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Abstract

In spite of recording remarkable performance results in revenue collection, KRA continues to face major revenue collection challenges that makes the government to lose billions of money annually. The main objective of this study was to analyze determinants influencing revenue collection on the performance of Kenya Revenue Authority. The study specifically aimed to; determine the effect of organization resources; find out the effect of corporate governance practices; assess the effect of Information Communication Technology adoption and establish the effect of tax regulatory framework on revenue collection performance at KRA. The study adopted a descriptive research design and the target population comprised of a total of 262 staff working at the Kenya Revenue Authority head quarter offices in Nairobi. The study adopted a probability sampling design by using a stratified random sampling technique to select a sample size of 126 respondents. The main data collection instruments were the questionnaires containing both open ended and close ended questions with the quantitative section of the instrument utilizing both a nominal and a Likert-type scale format. A pilot study was carried out to test the reliability and validity of the questionnaires. Descriptive statistics data analysis method was applied analyze data aided by Statistical Package for Social Sciences (SPSS) to compute responses frequencies, percentage mean and standard deviation results. Finally Multiple Linear Regression model was employed to establish the significance of the independent variables on the dependent variable. The findings were presented using tables and charts. Findings from the study showed that organization resources, corporate governance, ICT adoption and tax regulatory framework were the key determinants influencing revenue collection performance at Kenya Revenue Authority. The study concluded that that ICT adoption, followed by tax regulatory framework, then organization resources and lastly corporate governance practices determines revenue collection performance. The study recommendations were that; allocation of more human and financial resources in order to strengthen the organization capacity in revenue collection; appointment of board members who are competent and have capability in directing, controlling organization operations; effective implementation and use of automated revenue collection systems and improve on the level of tax regulations enforcement.

Key Words: *Revenue Collection, Organization Resources, Corporate Governance, ICT, Regulatory Framework*

INTRODUCTION

In 2004, the KRA instituted the Revenue Administration Reform and Modernization Program (RARMP) to further develop their use of technology to create a modern tax collection for Kenya (KRA, 2015). This led to an increase in revenue collection, for example in the financial year 2013/2014,KRA collected Sh963.8 billion against a new target of Sh963.7 billion surpassing its revised revenue targets by Sh100 million. However, in spite of recording remarkable performance results in revenue collection, KRA continues to face major revenue collection challenges that makes the government to lose billions of money annually (Muli, 2011).

Mugo (2011) identified that effective integration of information communication technology with revenue collection functions is major problem hindering the KRA to expand its revenue collection activities. According to Christopher (2005) corporate governance challenges affects strengthening of revenue collection activities. Robert (2014) noted that compliance with tax regulatory framework hinders achievement of the revenue collection objectives.

The above foregoing background reveals that previous studies failed to give much emphasis on revenue collection challenges. The research studies were also carried out in different organizations and hence the findings cannot be used to establish revenue collection challenges at KRA. Therefore it is hence against this background that this study was undertaken to fill the missing knowledge gap in literature by analyzing determinants influencing revenue collection on performance of KRA.

General Objectives

The main objective of this study was to analyze determinants influencing revenue collection on performance of Kenya Revenue Authority.

Specific Objectives

i. To determine the influence of organization resources on revenue collection performance at KRA.
ii. To find out the influence of corporate governance practices on revenue collection performance at KRA.
iii. To assess the influence of Information Communication Technology adoption on revenue collection performance at KRA.
iv. To establish the influence of tax regulatory framework on revenue collection performance at KRA.

LITERATURE REVIEW

A study by Edward (2009) revealed that revenue collection is a major challenge facing many countries worldwide but the challenges are more in developing countries in comparison to developed countries Beekes & Brown (2008) posited that developed nations such as USA and Canada have effective revenue collection systems hence minimizing revenue collection challenges. According to USA Treasury Department (2015) the government revenue in the United States, including federal, state, and local governments, is expected to total $5.98 trillion in 2015. The total features five major sources. The largest share is incomes taxes, at 37 percent of total revenue; social insurance at 25 percent of total revenue; ad-valorem taxes, at 22 percent of revenue; business revenue, at 8 percent of total revenue; and fees and charges, at 8 percent of total revenue. Federal revenue is budgeted at $3.18 trillion for FY 2015. Almost all revenue comes from income taxes, individual and corporate, at 57 percent of total federal revenue; and social insurance taxes, at 34 percent of total federal revenue. This will be about 33 percent of Gross Domestic Product in revenue. The federal government will collect about 17.5 percent of GDP, the states will collect about 9 percent of GDP, and local governments about 6.5 percent of GDP in 2015.

A study by IMF (2005) revealed that the presence of a large black economy in developing countries results in loss of revenue to governments as a consequence of tax evasion, loss of useful productive activity on account of non-utilization of black money in a useful economy, and the development of a plethora of problems on account of illegal economic activities such as drug trafficking, terrorist attacks, and human trafficking. Because Governments are unable to stop leakages of revenue, they impose more taxes on commodities and services to fulfill their revenue needs. The result is a regressive tax structure putting more pressure on honest taxpayers and promoting inequality in the society. Further it leads to transfer of funds from developing countries to abroad, a situation paradoxical for countries where foreign exchange and capital is scarce.

A study by Rai (2004) discussed the challenges in tax collection faced by developing economies using India as a model. The study showed that in India small-scale industries are given a variety of tax exemptions, from income taxes to commodity taxes. The turnover limit for qualifying for small-scale exemption is fairly high. The result is mushrooming of small-scale units in the economy mainly for the purposes of tax avoidance and tax evasion by diverting income and production of other sources as income and production of small-scale units. The exemption from commodity taxes to this sector distorts the VAT system of taxation. The study showed that black economy is a key challenge to revenue collection. The study further proposed the establishment of a dispute resolution system in developing economies similar to that of the United States for speedy and fair settlement of taxation disputes.

Fati (2014) carried out a study to eliminate or reduce to minimum the challenges in the process of revenue collection in Ghana property rate collection. The study used the interpretative case study approach to obtain study individuals in their natural settings and also obtain deeper understanding of the event. It was discovered that revenue trend has not been stable in revenue collection since the government did not have a full or comprehensive register of all taxable activities or levies in their jurisdiction. There existed no system to track invoices and payments. Data on services, facilities, levies were handled manually and consequently subject to fraud, abuse and significant revenue loss.

Zhou (2013) carried out a study on systems, processes and challenges of public revenue Collection in Zimbabwe. Research findings indicated that the revenue collection sector has over the decades gone through milestone reforms, notable ones being the establishment of a sole national revenue authority in 2001, the shifting from cumbersome Income Tax Return Forms to Final Deduction Systems, the adoption of VAT in 2004 and Toll Gate systems in 2009.

Franzen (2007) study conducted in Dar es Salaam, Tanzania indicated that, public officials are more effective as revenue collectors that their private counterparts. Fjeldstad and Haggstad (2012) concluded that, measures are required to improve the accountability of revenue collectors and elected officials. The foregoing, according to the scholars, can only be achieved through political goodwill from the national government. Kayaga (2010) in her study of tax policy challenges in Uganda as one of developing countries opined that, new technology alone is not sufficient if the government does not recognize the need for skilled tax officials. The scholar further avers that, effective tax administration requires qualified tax personnel with requisite skills to maintain these systems and operate them to their fullest potential.

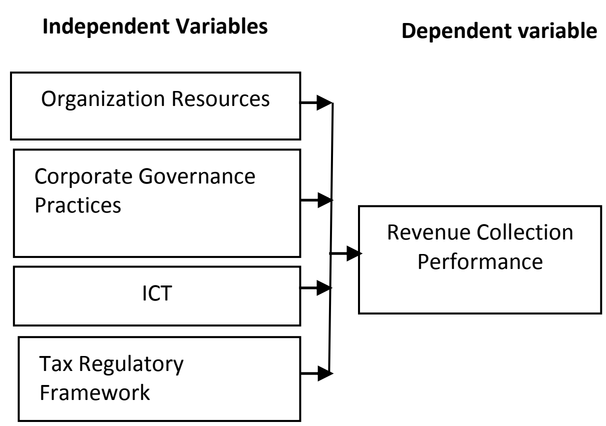
Ochieng (2013) undertook a study to establish the effects of outsourcing strategies to an organization while focusing on The Kenya revenue authority. The study adopted a descriptive research design. The study revealed that, the decision to outsource part of KRA functions or activities was prompted by Potential cost savings, access to technological innovations and strategic considerations. The study found that compliance, counterparty, access and contractual risk were perceived before the organisation undertakes an outsourcing decision. The study also revealed that KRA adopted varying outsourcing strategies to access to specialized vendor through single supplier, multiple supplier, The study concluded that benefits perceived before the organisation undertakes an outsourcing decision were accessibility of free resources and improved services access to specialized vendor and cost reduction.

Musya, (2014) undertook a study to examine the part played by internal control system in the collection of revenue by county governments in Kenya. The research was conducted using both qualitative and quantitative approaches. The study established that weak internal controls activities and lack of proper information and communication systems have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study therefore concludes that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in county governments in Kenya.

A study conducted by Okoth (2009) sought to find out, the extent to which revenue is collected and utilized at Kakamega Municipal council with a view to suggesting corrective measures. Twenty-nine employees of KMC were randomly picked and interviewed .The data was analyzed using simple descriptive statistics such as tables, charts and graphs. The findings of the study indicate that the challenges affecting revenue collection and utilization in KMC include, over employment leading to supervision problems and budget constraints, Non-payment of taxes by local community, Administrative problems like corruption, Lack of enforcement on revenue collection by local authorities, Lack of administrative capacity to fully tap revenue sources among others. In view of these findings, it is recommended that the council and ministry of local government take urgent corrective measures.

Gabrielle (2009) noted that many positive developments in revenue administration were achieved during the implementation of the First Phase of the Revenue Administration Reform and Modernization Programme. Key examples include: An increase in Revenue collection by almost 2% as a share of the Gross Domestic Product between 2002/03 and 2009/10. Income Tax, Value Added Tax and Domestic Excise Tax were merged to form Domestic Taxes Department (DTD) while the mandate and taxpayer population of Large Taxpayer Office (LTO) was clearly defined with LTO being elevated to department status.
According to Gatumbu (2011) insufficient resources in terms of funds hinders the KRA to expand its revenue collection functions and hence the government should allocate more funds to the KRA. According to Christopher (2005) corporate governance challenges affects formulation and the execution of key management decisions for strengthening revenue collection activities. Chambers (2007) found out that lack of effective corporate governance practices affects organization leadership and strategic planning and this hinders effective execution of organization functions. Andrew (2009) noted that organization policies, board management and government policies are the key corporate governance problems affecting effective execution of revenue collection activities.

CONCEPTUAL FRAMEWORK
This shows the conceptual framework adopted by the research study. In the conceptual framework, the independent variables are; organization resources, corporate governance practices, information communication technology and tax regulatory framework while the dependent variable is revenue collection.



Conceptual Framework

Organization resources comprise both human and financial resources that determines the capacity of an organization to carry out its functions. The available human resources determine the level of personnel competency in execution of revenue collection activities. Lack of enough funding makes it difficult for KRA to effectively expand its revenue collection operations in the country (Dorotinsky and Pradhan, 2007).

According to OECD (2002) corporate governance is the manner in which the power of a corporation is exercised in the stewardship of a corporation's total portfolio of assets and resources with the objective of maintaining and increasing shareholder value and satisfaction of other stakeholders in the context of its corporate mission. The Board of Directors (BoD) is appointed to run and manage the corporation's affairs on behalf of shareholders and managers are employed to pursue the firm's objectives in utmost good faith to achieve sustainable development and profitability. Corporate governance practices determines how an organization is directed, controlled and held to account its revenue collection activities. The existence of corporate governance challenges in many organizations is determined by board composition, leadership styles, top management support, organizational structure, organization policies and transparency and accountability (Gregory, 2007).

Information and Communication Technology (ICT) is a technology such as computers, software, peripherals and internet connections infrastructure required to support information processing and communication functions (Drury, 2007). ICT creates a supportive environment for effective implementation of automated revenue collection systems. Absence of ICT infrastructure hinders effective implementation of automated revenue collection systems and this affects the overall organization revenue collection activities. Poor ICT infrastructure affects many organizations and customers to effectively utilize the KRA online revenue payment systems and this delays revenue collection process.

Tax regulatory framework comprises of rules and regulations that guide in revenue collection functions. Tax regulatory framework influence organization revenue collection activities by determining the type of tax regulations, level of tax regulations compliance, enforcement of tax regulations, tax administrative structure and investment policies. Figure 2.1 shows the conceptual framework to be adopted by the study.

STUDY CRITIQUE

Musya, (2014) undertook a study to examine the part played by internal control system in the collection of revenue by county governments in Kenya. The study hence failed to show the major challenges facing revenue collection at KRA. A study conducted by Okoth (2009) sought to find out, the extent to which revenue is collected and utilized at Kakamega Municipal council. The study however was carried out in Municipal Council and hence it was limited in scope. Further study is required to determine the challenges affecting revenue collection in large organization like KRA.

Gabrielle (2009) noted that many positive developments in revenue administration were achieved during the implementation of the First Phase of the Revenue Administration Reform and Modernization Programme but he failed to show the challenges faced during implementation of revenue administration reforms like implementation of ICT based tax collection system which may be a revenue collection challenge.

A study on challenges affecting collection of turnover tax in Nairobi County, Kenya by Simiyu (2010) on challenges affecting collection of turnover tax in Nairobi County established that corruption as a key challenge to revenue collection. The study failed to expose other challenges that affect revenue collection and hence the study was short in explaining revenue collection challenges at KRA.

A study by Ndunda (2015) established how competence of revenue clerks and tax compliance influence optimal revenue collection. However the study was only narrowed to employee's competency and therefore did not explore all the major challenges that affect revenue collection at KRA. A more comprehensive study is hence required to analyze other challenges that affect revenue collection at KRA.

RESEARCH METHODOLOGY

The study adopted a descriptive research design and the target population comprised of a total of 262 staff working at the Kenya Revenue Authority head quarter offices in Nairobi. The study adopted a probability sampling design by using a stratified random sampling technique to select a sample size of 126 respondents. The study used semi-structured questionnaires as the main data collection instrument and a pilot study was carried out to pretest the questionnaires for validity and reliability. The gathered data was subjected to descriptive and inferential statistics data analysis methods using a statistical package for social scientists SPSS. Pearson's Correlations Analysis and Regression analysis was also used to support the deductions in the study.

The multiple regression model applied was if the form;

$Y = B_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i$
Where:
Y= Revenue collection (Dependent Variable)
X_1 = Organisation resources (Independent Variable)
X_2 = Corporate governance practices (Independent Variable)
X_3 = Information Communication Technology (Independent Variable)
X_4= Tax regulatory framework (Independent Variable)
B_0 = constant of regression (Independent Variable)
έ. = error term
B0 = constant of regression
έ. = error term

RESEARCH FINDINGS

The main objective of this study was to analyze determinants influencing revenue collection on performance of Kenya Revenue Authority. Findings from the study showed that organization resources, corporate governance, ICT adoption and tax regulatory framework were the key determinants influencing revenue collection performance at Kenya Revenue Authority.

To determine the influence of organization resources on revenue collection performance at KRA. Respondents were requested to indicate how they agreed on organization resources factors influenced revenue collection performance at Kenya Revenue Authority. A scale of 1-5 was provided where 1= strongly disagree, 2 = disagree, 3 = moderately agree, 4 = Agree, 5 = strongly agree. The organizations resources included; availability of human resources; allocation of enough funds; employees' competency and training. Descriptive statistics results showed that on average all the organization resource factors had an average mean of 4.1738. These implied that majority of the respondents agreed that all the organization resources factors notably; availability of human resources; allocation of enough funds; employees' competency and training determines revenue collection performance at Kenya Revenue Authority. These findings concurred with Phillip (2008) that organization resources in terms of human resources, enough funds to finance organization operations significantly determines the state of organization performance.

To find out the influence of corporate governance practices on revenue collection performance at KRA. Respondents were thus requested to indicate how they agreed on how corporate governance factors determined revenue collection performance at Kenya Revenue Authority. Corporate governance factors included; board composition; leadership styles; top management support and organizational structure. On average all the corporate governance factors had an average mean of 4.3149 and this demonstrated that majority of the respondents agreed that all the corporate governance notably; board composition; leadership styles; top management support and organizational structure influenced revenue collection performance at Kenya Revenue Authority. The findings are in agreement with Ayugi (2009) where he found out that revenue collection functions are greatly influenced by factors such as, board characteristics' leadership styles, top management commitment and organizational structure.

To assess the influence of Information Communication Technology adoption on revenue collection performance at KRA.Respondents were also requested to indicate how they agreed on key ICT adoption factors influenced revenue collection performance at Kenya Revenue Authority. The ICT adoption factors included; ICT infrastructure; revenue collection system; level of computerization and use of ICT platform by customers .On average all the ICT adoption factors had an average mean of 4.3433 hence implying that most of the respondents agreed that all the ICT adoption factors notably; ICT infrastructure; revenue collection system; level of computerization and use of ICT platform by customers influenced revenue collection performance in the organization. These findings validated finding by Mugo (2011) where he found out that the state of ICT infrastructure in the country determines how revenue collection systems are implemented and used by customers and this affects revenue collection.

To establish the influence of tax regulatory framework on revenue collection performance at KRA. Respondents were further requested to indicate how they agreed on how tax regulatory framework factors influenced revenue collection performance at Kenya Revenue Authority. The tax regulatory framework included; type of tax regulations; level of tax regulations compliance; enforcement of tax regulations and tax administrative structure. Descriptive results showed that on average all the tax regulatory framework factors had an average mean of 4.2797 and these implies that majority of the respondents agreed that all the tax regulatory framework factors notably; type of tax regulations; level of tax regulations compliance; enforcement of tax regulations and tax administrative structure influenced revenue collection performance at Kenya Revenue Authority. According to Garner (2009) level of tax regulations compliance and enforcement are key major factors that determines revenue collection performance in a country.

The study further found out that majority of the respondents agreed that all the tax revenue collection indicators notably; improvement in tax compliance; increase in revenue; reduced cost of revenue collection and improved quality of services determined the state of revenue collection performance. These findings are in line with Franzen (2007) that performance of revenue collection in many countries is mostly showed by the rate of compliance with tax regulations; rate of revenue increase; reduced cost of revenue collection and improved quality of public services.

The study regression model in table 1 shows that the coefficient of determination (R2) is 0.798 and R is 0.637 at 0.05 significance level. This is an indication that the four independent variables notably; (X_1) organization resources, (X_2) corporate governance practices, (X_3) ICT adoption and (X_4) tax regulatory framework significantly determined the dependent variables (Y) revenue collection performance. The coefficient of determination

(R2,0.798) indicates that 79.8% of the variation on revenue collection performance is determined by organization resources, corporate governance practices, ICT adoption and tax regulatory framework. The remaining 21.2% of the variation on revenue collection performance is determined by other variables not included in the study model. This shows that the model has a good fit since the value is above 75%. This concurred with Graham (2002) that (R2) is always between 0 and 100%: 0% indicates that the model explains none of the variability of the response data around its mean and100% indicates that the model explains all the variability of the response data around its mean. In general, the higher the (R2) the better the model fits the data.

Table 1 Regression Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.798[a]	.637	.619	.35064
a. Predictors: (Constant), x1, X2, X3, X4				

The results of Analysis of Variance (ANOVA)in table 2 shows that the independent variables notably; (X_1) organization resources, (X_2) corporate governance practices, (X_3) ICT adoption and (X_4) tax regulatory framework as the major determinants of revenue collection performance, since the P value is actual 0.00 which is less than 5% level of significance. Also in table 2, the high value of F statistics (33.841) with significant level of 0.00 is large enough to conclude that all the independent variables significantly determine revenue collection performance.

Table 2 ANOVA

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.643	4	4.161	33.841	.000[b]
	Residual	9.467	77	.123		
	Total	26.110	81			
a. Dependent Variable: Y						
b. Predictors: (Constant), x4, X2, X3, X1						

The test of beta coefficients presented in table 3 shows the extent to which each independent variable determines revenue collection performance. As presented in table 3, (X_1) organization resources coefficient of 0.281 was found to be positive at significant level of 0.001 and this indicates that organization resources positively determines revenue collection performance. (X_2) corporate governance practices of 0.098 was found to be positive at significant level of 0.005 and this indicates that corporate governance practices positively determines revenue collection performance. (X_3) ICT Adoption coefficient of 0.767 was found to be positive at significant level of 0.000 and this indicates that ICT Adoption positively determines revenue collection performance. (X_4) tax regulatory framework coefficient of 0.349 was found to be positive at significant level of 0.000 and this indicates that tax regulatory framework positively determines revenue collection performance. This clearly demonstrates that all the independent variables significantly determine revenue collection performance and thus the regression equation was;

$$Y=172 + 281X_1 + 098X_2 + 767X_3 + 349X_4 + e$$

Table 3 Coefficients

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*t*	*Sig.*
		B	Std. Error	Beta		
1	(Constant)	.172	.340		3.445	.001
	X1	.281	.101	.293	2.781	.005
	X2	.098	.086	.108	1.133	.001
	X3	.767	.091	.789	8.460	.000
	X4	.349	.092	.381	3.808	.000

a. Dependent Variable: Y

CONCLUSIONS AND RECOMMNDATIONS

The study concluded that that organization resources, corporate governance, ICT adoption and tax regulatory framework were the key determinants influencing revenue collection performance at Kenya Revenue Authority. The study also concluded that ICT adoption, followed by tax regulatory framework, then organization resources and lastly corporate governance practices determines revenue collection performance.

The study suggested the following recommendations as a measure to improve on revenue collection performance at Kenya Revenue Authority. The government should allocate the organization with more human and financial resources in order to strengthen the organization capacity in revenue collection. The employees should be regularly trained on modern revenue collection procedures and more staff should be recruited. The government should allocate the organization enough funds in order to make the organization expand its revenue collection operations in the country.

To improve on corporate governance practices, the organization should ensure that all board members are competent and have capability in directing, controlling organization operations. The board members should ensure that managers with good leadership styles are applied to their respective position within the organization. The managers should also support implementation of the organization revenue collection strategies. The organization structure should be improved to ensure proper coordination of organization activities. Effective organization policies should be formulated and implemented and measures should be employed to increase on transparency and accountability of all revenue collection functions.

To ensure that Information Communication Technology adoption leads to an increase in revenue collection performance. The government should implement an effective ICT infrastructure in the country in order to allow easier accessibility of automated KRA revenue collection systems by customers. The organization on the other hand should also improve on ICT infrastructure in order to support effective implementation and use of automated revenue collection systems. The organization should also conduct continuously employees training programs on use of ICT based revenue collection systems and also extend by training the customers on how to use the systems. To ensure that tax regulatory framework leads to an increase in revenue collection performance. The government should improve on the level of tax regulations enforcement in order to increase on the level of tax regulations compliance. The tax administrative structure should also be improved. The study finally suggested further studies to be carried out in order to determine other determinants of revenue collection performance in Kenya and also to undertake similar study in other countries.

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