

**ORGANIZATIONAL STRUCTURAL DESIGN AND STRATEGIC
CHANGE MANAGEMENT AT KENYA REVENUE AUTHORITY**

BY

ROPHUS MJOMBA MWANDEMBO

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DECLARATION

This management project report is my original work and has not been submitted for a degree in any other university

Signed _____

Date _____

Rophus Mjomba Mwandembo

D61/8422/2006

This management project has been submitted for examination with my approval as the university supervisor

Signed _____

Date _____

Eliud O. Mududa

Lecturer,

Department of Business Administration

University of Nairobi

DEDICATION

I dedicate this project to my mother Norah Mbala Mwandembo and my grandmother Hanna Ramson for their passionate love for education and to my family for their love, inspiration, encouragement, understanding, and prayers towards the successful completion of this course.

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ABSTRACT

The link between strategy and the structure of the firm is a largely neglected area in strategy implementation. Successful strategy execution depends on doing a good job of working with and through others, building and strengthening competitive capabilities, motivating and rewarding people in a strategy-supportive manner, and instilling the discipline of getting things done. This study sought to ascertain the significance of organisation structure in the strategic change management process. Several studies have been done on the different challenges affecting strategy implementation, but not much has been done to explore the possibility that the existing structures could in fact be the greatest impediment to implementation of strategic change in public institutions. That perhaps, there could be structural resistance to change. The objectives of this study were to determine factors that necessitated organisational restructuring at KRA and to determine how such restructuring underpin strategic change at KRA.

This study utilised the case study design on the Kenya Revenue Authority, the principal tax-collecting agent of the government of Kenya. Primary data was collected using an interview guide. The study targeted eight senior managers and two supervisors in various departments. Data was analyzed using content analysis.

The study found that the organisational structural design had a significant impact on the success of the strategic changes that have taken place in KRA over the last ten years. There appears to have been a deliberate attempt to embed structural changes in the overall strategic change management process at the organisation.

The factors that necessitated organizational restructuring were found to be; a need to increase efficiency and service delivery, the need to reduce corruption, to increase revenue collection, to get to the world standards of tax administration as well as changing legislation.

Other factors that had a positive impact on change management process at KRA included good and focused leadership, support by government, political will, dedicated staff, investment in technology and a dynamic strategic planning process. Acceptance of changes by key stakeholders was also a critical success factor.

Delay of funding from Treasury was cited as a critical impediment to the change process. Other impeding factors include inadequate technical know-how by both KRA staff and taxpayers, incompatibility of IT systems of taxpayers vis-à-vis those of KRA, resistance to change by some employees and taxpayers, corruption, lack of role clarity and an antagonistic relationship between some departments.

Structure is the implementation mechanism of the organization. It serves as the backbone or framework upon which, the organization executes its programs, plans and objectives. The study recommends a proper structural analysis in the strategy process. Structure has to be supportive of the mission and objectives of the organization. Therefore, strategic change management process ought to take cognizance of the structural configuration to facilitate a smoother transformation.

The study further recommends that KRA adopt a flatter and more flexible structure to enhance the organization's agility in responding to changes in the environment. Furthermore, reduce the span of control of the commissioner general so that he/she has more time to concentrate on strategic issues, which affect the performance and long-term success of KRA. The government should allow more freedom to the board and management of KRA by adopting a broad-based board selection approach and granting the commissioner general security of tenure. Amend the law to allow KRA to withhold its share of revenue collected per the agency agreement to enable it adequately plan its activities. The departments and programs spearheading the change process should be adequately empowered and funded to execute their mandates. The study further recommends proper training of employees and taxpayers on their role and sensitization on expectations of the changes, through an effective communication and feedback mechanism.

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LIST OF ABBREVIATIONS

AEO:	Authorized Economic Operator
CAP:	Chapter
CBCS	Customs Border Control Service
CEO:	Chief Executive Officer
CG:	Commissioner General
CRS:	Cash Receipting System
DPC:	Document Processing Center
DTD-DR:	Domestic Taxes Department- Domestic Revenue
ERP:	Enterprise Resource Planning
I &ED:	Investigation and Enforcement Department
ICT:	Information and Communication Technology
ITMS:	Integrated Tax Management System
JKIA:	Jo mo Kenyatta International Airport
KESRA:	Kenya School of Revenue Administration
KRA:	Kenya Revenue Authority
LTO:	Large Taxpayers Office
MST:	Medium and Small Taxpayers Department
MTO:	Medium Taxpayers Office
PMBO:	Project Management and Business Office
RADDEX :	Revenue Authorities' Digital Data Exchange
RARMP:	Revenue Administration Reform and Modernization Programme
RTD:	Road Transport Department

SARAs:	Semi Autonomous Revenue Authorities
SDCs:	Senior Deputy Commissioners
SSD:	Support Services Department
TLB:	Transport Licensing Board
TOT:	Turnover Tax
TPS:	Taxpayer Services
VAT:	Value Added Tax
VMS:	Vehicle Management System
WCO:	World Customs Organization

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Reforms in government has been a constant theme over the last three decades as Governments have sought to deliver services more effectively and at a lower cost to citizens. Revenue administration has not been immune to this trend. Governments established semi autonomous revenue authorities (SARAs), organizationally distinct from ministries of finance, and with some real operational autonomy (Manasan, 2003; Jenkins, 1994; Taliercio, 2000). However, these revenue agencies inherited some bureaucracies and structural in-efficiencies inherent in their parent ministries. These choke the new initiatives envisaged to facilitate flexibility and dynamism and do not allow a significant shift in paradigm.

Jenkins (1994) observed that the critical impediment to change for tax administrations is that they were traditionally part of the general civil service with the characteristic low salaries, poor staff qualifications and hiring subject to political patronage. Consequently, public perceptions of this state of affairs lead to diminished voluntary compliance, the key underpinning of modern tax administration.

1.1.1 Organisational Structural Design

Mullings (1993) and Mabey et. al (2001) described the structure of an organization as the pattern of relationships between roles in an organization and its different parts. They see the purpose of this structure as serving to allocate work and responsibilities in order to direct activities and achieve the organization's goals. Structure enables managers to plan, direct, organize and control the activities of the organization. This is a traditional view of organizational design that uses principles derived from classical and scientific management.

A non-traditional approach is taken by Pascal et. al (2000). They consider the role of architects and the principles they use to create buildings that provide structural integrity (sound buildings), functionality (space appropriate for its intended use), and aesthetic appeal. Therefore, architectural approaches can offer us a good model with which to consider organization design principles. McMillan (2002) defines an

organization structure as the architecture both visible and invisible, which connects and weaves together all aspects of an organization's activities so that it functions as a complete dynamic entity. An organization's structure can simply be represented diagrammatically in the organization chart.

1.1.2 Strategic Change Management

Change is a transition from one state to another with focus on being different. Change is the only constant in today's life for both individuals and organizations. According to McKinsey (2006) organisations change in order to reduce costs, to move from good to great performance, to complete or integrate a merger, to turn around a crisis situation, to catch up with rival companies, to split up or divest part of the organisation, and to prepare for privatization or market liberalization.

Change management is the use of systematic methods to ensure that an organization change can be guided in the planned direction, conducted in a cost effective manner and completed within the targeted period and with the desired results (Davis & Holland, 2002). According to Todd (1999), change management is a structured and systematic approach to achieving a sustained change in human behaviour within an organization. Change does not happen by chance. There is a science to management of change, which focuses on increasing the organization's capability to adapt and adopt new ways of doing business.

Organizational change can be strategic or operational (Burns, 2004). Strategic change is the change in the very basic objectives or mission of the organization. The goal of strategic change is to build and maintain sustainable competitive advantage and to maximize shareholder value. Organizations have to change to align themselves to changes in their environments. The purpose of organizational change is to ensure that the organization is heading in the right direction. The key pre-occupation is anticipation and adapting effectively. Operational change aims at ensuring that the organizational activities are performed in the best way possible. The purpose of operational change is to ensure the organization is efficient.

1.1.3 Kenya Revenue Authority

Kenya Revenue Authority (KRA) is the principal tax-collecting agent of the government of Kenya. An Act of Parliament, the Kenya Revenue Authority Act 1995, established KRA (Chapter 469 of the Laws of Kenya). Its date of commencement was July 1st 1995. Before 1995, the revenue collection functions of the Government were distributed among at least five different ministries and/or departments. Lacking in coordination, their performance was characterized by inefficiency and low levels of accountability. The rationale behind the establishment of the Authority arose from the need to reverse this negative performance in a critical area of the public sector. The Act (CAP 469) made KRA a central body for the assessment and collection of revenue, and for the administration and enforcement of the laws relating to revenue.

KRA's vision is to be the leading Revenue Authority in the world, respected for Professionalism, Integrity, and Fairness. The mission statement is "To promote compliance with Kenya's tax, trade, and boarder 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". The core values are integrity, professionalism, equity and corporate social responsibility. The strategic theme for the medium term of financial years 2009/10 – 2011/12 is "Attaining international best practice in revenue administration by investing in a professional team, deepening reforms and quality service delivery to enhance compliance" (KRA 4th Corporate Plan, 2009/2010 – 2011/2012)

The Chief Executive Officer (CEO) at KRA is the Commissioner General (CG), who is also a member of the Board of Directors. He is assisted by six commissioners who head the following six Departments: Domestic Taxes – LTO; Domestic Taxes – DR; Customs Services; Road Transport; Support Services; and Investigation and Enforcement. In addition to these, there are six other departments under support services headed by Senior Deputy Commissioners (SDCs) and these are; Finance; Human Resources; Management Information Services; Internal Audit; Board Secretary, Corporate Services and Administration; and Marketing and Communication. There are about 4,500 employees.

KRA has undergone tremendous changes, culminating in the drafting of five, three-year corporate plans that spelt out a significant shift in paradigm. Hitherto, there existed strong cartels both within and without, which benefited from the nauseating bureaucracy and lack of clarity that led to a lot of mess and corruption. Taxpayers were not adequately informed of their rights and obligations, leading to most of them falling foul of the tax laws, albeit inadvertently, or having to give bribes to get services that are rightfully due to them. The new strategy aimed at streamlining of operations, simplification of tax compliance, and weeding the organization of corrupt elements. There was a strong drive towards systems re-configuration and automation, to break old cartels and bottlenecks.

Although the envisaged changes appeared ideal, the actual realization has faced great challenges from internal and external forces, which benefited from the status quo. Much has been done to try to convince employees to change their culture and the public to change their perceptions of KRA in order to enhance voluntary compliance. However, the changes have not been sustained at the desired rates, falling short of the expectations stipulated in the taxpayers' charter, perhaps due to certain inherent system deficiencies.

1.2 Research Problem

The organization structure and the underpinning design play a key role in organizational performance. Therefore, there is need to develop structural forms that are versatile and enduring in the midst of a changing environment. A number of writers have pointed out the importance of an organization's structure and its relationship with an organization's size, strategy, technology, environment and culture. Mintzberg (1989) has written extensively on the importance of organizational structure. Miller (1989) has explored the importance of configurations and structure. Burns and Stalker (1961) concluded that if an organization is to achieve maximum performance then its structure must fit in with or match the rate of change in its environment.

Handy (1990, 1993) has discussed the importance of culture in relation to organizational design and structure and the need for new organizational forms. Pascale, Milleman and Gioja (2000) consider design as the invisible hand that brings

organizations to life and life to organizations. Further, organizational structure and design are entwined with many aspects of human resource management (Mabey, Salaman & Storey, 2001). Therefore, structure has a significant role in the human dimension of an organization.

If the structure of an organization is not in tune with its core purposes and its many environments, then it is unlikely to survive or succeed (McMillan, 2002). Senge (1994) points out, “of what use the captain of a ship is asking his crew to turn to starboard 60 degrees, if the radar will only turn to port, or the ship takes six hours to respond to the command.” In the same way, the circumstances might require the organization to respond in a certain way to cope with prevailing upheavals in the operating environment but internal bureaucracies could slow the process or abort the envisioned change altogether.

Miller (1989) points to a gap in the literature whereby the content of corporate or business strategies has not been widely considered in relation to structure. Traditional management education does not include the development of any understanding of the principles of corporate design (Senge, 1994; McMaster 1996). From the foregoing, it is evident that a lot of literature exists to expound on a myriad of factors affecting change. However, there does not appear to be much on the significance of structure on successful change management. In this study, the research question to guide in the field is this; is the current organization structure of KRA compatible with the envisioned strategic change and its stated mission?

1.3 Research Objectives

There research objectives of the study will be two. These are:

- (i) To determine factors that necessitated organisational restructuring at KRA.
- (ii) To determine how such restructuring underpin strategic change at KRA.

1.4 Value of the Study

This research will be of importance to KRA policy makers and similar organizations, since an understanding of the effects of structure on organizational efficiency will enable them come up with appropriate policies and structures that enhance performance. The study will also be of importance to the government and other

institutions in determining and coming up with the right structural orientation that supports and sustains strategic change.

The project will also be of value to researchers and those in academics as a basis for future empirical and conceptual research, which will be helpful in refining and validating the findings. It is especially of great importance due to the current restructuring efforts undertaken by KRA and other government and quasi-government institutions in line with the new constitution and pursuant to Vision 2030.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Chapter two deals with the literature review in the field of strategy. A brief introduction on strategic change management shall precede a detailed review of what other scholars have studied on the determinants of organizational restructuring. The final part of this chapter shall dwell on the link between organizational restructuring and strategic change management.

2.2 Process of Change Management

Dalziel and Schoonover (1988) define change as a planned or unplanned response of an organization to various pressures emanating from various sources, both internal and external to the organization. External forces comprise of regulators, competitors, customers, and technology, whereas internal forces include obsolescence of goods and services, new market opportunities, a new strategic direction, or more increasingly, a diverse workforce (Lanning, 2001). In order for an organization to adapt, it is required that for every change in these factors, it should also change its human skills, procedures, processes, organizational structure and culture (Alder & Shenbar, 1990).

In the context of organizational development theory, change management entails managing change in organizational structures, job structure, roles, values, leadership and culture (Saminen, 2000). Managing and implementing change has become one of the most critical factors for successful management of business (Salminen, 2000). Managers are responsible for reorganizing the structural design, changing the day-to-day routines, cultural orientations, and dealing with political aspects of change. Kaplan and Norton (2001) indicate that executive leadership should drive the change process for it to be effective and ensure successful implementation. Planned organisational change involves three broad steps; planning for change, assessing change forces and implementation of the change (www.mbaknol.com/management-concepts/managing-planned-organizational-change-process/).

2.2.1 Planning for Change

Planning entails identifying the need for change, and deciding whether it a strategic, process oriented or employee oriented change. The next step would entail developing new goals and objectives, selecting a change agent, diagnosing the problems, selecting methodology for change, and developing a plan of action. The final step in the planning process is implementation strategy, which entails deciding on the “when”, “where” and “how” of the plan. It also entails deciding on the best mode of communicating change to enlist the support of and reduce resistance from employees. Employee involvement is critical because the failure to constructively involve staff means running the risk that the changes will be more difficult and protracted than necessary (Becher, 1989).

2.2.2 Assessing Change Forces

Assessing change forces entails identifying the critical stakeholders who may influence the success or failure of the intended change. It follows therefore that planned organizational change does not happen automatically. According to Kirkpatrick (2001), emotional responses towards change can be positive, negative, or mixed. Accordingly, people either resist, welcome or have mixed reactions towards change. There is fear of possible loss due to the uncertainty that comes with change.

There are many forces in individuals, groups and organization, which resist change. In the Force Field Analysis, Lewin (1951) assumes that in every situation there are both driving and restraining forces, which influence any change that may occur. Driving forces are those that are supportive of change, whereas restraining forces are those that resist or attempt to slow the change. To make the people accept the changes, the management must push driving forces and convert or immobilize the restraining forces.

2.2.3 Implementation of Strategic Change

Implementing the change entails putting the plans into action once favourable conditions, the right timing and the right channels of communication are established. After implementation, there is need for evaluation to compare actual results to the

objectives. Feedback will confirm whether goals are met and identify deviations that may require corrective action. Awino (2001) mentions that strategy implementation requires continual attention and focus on the change initiatives and performance against targeted outcomes.

Any organizational change whether introduced through a new structural design, new technology or new training programme, attempts to change employees' behaviour. Unless the members change their behavioural patterns, the change will have little impact on the effectiveness of the organization. Lewin (1951) suggested a three phases model for bringing about changes in people; unfreezing, changing and refreezing. Unfreezing entails setting aside old ideas and attitudes for new ones. It refers to making people aware that the present behaviour is inappropriate, irrelevant, inadequate and hence unsuitable for changing demands of the present situation. During this phase, Schein (2004) proposed the following four elements: the physical removal of the individuals being changed from their accustomed routines, sources of information and social relationships; the undermining and destruction of social support; demeaning and humiliating experience to help individuals, being changed, to see their old attitudes or behaviour as unworthy and think to be motivated to change; and consistently linking rewards with willingness to change and of punishment with unwillingness to change.

According to Kelman (2005) the changing phase comprise the following elements; compliance, when individuals are forced to change either by reward or punishment; internalization which, occurs when individuals encounter new situations that require a new behaviour; and identification, which occurs when individuals recognize a model in the environment that is most suitable for their personality. This is equivalent to refreezing phase proposed by Lewin (1951), which entails totally discarding the old ideas and practices and embracing the new ones. For there to be a sustained change in behaviour, the new ideas and attitudes needs to be reinforced (Fester & Skinner, 1957). The executives need to provide resources and leadership in the change process, lest strategy implementation fails resulting in missed opportunity for improvement (Aosa, 1992).

To ensure successful change management, Kotter (1996) suggests an eight-stage, change process model: establishing a sense of urgency; creating the guiding coalition;

developing a vision and strategy; communicating the change vision; empowering employees for broad-based action; generating short term wins; consolidating gains and producing more change; and finally, anchoring new approaches in the culture.

2.3 Organisational Structural Design

Organizational structure refers to the formalized arrangements of interactions between and responsibility for the tasks, people, and resources in an organization (Pearce & Robinson, 2009). An organizational structure consists of activities such as task allocation, coordination and supervision, directed towards the achievement of organizational aims (Pugh, 1990). It can also be considered as the viewing glass or perspective through which individuals see their organization and its environment (Jacobides, 2007). Pearce and Robinson (2009) identify five traditional organizational structural designs namely; Simple organizational structure, Functional organizational structure, Divisional structure, Matrix organizational structure, and Product-team structure. The current first-changing, global economy demands ever-increasing productivity, speed, and flexibility from companies that seek to survive and thrive. To do so, companies must change their organizational structures dramatically, retaining the best of their traditional (hierarchical) structures while embracing radically new structures that leverage the value of the people who generate ideas, collaborate with colleagues and customers, innovate and therein generate future value for the company (Pearce & Robinson, 2009).

2.3.1 Simple Organizational Structure

This is a structure where there is an owner and a few employees and where the arrangement of tasks, responsibilities, and communication is highly informal and accomplished through direct supervision (Pearce & Robinson, 2009). This structure is suitable for small firms where both strategic and operating decisions are by the owner(s). The strategic concern is primarily survival. The fact that one wrong decision could spell doom for the company makes this structure suitable as it provides a lot of control for the owner. The other advantage with this structure is that it also allows employees to multi-task and develops a lot of talent. However, the concentration of decision-making to the owner-manager limits the development of future managers. Furthermore, as the business grows, the owner-manager may get too

engrossed with routine operation issues that he lacks time to step back and examine the strategic questions about the company's future.

2.3.2 Functional Organisational Structure

This is a structure in which the tasks, people, and technologies necessary to do the work of the business are divided into separate "functional" groups (e.g., marketing, operations, finance) with increasingly formal procedures for coordination and integrating their activities to provide the business's products and services (Pearce & Robinson, 2009). Product, customer, or technology considerations determine the identity of parts in a functional structure. The advantage with this structure is that, by dividing tasks into functional specialties, the firm enables its personnel to concentrate only on one aspect of the necessary work. This allows use of the latest technical skills and develops a high level of efficiency. The strategic challenge presented by the functional structures is effective coordination of the functional units. The narrow technical expertise achieved through specialization can lead to limited perspectives and to differences in the priorities of the units. It could also lead to a lack of communication between the functional groups within an organization, making the organization slow and inflexible (Miles & Snow, 1992).

2.3.3 Divisional Structure

In this structure a set of relatively autonomous units are governed by a central corporate office, but each operating division has its own functional specialists who provide products or services different from those of other divisions (Pearce & Robinson, 2009). Each division within a divisional structure contains all the necessary resources and functions within it. When a firm diversifies its product/service lines, covers broad geographic areas, utilizes unrelated marketing channels, or begins to serve heterogeneous customer groups, a functional structure rapidly becomes inadequate. The divisional structure comes in handy, as it meets the increased coordination and decision-making requirements that results from increased diversity and size.

A divisional structure allows corporate management to delegate authority for the strategic management of distinct business entities, the divisions. This expedites

decision making in response to varied competitive environments and enables corporate management to concentrate on corporate-level strategic decisions. However, the potential disadvantage with this structure is that it fosters potentially dysfunctional competition for corporate level resources, creates potential for policy inconsistencies among divisions and presents the problems of distributing corporate overhead costs in a way acceptable to all divisional heads. It could also lead to increased costs due to duplication of functions. It may also create difficulties in maintaining an overall corporate image (Pearce & Robinson, 2009).

2.3.4 Matrix Organisational Structure

The matrix organization structure is one in which personnel are assigned to both a basic functional area and to a project, product or area manager (Burton et al, 2006). It provides dual channels of authority, performance responsibility, evaluation, and control (Pearce & Robinson, 2009). This structure is suitable in organisations dealing in diverse products or projects with strategic significance and which require varied specialist skills at different rates or time. For instance, a project might require a software engineer for one month and a customer service trainer one day per month for six weeks (Pearce & Robinson, 2009).

The matrix structure allows an organization to temporarily put people and resources to where they are needed most (Pearce & Robinson, 2009). It accommodates a wide variety of project-oriented business activities, provides good training ground for strategic managers, maximizes efficient use of functional managers, and fosters creativity and multiple sources of diversity. However, it may result in multiple horizontal and vertical coordination, which, may lead to confusion. It can proliferate information logjams and excess reporting. It can also trigger turf battles and loss of accountability. Furthermore, dual chains of command challenge fundamental organizational orientations. Larson & Gobelin (1987) observed that the matrix model is unworkable and that it is a design that is "ingenious in theory but confusing in practice" (Ashkenas, et al., 2000).

2.3.5 Product-Team Structure

This structure assigns functional managers and specialists to a new product, project, or process team that is empowered to make major decisions about their product. It

seeks to take temporary advantage of a matrix-type structure while preserving the underlying divisional structure. The product-team structure seeks to simplify and amplify the focus of resources on a narrow but strategically important product, project, market, customer, or innovation (Pearce & Robinson, 2009). The team created at the inception of the new-product idea may stay with it indefinitely if it becomes a viable business. This structure results in much lower coordination costs. Because every function is represented, it reduces the number of management levels above the team. This allows room for innovation and customer responsiveness because authority rests with the team.

2.4 Factors Influencing Choice of Structure

The accelerated rate of change in the global markets demands quick decisions and immediate action. These pose unprecedented demands on an organization's use of people and resources. Hierarchical organizations are too slow moving and inefficient for this environment. Several theoreticians, including Drucker (1988) and Schein (1989) suggest that hierarchical authority will probably play a much smaller role in the future, while co-ordination and coaching skills will become more important. Doppler and Lauterburg (2000) describe this development as the shift from the hierarchical organization, based on the division of labour to the easily re-configurable network organization. Forward thinking individuals and business leaders have responded to this new reality by crafting organizational structures that are fluid, open, virtual networks of people, experts and knowledge (Pearce & Robinson, 2009).

Throughout the many discussions on the merits of various organizational structures, it is becoming clear that in reconfiguring an organization to enhance its performance, there is no one appropriate or ideal structure. Further, there is agreement that many organizations have hybrid structures in which several different structures happily coexist (Mintzberg, 1989; Peters, 1993; Drucker, 1999).

2.5 Determinants of Organizational Restructuring

According to Greenberg and Baron (1995), organizational restructuring refers to the altering of size and basic configuration of the organizational chart. It may involve downsizing that entails reducing the number of employees needed for the organization to function effectively, or rightsizing that includes adjusting the number of employees

needed to work in newly designed organisations. It can also include outsourcing, wherein a company hires the services of an outside firm to carry out its non-core business functions. Mintzberg (1979; 1989) notes the influence that environment has on the structure of organizations and the way in which they evolve. Accordingly, organizations' structures are largely determined by the diversity in the environment and the variety of structures relates specifically to the degree of complexity and the pace of change.

According to Gunneson (1997), agility is a critical structural element in achieving organizational effectiveness and efficiency. Agility relates to the capacity of an organization to operate profitably while adapting to meet the complex needs of a dynamic and competitive environment. Traditional organizational structures are being tested by demands for greater adaptability and flexibility. Highly bureaucratic or mechanistic organizational structures are making way for more organic structural approaches (Burns & Stalker, 1961).

Byars (1992) contends that the restructuring or reorganizing of the organization involves making strategic changes when the organization faces environmental challenges. These organizational changes may take place during both good and bad times. Bad time restructuring may involve retrenchment of workers, disposing of assets, divestment of business units and major capital borrowings. Good times restructuring may involve changing the way in which the organization is structured due to company expansion or diversification of products and customer profile. Determinants of restructuring in most organisations include enhancing productivity, profitability, growth rates and balance sheet ratios of the organization; to refocus strategically; and to effectively deal with the competition (Byars 1992).

2.6 Organizational Restructuring and Strategic Change Management

Organizations have been increasingly pushed into a fast pace of change by the globalization of the economy, the accelerated technological developments in information storage and retrieval, and the emergence of knowledge (as opposed to capital goods) as the main asset of organizations (Kock, 1998). Many radical change approaches have been developed to ease this transition. Kock (1998) further observes

that, while these approaches sometimes succeed, in most cases they fail miserably, a phenomenon that has been usually blamed on poor change management. He however, argues that structural factors are also to blame, particularly process rigidity caused by highly functional heterogeneity, fragmented expertise, and government regulation. Kock (1998) carried out a case study to answer the question; whether certain characteristics of a specific industry or sector of the economy influence the structural rigidity of organizational processes, that is, their structural resistance to change, so as to make re-engineering more likely to fail. The research suggested a positive answer to this question as regards one particular sector of the economy, the public sector.

Stevenson et al (2003) observed that change, especially change that involves restructuring, typically takes place in terms of visible formal appointments to positions and changes in official reporting relationships. However, it also takes place, often simultaneously to formal change, in much less visible shifts in the informal networks of alliances within the organization (Cross, Borgatti, & Parker, 2002). This visible shift is a result not only of formal appointments or announcements but also of the social dynamics that occur in response to such announcements (Stevenson, et al, 2003).

Sometimes, planned restructuring efforts involve attempts to get people and groups within organizations to work together more effectively (Connolly, 2000). When this is the aim, the change agent often attempts to increase formal structural connections between people and groups under the assumption that information will flow more freely, barriers and conflict between work functions will break down, and innovative activities will diffuse more effectively in a dense network (Nelson, 1998). At the same time, however, organization members who stand to lose influence and/or structural autonomy if barriers are broken down may work against efforts to increase formal connections in ways that weaken their influence (Stevenson, et al. 2003).

Organizational flexibility, as well as the accumulation and proper deployment of process-related knowledge, depend on structural characteristics of organizations such as departmental and functional configuration, hierarchical levels, and information access and flow (Argyris, 1977; Redding & Catalanello, 1994; Senge, 1990). Therefore, it is surprising to see the current focus on change management in

organizational transformation efforts and the relative lack of interest on structural factors that themselves can prevent organizational change from happening (Kock, 1998).

2.7 Rationale for Organizational Restructuring in the Public Sector

There are very few published public sector cases of successful re-engineering in situations of high rigidity, relative to the number of cases about re-engineering in low rigidity (usually fully private) organizations (Nissen, 1997). Kock (1998) questions the rationale for reorganization in the public sector. He suggests that first, public sector organizations should question whether radical change is necessary before embarking on large-scale and radical process improvement attempts, as the probability of failure in these attempts is high. Incremental improvement initiatives have proven to be less risky, while having in many cases yielded highly satisfactory organizational improvements (Koehler & Pankowski, 1996; Raff & Beedon, 1994). Second, public sector organizations where radical change is seen as absolutely necessary, can benefit from the analysis of their processes regarding their functional heterogeneity and degree of regulation before initiating their radical change projects (Kock, 1998).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was used by the researcher in terms of the research design, data collection methods and data analysis.

3.2 Research Design

The study utilized a descriptive case study approach to achieve the set objectives. A case study places more emphasis on a full contextual analysis of fewer events or conditions and their interrelations (Yazici, 2009). This design was suitable because the study required an accurate examination of the effects of organizational structure on change management in KRA.

3.3 Data Collection

The study used primary and secondary data. Primary data was collected using an interview guide with a selected team of managers involved in the strategic change management and organizational restructuring processes at KRA. The managers involved were departmental and program heads of the rank of senior assistant commissioner and above. Secondary data was collected from journals, corporate plans, annual publications, company website, and organization records.

3.4 Data Analysis

This study generated mainly qualitative data, which was analyzed based on content matter of the responses and those with common themes or patterns were grouped together into coherent categories and are presented in prose.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter presents data analysis and interpretation of findings. The objectives of the study were to determine factors that necessitated organizational restructuring at KRA and to determine how such restructuring underpin strategic change at KRA. Of the twelve respondents initially targeted for interview, ten availed themselves, representing a response rate of 83%.

4.1.1 Profile of Respondents

The interviews were carried out with eight managers and program heads of the rank of Senior Assistant Commissioner and above, and two supervisors of the rank of Senior Revenue Officer and above. These were from the various departments, including Domestic Taxes Department – Large Taxpayers Office, Domestic Taxes Department – Medium and Small Taxpayers, Road Transport Department, Human Resources Department, ICT Department, DTD – MST Real Estate Project Office, DTD ITMS Project, Customs Services Department, Research and Corporate Planning. The selection criteria was based on officers who have served with KRA for a period of at least ten years and are known to have vast knowledge of the operations and strategic issues affecting KRA and/or were involved in the strategic change management process at KRA. Eight of the interviewees have worked with KRA for more than sixteen years (16 years), whereas two have been with KRA for slightly over ten years (10 years).

4.2 Nature of Changes at the Kenya Revenue Authority

The study sought to establish the significance of organizational structural design on the strategic change management process at the Kenya Revenue Authority. As a starting point, the study identified the changes that have taken place in KRA in the last ten years, both from the perspective of the interviewees and from data obtained from secondary sources such as journals, internet, KRA corporate plans, financial records, reform manuals, and others. All the interviewees concurred that many changes have taken place at KRA in the last ten years. These are both operational and strategic changes. The significant changes that have taken place in KRA can be

categorized broadly into four, company wide reforms, customs reforms, domestic revenue reforms and road transport reforms.

4.2.1 Corporate-wide Reforms

The corporate wide reforms covered the entire organization. The objective of these reforms was to lay the foundation for the smooth implementation of other reforms. The term commissioner was amended to mean commissioner general. This was necessitated by the fact that the commissioner general had limited control over operations within the revenue departments since the term had been defined with respect to statuses. By amending the term, the executive authority was vested on the commissioner general who became fully responsible for decisions and performance on revenue matters. The Support Services Department (SSD) was established to make administrative controls narrow and less cumbersome in order to improve management. The SSD consists of the marketing and communication department, research and corporate planning, quality management and laboratory services

The investigation and enforcement department (I&ED) was formed, integrating the various investigation branches including revenue protection services in the revenue departments and the internal affairs unit. The I&ED established a business intelligence office, anti counterfeit and illicit office and forensic and prosecution units. This was necessary to have more powers to deal with tax investigation and evasion.

The KRA has been restructured from a tax-based organization to a functional form. The support departments and divisions were aligned along functional lines to enhance the synergies and economies of scale. These support services were categorized into headquarters and regional operations. A functional-based structure removes duplication, provides for a single point of access for taxpayer enquiries, common registration function, unique identification numbers for each taxpayer, a single accounting framework, enforcement and audit across taxes, dedicated information processing operations, and common support functions.

Regional structures were created to consolidate and take decision making to the operational level. The five regional offices set up were: Central (Nairobi and Central provinces), Southern (Coast Province), Western (Nyanza and Western Provinces),

Northern (North Eastern Province) and Rift Valley (Rift Valley Province). The regional heads report directly to the commissioner general on administrative and operational issues in their areas of jurisdiction.

The Marketing and Communication Department was formed to appraise stakeholders on the numerous reforms that were taking place as well as the need to enhance the public uptake of output of reform initiatives. The department was formed through the amalgamation of the public relations, taxpayer services and the marketing functions.

The Taxpayer Services Department (TPS) was created to enhance awareness using the media, sponsorships of music and drama festivals with tax themes, sensitization seminars for newly registered taxpayers and partnerships with institutions of learning and the Ministry of Education to develop and implement tax curriculum initiatives. Furthermore, the Integrity Division was formed under the office of the commissioner general although it reports to the commissioner of support services. The need to stay away from the transparency bribery index and enhance self evaluation and peer review mechanisms led to the creation of this division.

Several initiatives were undertaken to foster technical competence and professionalism among the workforce. These included development of a scheme of service for support staff, harmonization of remuneration, capacity building through training and revamping of the Kenya Revenue Authority Training Institute, now called Kenya School of Revenue Administration (KESRA). The Balanced Score Card and performance appraisal were introduced as performance management tools. To enhance performance among the staff, a staff's recognition and awards scheme was also introduced.

The interviewees pointed out the elevation of ICT, Human Resources, Finance, Audit and Assurance Services into fully-fledged departments headed by Senior Deputy Commissioners. The Quality Management Program was also formed, which helped KRA attain ISO certification and recertification on Quality Management System, ISO 9001:2008. Internal processes have improved greatly due to extensive adoption of information and communication technology (ICT). There was also change of the KRA brand.

4.2.2 Customs Administration Reforms

The role of customs expanded from the traditional revenue collection function to facilitation of international trade and ensuring security and protection of society from restricted and prohibited goods. The customs reforms are guided by international conventions, agreements, and frameworks like the Kyoto convention, World Customs Organization (WCO), among others.

The Domestic Excise function was transferred from Customs and Excise department to Domestic Taxes Department. This is because it is largely a domestic tax, which, should operate under the domestic taxes framework. It was also meant to address the East African Customs Management Act requirement which created uniform legislation for imports in the region but never covered domestic excise regime. Each member state was therefore expected to develop and accommodate its domestic excise within their respective tax jurisdictions. To accommodate these changes, the departmental structure was reviewed to create seven divisions namely: trade division, operations division, policy and legislation, post clearance audit, enforcement and compliance, valuation and tariff and projects management office.

Customs Services Business Automation reforms were implemented with the aim of introducing modern technology to assist in document processing in the department. This led to the introduction of the Simba 2005 system. The Simba 2005 system was borrowed from the Senegalese Customs Department which is an internet based customs IT system. It enabled the automation of about 90% of customs operations.

The Document Processing Center (DPC) based in Nairobi was created to process customs entries from all over the country. This center replaced the long rooms (a unit of customs where all paper work necessary for the customs clearance was undertaken) that were synonymous with customs operations in Kenya for over 30 years. This was to improve processes by eliminating queues and congestion. Direct Banking for Customs Payments was also introduced. The electronic payment system expedited payment of duties and taxes. This payment modality has enhanced the collection of revenue, expedited financial processing and provided complete, accurate audit trails, which has greatly facilitated trade.

A Cargo Management Information System was created to simplify business processes in Kilindini port, JKIA and all land border posts. Its objective is to monitor and account for all un-entered cargo destined for Container Freight Stations, Inland Container Depots and Grain Bulk Handling Facility thus minimizing revenue loss, facilitating reconciliation of manifest and data entry, ensuring easy identification of goods among others.

There were also a number of initiatives meant to improve business processes. Initiatives under this cluster were aimed at reducing time taken in a process by re-engineering and removing redundant and repetitive processes. They included; One Stop border post to remove duplication of procedures carried out on both sides of the border; One stop centre at Kilindini harbor that aimed at reducing clearance times by bringing all the stakeholders in the port clearance process; and Centralization of the management of security bonds. Bond execution and cancellation was carried out at regional headquarters and places of exit respectively. These activities were centralized through the formation of the security bonds management unit, which falls under the trade division. The Customs Clearance Audit was transformed to the post clearance audit to move towards international standards for carrying out audits of import and export transactions. In modern customs administration, the process of verification is carried out on the basis of advanced risk management techniques in a post release environment.

KRA also adopted the Revenue Authorities' Digital Data Exchange (RADDEX). This is an electronic communication channel developed to allow seamless exchange of information between systems without any human interface. It is to greatly benefit traders in the region by reducing the time and cost of cargo clearance. It provides a secure means of confirming transit and export goods and entry details to forestall the risk of diversion to the local market.

Other changes under Customs Services department were categorized as Client Services. These are services aimed at improving service delivery to customers by simplifying procedures and transforming business operations. These included the takeover of pre-shipment inspection services. This is an arrangement where inspectors in an exporting country inspect the goods destined for the importing country before shipment to verify contents, tariff classifications and price levels to ensure there is no

under-valuation or over-invoicing. This also helps in the prevention of sub standard goods from entering importing countries' territories and deflecting attempts by importers to avoid paying custom duties. KRA also adopted the authorized economic operator scheme (AEO). This is a world customs organization (WCO) standard concept which accords preferential treatment to traders and their clearing agents who, over a period of time, have proven to be reliant and compliant with customs procedures.

Several initiatives were undertaken to enhance Customs enforcement. These included introduction of X-Ray Cargo Scanners to help alleviate the security threats and to effectively monitor container contents for both imports and exports. Introduction of the K9 unit, the dog detector program, to detect drugs and other prohibited imports and exports. Revamping of the marine unit to improve enforcement through detection and prevention of smuggling along the coastline and Lake Victoria region. Customs Border Control Service (CBCS) was also introduced to enhance border checks and strengthening enforcement capacity at the airports, border crossing points and other international gateways. It entailed rebranding from customs preventive services, which had failed to achieve intended objectives due to capacity constraints, to CBCS, increasing border control staff and acquiring a number of modern tools.

4.2.3 Domestic Taxes Administration Reforms

The key objectives of the domestic taxes reforms were to fully integrate domestic revenue administration. Develop a holistic approach to taxpayer services, thereby reducing the administrative and compliance costs to both taxpayers and KRA, simplify procedures and improve services to taxpayers through taxpayer segmentation, enhance taxpayer compliance through the introduction of electronic tax registers, broaden the tax base by netting the informal sector and enhancing revenue collection. These reforms were necessary because the operations existing previously were not synchronized and would sometimes work antagonistically.

The most significant change in domestic taxes involved the integration of direct and indirect tax administrations. The Income Tax and VAT departments were merged to form Domestic Taxes Department (DTD). DTD also took over the administration of Domestic Excise and Excise Department. This integration was necessitated by the

need for improved taxpayer services by providing a one-stop shop for taxpayer services, a common registration function, a single accounting framework, enforced collection and audit across tax heads, data processing and information sharing operations. The various tax programmes in the former income tax and VAT departments were also reviewed and harmonized in line with the new DTD.

Taxpayer segmentation was done, taking into account the differences in needs, nature, risk levels and contribution to overall revenue of the taxpayers. The taxpayers were categorized into large, medium and small taxpayer groups. This approach had the objective of assisting in addressing the unique needs of each category of taxpayers. This led to the formation of Large Taxpayers Office (LTO) and the introduction of Turnover Tax (TOT) to improve tax administration.

Following the integration of the domestic taxes under DTD, it was noted that 20% of the taxpayers contributed to 80% of the total department's revenue. Following this, LTO, which was previously a division within DTD, was elevated to a department headed by a commissioner, while small and medium taxpayers were managed under Domestic Taxes Department- Domestic Revenue (DTD-DR). Later on, Medium Taxpayers Office (MTO) was set up to take care of the middle level taxpayers, those falling between large and small. MTO is set along the same lines as LTO. MTO has remained within the main DTD, which was recently renamed Medium and Small Taxpayers Department (MST).

Excise Duty reforms were introduced to deal with issues of evasion and diversion of export products into the local market. Initiatives introduced included the excise stamps, tighter application of excise licensing rules and redefinition of roles of resident. KRA officers are now stationed at factories producing excisable goods. Other reforms entail registration of all purchasers of duty free and denatured spirits, installation of free flowing devices by distillers, issuance of permits among others.

Other changes identified by the interviewees included establishment of Integrated Tax Management System (ITMS), for online registration, filing and payment of taxes and Roll-out of Transit Cargo Monitoring to fight dumping. The interface of KRA system with those of other stakeholders, such as registrar of persons and company registrar was also a significant change.

4.2.4 The Road Transport Department Reforms

The Road Transport Department (RTD) handles about 60% of KRA's customers who are served over the counter and as such, the reforms were service oriented. Reforms in RTD became necessary due to too many processes being involved in the issuance of driving licenses and having a largely manual system, which was tedious and time consuming.

The most outstanding reforms that RTD undertook included document scanning and imaging to enable data capture of all information contained in the physical motor vehicle files. Another change entailed automating the revenue collection function, Cash Receipting System (CRS), created to deal with the problems created by the manual systems that did not allow for checks and controls, which led to creation of loopholes for revenue loss by use of counterfeit manual receipts. Online motor vehicle registration was introduced to hasten the motor vehicle registration process and to ensure that all secondhand motor vehicles leaving the container freight stations were issued with number plates. The Vehicle Management System (VMS) was a comprehensive IT system for the RTD developed to enable data capture on motor registration and a database created to facilitate management and retrieval of vital information.

4.3 Factors that Necessitated Organizational Restructuring in KRA

The researcher sought to find out the factors that necessitated organizational restructuring at KRA. The interviewees provided the following responses; To enhance service delivery and increase efficiency. It was observed that there was a great need to increase efficiency and better service delivery to the clients. It was felt that it would translate into fewer costs associated with operations. Improved customer service would lead to increased customer satisfaction as well as increased staff morale. In this quest, departments were restructured, merged, and new systems implemented. This was also pursued in order to reduce redundancy and duplication of efforts.

Increased cases of tax evasion and rampant corruption were viewed as a very big problem for the revenue collection body. Officers were colluding with business people to evade tax payment and goods were entering into the country illegally. This led to loss of millions of shillings that would have otherwise increased revenue for

KRA. The customs, domestic taxes and road transport departments were the most notorious.

Organizational restructuring was also deemed necessary by the need to increase revenue collection. It was observed that KRA was losing so much money through loopholes, corruption and general ineffectiveness at revenue administration. Also, it was noted that the structure as it was, led to increased costs due to duplication of duties, time wastage, outdated methods of doing things and low staff morale. In order to deal with these issues, restructuring had to take place. This restructuring included the automation of services, the formation of regional offices, increased staff trainings among others.

Organizational restructuring was also undertaken in order to reduce bureaucracy. Bureaucracy was noted to be the one most responsible for delay in execution of duties and mandates. Bureaucracy was cited as feeding corruption. Therefore, reduction of bureaucracy was a major objective. This was to be achieved through distribution of workload, which aimed to reduce the amount of work at the head office and shift focus to smaller dispersed units for efficient service delivery.

It was also felt that the changes were in line with best practice and was a response to changes in the operating environment, such as technology, customer/taxpayer behaviour, stakeholder expectations and change in the way of doing business. It was also to cope with business growth. An imbalance in the organizational structure led to structural changes. For example the Commissioner General's span of control was too wide, thus he needed to reduce the number of staff reporting directly to him so that he could concentrate on more strategic issues. The changes were also meant to bring close oversight for support services functions. This brought the services closer to the staff instead of being high-up there.

It was also felt that the changes were meant to improve KRA's effectiveness in revenue administration. For instance, the merger of VAT, Income Tax and Domestic Excise into Domestic Taxes Department brought various advantages, although actual implementation had its fare share of challenges, mostly due to staff resistance and/or lack of knowledge in all tax heads. The interviewees also were of the view that the organisation had grown in terms of mandate, size, and targeted revenue to be collected and there was need for a more responsive structure to achieve the expanded

mandate and to manage the increased staff population. Table 4.5 below shows the number of KRA staff in the various grades in June 2002 and in June 2012.

Table 4.1: KRA Staff establishment as at June 2002 and 2012

KRA GRADE	NUMBER OF STAFF	
	2012	2002
1	1	1
2	5	4
3	16	12
4	48	58
5	146	120
6	217	125
7	229	158
8	289	192
9	831	287
10	789	445
11	694	661
12	439	615
13	407	293
14	181	224
15	31	50
16	207	140
17	-	80
Total	4530	3465

Source: KRA Human Resources Department.

The interviewees also noted that the old system had become outdated. External recruitment of the chief officers brought in managers who wanted to bring in fresh ideas and best practices from the private sector. This as a result gave rise to the need to reorganize roles and responsibilities within the organization. Related to this was also the need to harmonize customs activities with those of other countries to facilitate international trade and to ensure security. Such reforms were guided by international conventions, agreements and frameworks like the Kyoto convention among others.

Government directives necessitated other changes. Treasury being the principal, it is empowered to give policy guidelines and directives. These changes included the introduction of new taxes such as the TOT and TLB license and the abolishment of others like the road license.

4.4 Factors Influencing the Change Management Process at KRA

On the question as to what factors influenced the success or failure of the change process, the interviewees identified the challenges as comprising economic conditions such as high inflation, drought, corruption in many institutions whose activities bear on KRA performance, such as the judiciary (then) and integrity issues among staff.

Enabling factors that influenced success of the change initiatives were identified as including support by the government, political stability, focused leadership and supportive management. Others are able, dedicated and committed staff, investment in technology and dynamic strategic planning. Acceptance of the changes by staff and taxpayers was also identified as a critical success factor.

KRA's success in implementing reforms has also been influenced by three key initiatives. Firstly, the adoption of a strategic planning approach and performance contracting, which has allowed KRA to outline its vision, clarify its mission and identify its key results areas, performance objectives and operational strategies as well as introduction of the Balanced Score Card as a management tool. Secondly, the implementation of a Revenue Administration Reform and Modernization Programme (RARMP), involving seven projects, to ensure all reform initiatives are harmonized and well coordinated. Finally, the ability of the authority to successfully implement an ambitious information technology upgrading programme under the RARMP which has enabled KRA to not only improve taxpayer services but also to benefit from the synergies arising from data sharing to improve compliance. KRA has also been implementing performance contracting which has ensured that performance was measurable and top managers held accountable for results.

4.5 Significance of Organisational Structural Changes at the Kenya Revenue Authority

The most significant change in the organizational structural design of KRA was the shift from a tax-based structure to a functional structure. This led to responsibilities being organized by major categories of work, such as, taxpayer education, registration, audit, enforcement, legal services, information processing and common support services such as human resource management. Thus removing the duplication

inherent in tax based structures, where each tax head had its own array of support services. The functional structure provides for a single point of access for taxpayer enquiries, common registration function, and an integrated approach to tax administration. See appendix II for the current KRA organizational structure based on the new functional structure, as it existed in June 2012.

On the question of whether the current organization structure of KRA properly serves to allocate work and responsibilities, most of the interviewees said it does, largely, but there is still room for improvement, as there is confusion in some sections where roles appear to be duplicated and job descriptions blurred. As to whether the structure adequately guides and directs the activities of KRA towards achieving its goals, 80% of the respondents said yes, with 20% saying it does not.

Regarding whether the existing KRA organization structure enables managers to plan, direct, coordinate and control the activities of the organization, the interviewees agreed to some extent though challenges existed in that the structure appears like a matrix in some instances. Some sections do not have a very clear mandate whereas others appear to be doing similar activities yet they are domiciled in different departments, for example Policy Unit Technical and Policy Unit Audit Operations, both in Headquarters and also at Departmental level, such as the one in Domestic Taxes Department, Large Taxpayers Office. As to whether KRA's organizational structure is properly aligned to its strategic goals, nine out of ten interviews agreed. One respondent said it does not.

4.6 The Link between the KRAs Organisational Structural Design and Strategic Change Management

The researcher sought to ascertain whether the KRA organisation structure had any impact on the change management process. On this question, eight out of ten respondents said yes, it had an impact. They said the structure had some positive and facilitating impact on the change management process. They identified the positive attributes, which facilitated the change as including the shift into functional structure. In the functional approach, the service departmental heads were able to push for their desired changes, such as automation, as they now control their staff and resources. Reporting and command structure is now clearer; hence, managers are able to pass the

change message more efficiently. It was also noted that the Human Resources Department has change agents and change champions. There were also clearer responsibilities for managers as stipulated in the performance contracts, which aligned to the strategic objectives.

The interviewees further concurred that the changes that have taken place at the Kenya Revenue Authority represent a significant shift in paradigm. There has been a radical change from the typical government focused institution to one that is customer focused and, which, pursues efficiency and effectiveness in service delivery. Due to these changes, KRA has earned itself a place as one of the leading and respected public institutions both within and outside the country

On the question of whether organizational restructuring had an impact on change management at KRA, eighty percent of the interviewees were of the view that the organizational restructuring facilitated change at KRA. They felt that KRA had become faster and effective in monitoring revenue due to adoption of new technology and efficiency was enhanced in both revenue and support services due to adoption of ICT in most operations such as the ERP system for leave application. Twenty percent of the respondents were of the view that structural change was part of the strategic change. That strategic change was planned and that the structural changes were part of the strategy.

The managers further indicated that these changes led to improved performance of KRA in executing its core mandates. They identified pointers to this success as including increased revenues for the government, with average annual growth rate of 14.5% over the last ten years, which has reduced the government's dependence on external funding. The changes also enhanced voluntary compliance, as taxpayers find it convenient to register and file returns on-line. Table 4.6 below provides the revenue performance over the ten-year period.

Table 4.2: KRA Revenue Collection Summary for Financial Years 2002/2003 to 2011/2012

Year	Actual Collection	Target	Variance Over Target	% Performance Vs Target	% Growth Over Previous Year
	Kshs' Millions	Kshs' Millions	Kshs' Millions	%	%
2002/03	201,699	203,841	(2,142)	98.9%	10.0%
2003/04	229,277	220,800	8,477	103.8%	13.7%
2004/05	274,252	240,914	33,338	113.8%	19.6%
2005/06	297,699	301,069	(3,370)	98.9%	8.5%
2006/07	360,191	356,086	4,105	101.2%	21.0%
2007/08	433,915	424,671	9,244	102.2%	20.5%
2008/09	480,569	492,875	(12,306)	97.5%	10.8%
2009/2010	534,403	545,228	(10,825)	98.0%	11.2%
2010/2011	634,903	641,212	(6,309)	99.0%	18.8%
2011/2012	707,360	733,354	(25,994)	96.5%	11.4%

Source: KRA Research and Corporate Planning Department Database

Furthermore, they indicated that KRA has been able to attract expert labour force from the market by offering attractive staff remuneration packages, including good salaries and other benefits such as a mortgage scheme, car loan and a good health cover. Staff turnover is now minimal with reduced integrity issues involving staff. There is also marked professionalism on the conduct of KRA officers. The downside to the improved caliber of KRA staff is the incessant poaching of high-ranking employees by other organisations, both within and from outside the country. They also identify change of image in that KRA has acquired a positive image to stakeholders and the public in general. Taxpayers have acquired a more positive attitude towards paying taxes.

Other positive performance indicators identified include broadening of taxpayer base to ensure equity in distribution of tax burden across taxable citizenry. Furthermore, KRA services are spread out all over the country to ease access by taxpayers and information is now available in the net at www.kra.go.ke, the official KRA website. The interviewees also observed that the cost of collecting revenue had been kept low at less than 2%. The taxpayers charter and internal standards have enhanced

efficiency and reduced time taken to offer services to taxpayers thus fewer queries and reduced integrity issues.

The researcher also sought to find out if the current organization structure of KRA was compatible with the envisioned strategic changes and its stated mission. On this question, five of the interviewees were of the view that it does. Four said it is, but only to a certain extent. They were of the view that the KRA structure needed some adjustments to make it ideal. They suggested that the structure be made flatter and leaner at the top. It was suggested that the people reporting to the Commissioner General should be reduced so that he can concentrate on policy and high level strategic issues that can maximize revenue collection. The respondents noted that the structure is good but it needs to keep evolving for the better. However, one respondent was of the view that the current organization structure of KRA has to be overhauled in order to facilitate the envisioned change. Otherwise, it will be akin to putting new wine in old wine skin.

On the matter of the impact of structure in the success of the change process in KRA, the researcher asked the respondents on how significant they felt structure was in determining the success or failure of the change process at KRA. Eight out of ten of the respondents were of the opinion that structure was very significant.

4.7 Challenges Associated with Organizational Restructuring

The researcher sought to find out what structural features hindered or impeded the change process. Lack of clear communication at the beginning of the change process meant that the objectives, expected outcomes, and timelines were not clear. Duplication of roles and competing interests as well as organizational politics and emerging re-alignments were also outlined as factors that impeded change.

The interviewees also noted that a skills gap was an impediment in the automation process due to inadequate or lack of training for staff. The agency relationship between KRA and the Treasury meant that some projects took too long to implement as KRA awaited authorization and funding. Treasury is inherently slow in remitting funds.

Furthermore, the procurement process is long and slow as KRA being a public body, is bound to follow the stringent and tedious public sector procurement guidelines. Departmentalization of the organization has created several specialized departments that may at times work at cross-purposes.

Resistance to change and fear of the unknown by staff, especially the older ones who could not cope with automation or who felt their domains were being broken by adoption of the open-office plan, was also mentioned as a challenge impeding the change process. The interviewees were of the opinion that resistance to change by some managers who felt that their influence would be watered down by the new structure was the main impediment.

There have also been challenges of system compatibility, which affected automation as some taxpayers have to align their systems with those of KRA to be able to adopt online filing. Inadequate funding and lack of training for both staff and taxpayers slowed the change process. Adoption of ICT has the inherent risk posed by cybercrime.

The researcher also sought suggestions from the interviewees on the changes that they would propose to the organization structure of KRA to enable it to respond to environmental challenges in a timely and effective manner. It was proposed that KRA adopts a flatter structure, which would enable staff to make decisions faster as well as enhance better clarity of roles. In support of this view, an example was given of the process of issuing a new vehicle logbook. It has to pass through the hands of eight different officers, yet the taxpayers' charter requires that the document should be processed within three days. That is practically impossible in the current structure. To compound the issue further, officers in significantly different ranks perform similar tasks. This has a demoralizing effect on the junior staff who may feel underpaid whereas the senior staff may feel underutilized or misused altogether. Therefore, some of these processes should be merged and the stages reduced.

Further, it was also noted that due to the tall structure, instructions at times take a long time to reach the final person supposed to do the job. For instance, instructions coming from a Commissioner, job grade 2, requiring that an assignment be performed by an officer in job group 8 would be delayed. It means that the memo bearing the

instructions has to be passed down to six other officers below the commissioner who would add no value at all, other than note on the face of the memo that the next officer deals with it.

It was also suggested that a commissioner heads the ICT department. Most of the changes are ICT-driven as they are technology dependent. The head ought to have more room to make strategic decisions, without undue authorization requirements. It was suggested that, the regional heads should be transformed into county heads in line with the new administrative units in the new constitution, although these should take cognizance of the viability of such units. Hence, a commissioner could head several non-viable counties. It was felt that there is need for further decentralization of functions.

It was also felt that KRA needs to move towards a pyramid structure because the current structure is top-heavy. It is therefore slow in decision-making due to too much bureaucracy where everyone wants to append a signature. This also leads to duplication of roles. The interviewees also proposed legislative changes to allow KRA greater autonomy from Treasury. For instance, KRA should be given powers to withhold its percentage entitlement of revenues collected in line with the agency agreement before remitting the money to Treasury. It was also suggested that the board should be more independent from politics so that it is capable of reading environmental signals objectively and change appropriately.

Some interviewees were of the view that greater emphasis be placed on the people perspective in performance contracting. This will enhance training and staff motivation, both of which are crucial in promoting change. Greater emphasis should also be placed on feedback. Both Research and Corporate Planning and Communications and Public Relations units be strengthened to carry out continuous surveys to enable the KRA to be proactive in initiating and responding to changes.

Seven out of ten of the respondents felt that structural changes should go hand-in-hand with strategic change at KRA. Three said it is not always necessary and that the need for structural changes should be identified as a separate issue. However, when asked their opinion as to what extent does the success or failure of strategic change in public entities depend on their organizational structural design, eighty percent of the respondents were of the view that structural configuration is critical. They were of the

view that structure must support the strategic change. They observed that if the organizational structural design is rigid, it is very difficult to make strategic change, as the process will be very slow or sabotaged. The organization structure has to be dynamic and modern to be able to manage strategic changes. Further, that structure should also be depoliticized so that decisions made are not populist but practical and efficient.

One respondent was of the view that it is the people pushing the change that matter the most. However, he observed that if too much power was concentrated at the top, then everybody wanted to be the boss and very few workers. He further observed that if the structure is too flat, there is little room for vertical promotion, although alternative methods of motivations, such as salary increments based on performance, can be used.

4.8 Discussion of Findings

The findings of this study on the significance of organisational structural design on the strategic change management process at the Kenya Revenue Authority (KRA) mirror those reported by various scholars. The Structure was found to have had a significant influence on the success of the strategic changes that have taken place at the Kenya Revenue Authority over the ten-year period of study. The structural changes at KRA were found to have facilitated increased interaction among staff, hence increased cooperation, coordination and co-option. This made it easier to build and sustain stronger teams, reduced multiple accountabilities, clarified roles and hence improved efficiency and effectiveness. These findings are consistent with Pearce and Robinson (2009) who noted that organisational structures are formalized arrangements of interactions between responsibility for the tasks, people and resources in an organisation. This is also consistent with Pugh (1990) who pointed out that an organizational structure consists of activities such as task allocation, coordination and supervision, directed towards the achievement of organizational aims.

The study found that the factors that necessitated organisational restructuring included the need for efficiency and effectiveness, improved service delivery, the need to reduce redundancy and bureaucracy and also to weed out corruption. The study also

found that structural changes were necessitated by changes in legislation and changing technology. These findings are consistent with Byars (1992) who noted that determinants of restructuring in most organisations include enhancing productivity, profitability, growth rates and balance sheet ratios of the organization; to refocus strategically; and to effectively deal with the competition. These results are also consistent with Mintzberg (1979; 1989) who noted that the environment influences the structure of the organisations and that, organizations' structures are largely determined by the diversity in the environment and the variety of structures relates specifically to the degree of complexity and the pace of change. The results are also consistent with Alder and Shenbar (1990) who noted that in order for an organisation to adapt, it is required that for every change in the environmental factors, it should also change its human skills, procedures, processes, organizational structure and culture

The study recommends that KRA adopt a flat structure to enhance its agility in responding to environmental upheavals and emerging demands of the various stakeholders. This is consistent with Gunneson (1997), who noted that agility is a critical structural element in achieving organizational effectiveness and efficiency. This is also consistent with Burns and Stalker (1961) who concluded that if an organization is to achieve maximum performance then its structure must fit in with or match the rate of change in its environment. This is also consistent with Kock (1998) who noted that structural rigidity of organisational processes could lead to structural resistance to change, which, makes re-engineering and change more likely to fail.

The study also found that funding, focused leadership, supportive management and political will were equally important in the success of strategic change management process at KRA. This is consistent with Kaplan and Norton (2001) who noted that executive leadership should drive the change process for it to be effective and ensure successful implementation. These findings are also consistent with Aosa (1992) who noted that executives need to provide resources and leadership in the change process, lest strategy implementation fails resulting in missed opportunity for improvement.

The study revealed that acceptance of the changes by employees and other stakeholders was also a key success factor. These findings are consistent with Becher (1989) who noted that employee involvement is critical because the failure to

constructively involve staff means running the risk that the changes will be more difficult and protracted than necessary.

The study identified cases of resistance to change by some staff and management and recommend that employees and taxpayers be sensitized and educated on the nature of changes and their expectations in order that they may contribute positively and reduce resistance to change. This is consistent with Lewin (1951) who noted, in the Force Field Analysis, that in every situation there are both driving and restraining forces, which influence any change that may occur. Therefore management need to contain or curtail restraining forces while supporting driving forces in order to ensure success of the change process.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions, and recommendations.

5.2 Summary of Findings

The study found that the KRA has undergone numerous changes. These changes are both strategic and operational. The changes are enumerated in the fifteen-year KRA strategic plan divided into five three-year corporate plans. Subsequent plans are preceded by a thorough review of the performance of previous period's plans. The study period, spanning financial years 2002/03 to 2011/2012 covered three corporate plans, the second plan period 2003/04 – 2005/06, the third corporate plan 2006/07 – 2008/09, and the fourth corporate plan period covering years 2009/10 – 2011/2012. The fifth corporate plan shall cover financial years 2012/13 – 2014/15.

Structure was cited as a major contributor to the success of the strategic changes that have taken place at the Kenya Revenue Authority over the period. Other factors mentioned as equally important in the success of the strategic change management process include leadership, funding, staff motivation and political will. Adoption of modern technology (ICT) featured prominently in most of the new processes and initiatives aimed at revamping and improving the old systems.

The structural changes that have been undertaken in KRA in the last ten years are summarized under four categories. These include corporate-wide reforms that laid the basis for the other restructuring that took place, customs administration reforms which dealt with streamlining of the customs departments, the domestic taxes administration reforms that dealt with revenue administration reforms and the road transport reforms which sought to streamline the road transport department of the KRA.

The factors that necessitated the process of organizational restructuring included the need for increased efficiency, effectiveness and improved service delivery, the need to reduce redundancy and duplication of work efforts and the need to reduce bureaucracy. The need to weed out corruption and increase revenue collection also

made necessary the restructuring process. Other structural changes were made necessary by changes in legislation.

Reorganization of the KRA structure has led to increased efficiency resulting in an annual average growth rate of 14.5% in revenue collections.

5.3 Conclusions

The study concludes that the organizational structural design had a significant influence on the strategic change management process at the KRA. The structural changes have facilitated increased interaction among staff, hence increased cooperation, coordination, and co-option. This made it easier to build and sustain stronger teams. The new structure reduced multiple accountabilities, strengthens single-path accountability, which reduces complexity and helps clarify roles. Concisely, the new structure improves efficiency and effectiveness.

In order to succeed in any type of change process, there is need for effective communication and feedback. There should also be included, in the change management process, a component of coaching and mentoring program to develop talent and facilitate succession management to ensure the change is sustainable.

Other factors that affect the success of change management include leadership and management style. Unsupportive organizational culture, inadequate technical skills and inadequate funding can also slow the change process.

Other factors affecting change management are the government or political influence, poor communication and resistance by managers feeling threatened and trying to protect their territories.

5.4 Recommendations

The study recommends that KRA adopt a flatter and more flexible structure to enhance efficiency and effectiveness of the organisation and speed in responding to environmental changes. It shall also be supportive of strategic change management by reducing structural resistance to change. Therefore, structural changes should go hand-in-hand with strategic changes.

Employees should be sensitized on the planned changes, their role and expected contributions in translating the strategic plans into expected outputs. The management of KRA needs to institutionalize the vision, mission and corporate values. This will reduce resistance from employees and inculcate a learning culture.

KRA needs to move from the traditional long structure to a flatter structure to reduce bureaucracy, which, slows down decision-making and response to emerging issues. A flat structure reduces the necessity for too many levels, which may lead to staff in different grades performing similar tasks and assuming same responsibilities. The long structure has a de-motivating effect on staff at different levels but performing similar tasks. As an alternative to the tall structure, KRA could have broader bands with alternative forms of motivation, for instance, pegging salary increases and bonuses on the individual staff performance. Therefore, the study recommends that KRA should collapse grades of staff doing similar work. Then avail opportunities for horizontal growth as opposed to the current emphasis on vertical movement.

A flat structure will offer flexibility and speed in decision-making. It shall bring the organization closer to the staff and the public. Furthermore, it will be in line with most modern organisations. The study also recommends a continuous review of the structure to ensure it remains relevant in the prevailing circumstances. Continuous review ensures that the structure is dynamic, flexible, and versatile.

There is need to reduce the span of control of the Commissioner General so that fewer officers report to him. That will allow him/her more time and space to concentrate on strategic issues that affects the performance and long-term well-being of KRA.

The KRA should equip the responsibility centers with necessary capacities. There is a skills-gap among staff in terms of technological capacity. There is need for proper job evaluation to identify core competences, knowledge, skills, and abilities required for each job group. This should also bear cognizance of the core values of the organisations, such as professionalism, integrity, and fairness.

KRA should adequately fund the departments and programs spearheading the change process. The project teams need freedom to plan and manage their programs. KRA should empower the ICT Department because most changes are technology driven.

KRA should also appoint County heads in line with the new administrative boundaries created by the new constitution. As a starting point, assign the current regional managers clusters of Counties as KRA assesses the viability of having a manager for each County. These shall ensure authority and responsibilities are dispersed for wider reach and ease of response to emerging issues.

KRA should also use performance management mechanisms such as the Balanced Score Card and Psychometric testing to guide job placement, reward and control staff. Establish mechanisms to get feedback from staff and other stakeholders on the change process. Furthermore, KRA's top management should be at the forefront to provide leadership and direction in the change process.

The government should allow more freedom to KRA so as not to interfere with its operations. The political class should respect the independence of KRA. Selection of the board of directors of KRA should be through a more transparent and broad based approach, with involvement of key stakeholders. This shall enhance independence and effectiveness of the board. Furthermore, the Commissioner General should have security of tenure.

There is need for legislative changes to allow KRA greater autonomy and the right to withhold its share of the revenues collected as per the agency agreement instead of remitting all moneys to Treasury and then awaiting for Treasury to give them whatever they feel. The perennial delay in disbursement of funds from Treasury undermines KRA's ability to plan its activities, hence affecting its programs and performance.

5.4.1 Recommendations for Further Research

More studies need to be carried out in other organisations in order to determine the significance of structure in strategic change management. That will provide further empirical evidence as to whether there can be structural resistance to change. As a starting point, a survey should be carried out on all institutions under the Ministry of Finance.

An industry wide study should be carried out comparing private and public sector organisations as far as the significance of structure in strategic change management

process is concerned. This would shed light as to whether this correlation is unique to certain organisations.

5.5 Limitations of the Study

The major limitation of the study is that it used a case study design. This was a case of KRA, and the results may not apply to other organisations, whether in the public or private sector.

Another limitation is the overreliance on the testimonies of managers and senior staff at KRA. The study interviewed managers and senior revenue officers and did not take into account other stakeholders of KRA. Therefore, the results may be biased towards this category of staff.

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APPENDICES

Appendix I: Interview Guide

Organizational Structural Design and Strategic Change Management at Kenya Revenue Authority

Personal Profile

- 1) Department and programme
- 2) Rank and Grade:
- 3) No of years in KRA employment

Questions about Change Management at KRA

- 4) Kindly enumerate the significant strategic changes that have taken place at KRA in the last 10 years.
- 5) Do the changes at KRA represent a significant shift in paradigm?
- 6) Have the changes enhanced performance of KRA in executing its mandate?
- 7) If yes to “6” above, list the performance indicators of success (in terms of effectiveness and/or efficiency in execution of KRA mandate). E.g. revenue growth, staff retention, caliber of staff, time taken to process documents or execute functions, response times to taxpayers’ queries, frequency of disciplinary cases, integrity cases, etc
- 8) Has KRA been able to achieve its intended changes as per timelines? i.e. per corporate plans and/or departmental work plans.
- 9) What are the key elements that influenced the success or failure of the change process?

Questions about KRA’s Organisational Structural Design

- 10) Does the current organisation structure of KRA properly serve to allocate work and responsibilities?
- 11) Does the structure adequately guide and direct the activities of KRA towards achieving its goals?
- 12) Does the existing KRA organisational structure enable managers to plan, direct, organise, and control the activities of the organisation?
- 13) Is the organisational structure of KRA properly aligned with its strategic plan?
- 14) What organisational restructuring has taken place in KRA in the last 10 years?

Questions Regarding the Significance of Organisational Structural Design on the Strategic Change Management Process at KRA

- 15) Would you say the organisational structure of KRA had any impact on the change process?
- 16) If Yes to “14” above, was the impact positive or negative?
- 17) What are the salient features in the structure that support change at KRA?
- 18) What are the salient structural features that may hinder or impede change at KRA?
- 19) How significant is the structure in determining the success or failure of the change process at KRA?
- 20) What changes would you propose to the organisational structure of KRA to enable it respond to environmental changes in a timely and effective manner?
- 21) Do you propose that structural changes should go hand-in-hand with strategic change at KRA?
- 22) In your opinion, to what extent does the success or failure of strategic change in public entities depend on their organisational structural design.
- 23) What factors necessitated organisational restructuring at KRA?
- 24) Did the organisational restructuring facilitate strategic change at KRA?
- 25) Is the current organisation structure of KRA compatible with the envisioned strategic change and its stated mission?

Appendix 2: KRA Structure

KENYA REVENUE AUTHORITY

ORGANIZATION STRUCTURE AS AT JUNE 2012

