nine possible driving forces, only one can serve as the basis for strategy for a given business. The nine possibilities are: Products offered, market needs, technology, production capability, method of sale, method of distribution, natural resources, size/growth, and return/profit.

Robert (1993) takes a similar view of strategy arguing that the real issues are "strategic management" and "thinking strategically." For Robert, this boils down to decisions pertaining to four factors: Products and services, customers, market segments, and geographic areas. Like Tregoe and Zimmerman (1980), Robert claims that decisions about which products and services to offer, the customers to be served, the market segments in which to operate, and the geographic areas of operations should be made on the basis of a single "driving force." This notion of restricting the basis on which strategy might be formulated has been carried one step farther by Treacy and Wiersema (1994), who assert that companies achieve leadership positions by narrowing, not broadening their business focus. They identify three "value-disciplines" that can serve as the basis for strategy: operational excellence, customer intimacy and product leadership.

Strategy is a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. For any company, the search is an iterative process that begins with recognition of where you are now and what you have now. Your most dangerous competitors are those that are most like you. The differences between you and your competitors are the basis of your advantage. If you are in business and are self-supporting, you already have some kind of advantage, no matter how small or subtle. The objective is to enlarge the scope of your advantage, which can only happen at someone else's expense (Henderson, 1989). Business strategy is concerned with how the firm competes within a particular industry or market. If the firm is to prosper within an industry, it must establish a competitive advantage over its rivals. Hence, this area of strategy is also referred to as competitive strategy. Using slightly different terminology, Bourgeois (1980) has referred to corporate strategy as the task of domain selection and business strategy as the task of domain navigation.

2.2 Organizational Performance

The strategic choices that managers make inherently reflect their backgrounds and experience (Child, 1972). As a result, managers' social ties, contacts, and networks are believed to affect firms' strategic choices and performance. Pfeffer and Salancik (1978) suggest that the greater the environmental uncertainty, the more likely it is that the firms will rely on managerial ties when entering exchange relationships.

In recent years scholars have devoted a great deal of attention to examining the linkage between HR practices and firm performance. Based on research evidence, it is becoming increasingly clear that the FIR system is one important component that can help an organization become more effective and achieve a competitive advantage (Becker and Huselid, 1998).

An increasing body of work contains the argument that the use of high performance work practices, including comprehensive employee recruitment and selection procedures, incentive compensation and performance management systems, and extensive employee involvement and training, can improve the knowledge, skills and abilities of a firm's current and potential employees, increase their motivation, reduce shirking, and enhance retention of quality employees while encouraging non performers to leave the firm (Jones and Wright, 1992). Porter (1985) argues that a firm's current and potential human resources are important considerations in the development and execution of its strategic business plan.

The use of advanced manufacturing technologies (AMTs) has not been fully understood although billions of dollars are invested in them each year. Investments are made each year in AMT because practitioners perceive a number of benefits attributed directly to their use, the top five benefits in descending order of the frequency of mention being: reduced cycle-time; market share growth; progress towards zero-defects; return on investment; and focused production (Swamidass, 1996).

Process innovations are assumed to bring multiple benefits to an organization and help an organization achieve competitive advantage. However, a considerable number of businesses have adopted these practices without much success. Waterson et al. (1999) studied the effectiveness of several modern manufacturing practices in the UK and discovered that approximately 50-60 per cent of the companies thought their innovations met objectives only 'moderately', 'a little', or 'not at all.' Studying the implementation of BPR in 216 US and Canadian hospitals, Ho, et al. (1999) found that most hospital executives indicated that process reengineering efforts were barely to moderately successful in accomplishing the desired objectives. Finally, in a recent study on the organizational effects of popular management techniques, Staw and Epstein (2000) found no significant relation between companies being associated with quality, teams, and empowerment, and changes in economic performance over time. They also found no effects of TQM implementation on performance. One possible explanation for these findings is that despite a high level of implementation, critical contingencies that complement the process innovations are not in place. Contingencies that have been considered important to the success of TQM are organizational structure, culture, and climate (Detert, et al., 2000; Douglas and Judge, 2001; Emery, et. al., 1996).

2.2.1 Organizational Failure

There is no clear consensus within disciplines as to what organizational failure is, how it occurs and its consequences (Weitzel and Johnson, 1989). Despite the lack of a precise definition of failure, there is a broad consensus on the meaning of failure. Cameron et al. (1988) define failure as deterioration in an organization's adaptation to its micro niche and the associated reduction of resources within the organization. The result of this could be total exit from the market or turnaround. Symptoms of organizational failure include shrinking financial resources (Cameron, 1983), negative profitability (Hambrick and D'Aveni, 1988), shrinking market (Douglas and Judge, 2001), a loss of legitimacy (Benson, 1975), exit from international markets (Burt et al. 2002; Jackson et al. 2005) and severe market share erosion (Mellahi et al. 2002).

In a broad perspective, business failures can be classified into two categories; catastrophic failure and general lack of success. According to Dun and Bradstreet statistics, 88.7% of all business failures are due to management mistakes like; going into business for the wrong reasons, being in the wrong place at the wrong time, management gets worn-out and/or underestimated the time requirements, Pride, Lack of market awareness, Lack of financial responsibility and awareness, Lack of a clear focus, too much money and Optimistic or Realistic or Pessimistic management (Holland, 1976). Contrary to conventional wisdom, a majority of businesses have failed because of internal factors affected by managerial action and discipline. Examples include failure to control operational costs and failure to analyze financial statements.

Manjunath (1982) observe that in majority of cases of organizational sickness in India, the sickness was caused mainly by inappropriate management. Either management was too centralized or autocratic, too conservative and non-innovative, too conservative and seat-of the-pants, too bureaucratic and foolhardily risk taking. Manjunath (1982) adds that when external causes for sickness were operating, management shortcomings may have aggravated these crises. Management complacency begotten by monopolistic positions caused trouble when competition became rougher. Besides the style of management, inappropriate or excessive diversifications, excessive dependence on a single vulnerable product and growth mania were the root causes of sickness in several cases. To be sure, mismanagement was not the only cause of sickness. In several cases staff competition, Price regulation by the government and Political interference caused difficulties that led to firm failure.

The Industrial Organization literature suggests a range of primary causes of organizational failure. These include turbulent demand structure due to brand switching by core customers, changes in consumer tastes, cyclical decline in demand, strategic competition due to rivalry among existing competitors or new entrants (Sheppard 1995). Slater and Narver (1994) added technological uncertainty due to product innovations and or process innovations to the list of external causes of failure. Dess and Beard (1984) explain the relationship between organizations and the environment by three factors: dynamism, munificence and complexity. Dynamism refers to 'change that is hard to predict and that heightens uncertainty for key organizational members' (Dess and Beard 1984). Uncertainty is a concept frequently associated with the 'inability to predict or foresee' (Anderson and Tushman 2001).

Anderson and Tushman (2001) argue that dynamism increases organizational mortality rates for two reasons. First, because during uncertain times firms have difficulty in accurately predicting circumstances that might effect their future activities, they are more likely to make wrong investments and sacrifice long term survival strategies for short-term tactics that run high risk. Rosenbloom and Christensen (1994) opine that uncertainty may lead to fluctuations in demand which subsequently cause higher organizational failure.

Munificence refers to 'the extent that resources available to firms are plentiful or scarce. Industrial organization scholars suggest an adverse relationship between failure rates and availability of resources. Further, they propose a positive correlation between environmental complexity and organizational mortality rate (Anderson and Tushman, 2001). Organizational complexity refers to the complex linkages both within the firm and with external bodies such as competitors, stakeholders and institutions (Dess and Beard 1984).

According to Organizational Ecology scholars, four factors determine the chances of success or failure for organizations: population density (Peterson and Koput 1991), industry life cycle, organization age and organization size (Barnett and Amburgey, 1990). Several competing middle range theories have been developed to explain internal causes of failure; these are the group think theory, upper echelon theory, curse of success and threat rigidity theory.

Groupthink theory is a term used to describe the tendency of decision makers in small groups to make sub-optimal decisions, (Janis 1982). Janis argues that extreme pressures for unanimity can build a cohesive group that confronts serious threat and lacks norms of deliberative decision making. Paterson et al. (1998) warns that 'even individuals who are generally high in self esteem and low in dependency and submissiveness are quite capable of being caught up from time to time in the group madness that produces the symptoms of groupthink'. They observe that once the groupthink mentality sets in, a host of pathologies become prevalent, including self-censorship of any misgivings managers may have, collective rationalization, illusion of invulnerability, stereotypes of out groups, poor search for alternatives, ignorance of outside information, overestimation of the group's chances of success and biased information processing. Consequently, managers miscalculate events and make decisions that could lead to failure.

Regarding upper echelon theory, (Hambrick and Mason, 1984) suggests that the characteristics of an organization's key decision makers influence strategy and subsequent organizational performance. Two factors are particularly salient with respect to failure namely; the composition of top management teams and managerial succession. In relation to the composition of top management teams, research by Pitcher and Smith (2001) shows that two demographic factors affect top management reaction to failure, these are namely homogeneity of the top management team and tenure. Bantel and Jackson (1989) use homogeneity and heterogeneity of top management as proxies to predict management behaviors and attitudes in organizations facing decline. Heterogeneous groups appear to be more effective than homogeneous groups, especially in uncertain and turbulent environments. However, Fink (1986) argues that, in a crisis situation, quick decisions need to be taken to minimize a rapidly escalating and potentially catastrophic event. He argues that, in such a situation, homogeneous groups can take quick decisions more effectively than homogeneous groups can.

Mellahi and Jackson's (2002) study of Marks and Spencer shows how early turnaround attempts by a long-tenured and homogeneous management team were ineffective because managers failed successfully to diagnose the causes of failure. In particular, longer tenured top managers tend to attribute failure to external, uncontrollable and temporary causes. They tend to ignore internal causes of failure and subsequently exacerbate the problem, longer-tenured top management are likely to be associated with increased rigidity and commitment to standardized practices, a reduction in information processing over time, reliance on increasingly narrow and restricted sources of information (Hambrick and Schecter, 1983), management cohesion (Michel and Hambrick, 1992) and entrenchment (Wiersema and Bantel, 1992). As a result, long-tenured managers tend to spend less time analysing the threats and opportunities facing them (Miller, 1993) and become more convinced of the wisdom of the organization's ways of doing things (Wanous, 1980).

Regarding curse of success, Miller (1990) notes that 'success can breed over confidence and arrogance'. Ranft and O'Neill (2001) argue that high-flying firms, in the face of competitive pressures, develop a form of cautious conservatism and perhaps arrogant disdain. This can be linked to the idea that 'success breeds failure' and 'failure breeds further failure'. As Kelly and Amburgey (1991) point out, over time successful routines develop into habits and routines become traditions, with the effect of preserving the firms' way of doing things. As a result, organizations that were the most successful in the past become the most vulnerable to failure in the future.

According to threat rigidity effect theory, Staw et al. (1981) argues that individuals, groups and organizations tend to behave rigidly in threatening situations, and seek to maintain the existing status quo. Keisler and Sproull (1982) state that a crisis is expected to divert a manager's attention away from the locus of the crisis because it creates noise that may keep the manager from considering relevant information about elements in the organization's environment that are the source of the crisis. As a result, managers will not change their focus of attention in response to an externally induced crisis (D'Aveni and MacMillan, 1990) rather; they will ignore the external crisis and act as if the external crisis does not exist (Whetten, 1980). Organizational psychology scholars suggest that the above managerial behaviours are a result of, at least in part; factors that often exist beneath the level of conscious awareness. Although there is little direct theorizing about the relationship between psychological factors and failure, it has been demonstrated that such factors are critical in shaping management actions that cause failure.

Organizational Psychology scholars link organizational failure to hidden, repressed motivations, feelings and dynamics. Hodgkinson and Wright's (2002) study of a private sector organization argued that the failure of the authors' intervention to facilitate learning and strategic renewal at the company was primarily due to the participants' adoption of a series of defensive avoidance strategies. The latter is referred to as 'cognitive inertia'. They argue that once cognitive inertia is established, there is a danger that actors may become overly dependent on their mental models of strategic phenomena, to the extent that they fail to notice changes in the material conditions of their business environments until these changes have become so widespread, or significant in other ways, that their organization's capacity for successful adaptation has been seriously undermined. Hodgkinson and Wright (2002) posit that, if left unchecked, the long-term consequences of cognitive inertia is business failure. Brown and Starkey (2000) listed five psychodynamic factors that could contribute, at least in part, to organizational failure: denial, rationalization, idealization, fantasy and symbolization.

Through denial, individuals seek to disclaim knowledge and responsibility, to reject claims made on them, and to disavow acts and their consequences. Therefore, denial could have a profound implication for failure (Brown and Starkey, 2000). Mellahi and

Jackson (2002) described how Marks and Spencer's management rejection of customer feedback surveys, by questioning the validity of data, blinded them and led them to deny that a problem existed until the company faced a full-blown crisis.

Brown and Starkey (2000) describe rationalization as an attempt to justify impulses, needs, feelings, behaviors, and motives that one finds unacceptable so that they become both plausible and consciously tolerable. Keith, (1998) indicate that idealization is a process by which some object comes to be overvalued and emotionally aggrandized and stripped of any negative features. In short, idealization processes help explain why managers tend to escalate their commitment to a failing course of action as they undergo the risk of additional negative outcomes in order to justify prior behavior.

Fantasy represents an unconscious endeavor to fulfill or gratify difficult or impossible goals and aspirations. In organizations, fantasies are forms of collective retreat into imagination, which converts the ambiguities of history into confirmations of belief and a willingness to persist in a course of action in ways that are destructive for the individual organization (March, 1995). According to Laughlin (1970), Symbolization is the process through which an external object becomes the disguised outward representation for another internal and hidden object, idea, person, or complex. This refers to where managers use symbols in organizations as means by which they manipulate and control their organizations.

2.3 Concept of Turnaround Strategy

Specifically, turnaround management is a process that involves establishing accountability, conducting diagnostic analyses, setting up an information system, preparing action plans, taking action, and evaluating results (March, 1995). The need for turnarounds is, in part, attributable to factors such as increased competition, overinvestment in technology, more knowledgeable shareholders, and a willingness to gamble on the part of managers (Heany^ 1985).

2.3.1 Guidelines to Turnaround Strategies

Norton, (1991) offers the guidelines for a successful turnaround strategy that are summarized into three substantive steps as: Step one; Develop the turnaround strategy objectives, define success and idehtify the key problems to fix, Step two; Focus on execution activities that eradicate value destruction and Step three; Stabilize and nurture the value creating businesses.

On developing the turnaround strategy objectives, defining success and identifying the key problems to fix, Norton, (1991) indicate that CEOs must quickly develop a strategy based on a sound analytical understanding of which parts of the business can create value now, or can create value in the future. This has to be based on a good understanding of value creation potential which is a function of both inherent market attractiveness and of competitive strength.

DiMarco (1996) observe that it is often said that there is no such thing as a bad strategy; it is just the execution that is flawed. The success of this step of focusing on execution activities that eradicate value destruction relies on the ruthless execution of a portfolio of projects, all aimed at the eradication of value destroying activities. The nature of the projects could include divesting underperforming businesses, implementing a new pricing strategy, selling under utilized assets, pruning unprofitable product lines and overhead cost reduction. The third phase on stabilizing and nurturing the value creating businesses usually requires a style of management that is different to the earlier phases, involving nurturing of management talent to guide value creating businesses to the next stages of their development. In parallel, turnaround must be embedded by consistent, visible management against value driving Key Performance Indicators.

DiMarco (1996) points out that the key to most turnaround situations is raising capital for internal growth or acquisitions either to broaden a company's market share or expand through vertical integration. Many ^ businesses have experienced difficulty with commercial bank lending sources due to their short-term view commitment to certain industry groups. Firms are interested in securing capital to match their turnaround strategy.

2.3.2 Steps in Turnaround Strategy

DiMarco (1996) identifies two- phases to a successful approach to a turnaround; the assessment phase and the implementation phase. The assessment phase is a thorough and in-depth process where the turnaround strategies are developed. The essential steps in assessment phase are: defining business objectives, analyzing lines of business, identifying business risks, conducting industry overview, analyzing capitalization, reviewing cash flows and reviewing business decision making processes. A brilliant strategy that can not be implemented creates no real value. Effective implementation begins during strategy formulation and questions of "how to do it?" should be considered in parallel with "What to do?" Effective implementation results when organizations, resources and actions are tied to strategic priorities, and when key success factors are identified and performance measures and reporting are aligned (Di Marco 1996). The strategic management process does not end when the firm decides what strategy or strategies to pursue. Strategy formulation and implementation differ in many ways. For example, strategy formulation is positioning forces before the action while implementation is managing the forces during the action. Unlike strategy formulation, strategy implementation varies substantially among different types and sizes of organizations (Alexander, 1985). Implementation of strategy calls for alteration of existing procedures and policies. In most organizations, strategy implementation requires shift in responsibility from strategists to divisional and functional managers (Kazmi, 2002). Burns (1996) observe that there are however many organizational characteristics, which act to constrain strategy implementation. Of importance are structure, culture, politics and managerial style.

2.4.1 Approaches of Turnaround Strategy

Manjunath (1982) classifies turnaround mechanisms into organizational, efficiency measures and dealing with the external environment. The organizational mechanisms include; Change in the top management, Centralized decision-making, Decentralization and Formation of new departments. The efficiency measures include; Divestiture, Retrenchment, Research and Development, strengthening and Refocusing, Higher incentives, Automation or renovation of plant and machinery. On dealing with the external environment, the firm engages in; Diversification of new product lines, Aggressive marketing, Collaboration and joint ventures, New market development and Negotiation of settling debts.

Although little research on turnaround in the public sector has been undertaken, there are a substantial number of studies of decline and recovery in private firms. Evidence from these studies suggests that turnaround is more likely in companies that pursue retrenchment, repositioning and reorganization.

2.4.2 Retrenchment

In a recent investigation of the turnaround attempts of 32 U.S. textile firms, Pearce and Robinson (1992) concluded that retrenchment is an integral component of successful recovery from decline. Retrenchment, defined as a set of organizational activities undertaken to achieve cost and asset reductions and disinvestment, has received strong academic and practitioner support as an expeditious means for reversing declining financial performance (Schendel, et al., 1976; Hofer, 1980; Heany, 1985; O'Neill, 1986; Pearce and Robbins, 1994).

Retrenchment revolves around cutting sales. Retrenchment is a corporate-level strategy that seeks to reduce the size or diversity of an organization's operations. Retrenchment is also a reduction of expenditures in order to become financially stable. Retrenchment is a pullback or a withdrawal from offering some current products or serving some markets. In a military situation a retrenchment provides a second line of defense. Retrenchment is often a strategy employed prior to or as part of a Turnaround strategy (Robbins and Pearce, 1993).

Keith (1998) observes that contemporary turnaround paradigm regards retrenchment as the first stage of a two-stage turnaround strategy. The other is to renew, revitalize, and grow stronger. With this approach, the retrenchment phase is overlapped and often obscured by a subsequent recovery stage as the firm implements its strategic redirection. The business press advises firms in industries where profits rise and fall with the general business cycle called pro-cyclical to use retrenchment as a response to poor macroeconomic conditions (McLaughlin, 1990). The alternative recommendation from the business press is to alter the scope of the firm, but a small firm faces a higher level of undiversified risk; its success and survival are tied to its core business (Heany, 1985). Other strategies such as divesting a strategic business unit, diversifying into a more stable business, or smoothing operating distress with short-run financing from a parent company are not generally available to firms.

When firms face declining financial performance, research suggests that cost and asset retrenchment can lead to improved performance among poorly performing firms (Morrow Jr., et al., 2004). These researchers show that in growth industries, asset retrenchment is positively related to performance improvement while cost retrenchment is unrelated. In declining industries, cost retrenchment is positively related to improved performance while asset retrenchment has a negative effect on firm performance. Scott (2004) indicate however that retrenchment, even when it is done superbly, can produce a weaker, frightened organization that has lost muscle, market, bone, and spirit.

2.4.3 Repositioning

Corporate repositioning is about change. It's about repositioning the company in the mind of prospects. Corporate repositioning is about repositioning your company and its products and services to be seen as having few credible substitutes in the marketplace. It's about largely winning the sale before a salesperson ever talks to the prospect or knows the prospect is in the market to buy. Corporate repositioning is about repositioning your brand (Heany, 1985). If nearly every sale of yours seems to come down to price, if you're closing fewer sales than you used to, if your margins keep shrinking, you may need to reposition your company in the marketplace, in the minds of both your prospects and your people.

How your company is positioned in the marketplace largely determines your success. It determines how many sales opportunities you receive. It determines whether you can breeze through your prospect's qualifying rounds to the finals, or whether you'll have to do battle just to get a seat at the table. Your position in the marketplace also determines the prices you can charge and the margins you realize. Sometimes, corporate repositioning is a transformation in who you are, what you do, and how you go to market. Other times, corporate repositioning is about polishing the apple; the company fundamentals are good, but its market positioning needs work (Heany, 1985).

2.4.4 Restructuring

This is defined as a significant modification made to the debt, operations or structure of a company (Heany, 1985). This type of corporate action is usually made when there are significant problems in a company, which are causing some form of financial harm and putting the overall business in jeopardy. The hope is that through restructuring, a company can eliminate financial harm and improve the business. When a company is having trouble making payments on its debt for instance, it will often consolidate and adjust the terms of the debt in a debt restructuring. After a debt restructuring, the payments on debt are more manageable for the company and the likelihood of payment to bondholders increases. A company restructures its operations or structure by cutting costs, such as payroll, or reducing its size through the sale of assets. This is often seen as necessary when the current situation at a company is one that may lead to its collapse. Keith (1998) posits that corporate reorganization can be tricky and difficult to get through. The approach to successful repositioning includes four distinct phases. The first two, Research and Repositioning, are aimed at converting the brand. Phase three which is Realignment, focuses on making believers of your staff. And Phase four referred to as Reinforcement, is about converting others. Successful repositioning is about faith; Staff members' faith that management is committed to and will support the revised market strategy.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research Design

The research design was a case study of the turnaround strategy adopted by Kenya Revenue Authority in government revenue collection. Young (1999) acknowledge that a case study is a powerful form of qualitative analysis that involves a careful and complete observation of a social unit, irrespective of what type of unit is under study. The Kenya Revenue Authority had been chosen for the case given that it meets the criterion that is relevant to the theory underlying the proposed research. From fiscal year 2000 to 2003, the Revenue Authority constantly failed to meet their set revenue collection target. After year 2003, the authority has constantly and increasing surpassed the target revenue collection levels. The purpose of the observation was to probe deeply and analyze intensively the activities of the Authority in the years of successful revenue collcction with a view to establishing generalizations on the strategies of the Revenue Authority.

3.2 Data Collection

Primary data was collected using an interview guide focusing on the turnaround strategy at the Kenya Revenue Authority. An interview guide was prepared to assist in the collection of the qualitative data. The ten interviewees were the senior level managers at the Kenya Revenue Authority. This was believed to be representative of the population. The managers had been chosen due to the fact that they were the ones who formulated strategies to be adopted by the Authority. Secondary data from Annual reports, Newsletters and Magazines was also collected where necessary. The interview guide was divided into two parts. Part A contained questions on general information of the Authority and the respondents. Part B contained questions on the turnaround strategy at the Kenya Revenue Authority.

3.3 Data Analysis

The research was set to determine the turnaround strategy adopted by the Kenya Revenue Authority in Government Revenue collection. Content analysis was used considering the qualitative nature of the data that was collected through in-depth personal interviews. This technique uses a set of categorization for making valid and replicable inferences from data to their context, (Baulcomb, 2003). The data was broken down into the different aspects of turnaround strategy and issues arising from the interviews were analyzed appropriately. This offered a systematic and qualitative description of the objective of the study.

CHAPTER FOUR: FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings and discussions of the information from the field. The study targeted ten interviewees who were the senior level managers at the Kenya Revenue Authority since they are the ones who formulate strategies to be adopted by the Authority. All the interviewees responded to the interview guide comprising of 100% response rate.

4.2 Discussions

Respondents were asked whether the Authority conducts long term planning and its significance. They responded as follows; Kenya Revenue Authority conducts long term planning. The long term planning was very important for the future success of the KRA because it helps the Authority to assess the current situation and plan on how to improve on service delivery to the customers and the needs to be done to achieve the strategies and by whom, it helps in harmonizing all the policy initiatives and strategies that it needs to adopt for the attainment of enhanced revenue administration and collection as well as quality service to taxpayers and staff, it outlines the initiatives for effective utilization of all physical, human, psychological and financial resources for attainment of the authority's objectives.

Respondents indicated that long term planning is also important for the future success of the authority as it sets the Authority's visionary operational path, spells out its purpose, identifies its state of being in operations and defines its state of being in operations and develops strategies, the authority's long term planning is in line with the Government's planning strategy which entails picking a planning period, set up strategic objectives which the organization intends to meet during that period, it is also important in the Authority is able to focus on the identified plan path and it can also measure its success on a regular basis. Long term planning also enables KRA to focus ahead in terms of changes in economic environment, changing tax legislation, globalization, emerging challenges and resource utilization and requirement.

The respondents also indicated that long term planning at KRA was undertaken every three years in line with corporate plans to test its relevance. The top managers met quarterly, semi annually and annually to discuss and review the company's direction, strategy, and future business plans. There are also meetings before preparation of each plan and at the end for evaluation purposes.

The study also sought to establish the persons who were normally involved in strategic planning. From the findings, the study found that the persons involved were the top management; who develops the mission, vision and strategic objectives and they review and approve draft plan upon development by research and corporate planning, research and corporate planning; which develops the strategic plan after collecting views from stakeholders and upon benchmarking with international best practice. Others who were involved included; Commissioner General (CG), Heads of departments (HODs), key operational officers, stakeholders, staff, board of directors, treasury, planning ministry, taxpayers, ICPAK.

The study also revealed that KRA had key performance indicators which were introduced from the onset of strategic planning in 2002/2003 performance year. The findings also revealed that the strategic change was communicated to staff through various ways such as circulars and bulletins, meetings, training and staff sensitization, they are given copies of the corporate plan, through lotus notes, workshops and internal publications. Vision mission statements at KRA were communicated to all the staff regularly as they are available on notice boards and KRA documents. Others said that vision and mission statements were communicated to the staff once in a while in meetings.

The respondents also revealed that the level of understanding of the objectives of KRA's current strategic plan by employees at various levels of the organization is high since they were involved in its development, also implementation of the strategic plan was monitored by an officer in the CG's office, Project Management Business Officer (PMBO); compliance to strategic plan its embedded into the performance contracts. Other respondents reported that the level of understanding of the objectives of the company's current strategic plan for middle and senior management was very high but lower cadre (supportive staff) was low.

4.3 Turnaround Strategy adopted by Kenya Revenue Authority

From the findings, the respondents revealed that Kenya Revenue Authority pursued turnaround strategy since 2003. They indicated that the changes that were incorporated as part of the turnaround strategy were on organization structure, leadership, culture, systems process, technology human resources and repositioning. The Authority also planned for the implementation of this change.

4.3.1 Organization Structure

The respondents were asked to justify the extent to which organizational structure was indeed a turnaround strategy adopted Authority in the realization of its mandate. The respondents responded as follows; that some departments were merged for example VAT and income tax merged to form Domestic taxes department. Domestic taxes was further split into Large Taxpayer Office whose mandate was to deal with taxpayers whose turnover is over seven hundred million Kenya shillings per a year and Domestic Revenue to deal with the rest of the taxpayers. There was a shift from tax head to functional based structure within the authority. The merger and consolidation of functions has enabled the department to have a single view of the taxpayer, and minimizes the number of visits and time spent by tax audit teams at the taxpayers' premises. Consequently, taxpayers can now spend more time on their businesses, and worry less about the visits by tax officers.

The carving out of the Large Taxpayers Office (LTO) from the Domestic Taxes Department in 2006 was aimed at providing specialized services to taxpayers, based on their unique needs, in terms of size, contribution to total revenue collection, and sector. The LTO concept has tremendously improved specialization, and through the taxpayer segmentation approach, facilitated better understanding between Kenya Revenue Authority and taxpayers.

Regional offices were also created namely; Southern, Central, Northern, Rift Valley and Western. Kenya Revenue Authority opened more stations country wide to cater for taxpayers' needs. The regions are headed by Senior Deputy Commissioners and acts as a link between stations and head office. It was revealed the rationale behind regional offices and various KRA stations country wide was to facilitate decision making (i.e. reduce red tape and procrastination), taking the services to the people. This reduced taxpayers' time in resolving their issues with Kenya Revenue Authority.

The authority also created of support services department to support the corc revenue departments in realizing their mandate. Investigation and Enforcement department headed by a Commissioner whose mandate is to bring to books tax evaders, money launderers among other things. The Internal affairs division was created to monitor the efficiency of systems within the Authority. The Authority also created of integrity division at head office which was rolled out to all the regions.

4.3.2 Leadership

Findings from the respondents on leadership revealed that Kenya Revenue Authority has visionary leadership focused in service delivery. Kenya Revenue Authority is administered by a much focused competent Commissioner General. There arc able Commissioners heading both technical and service departments. The various regions are headed by Senior Deputy Commissioners and various managers are responsible for various stations throughout establishments of the Kenya Revenue Authority. We also have the technical units at head office of the various technical departments headed by very competent technical Senior Deputy Commissioners. Managers were retrained on change management styles and team building to make them more effective the delivery of their various mandates. There were shifts from supervisory roles to team roles whereby a team leader in a unit is also a player in the tasks performed.

The Kenya Revenue Authority has gone a head to sponsor senior staff for strategic leadership both locally and a broad. With focused leadership and placing the right managers at the right positions, Kenya Revenue Authority is now able to deliver on its mandates better than before. It is also within the mandate of various managers to mentor and mould their successors.

4.3.3 Culture

Findings from the respondents on culture showed that culture has been hinged on the Kenya Revenue Authority's core values, which have been clearly explained in communications to staff. It was revealed again that culture has been emphasized at Kenya Revenue Authority by the development of internal standards, development of tax payer charter which spells out the expectations between the Kenya Revenue Authority and stakeholders. Taxpayers have been now and again reminded on the importance of paying taxes thus making them to change attitudes of paying various taxes.

Kenya Revenue Authority developed a slogan "Tulipe Ushuru Tujitegemee" which really changed people's culture towards paying taxes. Judging from the number of taxpayers who have since decided to comply voluntarily, the respondents believe that the message has been well received. Tulipe Ushuru Tujitegemee is therefore, an effort toward consolidating the voluntary tax compliance culture among Kenyan taxpayers by appealing to them to take charge of their destiny.

The respondents revealed that the taxpayers due to their changed culture are reporting tax evaders and corrupt officers for corrective actions. There is also a reward for the whistle blowers, those responsible Kenyans who report tax evaders on their malpractices. This has indeed changed people's attitudes towards doing the right thing of paying the rightful taxes to the Authority and in return demand for better services.

The respondents also revealed that KRA embarked on sacking of staff who fails the integrity test, working with KACC in implementing integrity action programs sensitizing the public on the importance of paying taxes in seminars, tax clinics, media and through corporate responsibility during each year's taxpayer's week. There were also other plans which included team building, good working environment and anti corruption strategies, sensitization of all staff to embrace change, development of internal standards, development of taxpayer charter which spells out expectations between KRA and stakeholders and also changing the culture of the 'people' (employees) to adapt to changing environment that is more corporate and automated.

The respondents also revealed that Authority introduced the Taxpayers Week which has become an annual event whereby KRA acknowledges and recognizes the best taxpayers of the year. The Taxpayers Week has been taken positively by the taxpayers as per the respondents' view. During the taxpayers week best taxpayers are rewarded for their excellent efforts of being the best in terms of paying taxes so as to save our country from huge donor funding. The less fortunate or disadvantaged groups in the society are also visited and assisted accordingly.

4.3.4 Systems Process

On systems processes, the respondents revealed that Kenya Revenue Authority has introduced self assessments and intervention programs to check on abuse and related risks associated with self assessments. Such programs are; Audit, debt collection, compliance checks and tax payers recruitment. In addition to this internal systems have been modernized to facilitate service delivery. The findings also revealed that ICT has been continually upgraded and made relevant to the business needs and currently ICT is the main platform for service delivery.

Internal standards and Taxpayer Charter have necessitated to the resolution of taxpayer's issues promptly (complaints, refunds, audits, driving licenses, motor vehicle registration and transfers, imports and exports processing, policy guidelines and interpretations) within the stipulated guidelines. Various manuals were developed for each delivery within the Authority hence streamlining procedures of handling issues.

The Authority also introduced Electronic Tax Registers (ETR) to assist in safeguarding government revenue. Simba System of electronic Custom clearance introduced in 2005 is fully operational, and has revolutionized document processing and cargo release times. The Authority is fully in operation twenty four hours in Kilindini Port and all other Customs border stations. In this regard on average about 39% of all the goods are moved at night while 61% are moved during the day.

The respondents also revealed that in 2006, KRA unveiled a security printed and electronically produced new generation Log Book. Many more initiatives for example Vehicle management system (VMS) aimed at improving service delivery to the customer, and reducing the perennial long queues and missing files, previously associated with the department have been undertaken. There was integration of VMS and SIMBA to enable motor vehicle clearance and sale and also standardization of processes and reliability and validity of some internal and external standards. This has improved service delivery and lead to enhanced revenue collections.

4.3.5 Technology

The respondents revealed that technology has played an important role in enabling the Authority to provide improved services to the taxpayers. Importantly, the Authority has continued making use of automation to re-engineer its business processes subsequently reducing the costs of compliance and to meet the customer's needs. Kenya Revenue Authority developed effective computerized administration system which adequately handles new user requirements such as: Electronic manifest information; Single entry document; Control of transit cargo; Valuation database; Intelligence database and Management of security bonds.

There is enhanced information sharing on taxpayers within the Authority's various departments and with other revenue Authorities through Electronic Data Interchange (EDI) facility. There is growth in electronic commerce involving technology such as Internet and electronic cash transactions. The Kenya Revenue Authority has therefore encouraged the use of technologically based activities and on the other hand discarded manual systems. Communications throughout the Authority is through lotus and the website address is open to all taxpayers and hence timely provision of services to both internal and external customers.

4.3.6 Human Resources

The respondents revealed that the Authority has endeavored towards having proper resource utilization, access and distribution as well as development of well-motivated and qualified staff. The Human resources has created an enabling environment for the staff to be productive. In order to achieve its goals, the respondents indicated that HR initiated the formulation and implementation of clear training policies and skill-upgrading courses for staff and established open channels of communication and ensure all human resources policies and disseminated promptly to staffs.

The respondents also revealed that HR undertook a job evaluation exercise in order to grade jobs in the organization. HR also came up with various job descriptions for various cadres within the Authority. By having job description in place employees were motivated because it resolved the issues of stagnating in one job group for so many years.

The respondents also revealed that HR established programs that enhance staff motivation and commitment within the Authority. KRA also introduced balance score card (BSC) as a performance management tool and introduction of performance contracting (PC). Best performers were rewarded for their tireless efforts in not only realizing their mandates but also in surpassing the set targets. The rewards ranged from monetary terms, promotions, further training and taking the best performers out for retreats.

The respondents also revealed that the HR worked towards improving the terms and service of the Authority's staffs, there were improved salary scales, two tier salaries were merged, attractive allowances were also implemented. The respondents also revealed that the medical services were improved greatly in the sense that the Authority has approved hospitals were staffs are attended. The policy states that Authority pays all the in patient bills for all the staff and seventy five percent of all the out patient bills.

4.3.7 Repositioning

The respondents revealed Authority repositioned itself for better service delivery. This was by interacting regularly with other stakeholders and networking with international related bodies to find out how best mandates can be effected, and then making necessary adjustments, change of logo i.e. re branding and development of ISO standards, regular communication with the public to change the perception of a corrupt system to a service delivery outfit, taxpayers were encouraged to voluntarily comply with the law as opposed to forced compliance which also reduced cost of operations, operations moved from the office to the field (taxpayers premises).

The respondents also said that there were policy guidelines on how to reposition, services were taken nearer to the clients via tax clinics, and seminars / forums, there were a lot of stakeholders' engagements, tulipe ushuru tujitegemee slogan. Repositioning came in form of policy and there were wide spread creation of awareness, several audits and surveys were carried out to assess the prevailing situation and the results were used to form strategic decisions for improvement, audits such as 'gap analysis' was done on the whole organization in preparation for ISO certification, others included surveys, consultants from IMF, and other external institutions have also done surveys.

According to the respondents, the repositioning of the Authority was effective in improving performance as there was enhanced revenue collection, there was tax amnesty and enhanced voluntary compliance, performance contracts and balanced scorecard assisted in improving the set targets, there was improved communication within and to the clients, customers felt more comfortable sharing information with KRA which has helped to improve performance and also it rejuvenated business.

The study also found that the formal approaches that were used in implementing these strategic changes were that policies were developed, authorizations were sought where applicable, training and sensitizations, internalizations and self awareness, restructuring i.e. going functional and regional, selecting potential staffs and stakeholders, changing the laws and regulations, funding, organizing for resources, transparent process of recruiting staff, automation and intranets enhances thus improving communication, training of staff on use of technology and on change management, consultants in various fields were contracted, competently qualified staff were hired, infrastructure e.g. computers were procured, funding was sourced form the principals and other stakeholders (IMF, world bank) and best practices were borrowed from other regional/world wide revenue authorities. Other formal approaches used were aligning KRA's corporate plans to government initiatives e.g. e-government, vision 2030 etc, getting ISO 9001:2000 certified, developing HR policies such as succession plan, career path, HIV on the workplace, substance abuse and putting in tools to measure performance e.g. the balanced score card, performance contracts and work plans.

According to the study, the respondents noted the following challenges during adoption of turnaround strategies; there were resistance from stakeholders (clearing and forwarding agents, auditors etc), they felt that have been driven out of business since most of them were not computer friendly. They also perceived the change as a way of making them earn the huge commissions they used to charge their customers.

The respondents also revealed that there was resistance from taxpayers especially the ones who were not doing clean businesses. Some taxpayers were not computer friendly; they thought that their agents will cheat them when it comes on the usage of computers in doing their businesses and writing books. The respondents also revealed that there were resistance from staff through sabotage, inadequate resources both financial and skills, resistance from staff to automation, skill gaps in departments that were merged because staff were not adequately trained, change in staff roles, time was too short to implement and clashing of operational span e.g. commissioners and regional managers.

From the study, most of the respondents (70%) reported that they did not have to retrench some of the staff during the course of implementing the strategic plan, while 30% of the respondents reported that some staff had to be retrenched in the course of implementing strategic plan. These respondents also reported that the activity of retrenching staff was conducted in 1999/2000 as part of the world bank/IMF prescriptions to cut down on bloated public service. Staffs were asked to leave, voluntarily but some were identified based on various grounds e.g. performance, duplication of duties, non essential staff e.g. security and cleaners. An agreed amount was paid to exiting staff, however, some very competent officers took advantage of the package and left. This retrenchment was effective in getting rid of very good staff/officers and about 1200 were retrenched.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary of the findings from chapter four; conclusions and also gives recommendations of the study based on the objective of the study. The objective of this study was to determine the turnaround strategy adopted by the Kenya Revenue Authority (KRA) in government revenue collection.

5.2 Summary

From the findings, the study found that KRA conducted long term planning which was important to help the authority to assess the current situation and plan on how to improve on service delivery to the customers and the needs to be done to achieve the strategies and by whom, helps in harmonizing all the policy initiatives and strategies that it needs to adopt for the attainment of enhanced revenue administration and collection as well as quality service to taxpayers and staff, it outlines the initiatives for effective utilization of all physical, human, psychological and financial resources for attainment of the authority's objectives, it sets the authority's visionary operational path, spells out its purpose, identifies its state of being in operations and defines its state of being in operations and develops strategies, the authority's long term planning is in line with the Government's planning strategy which entails picking a planning period, set up strategic objectives which the organization intends to meet during that period, the Authority is able to focus on the identified plan path and it can also measure its success on a regular basis.

From the study it was revealed that long term planning at KRA is undertaken every three years and the management meets every annually to discuss and review the company's direction, management, research and corporate planning, strategy and future business plans. The people involved in strategic planning at KRA are top managers, research and corporate planning, CEO, HODs, key operational officers, stakeholders, staff, board of directors, treasury, planning ministry. KRA had key performance indicators which were introduced from the onset of strategic planning in 2002/2003 performance year.

From the study the strategic change was communicated to staff through various ways such as circulars and bulletins, meetings, training and staff sensitization, they are given copies of the corporate plan, through lotus notes, workshops and internal publications. The study also found from the majority of respondents that vision and mission statements was regularly communicated to all the staff regularly as they are available on notice boards and K.RA documents and level of understanding of the objectives of the company's current strategic plan by employees at various levels of the organization high since they were involved in its development.

On the turnaround strategy and implementation, the study found that KRA pursued a turnaround strategy since 2003 and the changes that were incorporated as part of the turnaround strategy included organization structure, leadership, culture, systems process, technology human resources and repositioning. The Authority also planned for the implementation of this change.

According to the study, the formal approaches that were used in implementing the strategic changes were policies that were developed, authorizations were sought where applicable, training and sensitizations, internalizations and self awareness, restructuring i.e. going functional and regional, selecting potential staffs and stakeholders, changing the laws and regulations, funding, organizing for resources, transparent process of recruiting staff, automation and intranets enhances thus improving communication, training of staff on use of technology and on change management, consultants in various fields were contracted, competently qualified staff were hired, infrastructure e.g. computers were procured, funding was sourced form the principals and other stakeholders (IMF, world bank) and best practices were borrowed from other regional/world wide revenue authorities, aligning KRA's corporate plans to government initiatives e.g. e government, vision 2030 etc, getting ISO 9001:2000 certified, developing FIR policies such as succession plan, career path, HIV on the workplace, substance abuse and putting in tools to measure performance e.g. the balanced score card, performance contracts and work plans.

The study also found that the notable challenges faced during the implementation of strategic change were resistance from stakeholders (clearing and forwarding agents, auditors etc), resistance from taxpayers, resistance from staff through sabotage, inadequate resources both financial and skills, resistance from staff to automation, skill gaps in departments that were merged because staff were not adequately trained, lack of adequate funding, change in staff roles, time was too short to implement and clashing of operational span e.g. commissioners and regional managers, some Senior Deputy Commissioners are members of top managers while others are not.

The respondents also felt that the changes in organization structure, leadership, culture, systems processes, technology, human resources and repositioning were very effective towards improved performance. From the study, most of the respondents reported that the staffs were not retrenched during the course of implementing the strategic plan.

On organization structure, there was no conflict of interest, decisions were made timely, there was revenue growth and collections increased thus surpassing set targets, cases were no longer have to be referred to head office, it resulted in cutting costs as a result of merging of services and processes, it enhanced all the mandate in the various deliveries, it led to provision of better services to tax payers (a one stop shop) and KRA had competent managers in various regions hence time saving in decision making.

On leadership, the respondents reported that managers now feel more confident as they discharge their responsibilities, management is focused towards delivery of set targets, positive attitude was created, training was enhanced, KRA has visionary leaders who discharge duties diligently within their mandate and also managers were focused in delivery of their mandate and acted as mentors.

On culture; the respondents said that KRA image has improved, people have known why taxes are paid, they have also known their rights and obligations, there is a move towards zero tolerance to corruption, there is mQre customer / staff friendly relationship, there is corporate social responsibility within KRA, taxpayers are voluntarily giving information on taxpayers, and efficiency is increased through observance of internal and external standards e.g. time frames.

On systems processes, the respondents reported that taxpayer's charter is operational and there is effective systems in place which KRA is living up to, the way of doing business in KRA was improved and knowledge preserved and also the modernized internal processes support foster service delivery and have reduced lead times.

On technology, the respondents felt that the modernized IT function has made KRA functions more accessible and drastically reduced contracts with customers thereby enhancing integrity, there is automation and intranets throughout KRA, time taken to achieve results in IT related environment is much shorter hence enhanced efficiency in programs delivery, it has enhanced revenue collection and faster processing of funds and also there is networked revenue collection that assists to validate identity and locations of documents and entities and hence improvement in service delivery in the authority.

On human resource, the respondents felt it was effective because the two-tier salary structure that was harmonized to ensure application of uniform scales across all cadres within the authority, the development of an effective staff performance appraisal system has improved promotion and reward systems, the staffs were more dedicated and professional, the staffs were well motivated, trained and mentored and they were also better skilled for their jobs due to training which makes them more focused and professional in service delivery.

On repositioning, the respondents felt that the Authority had to interact regularly with other stakeholders and networking with international related bodies to find out how best mandates can be effected, and then making necessary adjustments, change of logo i.e. re branding and development of ISO standards, regular communication with the public to change the perception of a corrupt system to a service delivery outfit, taxpayers were encouraged to voluntarily comply with the law as opposed to forced compliance which also reduced cost of operations, operations moved from the office to the field (taxpayers premises), there were policy guidelines on how to restructure, services were taken nearer to the clients via tax clinics, seminars/forums, there was a lot of stakeholders engagements, tulipe ushuru tujitegemee slogan, restructuring came in form of policy and there were wide spread creation of awareness. The repositioning of the Authority was effective in improving performance as there was enhanced revenue collection, there was tax amnesty and enhanced voluntary compliance, performance contracts and balanced scorecard assisted in improving the set targets, there was improved communication within and to the clients, customers felt more comfortable sharing information with KRA which has helped to improve performance and also it rejuvenated business.

5.3 Conclusions

From the findings and the discussions in this chapter, the study concludes that there were turnaround strategies adopted by Kenya Revenue Authority in order to improve its performance. From the study, these turnaround strategies were incorporating changes in organization structure, leadership, culture, systems process, technology and human resources as part of the corporate strategy. From the study these changes were very effective towards enhancing performance of the Authority.

The study also concludes that the authority had to restructure its operations during the course of implementing the strategic plan mainly by shifting from tax based structure to function based structures, merging some departments (VAT, IT, to form Domestic Faxes Department) for efficient service delivery and automation of service deliveries. This restructuring was very effective in improving performance of KRA in terms of improved taxpayer services, reduced corruption, reduced compliance costs to enhanced revenue collection and reduced time wastage.

On leadership, study concludes that KRA has visionary leaders who discharge duties diligently within their mandate. Managers now feel more confident as they discharge their responsibilities. They are also focused on service delivery and they act as mentors in preparing their successors.

On culture the study concludes that KRA image has improved, people have known why taxes are paid, they have also known their rights and obligations, there is a move towards zero tolerance to corruption, there is more customer / staff friendly relationship, there is corporate social responsibility within KRA, taxpayers are voluntarily giving information on taxpayers who do not pay rightful taxes

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On systems processes the study concludes that taxpayer's charter is operational and there is effective systems in place which KRA is living up to, the way of doing business in KRA was improved and knowledge preserved and also the modernized internal processes support foster service delivery and have reduced lead times.

On technology the study concludes that KRA has modernized IT function has made functions more accessible and drastically reduced contracts with customers thereby enhancing integrity. There is automation and intranets throughout KRA hence time taken to achieve results in IT related environment is much shorter hence enhanced efficiency in programmes delivery. This has enhanced revenue collection and faster processing of funds and other deliveries.

On human resource the study concludes that KRA has improved the terms and service of all the staffs. The two-tier salary structure that was harmonized ensuring application of uniform scales across all cadres within the authority, there was the development of an effective staff performance appraisal system which improved promotions and reward systems, the staffs were more dedicated and professional, the staffs were well motivated, trained and mentored and they were also better skilled for their jobs due to training which makes them more focused and professional in service delivery.

The study concludes that repositioning of the Authority was effective in improving performance as there was enhanced revenue collection, there was tax amnesty and enhanced voluntary compliance, performance contracts and balanced scorecard assisted in improving the set targets, there was improved communication within and to the clients, customers felt more comfortable sharing information with KRA which has helped to improve performance and also it rejuvenated business.

5.4 Limitations of the Study

Only ten senior managers were interviewed. Therefore the findings may have a marginal error as a result of the not including the middle managers for the study. Finally getting hold of the senior management team to schedule the interviews was also a big challenge due to lack of time for the interviews. This forced the researcher to make several call backs in order to get hold of the respondents. This had cost and time implications on the researcher.

5.5 Recommendations for Policy and Practice

The management of Kenya Revenue Authority should consider creating understanding of the current strategic plan to both top management as well as supportive staff. It is equally important that the supportive staff understand the organization's current strategic plan because they are part and parcel of the organization. They can only support the management to work towards achieving the organization's goals if they arc made to understand the current strategic plan.

Resistance to change by the employees and the stakeholders may also be addressed by involving every employee and the main stakeholders in decision making processes regardless of their positions. In so doing they will feel more responsible to bring change and embrace new ideas. The challenge of inadequate expertise may be addressed through continuous training to sharpen their management skills. Role conflict may also be dealt with by defining the roles of each and every employ before bringing them on board.

5.6 Suggestions for Further Research

The study was conducted in only ten senior managers. The findings can be verified by conducting the same study on a larger sample in order to validate the results. The study findings are according to the top management point of view. The middle managers views on the turnaround strategy are as well important and should be taken into account. Future researchers may conduct a study targeting both the middle and top level management in order to validate the results.

Further research should also be conducted in other organizations which have experienced similar circumstances as in KRA to establish the turnaround strategies adopted by those organizations in order to improve their performance.

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APPENDICES

Appendix I: Complementary Letter to the Respondents

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UNIVERSITY OF NAIROBI. **Date: July 2009**

School of Business,

P. O. Box 30197,

Nairobi - Kenya.

Tel: +254 (020) 732160.

To Whom It May Concern:

The bearer of this letter: **Eliud Peter Obae,** Registration number D61/8825/2005; Telephone +254 722 484 600 is a master of Business administration (MBA) student at he University of Nairobi.

The student is required to submit, as part of the coursework assessment, a research project report on a given management problem. We would like the students to do their projects on real problems affecting firms in Kenya today.

We would therefore appreciate if you assist the student collect data in your organization to this end. The results of the report will be used solely for purpose of academic research and in no way will your organization be implicated in the research findings.

A copy of the report would be availed to the interviewed organization(s) on request.

Thank you,

The coordinator, MBA program.

Appendix II: Introductory Letter to Respondents

Eliud Peter Obae

University of Nairobi,

P.O Box 30197

Nairobi, Kenya.

Dear respondent,

RE: A STUDY OF THE TURNAROUND STRATEGY ADOPTED BY THE KENYA REVENUE AUTHORITY

I am a postgraduate student at the University of Nairobi, undertaking a research on a study of the turnaround strategy adopted by the Kenya Revenue Authority. I am requesting for appointment date and time to conduct the interview.

You are assured that the information you will give will be treated with utmost confidentiality and used for the purposes of this research only.

Thank you very much for your cooperation.
Yours Sincerely,

Eliud Peter Obae

Appendix III: Interview Guide

TOPIC: A STUDY OF THE TURNAROUND STRATEGY ADOPTED BY THE KENYA REVENUE AUTHORITY

Part A

Background of respondents

1. Name of respondents (optional)

2. Position held

3. Time worked at KRA:

Part B

Strategies at the Kenya Revenue Authority (KRA)

Strategic Planning and Implementation:

4. Does the Kenya Revenue Authority conduct Long term Planning?
5. If yes, how is long term planning important for the future success of the Kenya Revenue Authority?

6. How often is long term planning undertaken at the Kenya Revenue Authority?

7. How often do you meet to discuss and review the Company's direction, strategy, and future business plans?

8. Who is / are normally involved in strategic planning?

9. Does the Kenya Revenue authority have key Performance Indicators?

10. If yes, when were they introduced

11. How is strategic change communicated to staff?

12. Mow often do you communicate the vision and mission statement to all your staff?

13. How would you rate the level of understanding of the objectives of the Company's current strategic plan by employees at various levels of the organization?

Turnaround Strategy and Implementation:

14. Did Kenya Revenue Authority pursue Turnaround strategy since 2003?

15. If yes, which of the following changes did the authority incorporate as part of corporate strategy since year 2003?
    - (i) Organizational structure
    - (ii) Leadership
    - (iii) Culture
    - (iv) Systems Processes
    - (v) Technology
    - (vi) Human Resources

16. Did you plan for implementation of this change?

17. If yes, what did the plan entail?
    - (i) Organizational structure

(ii) Leadership

(iii) Culture.

(iv) Systems Processes.

(v) Technology.

(vi) Human Resources.

Which formal approaches were used in implementing these strategic changes?

What were the notable challenges faced during the implementation of strategic-change?

20. In your opinion, were the changes effective towards improved performance?

(i) Organizational structure

(i) Leadership

(ii) Culture

(iii) Systems Processes

(iv) Technology

(v) Human Resources

(If No as above, go to question 21. If yes as above, go to question 22)

21. In your opinion, why were the changes as mentioned not effective?

(i) Organizational structure

(ii) Leadership

(iii) Culture

(iv) Systems Processes

(v) Technology

(vi) Human Resources

22. In your opinion, to what extent were the changes as captioned effective in enhancing organizational performance?

(i) Organizational structure

(ii) Leadership

(iii) Culture

(iv) Systems Processes

(v) Technology

(vi) Human Resources

23. Have you had to retrench some staff during the course of implementing your strategic plan?

24. If yes, How did you go a bout it?

25. To want extent was the retrenchment effective in improving performance?

26. Have you had to restructure your operations during the course of implementing your strategic plan?
27. If yes, How did you go a bout it?

28. To want extent was the restructuring effective in improving performance?

29. Have you had to reposition the authority during the course of implementing your strategic plan?
30. If yes, How did you go a bout it?

31. To want extent was the repositioning effective in improving performance?

**** Thank You****