The Effect of Strategic Management Practices on Reduction of Revenue Collection at Domestic Taxes Department at the Kenya Revenue Authority

Mwangi Salverius Gatheru[1] and Esther Gitonga[2]

[1]*Correspondent Author, MBA Student, School of Business, Kenyatta University, Kenya, Email: salvomaina@gmail.com*
[2]*Lecturer, School of Business, Kenyatta University, Kenya,*

ABSTRACT

Strategic management is a modern way through which companies design plans of coping with challenges in the business environment. Strategic management has gained acceptance by most companies in order to remain effective and efficient in their operations. In this regard, the KRA has adopted strategic management practices with an aim of enhancing revenue collection. Revenue collection by the Kenya Revenue Authority is crucial to the economy of Kenya since tax is the major source of government revenue. There has been a conflict of results on the benefits of strategic managements on organizational performance. Some studies have found out that it is a costly affair that do not necessarily lead to achievement of objectives and realization of the organizational mission. Proponents of strategic management, on the other hand, idealizes that strategic management improves the performance of organizations. It is in this crisscross stand point that this study was undertaken. Further, the KRA has the mandate of collecting government revenue through its fiscal policies. This study had the purpose of assessing the impact of strategic management practices on the reduction of revenue collection, a case of domestic taxes department at the Kenya Revenue Authority. This study had the following specific objectives: To determine the impact of use of technology, operational efficiency, customer service and strategic partnership in enhancing revenue collection by the Kenya Revenue Authority. The study used primary data that was collected through administration of questionnaires. The study had a target population of all the 105 top ranking staffs at the domestic taxes department at the KRA. The sample size had 82 respondents. The study adopted a descriptive research design. A descriptive research design was suitable for this study because the study had sought to assess the relationship between the variables. Data was analyzed in terms of descriptive statistics including means, percentage and standard deviations. Data was presented in frequency tables and pie charts. The study found that strategic management practices impacts on reduction of revenue collection at the Domestic taxes department at Kenya Revenue Authority. The study also found that strategic partnership was the most influencing factor, followed by technological influence customer service and operational efficiency. Strategic management practices ensured that that the objectives of organizations were customer focused and were sought in the most efficient processes. The study recommended that KRA should adopt technology in all its operations in order to foster efficiency and also enhance the customer service.

Key Words: *Strategic Management Practices, Reduction of Revenue Collection, Revenue Collection, Domestic Taxes Department, Kenya Revenue Authority*

1. INTRODUCTION

Strategic management practices are advantageous in ensuring that organizations improve performance (Damilola, 2015). It is important for both government and non-governmental institutions to place themselves in positions that promote sustained performance. The current business world is changing rampantly and it becomes challenging for organizations to adopt the negative externalities. It is in recognition of this fact that it is important for organizations to adopt tools of strategic management in order to effectively manage the scare resources that are at their disposal with the aim of maximizing performance. Strategic management is a management mechanism that seeks to provide a step by step plan of action of achieving their business objectives (Sharabati & Fuqaha, 2014). According to Gidisu (2012), any government needs to improve its fiscal program for collecting revenue in order to enhance the growth of the economy and meets the needs of the citizens. Thus, revenue maximization by the government department mandate to collect public income should be strictly considered. Strategic management has the potential of enhancing the profitability of organizations, both small enterprises and large corporations (Aamir, 2011).

The automation of process is a tool of strategic change that improves revenue collections by government entities (Zhou & Madhikeni, 2013). According to Aamir, *et al* (2011), there was a need to restructure the tax system in Pakistan with an aim of increasing the revenue for the federal government. Perhaps, this indicates that formulation of strategies in order to maximize revenue by the states is inevitable. All these changes thus lead to organizations seeking new ways of doing things with an aim of improving on efficiency and improving on their performance. One way of ensuring that the organization matches its goals to plans is through adopting strategic management. Strategic management is involved in making of plans and actions after a careful analysis of the business environment in order to ensure that the organizational goals are achieved. Thus, strategic management is a management style that seeks to ensure that the organization has a competitive advantage in the way it offers its products, pricing its products, service delivery among other means. The overall effect of adopting strategic management is ensuring that the organizations have clear plans of achieving their goals.

In Malaysia, Abu-Bakar *et al* (2011) carried out a study with an aim of assessing the role of strategic management on performance of construction firms. The study revealed that those construction firms that adopted strategic management as a tool of sneering success had superior performance. Thus, it can be noted that strategic management leads to superior performance. In Nigeria adoption of strategic management practices enhance both the companies' profitability and also increases it market share (Dauda, Akingbade & Akinlabi 2010). In this light it is observed that strategic management ensures that business objectives are met. In Uganda, strategic management led to the automation of the customs tax system that did not lead to efficiency in tax collection (Nkote and Luwugge (2010). In their study with the purpose of assessing the relationship between automation of custom administration and tax collection, the study established that the automation did not specifically lead to more customs collected by the Uganda Revenue Authority. These findings indicate a different perspective of strategic management that is, the system may not necessarily lead to improved performance.

2. STUDY OBJECTIVES

This study had the overall objective of assessing the impact of strategic management practices on the reduction of revenue collection, a case of domestic taxes department at the Kenya Revenue Authority. This study had the following specific objectives: To determine the impact of use of technology, operational efficiency, customer service and strategic partnership in enhancing revenue collection by the Kenya Revenue Authority.

3. THEORETICAL REVIEW

The study is guided by the following theories:

3.1Theory of Constraints

The theory of constraints was developed by Goldratt in the 1980s. The Theory of constraints (TOC) seeks to explain the fundamentals that influence the performance of any system or organization. This theory recommends that those charged with management be highly effective in ensuring that the system runs at the optimum. Thus, in order to enhance the performance of organizations managers' needs to ensure that the capacity and capabilities are prudently organized. TOC defines the constraints as "paradigms" that seeks to improve the performance of the entities. According to Draman (1995), these paradigms are decision making, performance measurement systems and organizational mindset. Thus, TOC advocates for managers to ensure that decisions made are after a careful analysis of the situation. This is crucial in order to ensure that decisions are made out of valid reasons as opposed to intuitions. Thus, this theory is connected to the study on strategic management since strategic management is the process of analyzing situations and formulating the specific plans to meets objectives. TOC is a theory that identifies challenges that compromises the achievement of certain specific goals. The KRA has revenue targets for each year and thus needs to establish the factors that may inhibit the achievement of such objectives. This theory does not educate on the elimination of all challenges but rather advocates organizations to work on the constraints until they no longer pose any risks towards the achievement of the entities goals. Strategic management calls for a careful analysis of the situation and formulation of strategies. These strategies must be applied keenly for the organization to achieve the desired results**.**

The theory of constraints identifies that the management of organizations should performance objectives basing on the resources they have. Organizations have limited resources that must be prudently used to improve the performance of the institutions. Accordingly therefore, organizations need to effectively and efficiently to manage their constraints. The theory calls for managers to evaluate and reevaluate assumptions that lead to better performance and critically manage the constraints. Put differently, constraints are the scare resources that an organization has. Goldratt& Cox (1992), notes a constraint as factors that inhibit processes from achieving their full potential as it was originally meant. For instance, the KRA main mandate is the collection of revenue majorly through administration of taxes. Thus, the authority should utilize capabilities in its possession to enhance revenue collection. Ideally, the theory of constraint advocates that organizations must at least have one constraint. According to Christopher (2008), organizations should seek to turn their constraints into capacity. Capacity seeks to provide a framework of identification of resources that may help it achieve improved performance. Organizations should strive reduce or alleviate the negative impact of the constraints. Humair &Willems, 2006), notes that the existence of constraints capacity imbalance which if not effectively managed may lead to performance deterioration in the whole institutions. Therefore, it is crucial for organizations to ensure that the constraints are critically checked and effectively managed. More importantly, the theory of constraints calls for a careful match and mix of strategies in the organizations in order to realize the full benefits. Budiman, 2004) argues that for improved performance, management should focus on ways of effectively managing the constraints and capacity of the organizations. This is done through identification of the constraining resources, and not then lower ranking all other constraints. Shah &Ierapetritou, 2011). Notes that with time, during the effective management of constraints, the management gets to know the real resources that will help it improve performance.

The theory of constraints advocates for is thus important in providing information underpinning the adoption of strategic management by organizations. TOC puts it that organizations should focus on the constraints that prevent them from achieving their overall objectives. This way the organization may restructure, develop new products, and adopt new advanced technology of performing operations, improved customer services and enhance collaborations with other stakeholders. For instance, the |KRA has had to adopt itax system in tax administration, offer real time customers services, participate in arbitrations of tax issues and has greatly ensured that staffs are motivated. Additionally, this theory invokes on the subtle issues that enhance performance and improved profitability through effective management of resources. This theory is linked to this study since it provides insights on how and why organizations seeks to lower operational costs through enhanced capacity. Thus, the theory of constraints is a good underpinning theory for this study.

3.2 Porter's Theory of Competitive Advantage

According to Porter (1980) the organizations, environment are a key in formulation of means to counter the possible negative effects arising in the environment. Thus, the need to develop strategies is necessitated by the environment as entities strive to ensure they have competitive advantages in the market. Davis & Cobb, 2010) notes that organization needs to be proactive in addressing the challenges in its industry of operations. It is important to note that a strategy is a specific plan of action that an organization does in order to achieve some specific organizational objectives. In this light, the organization needs to develop a way in which it is cushioned against the negative externalities that may arise and compromise the realization of its vision and mission. Porter (1980) developed the five force framework that seeks to explain how organizations are may align their strategies with their goals in order to have a competitive edge in the market. More importantly Porter's theory appreciates that the organization has different stakeholders whose expectations are to be met. The industry has a number of challenges that Porter (1980) defines as forces. The industry has rivalry since there are many players who the organization interacts with. The framework identifies the existence of substitutes, threat of new entrants, bargaining power of supplies and industry rivalry as the forces that make an organization to form strategies. This theory is crucial to this study because it helps explain the subtle reason that may lead to a revenue collection department to develop strategies.

This theory is important to this study since it explains how organizations can adopt strategies in order to improve performance. It is important for organizations to ensure that they develop competitive advantages in order to foster improve performance. The five force framework is a good tool to indicate the organizations have strategies of gaining competitive advantage. The framework outlines a mechanism of how the expectations of the different stakeholders can be achieved without compromising the achievement of the others and those of the institutions. According to Davis & Cobb, 2010) organizations should deliberately and proactively deal with challenges presented by the environment. Strategic management is the planning and execution of ways to achieve some certain specified goals. It is important for organizations to align their plans with the organization's mission and vision. In this instance, the KRA needs to align its day to day operations with its vision and mission in order to control the collection in revenue collection.

3.3 The Resource Based View Theory (RBV)

The resource based view theory was coined by Rapert and Suter (1996) explains that the chances of achieving the best performance lie within the organization. The RBV notes that sustained performance of an organization is basically and easily attained when internal resources are utilized as opposed to external factors. This theory puts it that the organization has more power of controlling its internal environment unlike the external environment which may be above its control. Thus, this theory advocates organizations to concentrate on the efficiency of process internally in order to achieve their organizational goals. The theory of RBV identifies resources as the valuable key potentials that cannot be substituted and they when put into good use, creates value for the customers. The theory categorizes resources in terms of valuable resources and rare resources depending on their availability. Accordingly therefore, valuable resources creates value to customers and leads to the organization having competitive advantage, where rare resources can be acquire by a few companies.in the circumstance that the organizations needs to attain a sustained competitive advantage, then it has to differentiate its products and ensure the system runs efficiently.

This theory advocates for companies and organizations to exploit on their core competencies in order to foster their performance. Pearce and Robison (2007), notes that where competencies are utilized organizations develops competitive advantages. It is important to note that institutions that have competitive advantages in the industry whether state owned or private have improved performance. This theory of resource-based argues that the resources under the disposal of the organization play a major role in determining the performance of the organization. In this light, an organization may have ideas of operating efficiently but without the resources to implement such ways, the targets are greatly compromised. This theory is important to this study since it explains how the organization can utilize its resources to enhance performance. The KRA has employees who are skilled in different fields and coupled with advancement in technology, revenue collection may be enhanced.

This theory is important to this study because it explains how an organization can use its resources in order to improve performance. The resource based theory seeks to provide an understanding on how organizations achieve competitive advantages. Organizations strive to achieve operational efficiency in order to improve their performance. According to this theory, organizations must have resources they can use in order to achieve their business objectives. Thus, this theory is crucial in providing an explanation on how institutions may use their resources they already have through strategic planning to achieve success. (Pearce, Robinson & Mital, 2012) notes that the main contributing factor of success. Resource capabilities of organizations ensure that organizations can strategically plan, execute the plans and realize improved performance. Further, this theory idealizes that a strategy is a carefully idealized balance between the already existing resources and the development of new ones.

4. RESEARCH METHODOLOGY

This study adopted a descriptive research design. According to Kothari (2004) a research design is the arrangement of conditions of data collection and analysis of the same in order to relevantly answer the research questions or evaluate the research hypothesis. According to Mugenda and Mugenda (2003), describes a descriptive research design as a systematic, empirical inquiring into which the research does not have a direct control of independent variables as their manifestation has already occurred or because inherently cannot be manipulated. Thus, this study adopted the design since it had sought to describe the relationship between strategic management practices and improvement of revenue collection by the KRA.

A descriptive study seeks to determine if there is a relationship between variables and further describe the direction of the relationship. Another reason of adopting a descriptive research design for this study is because the research collected secondary data from the KRA records and analysed it. Kothari (2004), notes that a descriptive study is important when a researcher only seeks to tell if variables exhibits a relationship in their natural occurrence or not. A descriptive research design was preferred because, the researcher had the overall aim of establishing the effect of strategic management on revenue collection in Kenya. In this regard, a descriptive research design aims at describing the relationship between variable. The target population for this study was all top ranking managers at the domestic taxes department at KRA Nairobi office. According to KRA (2017) there are 105 top ranking managers in the domestic taxes department. Top ranking managers are those who report to the deputy commissioners. The choice of the top rank managers' ensured data was collected from the people who are involved in decision making. The social research formula is a good tool of determining the sample size (Mugenda and Mugenda 2008). This study population is heterogeneous because the skills and responses of the staff may be different and thus it is important to use a statistical approach in determining the sample size. This study has a significant level of 95 % at a margin of error of 5 %. Thus the formula was:

$$n_f = \frac{z^2 pq}{e^2}$$

Where nf is the number of items to be selected as the sample size, Z is the confidence interval (for example 1.96 for 97.5% confidence interval) for a normal quartile and p is the fraction of the population with the desired traits , for instance knowledge of strategic management and q= 1-p, that is the desired margin of error which is 5 % for this proposal. The formula is substituted as;

$$n_f = \frac{z^2 pq}{e^2} = \frac{1.96^2 * 0.5 * 0.5}{0.05^2} = 384$$

This formula is applicable when the population has more than 10, 000 items. And, since this study has a population of less than 10,000 the formula was adjusted to cater for the finite number of population being considered. The study population has 105 top ranking managers at the domestic taxes department. This formula was adjusted as:

$$n = \frac{n_f}{1 + \frac{n_f - 1}{N}}$$

After substitutions,

n = 384/{(1+(383/105)}

n = 83

According to Krejcie and Morgan (1970), a population of 105 to 110 items requires a sample size of 80 to 86 samples of respondents to be the representative of the whole population. At the point of picking the individual repondents, the study used simple random sampling technique because the population of interest was homogenous. It is important to note that when the sample is homogenous, a simple random technique is appropriate.

5. DATA ANALYSIS RESULTS

The study carried out inferential statistics in order to describe the extent of the relationship between the independent and dependent variables. Inferential statistics involves data analysis with the aim of establishing the percentage of variations in the dependent variable explained by the independent variable and to this end, the study adopted a regression analysis. The study carried out diagnostic test validity of the model. The study analysed data with the aim of assessing the extent of independent variables on Return on Assets. The study findings are tabulated on table 1.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.631[a]	.698	.361	.660	1.870

a. Predictors: (Constant), Operational efficiency, strategic partnerships, customer service technology

b. Dependent Variable: How would you rate revenue collection at the KRA?

Table 1 indicates the model summary that shows R, R^2 and adjusted R^2 and the standard error of estimate. As indicated on Table 1, the study found an R^2 of 69.8 % indicating that the independent variables accounts for 69. 8 % of the variations in revenue collection. This implies that other factors not considered in this study account for 19.4 % of variations in revenue collection. The developed a regression model and analyzed data to find the coefficients of the regression model. The data is presented on table 2.

Table 2: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.392	.739		.530	.598

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Technology	.237	.096	.269	2.471	.016
Customer Service	.281	.112	.263	2.507	.015
Strategic Partnership	.317	.100	.347	3.183	.002
Operational Efficiency	.044	.096	.048	.456	.650

a. Dependent Variable: How would you rate revenue collection at the KRA?

The multiple regression model was formulated as; $\mathbf{RC_t = \beta_0 + \beta_1 TC_t + \beta_2 CS_t + \beta_3 SP_t + \beta_3 OE_t + \varepsilon_t}$. The equation is thus established as: $\mathbf{RC_t = 0.392 + 0.237TC_t + 0.281CS_t + 0.317SP_t + 0.44OE_t + \varepsilon_t}$; where: 0.392 is the unit of revenue collection in the absence of other study variables, 0.237 is the increase in revenue collection in response to a unit increase in technology change, 0.281 is the increase in revenue collection in response to a unit increase in customer service, 0.317 is the increase in revenue collection in response to a unit increase in strategic partnership. 0.237 is the increase in revenue collection in response to a unit increase in operational efficiency. The study has established that all study variables have a positive impact on revenue collection. Thus, it is important that strategic management aims at adoption of tools that foster efficiency through reduction of costs.

6. CONCLUSION AND RECOMMENDATIONS

Technology changes play a crucial role on revenue collection reduction at the domestic taxes department. Technology changes such as adoption of itax system, increases the number of transactions and this increases the amount of revenue collections. On customer service, the study concludes that strategic management is a good tool of enhancing customer service and this improves the performance of the domestic taxes departments. It was established that customer service increases taxpayer's loyalty, increases the tax revenue collection and enhances the capacity of the KRA. On strategic partnership, the study concludes that strategic partnership has a crucial role on revenue collection. The study further concludes that strategic partnership is the most significant aspect of strategic management that leads to reduction of revenue collection. The study concludes that alliances with mobile phone money for mobile payments of tax dues and partnering with commercial banks for tax remittances greatly reduces the revenue collection at KRA. The study also concludes that strategic partnerships enhance the capacity of the KRA in tax administration. It is important to consider that tax administration is a tedious process that needs to involve many stakeholders. In this respect, the authority should plan and develop strategies that aim at improving the performance of the organization.

On operational efficiency, the study concludes that there is a crucial impact of efficiency on revenue collection reduction. Operational efficiency had been realized through the implementation of the itax system in tax administration. The study concludes that itax has increased the number of transactions and that the system is fast accurate and secure. Further the study concludes that operational efficiency improves accountability among the personnel of the domestic taxes departments. The study also concludes that KRA has successfully implemented a new MIS that is customer based and equally improves employee's motivations hence reducing operational costs. The study recommends that customer service should be a strategic goal of the Kenya Revenue Authority. Customer service ensures that the system is client-oriented and leads to superior delivery of customer service

REFERENCES

Aamir, M., Qayyum, A., Nasir, A., Hussain, S., Khan, K. I., & Butt, S. (2011). Determinants of tax revenue: Comparative study of direct taxes and indirect taxes of Pakistan and India. *International Journal of business and social sciences*, *2*(18), 171-178

Abiola, J. &Asiweh, T. (2012).The impact of tax administration on government revenue in a developing economy using a case study of Nigeria. *Journal of Finance and Accounting,* 321: 254-259

Budiman, G. (2004). The collaborative supply chain *International Journal of Logistics Management*, 13,. 1, 15-30

Damilola, W. (2015).Impact Of Strategic Management On Competitive Advantage And Organizational Performance Evidence From Nigerian Bottling Company. *Journal of Policy and Development Studies*, 9, 2, 33-45

Gidisu, T. E. (2012). *Automation System Procedure of the Ghana Revenue Authority on the Effectiveness of Revenue Collection: A Case Study of Customs Division,* Unpublished MBA Thesis, Kwame Nkrumah University of Science and Technology.

Humair, G. &Willems, H. (2006). *Supply Chain Management Practices and Supply Chain Performance in the Australian Manufacturing Industry,* Australia, Monash University

Kariuki, D. O. (2009). *A study on systematic change management at Kenya revenue authority.* MBA Project, University of Nairobi.

Mugenda, O.M., & Mugenda A.G. (2003). *Quantitative and Qualitative Approaches* (2nd ed.).Nairobi: Acts Press

Nel, C. (2008).*High performing organizations.* Unpublished document. Stellenbosch: University of Stellenbosch.

Nkote, H. & Luwugge, T. (2010).The relationship between automation and customs tax administration using empirical evidence from Uganda. *Journal of management*,45 (5) 25

Pearce JA, Robinson JB (2007). Strategic Management: Formulation, Implementation Control,10th edition

Pearce, J. A., & Robinson, R. B. (2009). Strategic Management (11th ed.). MacmillanLondon.

Porter M.E (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*.New York: The Free Press.

Rapert, M.I., Lynch, D. &Suter, T. (1996). Enhancing Functional and Organizational Performance via Strategic Consensus and Commitment.*Journal of StrategicMarketing*, 4(8)45-54.

Sharabati, A.A and Fuqaha, S.J (2013). Impact of Strategic Management on the Jordanian Pharmaceauticals Manufacturing Organisation Business Performance *International Review of Management and Business Research* Vol. 3 Issue.2

Shah, N.K., &Ierapetritou, M.G. (2011). Petroleum refining operations: Key issues, advances, and opportunities, Industrial and Engineering Chemistry Research, Vol. 50, pp 1161-1170.

Zhou, G. &Madhikeni, A.(2013). Systems, Processes and Challenges of Public Revenue Collection in Zimbabwe, *American International Journal of Contemporary Research*, 3: 49-60