

## **Influence of Turnaround Strategy Adoption on Revenue Performance of Kenya Revenue Authority**

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**Abstract:** *All organizations are set up with an objective to create value to the society. This necessitates organizations to generate revenues to support all its stakeholders. However, in the rat race to succeed, most organizations are unable to generate revenues for sustainable operations. Organizations cannot survive without profits/surpluses and the inability to generate surpluses would lead to corporate decline or failure. Getting such organizations back to health requires entrepreneurial strategies at two levels, namely, from the negative to the breakeven and from breakeven to the positive. Hence, the turnaround management is a doubly entrepreneurial act. The objective of this study was to establish the influence of turnaround strategy adoption on the revenue performance of Kenya Revenue Authority. Specifically, the study aimed to find out how cost reduction, modernization of internal processes, employee motivation and corporate planning strategies have influenced the revenue performance of Kenya Revenue Authority. This study adopted a descriptive research design. The study targeted top and middle level managers at Kenya Revenue Authority who were directly responsible for formulation and implementation of corporate policies and plans. They constituted the target population. The study used both primary and secondary data which was analyzed using both inferential and descriptive statistics and multiple regression analysis. The study established that turnaround strategy adopted by KRA contributed to better revenue performance.*

**Keywords:** *Corporate planning, Cost reduction, Employee motivation, Modernization of internal processes, Revenue performance*

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### **I. Introduction**

There is a growing interest worldwide in strategies for turnaround of public service firms because of the growing awareness that public resources need to be efficiently deployed. A turnaround situation is one where a company suffers declining economic performance for an extended period of time, such that the performance level is so low that the survival of the company is threatened unless serious efforts are made to improve its performance. Achieving turnaround calls for a totally different set of skills to probe into the causes of decline and to formulate appropriate strategies to transform the company for a fresh lease of life (Prasad, 2006). Turnaround strategies are vital for public sector firms for the realization of sustainable economic growth since their activities impact directly on overall public and private sector expenditures and resources (Mwangi, 2006). Boyne (2006), states that turnaround management is potentially useful for recovery or radical change of public sector firms. Studies by Mellahi (2006) also underscore this changed reality. They state that turnaround strategy helps in improving accountability and transparency in public sector firms as well as improving access to better and quality services. They continue to say that the appropriate use of technology in turnarounds brings government closer to the people and enhances the inclusion of public servants and the public itself in the decision-making process. Scholars generally consider financial ratios and particularly profitability when assessing the outcomes of turnaround strategy to organizations (Pandit, 2003).

The study would also provide background information to research organizations and scholars who might want to carry out further research in this area and also aid in filling research gaps. Most successful organizations are those that are able to adjust themselves to new conditions quickly. This research would provide planned learning processes that lead to improved organizational effectiveness.

#### **1.1 Statement of the Problem**

Industrial decline is so widespread that it is found in all types of organizations including public sector entities. Since the decline of industries affects the entire organization and the country as a whole, there is a need for organizations to take measures to restore their health. On the global perspective, previous research work has shown mixed results in turnaround management strategies (Beeri, 2009). On one hand, some public international organizations have achieved a significantly better rating which probably indicates at least to some extent, improved performance. This improvement may be considered as recovery. On the other hand, some studies have shown that some public organizations have stagnated and could be perceived as persistently failing (Sunil, 2007). Primary data on turnarounds is thin on the ground, especially in developing countries as failed firms

simply disappear, while successes are attributed to “leadership ability” and consultants protect their strategies as intellectual property. Studies carried out in Kenya did not address the strategies adopted by KRA in turnaround and the impact of such strategies on revenue performance. These studies had gaps since they did not link the strategies adopted in turnaround strategy to revenue performance of KRA. Therefore, from the studies carried out both nationally and internationally, it is difficult to draw conclusive results of the influence of turnaround adoption to organizations as the results cannot be generalized.

In 1995, after the inception of KRA, the Authority experienced a tremendous growth in revenue of Ksh 122 million. The growth trend continued until 1998/99 financial year when it fell short of meeting the target revenue collection. The trend of declining performance in revenue persisted until the 2003/2004 financial year. In 2005 the Authority implemented the turnaround strategy and was able to collect Ksh 274, 252 million against a target of 240, 914 million thus surpassing the target by 33, 337 million or a performance rate of 113.8% (KRA, 2003). From the years mentioned, it shows that KRA has experienced much growth in revenue after the implementation of turnaround strategy thus better performance.

Although studies have been carried out on the concept of turnaround in private organizations, no study known to the researcher has addressed the influence of turnaround strategy adopted by public sector institutions with specific reference to Kenya Revenue Authority. This therefore leaves a knowledge gap on the influence of turnaround strategy adoption on revenue performance of KRA. This study intended to seek responses to the research question: What is the influence of turnaround strategy adoption on the revenue performance of KRA?

## **II. Literature Review**

### **2.1 Theoretical Review**

The resource dependency theory anchors the study and provides the foundation for the report, gives the reader what he or she needs to know in order to interpret and understand the results and how they are arrived at. Survival based theory and Public choice theory are the supporting theories which explain how reports connect to or are influenced by the related theory and give theoretical background of the choices made during the course of the work. Resource dependency theory and survival based theory address business strategy while public choice theory is specifically on turnaround and organizational performance of public sector firms.

Ulrich and Barney (2004) in resource dependency theory emphasize that resources required by organizations need to be acquired through a network of contacts and the efficiency and effectiveness in bridging network gaps will determine the quality of corporate performance. Defined broadly, resources are the basic units of analysis. A firm’s resources are often classified as financial, human, intangible, organizational and technological (Boyle, 2007). The theory further describes organizational success as the ability to maximize power by accessing scarce and essential resources.

Rauden (2009) in survival based theory states that organizations need to continuously adapt to their competitive environment in order to enhance their performance. In business, the concepts meant that only the fittest business that is able to develop strategies to counter environmental challenges on its back yard will prosper. Therefore, this theory is based on the concept that organizations need to continuously adapt to their competitive environment in order to survive. Abdullah (2007), states that survival based view in strategic management emphasizes on the assumption that in order to survive, an organization has to deploy strategies that should focus on running very efficient operations and can respond rapidly to the changes in the competitive environment, since the one which survives is the one which is fittest and most able to adopt to the environment.

Larbi (2009) in public choice theory advocates running of politics or governance based on economic principles, the argument is that poor performance on public sector is attributed to several economic and operational essentials. The issue of self-interest, contrary to the public expectation, public officials’ decisions are based on personal gains. There is waste and over expenditure with public managers focusing more on delivery than on productivity and efficiency. Public choice theory further argues that public bureaucracies are notoriously slow to respond to changes in the environment, as well as being unresponsive to service users’ thus affecting performance of the organization. The bureaucratic model is not cost-consciousness that is attributed to the weak links between costs and outputs.

### **2.2 Empirical Review**

Regarding cost reduction, Smith and Graves (2005) in their study found that, cost containment is a major management concern and failure to contain costs or rapidly raising input costs makes a firm to be inefficient as compared to competitors hence causing organizational decline. Turnarounds cannot be sensibly analyzed without taking into account the context of the financial obligations and related governance arrangements (Igor & Toms, 2006).

In order for an organization to operate efficiently, modernization of internal processes is paramount. This view was also supported by the findings of Hambrick and Schecter (2003) who pointed out those organizations that are failing due to operational causes opt for operational turnaround strategies and those failing due to strategic causes opt for strategic turnarounds; and rarely were operational failure addressed with strategic turnaround actions. Kenya Revenue Authority has had to review and modify key processes and procedures to ensure that they are designed with the need of the complying taxpayer in mind and incorporate appropriate interventions for non-compliance. The development and application of business process reengineering is necessary for the organization in order to reduce administration costs if the revenue performance objectives are to be met. Improved automation is the key driver and enabler for this to happen.

Employee motivation is also an important aspect while turning around an organization. In the context of successful turnarounds, Manimala (2011) observed that the more effective and long-lasting employee management strategies for troubled organizations were based on employee engagement and motivation. It is the top management who sets the style and tone of management in the organization and therefore can involve and empower their employees. Empowered employees are energetic, passionate and experience a feeling of ownership over jobs, which will encourage and motivate the employees to offer their innovative best for the company with a customer service mindset (Prasad, 2006). Under such conditions performance management becomes voluntary and leads to better results as compared to management-initiated performance appraisal and monitoring.

Turnarounds or refocusing on the core business often involves corporate planning which leads to corporate restructuring as the elimination of non-core activities would involve the redefining of roles and positions. According to Boyne (2006), corporate planning involves effective monitoring and evaluation mechanism geared towards identifying and measuring the gains made from specific instituted programs and plans. The M & E systems assist in evaluation of strategies, procedures and policies and identifying areas that need adjustments.

Arogyaswamy (2007) concludes that turnarounds and non-turnarounds have a strong tendency to engage in cutbacks. However, non-turnarounds apply this measure more excessively than turnarounds. Also, turnarounds are more successful in translating cutbacks to efficiency improvements than non-turnarounds. From this it can be concluded that managers of turnarounds pick the right spots for cost-cutting and prove able to convince remaining employees from the necessity of the undertaken retrenchment measures. A more extensive form of cutbacks is operational asset reduction, which is carried out to lower the firm's capacity to the current production level.

### **III. Study Design and Methodology**

The study research design was descriptive survey which adopted both stratified and simple random sampling techniques of all top and middle level managers at KRA. A multiple regression model with four independent variables was used:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where Y represents revenue performance of KRA (dependent variable),  $X_1$  is Cost Reduction,  $X_2$  is Modernization of Internal Processes,  $X_3$  is Employee Motivation,  $X_4$  is Corporate Planning,  $\beta_0$  is Constant Term,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  and  $\beta_4$  are regression coefficients and  $\epsilon$  is the disturbance/error term. The study used both primary and secondary data. Primary data was collected using self-administered questionnaires through drop and pick method to top and middle level managers of Kenya Revenue Authority. Secondary data was obtained from KRA's past financial statements, periodical revenue reports, KRA corporate plans and central bank annual reports.

### **IV. Results and Discussion**

#### **4.1 Cost Reduction**

To understand the influence of turnaround strategy on revenue performance of KRA, the respondents were to indicate to the extent to which they agree with the various statements. From the findings, the overall rating of cost reduction variables was 3.812 >3; hence the respondents agreed that cost reduction strategy influenced revenue performance at KRA. Significantly the organization has experienced increased tax compliance over the last ten years (mean of 4.039) and the organization has improved its debt collection methods to create more revenue (mean of 3.904) which are also supported by the values of Z-score.

#### **4.2 Modernization of Internal Processes**

From the findings on the respondents level of agreement on the statement relating to modernization of internal processes, the study found that the respondents agree/strongly agreed that; KRA has developed internal standards to guide departmental service delivery (mean of 4.098), the organization has improved service

delivery to taxpayers within the last ten years (mean of 3.922) and KRA has automated its operations (mean of 3.827).

The Z score further rated KRA has developed internal standards to guide departmental service delivery, the organization has introduced new ways of communication in the recent past and KRA has automated its operations as the main variables of modernization of internal process. In overall the respondents agreed that modernization of internal process has significantly influenced revenue performance at KRA (Z- Score =.875).

#### 4.3 Employee Motivation

From the findings the respondents agreed that; the organization has worked hard to invest in staff skills training and development (mean of 3.692), over the last five years KRA has reshaped and reviewed the terms and conditions of service for employees (mean of 3.628) and KRA has upgraded the work environment to enhance employee morale, efficiency and effectiveness (mean of 3.529). The three main variables of employee motivation are further supported by the Z score values.

#### 4.4 Corporate Planning

The respondents were asked to rate statements relating to corporate planning strategy in line with revenue performance at KRA. Based on the mean analysis, it was found that mainly; the organization conducts short term and long term planning (mean of 3.904), KRA has effective monitoring and evaluation mechanism for implementing change (mean of 3.827) and there is a board/committee that monitors the execution of corporate strategies (mean of 3.750).

#### 4.5 Revenue Performance

KRA's core function is to collect and account for government revenue therefore consistent increase in revenue collection is a strong indicator of efficiency since the organization has consistently been achieving and surpassing set targets. The consistent increase in the graph in Fig. 4.1 indicates that the Turnaround Strategy employed by the Authority has influenced performance positively. The turnaround strategies implemented at KRA were effective in the fact that they lead to the consistent increase in revenue collection. Revenue collection represents KRA's core function and therefore consistent increase in revenue as can be attested by the research findings indicates that the turnaround strategy adopted by the Authority was effective as it led to the surpassing of the set organizational targets. Fig. 4.1 represents the total amount of revenue collected by the Authority in billions for the years 2003-2013.

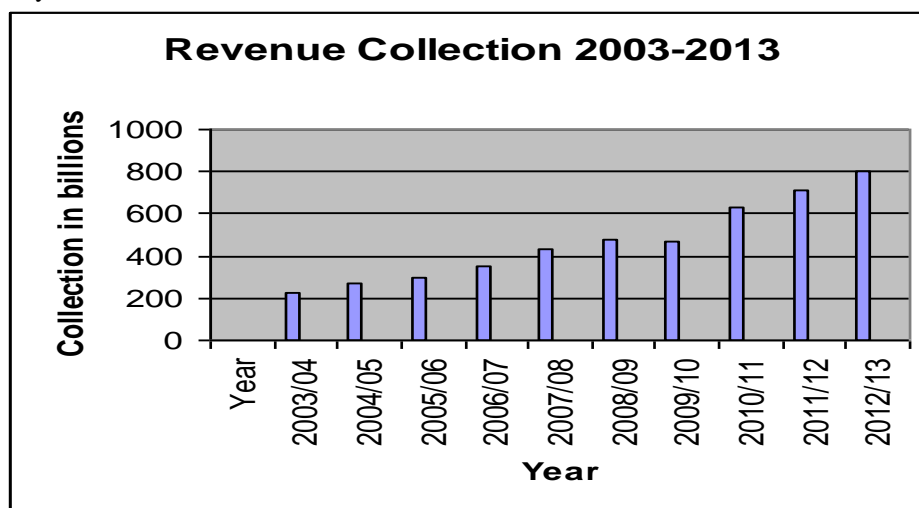


Figure 4.1 revenue collection 2003-2013

### V. Regression Analysis

Table 5.1 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
.799	.639	.628	.59836	.639	6.015	4	47	.001

a. Predictors: (Constant), corporate planning, modernization of internal processes, employee motivation, cost reduction

Referring to Table 5.1, it was found that the adjusted R-square value is 63.9% and from that it is concluded that 63.9% of the variation in the dependent variable (revenue performance) is explained by the independent variables in the model. This indicates strong explanatory power of the regression.

**Table 5.2 Anova of the regression model**

Model	Sum Of Squares	df	Mean Square	F	Sig
Regression	8.615	4	2.1546	6.015	.001
Residual	16.82847	47	.358		
<b>Total</b>	<b>25.44251</b>				

- a. Predictors: (Constant), corporate planning , modernization of internal processes, employee motivation, cost reduction
- b. Dependent Variable: revenue performance

The findings in Table 5.2 shows that the independent variables significantly predict the dependent variable,  $F(4, 47) = 6.015 > 2.61$ ,  $p = .001 < .05$  (i.e., the regression model is a good fit of the data). From Table 5.2, it is known that the value of F-statistics is 6.015. This means that the regression is statistically significant at 0.05 level of confidence because 6.015 is greater than 2.61. It therefore appears that the predictor variables corporate planning, modernization of internal processes, employee motivation and cost reduction are not equal to each other, therefore, can be used to predict the dependable variable – revenue performance as indicated by F value of 6.015 and a low significance level of 0.001.

**Table 4.13** Coefficients of the regression model

<b>Predictors:</b>	B	Std. Error	Beta	t	sig
Constant	1.781	.669		2.662	.011
Cost reduction	.448	.176	.442	2.544	.014
Modernization of internal processes	.217	.125	.325	2.350	.023
Employee motivation	.172	.128	.201	2.453	.018
Corporate planning	.204	.175	.045	.317	.003

- a. Dependent Variable: revenue performance

## VI. Conclusion

The study findings revealed that KRA has given prominence to corporate planning, modernization of internal processes, employee motivation and cost reduction. The study further concluded that the establish regression model was moderately good and could be used for forecasting revenue performance at KRA. Results of the study indicate that 63.9% of the variation in revenue performance is explained by cost reduction, modernization of internal processes, employee motivation and corporate planning. The study makes an important contribution in understanding turnaround strategy adopted by KRA on its revenue performance. It further brings out the factors that influence the relationship between turnaround strategy and revenue performance at KRA.

The study would be significant to managers and staff in both private and public entities as it would enable them to understand and appreciate the critical aspects of the turnaround strategy in the organization and seek ways to enhance aspects of the strategy as well as taking appropriate measures to eradicate bottlenecks to the effective implementation of the strategy.

The study used questionnaires to collect data from the respondents, the researcher therefore recommends the use of other data collection methods such as interviews so as to enable researchers get responses that are relatively free from bias. This is because interviews afford the researcher the opportunity to allay fears, anxieties and concerns that the respondents may have. The researcher may also offer clarification when needed and help respondents to think through difficult issues.

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