

**EFFECT OF ORGANIZATIONAL STRUCTURE ON TAX REVENUE
PERFORMANCE IN KENYA**

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DECLARATION

This research project is my original work and has not been presented for award of Postgraduate Diploma or for examination for any academic award in any institution of higher learning.

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

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DEDICATION

I dedicate this work to my family for their unwavering support, love and encouragement that they have given me since the beginning of this study.

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My acknowledgement goes directly to the Almighty God for without whom I would not have come this far. My utmost gratitude is also extended to my family and friends for their continuous support. I would like to thank my project supervisor Dr. Bruce Ogaga for his patience, guidance and constructive assistance throughout this research project.

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LIST OF ABBREVIATIONS AND ACRONYMS

BOD	Board of Directors
CSD	Customs Services Department
DTD	Domestic Taxes Department
ECR	Electronic Cash Registers
ETR	Electronic Tax Registers
EU	European Union
I&E	Investigations and Enforcements
ICT	Information Communication Technology
ITMIS	Integrated Tax Management Information System
ITMS	Integrated Tax Management System
KESRA	Kenya School of Revenue Administration
LTO	Large Taxpayer Office
M&E	Monitoring and Evaluation
MST	Medium and Small Taxpayer
OECD	Organization for Economic Cooperation and Development
OTFPS	Online Tax Filing and Payment System
PIN	Personal Identification Number
PwC	Price Water Coopers
RTD	Road Transport Department
SPSS	Statistical Package for Social Sciences
SSD	Support Service Department
TSW	Taxpayer Software
VAT	Value Added Tax

ABSTRACT

The KRA management over time has tried to carry out a number of initiatives which include changing its organizational structure so as to improve its efficiency in tax revenue collection. This study sought to determine the effect of organizational structure on tax revenue performance at KRA. The study particularly focused on decentralization, formalization and span of control and their effect on tax revenue performance. The anchoring theories were Ability to pay theory, Adam's Equity theory and Resource based theory. The study employed a case study research design since only one institution was involved in the study. Primary data was used in the study, and was collected using a structured questionnaire. The study targeted senior managers working at KRA headquarters at Times Towers in Nairobi, which made a total of 316. Using stratified random sampling technique, a sample of 32 respondents was used in the study. Data analysis was carried out using descriptive statistics with the help of SPSS computer software. The statistics generated were descriptive and inferential statistics and was analyzed using correlation and a multiple linear regression. In determining the effects of decentralization on tax revenue performance, the findings of this study was statistically significant at a p value of 0.000 which is less than 0.05 the convectional probability significance level. For the second study objective, which was to determine the effect of formalization on tax revenue performance at KRA, the finding was statistically significant at a p value of 0.004 which is less than 0.05 the convectional probability significance level. Finally, for the third objective of the study which was to determine the effect of span of control on tax revenue performance in Kenya, the finding was also statistically significant at a p value of 0.004 which is less than 0.05 the convectional probability significance level. The study concluded that organization structure affects tax revenue performance in Kenya. Based on the study findings the study recommends that KRA should decentralize its operations from Nairobi to the rest of the country as this will see an increase in the number of registered tax payers thereby expanding the tax base. For future research, the study suggests a study on effect of other variables such as technology on tax revenue performance in Kenya.

DEFINITION OF TERMS

Decentralization	The movement of departments of a large organization away from a single administrative center to other locations. (Holtmann, 2000).
Formalization	A process where written specifications on rules, responsibilities and procedures are given out by organizational managers to every employee, groups, teams organizational units and the organization in entirety, leading to the processes development, relationships, and procedures of operation (Liao, 2011).
Organizational Structure	An Organizational structure also known as an organogram, is the internal pattern of an organization illustrating the relationships, communication and authority adopted for the achievement of the organizational goals (Stephen & Timothy, 2012)
Span of control	The area of activity and number of functions, people, or things for which an individual or organization is responsible (Gittel 2010).
Tax Revenue	Revenues collected from taxes on income and profits, social security contributions, taxes levied on goods and services, payroll taxes, taxes on the ownership and transfer of property, and other taxes (Emran & Stiglitz, 2005).
Tax Revenue Performance	The expected outturn from domestic direct taxes, namely PAYE, corporate income tax and withholding tax for a given financial year against set budget (PWC, 2015).

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Revenue collection is the means by which an institution obtains money and in the case of a country this is done through a revenue authority and other revenue agents. The task of revenue collection by the revenue authority is an immensely important task since this is the money that finances government projects. The need for tax reforms worldwide became more apparent in the 1980s, hence prompting most revenue collection authorities to institute measures and structures that would guarantee better tax revenue performance (Bird, 1990). Bird (1990) further posits that by the 1990s, there were three critical areas in tax structures and administration that called for significant overhaul. Innovation in tax structures, administrative changes, and independence of tax authorities were emphasized. The overriding idea here is to make tax authorities more innovative, efficient and productive.

According to World Bank and Price Water Coopers (PwC), tax reforms have been significantly witnessed in the global financial market, including in the European Union (EU) (PwC, 2013). In Germany for instance, the Tax Reform Act of 2008 reduced overall corporate tax rate from 40% to 30% whereas value-added tax rate was raised from 16% to 19%. Also, through the Fair Tax Act 2007, the US Congress proposed to repeal income tax and other federal taxes to create a national sales tax (World Bank, 2014). All these efforts were geared towards ensuring that tax collection efficiency was enhanced. The drive for tax reforms is founded on increasing pressure for countries to meet their growing financial needs and reduce budgetary deficits (Ochieng et al, 2014). Today, the popular argument is that economies

which have substantially invested in online filing and payment structures are reaping heavily from these digital platforms (World Bank, 2014).

In Africa, taxation was introduced by the colonial government and they were enforced in those countries to be able to perform administrative functions (Overton, 1986). Since then most countries have carried out significant gradual changes to their tax systems to accommodate evolving and increasing financial needs and to facilitate budgets. According to the Center for Tax Policy and Administration (2011), South Africa and Nigeria, the two largest African economies, have modified their revenue structures to be able to effectively collect revenues. Atta-Mills, (2002) indicated that revenue authorities that have an effective organizational structure mobilize more revenue, thereby enabling governments to achieve greater financial reliance and facilitate the pursuit of growth-oriented structural Adjustment Programmes and provision of the requisite infrastructure for economic growth. The report further indicates that effective organizational structure will also make it possible for the elimination or reduction of burdensome taxes without reducing revenue yield. It also facilitates the adoption and easy-to-administer tax laws, thus rendering noncompliance more difficult.

The Center for Tax Policy and Administration, (2011) report stated that the range of powers given to a national revenue body depends on many factors including the system of government in place and the state of development a country's public sector administration practices as well as the institutional model adopted for tax administration. The report further states that over a decade or so, the organizational structure of many revenue bodies have been the subject of major reforms aimed at improving operational efficiency and effectiveness and the delivery of services to taxpayers. This study therefore sought to explore the effectiveness of the organizational structure in Kenya Revenue Authority (KRA) revenue collection. The

paper tried to verify whether the huge capital outlay on restructuring the organizational structure put in place by KRA has any impact in the tax revenue performance. Due to the important role that organizational structure that is effective contributes in corporate objectives achievement, Kenya Revenue Authority 6th corporate plan directs that the authority's organizational structure shall be upgraded in every three years to aid in the attainment of the Authority's objectives. Consequently, this study purposes to bring to light the relationship that exists between organizational structure and tax revenue performance at Kenya Revenue Authority.

1.1.1 Organizational Structure

An Organizational structure also known as an organogram, is the internal pattern of an organization illustrating the relationships, communication and authority. It is also seen as the manner in which power and responsibility are assigned within the organization. Goldhaber (2008) gives meaning to organizational structure as “the network of relationships and roles existing throughout the organization”. The importance of organizational structure is that it facilitates people in understanding their positions and roles in organization's business processes and colleagues in carrying out the organization's work (Fowler, 1995).

Today, so dynamic is the business environment that structuring and to re-structure an organization has indeed become paramount. Structural decisions for instance reconfiguration of any given institution or organization for this matter are debatably the most fundamental decisions that leaders have to make since the structure outlines job task formal division, grouping and coordination.

Likewise, Nelson and Quick (2011) posits that for an organization to realize its mandate, organizational structure is key to bequeath an institution the much needed form. In Acknowledging the views of the authors pertaining indispensability of decisions on

organizational structure besides the debate currently on the interconnection existing between strategy, structure and performance, one would therefore want in a great extent to concur that the resultant of a design process of organizations are key determinants of firms' performance (Brand et al, 2002).

Back in history, organizational structure evolved from the earlier era of hunters and gathers to a more advanced industrial structures and to now days' more efficient post-industrial structures, Lawrence (1982). Today, one frequent and extensively asked question has been; how do structures of organizations affect their performance? The trouble in an attempt to answer this question is pivoted on the fact that the relationship between structure of an organization and performance has had little attention in the recent past, particularly in respect to government revenue authorities. However, this question can partly be answered with the postulation that organizational structure comprises the division of labor and coordination of employees (McShane and Glinow, 2005). This sees the execution of tasks in an efficient way to achieve organizational set goals.

Ogaga (2017), in his study on the influence of organizational structure and industry competition on the relationship between corporate strategy and performance of companies listed in Nairobi Securities Exchange(NSE), posits that organizational structure has a significant influence in the relationship between corporate strategy and non-financial performance. He further argues that organizational structure does not have significant influence on financial performance.

An organizational structure not only does affects a firm's productivity and economic performance but also, the morale and job satisfaction among the workers (Ezigbo, 2011). Moreover, structure does not just shape the organizational competence, but also the

performance shaping processes (Wolf, 2002). Clemmer (2003) likewise concludes that the organizational performance is inclined by the structure that the organization adopts.

This study consequently re-opens the debate on the relationship between structure and performance of organizations while emphasizing on formalization, decentralization and span of control as they influence tax revenue performance. A strong corporate structure that is designed to grow with the organization can maintain corporate performance during times of growth and allow for structural improvements that will be necessary as the organization expands (Gupta, 2007). However, it remains to be seen to what extent administrative structure in KRA affects its revenue collection

Taxation in Kenya

Taxation in Kenya take in personal and corporate income taxes, value added tax on goods and services, stamp duty, customs and excise duties and agency revenues. Collection and accounting of taxes is done by registered taxpayers through self-assessment returns, withholding of tax on payments to both residents and non-residents. Employers are obliged to withhold and account for income tax on employee salary and benefits through pay as you earn (PAYE) system. Interests besides penalties on late tax payments and non-compliance are deterrents as pointed out by various Acts of parliament. Kenya Revenue Authority (KRA) does conduct regular compliance checks, in-depth audits and investigations on registered taxpayers to determine compliance levels and punish those who commit offences stipulated under various Acts whose implementation it oversees (Simiyu, 2015).

1.1.2 Tax Revenue Performance

Tax revenue performance is the expected outturn from domestic direct taxes, namely PAYE, corporate income tax and withholding tax for a given financial year against set budget (PWC, 2014). In the recent decades, governments worldwide are doing all that it takes to promote

tax revenue performance. In the United States of America, to achieve optimum tax revenue performance, the government has adopted policies to curb tax evasions which are evident every year (Ospina and Roser, 2016). The effect on tax revenue performance given the amount of federal revenue lost through tax evasion is substantial enough to raise concern of the public. It is noted that if the government could improve its abilities to collect income taxes from businesses and individuals hence improved tax revenue performance, the nation would be better off in the provision of public goods and services (Morse, 2015).

In Uganda as a case of developing nations, it has been noted that underperformance of revenue may be due to the lower than projected growth in the economy, which may affect particularly corporate income tax and withholding tax. However, an increase may be attributed to further improvements in the tax administrative system, particularly the expansion of the base, improvements in public service delivery and tax audits (PWC,2015).

A study on instability of government revenue and expenditure in less developed countries posited that upheavals recorded in tax revenue within the 1965/73 were the causes of government expenditure instability experienced (Lim, 1983). Similar studies have also revealed that the instability that causes disparity among different types of taxes are common in poor, open and inflationary economies. Taking a study on the impact of tax reforms and economic growth of Nigeria, it was discovered that using relevant descriptive statistics and econometric analysis and concluded that the various test shows that; tax reform is positively and significantly related to economic growth and that tax reforms granger cause economic growth. Also, that tax reforms improves the revenue generating machinery of government to undertake socially desirable expenditure that will translate to economic growth in real output and per capita basis (Ogbonna and Appah, 2012). As tax revenue constitutes a major component of national income in modern economies, it has also dominated every other source of government revenue in most developing countries.

Poor or corrupt tax administration can reduce government revenues, negatively affect growth and enable tax evasion. Increasing enforcement in tax administration results in lower evasion and higher collections (McClellan, 2013). Bird (2015) argues that if tax administration is to increase revenue then it must be adequately staffed with trained officials and should be properly organized. Bird and Zolt (2008) mentioned that many countries have found it difficult to work out the right mix and sequencing for upgrading both IT and human resources in tax administration. Therefore, well trained people with adequate political support are needed to administer taxes effectively.

Key outcomes in public economics are that tax systems ought to maintain full efficiency of performance in all environments (Gordon & Li, 2009). The outcome permits taxes on, profits wages and consumption, but tax preclusion is seen on intermediate inputs, turnover and trade. This has seen significant results in the area of policy advice forgiven to the developing countries. But what is alarming with such policy guidance is that the fundamental assumptions of the theories informing the policy directives are not relevant to the prevailing environment within which developing countries operate. To be specific, such policy advice's results are based on an environment characterized with perfect enforcement of tax; zero evasion and at zero administrative cost, this is in contrary to the prevailing situations in the developing countries.

A revenue performance system encompasses creative methods and practices to improve operations and ultimately the bottom line. It is about "selling the right product to the right customer at the right price at the right time" (Talluri and Ryzin, 2004). Revenue management deals with maximizing revenue for a fixed capacity of product or service. It saves the capacity for the most valuable customer by proper capacity allocation and constantly attempts to understand, anticipate, and then react to consumer behavior in order to maximize revenue.

1.1.3 Kenya Revenue Authority

Kenya revenue Authority (KRA) realization came through Kenya revenue act of 1995 which has since been revised in 2012. KRA has been set as a semi-autonomous agency with a key responsibility of revenue collection. KRA's main objective is to ensure provision of operational autonomy in collection of revenue. In the process, KRA was to evolve into an integrated, flexible and modern agency for revenue collection with the capacity in assessment, collection and enforcement of revenue laws. The Authority is mandated for collection and receipt of revenue is under the supervision of the Cabinet Secretary, National Treasury and Planning. Odundo, (2007), the Authority collects up to ninety-five percent of revenue for the government.

Kenya revenue authority Sixth Corporate plan 2015/2016-017/2018 report outlined the overall organization's structure. The board of directors (BOD) which comprises of both private and public sector experts makes policy decisions to be executed by the management of KRA. The Chairman of the KRA board is appointed by H.E. the president whereas the commissioner general who is the chief executive is appointed by the cabinet secretary national treasury and planning. KRA has continued to enlarge in size as well as in the scope of its operations. Regarding the organization structure, KRA is composed by centralized and decentralized units located across the national territory. The centralized units are basically situated at times towers in Nairobi with fiscal regions namely, southern, central, rift valley, western, and northern region. Due to enlarged scope of operation KRA has been restructured and created ten functional departments (KRA, 2015).

The Kenya revenue authority, sixth corporate plan 2015/2016-017/2018 report continued to state that KRA's governance and management structure is to be reviewed concurrently with the corporate planning cycle in three years. The KRA board of directors is constituted of 8

members, two ex-officio members and six members from public (government) and private sectors respectively and it is the governing body responsible for policy review. The two ex-officio members are designated as the principal secretary, national treasury and planning and the attorney general. At the management level and for the daily agency operations, the Commissioner General is in charge assisted by 5 commissioners. The commissioners are in charge of departments namely; Customs Services (CSD), Domestic Taxes (DTD), Support Service (SSD), Large Taxpayer Office (LTO) and, Investigations and Enforcements (I&E) and Medium and Small Taxpayer (MST). The support services commissioner also supervises Road Transport Department (RTD). Further, there exists Headquarters, departments and five regional offices in that order.

1.2 Statement of the Problem

The challenge of failure to meet the set targeted budget has been experienced by many countries worldwide. According to Dickson and Presley (2013), over 70 per cent of sub-Saharan African Countries are presently experiencing huge deficits in the management of their budgets. This can be attributed to their inability to collect enough revenue required to finance the budget. Raising enough revenue is the basic standard that any tax system ought to achieve. For instance in 2018 the Federal Inland Revenue Service (FIRS) of Nigeria only recorded a total tax collection of 5.32 trillion Naira against the set target of 6.72trillion Naira. In Uganda, the tax deficit has been increasing gradually over time. They recorded a 4.7% budget deficit for the financial year 2017/2018. The fiscal deficit is significantly above the 3 per cent ceiling agreed with the International Monetary Fund (PwC, 2018).

KRA has been having a challenge in meeting its tax collection targets despite having undertaken many tax reforms such as changes in its organizational structure. According to

KRA – 7th Corporate Plan (2018), the period 2015/2016-2017/2018 saw KRA collect Ksh. 4,000.8 billion against set target of Sh4,185.6 billion implying a shortfall of Ksh184.8 billion.

The gap between reforms including structural against revenue collection has yielded a number of studies attempting to understand the lapse. These studies have looked at different variables and concepts. Morrissey et al, (2016) did a study on Tax revenue performance and vulnerability in developing countries where he established that in relation to trade associated with highest revenue loses, lower income countries are vulnerable to such shocks. Further, globally between the years 1998-2009 countries with low income recorded increase in tax revenue (Lee et al, 2012).

Studies done by Ohemeng and Owusu (2013), and Muriithi and Moyi (2003) have attempted to investigate the link that exists between organizational structures and efficiency in revenue collection and overall performance respectively. A closer study; Awitta (2010) analyzed the effectiveness of collection strategies but did not single out how tax revenue performance is influenced by organizational structure. This study therefore sought to investigate the effect of organizational structure on tax revenue performance at KRA.

1.3 Objectives of the Study

The general objective of the study was to determine the effect of organizational structure on tax revenue performance at Kenya Revenue Authority.

1.3.1 Specific Objectives

The specific objectives of the study were to:

- i. Determine the effect of decentralization on tax revenue performance at Kenya Revenue Authority.

- ii. Establish the effect of formalization on tax revenue performance at Kenya Revenue Authority.
- iii. Determine the effect of span of control on tax revenue performance at Kenya Revenue Authority.

1.4 Research Questions

The research questions are:

- i. What is the effect of decentralization on tax revenue performance at Kenya Revenue Authority?
- ii. What is the effect of formalization on tax revenue performance at Kenya Revenue Authority?
- iii. What is the effect of span of control on tax revenue performance at Kenya Revenue Authority?

1.5 Significance of the Study

The study findings are beneficial to various stakeholders. This includes policy makers in the government, tax managers at KRA and future researchers.

1.5.1 Contribution Policy Makers

The study findings are beneficial to government policy makers by giving them insights when formulating policies that govern tax and collection of taxes in general. This will thus aid in instituting the right framework and thereby enhancing the tax revenue performance.

1.5.2 Contribution to Management

This research is expected to be of benefit to revenue managers who are saddled with the very important responsibility to ensure that taxpayers are not negligent in paying their taxes. It will also assist in knowing why taxes are evaded. The outcome of this research will enable them

to have a better understanding of why taxpayers evade taxes. Therefore, when these reasons are adequately appraised, it is expected that it will in turn translate to the provision of necessary infrastructure for the society when the resources are judiciously utilized. This research will provide better understanding of tax performance for the growth of economy in Kenya.

1.5.3 Contribution to Researchers

This study will contribute in the field of collection of revenue. These findings are important resources in theory development and in further research. Similarly, this study will be of great significance to future researchers as they seek to increase their knowledge on the relationship between organizational structure and tax revenue performance in developing countries.

1.6 Scope of the Study

The study determined the effect of organizational structure on tax revenue performance at Kenya Revenue Authority. The study specifically focused on the effect of span of control, formalization and decentralization on tax revenue performance in Kenya. The unit of analysis was the senior managers at KRA, headquarters Times Towers, Nairobi. The study focused on the financial year 2018/2019.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical and empirical literature on the effect of organizational structure on tax revenue performance at Kenya revenue authority. It discusses the theories of the study, empirical literature and conceptual framework.

2.2 Theoretical Literature

This study was anchored on Ability to pay taxation theory, Adam's Equity Theory and Resource Based Theory.

2.2.1 Ability To Pay Taxation Theory

According to Adam Smith's article 'The Wealth of Nations' (1776), Smith indicated that of general benefit to the public, are issues such as country defense and maintenance of institutions of good government. Therefore, it is sensible that a nation's populace in entirety ought to be contributing towards the tax costs. Further, it is sensible to be demanding certain key things of a tax system for more so there ought to be a link in once ability to pay with the amount the government compels one to pay. On the ability to pay approach, the government revenue and expenditures are treated separately and taxes are based on taxpayer's ability to pay and it derives from wealth as well as current income, (Chauke and Sebola, 2016). Ability-to-pay taxation argues that those who earn higher incomes should pay a greater percentage of those incomes in taxes compared with those who earn less. For example, in 2019 individuals in the Kenya with taxable income less than Shs. 12,299 faced a 10% income tax rate, while those with taxable income of more than Shs. 47,059 faced a rate of up to 30%, the nation's top individual rate. Earnings between those amounts face tax rates as set by

income brackets (Ngumy & Njuguna, 2019). This theory further propagates that assessment of people's taxable capability ought to be done subject to one's property and income.

The ability to pay theory is relevant to the current study in relation to tax revenue performance as it seeks explain that every taxpayer should contribute their fair share of taxes towards the national kitty and thus can trust that KRA does not intend to tax more than it should from him/her. Further, it can be concluded that ability to pay theory is applicable and applied in the Kenyan context in the collection of taxes.

2.2.2 Adam's Equity Theory

This theory was developed by John Stacey Adams in 1963. The theory aims to strike a balance between a citizens input/contribution and output/reward in a nation. The theory postulates that if a taxpayer/citizen is able to find his or her right balance it would lead to a more productive relationship with the government. Input in this case includes tax payment and compliance to that effect whereas output/reward can be things like security, national defense, and public health. A proper balance between input and output ensures that a citizen or taxpayer feels satisfied and motivated, contributing to their productivity/compliance (Mulder, 2018).

Further taxation, the theory postulates that for improved compliance among tax payers one need to address the exchange relationship inequities that exist between taxpayers and government. No citizen may think about a fellow citizen without first taking into consideration his or her own relationship with the government/state. One may further put into consideration how s/he is being treated by the state relative to how the state treats his/her fellow citizens. The judgment derived in the process is likely to affect not only once judgment of how one views fellow citizens but also the government/state (Wamathu, 2013).

If the state offers preferential treatment to certain individuals or groups, this may affect the relationship of the citizen with the government/state and also the group receiving preferential treatment.

According to Young (2018), the Adam's Equity theory has two main principles. First, there needs to be a balance between employee's work inputs (effort) and outputs (reward). Second, workers need to feel fairly treated in comparison with their colleagues. Inputs and outputs are straightforward: the input is the effort, knowledge, skills and commitment that an employee gives their organization; the output is what they get in return, including remuneration and recognition. The second element to consider is that employees compare their ratio with 'referents', colleagues with whom they feel they should have parity. If employees feel their own ratio isn't well-balanced, they would look towards these referents and compare their rewards. If an employee feels 'under-rewarded', their natural impulse is to restore their perception of equity.

These general preferences for equity can be traced to internal standards that characterize the Benevolent as emphasizing own inputs exceeding own outcomes; the Entitled, own outcomes exceeding own inputs; and the Equity Sensitive, own outcomes equaling own inputs (Huseman et al, 2018). The understanding of how Adam's equity theory works is still very key for organizations to date. This can help create an effective organizational structure in which employees are encouraged to carry out their work with conviction and passion every day. In support of this theory the study postulates that creation of dedicated departments as part of effective organizational structure at KRA based on product or brand lines, geographic locations or even customer needs tend to enhance tax compliance and hence increasing tax revenue performance.

2.2.3 Resource Based Theory

The resource-based theory seeks to understand why firms grow and diversify. The theory grew largely out of Penrose's (1959) study, in which she cites unused managerial resources as the primary driver of growth. Penrose recognized that internal managerial resources are both drivers and limits to the expansion any one firm can undertake.

Barney (1991) introduces the concept of the resource based view (RBV) to address the limitations of environmental models of competitive advantage and attempts to provide a link between heterogeneous resources controlled by an organization, mobility of the resources within the particular industry and the strategic or competitive advantage enjoyed by an organization.

According to Yang and Conrad, (2011) and Peteraf, (2018) Resource Based Theory is concerned with organizational performance heterogeneity. The objective is to bring together a range of internal resources which combined and deployed strategically can create competitive advantage for the organization. Internal resources include various types of capital: Physical capital (buildings; machinery; stock); financial capital (investments; cash reserves; operating capital); human capital (the knowledge, qualifications, skills and experience of employees) and corporate capital (trademarks; patents; systems).

Davis and Simpson (2017) explain that these resources become valuable when they are used to enable the organization to implement its business strategy. It is through the implementation of business strategy that sustained competitive advantage can be achieved. Leiblein (2011) has observed that Resource Based Theory is premised upon two observable truths. Firstly, firms vary in their ability to control, access and organize productive resources. Secondly, firms' differences in resources and resource management at least partially explain performance differences among close competitors. The nature of resources and resource

management are the two main issues that this section will address. Strategic business applications.

Hazen and Byrd (2012) discovered that a firm's information technology (IT) is critical to sustaining competitive advantage and that good IT depends upon human capabilities and integration with other internal firm resources such as other systems and process. Resource Based Theory was applied to understand how IT can be developed and maintained for competitive advantage. Resource Based Theory has also been applied successfully to help firms expand and develop. Zubac et al, (2012) demonstrate that RBT can provide for a model to help inform business owners and senior management where best to invest capital in the company for maximum returns.

Davis and Simpson, (2017) suggests that Resource Based Theory frameworks can be practically applied to facilitate managerial actions and decisions. They state that managerial actions are known to influence performance and provide examples of such actions including: acquisition of customers; introduction of new products; business expansion; entering into business partnerships and takeovers. All such actions and the decisions that lie behind them would necessarily be based in competencies learned through development or experience. Therefore, employee competencies will predict certain actions and decisions that, if well chosen, can influence competitive advantage and firm performance.

This theory informs the combination of resources within an organization that is organizational structure in a manner that improves organizational competitive advantage for enhanced tax revenue performance. In support of this theory the study postulates that creation Organization capital resources which include the formal structure of the organization cognizant of formalization and span of control as part of effective organizational structure at KRA to enhance tax revenue performance.

2.3 Empirical Literature

2.3.1 Organizational Structure and Tax Revenue Performance

The Centre for Tax Policy and Administration (2011) report indicated that organization structure may be considered the anatomy of an organization, providing a foundation within which the organization functions. Organizational structure, conceptualized as the decision making structure among a group of individuals, is shown to affect a number of initiatives pursued by organizations. These activities can be viewed in terms of the omission and commission errors made by organizations. The Centre for Tax Policy and Administration, also during a forum on tax administration comparison, described some of the factors relevant to the evolution of tax regime organizational structure models.

Mascagni (2017) notes that there are many small, incremental organizational reforms that would be quite effective in increasing tax capacity and the overall performance of the system, such as building better data management systems, making sure datasets from different institutions and within the same institution are connected and communicate with each other, and introducing automatic enrolment incentives such as a legal requirement to present tax registration information for services like taking out a loan, buying a house, and opening a bank account. Relevant government departments must be linked effectively (McCluskey, 2017). Reorganization of revenue administration according to taxpayer size rather than tax type has also been a successful innovation towards increasing tax revenue performance (McCluskey 2017).

The Kenya Revenue authority has in the recent past appeared in media reports for the wrong reasons. For instance, in the last few months a number of the Authority's mid-level management employees were arrested for being complicit in their work where they were collaborating with unscrupulous members of the public to defraud their employer. This may

serve as a pointer to system failures, where so much revenue can be siphoned out by wayward employees for a fairly long time without the anomalies being identified.

Studies have indicated that organizational structure on revenue performance played a critical role in influencing the level of tax compliance by various categories of taxpayers (Al-Qatawneh, 2014). For instance, complex tax filing systems discouraged some taxpayers from being compliant hence encouraging loss of tax revenues. In some instances, costs incurred by taxpayers and third parties in filing tax and complying with various structures and levels of taxation process have discouraged individuals and corporate from filing returns consistently and on time (Smith, 2010). According to Liao (2011), costs of compliance, administrative costs, and burdens borne by third parties often reflect the complexity of the tax system. Therefore, simplifying the tax structure or providing other forms of taxpayer service can significantly reduce compliance costs and in turn increase revenue productivity.

2.3.4 Decentralization and Tax Revenue Performance.

Decentralization means cascading decision making authority to lower level employees (Sablinskis, 2003). Decentralization is dependent on the principle of subsidiarity (Holtmann 2000). Where a decentralized structure is practiced, decision making is cascaded downwards to the managers who are closest to the point of action or employees. Quicker actions and more people are usually involved in decision making, these features are seen as the advantages that decentralized organizations have (Stephen and Timothy, 2012).

Similarly, a study to examine the effect of organization structure on Value Added Tax compliance by Uganda Revenue Authority (URA) yielded the same results. This is due to the fact that employees in all organizations want to work in an environment of trust and respect where they feel they are making a real contribution to organizational goals and objectives

(Anderson and Pulich, 2000). In the same breath this study posits that decentralization of KRA offices countrywide would see enhanced performance in tax revenue.

Balunywa et al (2014) in their study, examined the impact of fiscal decentralization on revenue performance in Ugandan local governments. A cross-sectional survey research design involving both quantitative qualitative research methods were used in the study. A questionnaire was employed to collect and analyze quantitative data, while an interview guide was used to collect qualitative data. The study population included council members and technical members of staff in three local government districts of Mbale, Manafwa and Kampala. Both random and purposive sampling techniques were used to select a total sample of 600 respondents.

In their study, Balunywa et al (2014) indicated that fiscal decentralization helps to reduce corruption, leads to improved revenue performance, enables better planning for revenue collection, reduces on tax evasion, enables the local unit to get more sources of revenue, makes it easy to handle taxation disputes and also that Fiscal decentralization reduces on taxation bureaucracies hence better revenue performance.

2.3.5 Formalization and Tax Revenue Performance.

Formalization can be described as an amount of written documents in organizations, like defined procedures, rules, regulations, job descriptions and policy manuals. All of these documents describe activities and behavior and how to do certain things (Farhanghi et al, 2013). Farhanghi et al (2013) found that formalization improves organizational performance. They further claim that when a firm characterized by high formalization can, in fact, perform better than its competitors. Formalization enables the creation of organizational memory of best practices, which, in turn, makes knowledge use more efficient and may have a positive

impact on performance, especially when it serves to collect valuable information and conveys priorities and values (John and Martin, 2017).

According to Mansor and Tayib (2012) in their paper Tax Administration Performance Management: Towards an Integrated and Open System Approach, the duet developed A conceptual framework for the new approach to tax administration performance management. The distinct feature of the framework is that it highlights the critical process of transforming inputs into outputs/outcomes in a tax administration by diagnosing the interrelation of the components in the process, i.e. formal organization, informal organization, task and people. These components contain both institutional and behavioral factors which have significant effect on tax administration performance and should be managed in an integrated and open system approach.

Mansor and Tayib (2012) further indicated the need to diagnose the connection among inputs, processes and outputs/outcomes related to task execution in a tax administration to find out whether the appropriate tax collection processes and capabilities are in place to achieve the strategic goals and objectives in the strategic plan. The diagnosis can be performed by comparing the inputs, processes and outputs/outcomes related to task execution with a set of performance standards or benchmarks (Mansor and Tayib, 2012).

2.3.6 Span of Control and Tax Revenue Performance

Fayol (1916) was among the first authors who formulate control as management principle, he posits that to control is making sure that all is being executed as per the adopted plan, the spelt out orders and in accordance to the laid down principles. Its object is to ensure rectification of the point out mistakes and prevention the reoccurrence of such mistakes. An organization with narrow span of control exhibit few subordinates under control of each manager at each level. Keeping a span of control between five and six employees, a manager

in placed in a good position to maintain close control of the employees, Gittell (2010). Similarly, Hendericks (2010) notes that a reduction in span of control from 1:18 to 1:6 increases productivity and profit in a company.

However, Robbins and Timothy (2012) indicated that holding all other factors constant, the span of control is directly proportional to the organizational efficient.

2.4 Conceptual Framework

A conceptual framework provides a tentative or hypothesized relationship between variables that form the theme of a study (Cooper & Schindler, 2014). The conceptual framework in Figure 2.1 shows the relationship between the independent variable; organizational structure and the dependent variable; tax revenue performance.

In this study the independent variable; organization structure was measured based on three elements; Decentralization, Formalization and Span of Control. Decentralization can be seen from the involvement of employees in decision making and the levels of management in the organization. Formalization can be viewed on the basis of existence of formal guidelines and procedures on operations of the organization. In regard to span of control, it's important to consider the number of subordinates under the supervisors. In one way or the other these independent variables influence the dependent variable which is the tax revenue performance which in this study was measured by the registered tax payers and tax payment.

Independent Variable

Organizational Structure

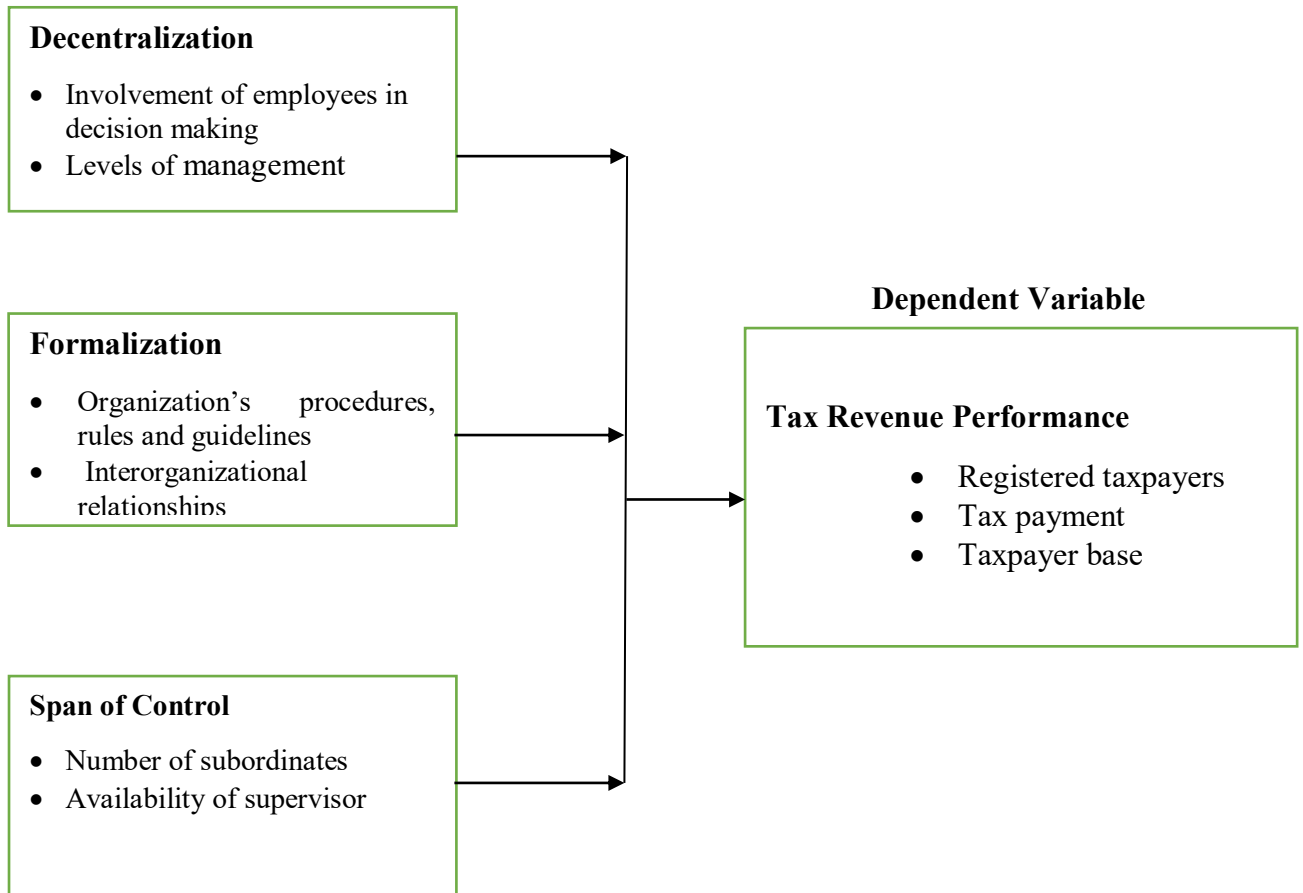


Fig. 2.1 Conceptual Framework

2.5 Critique of the study

Al-Qatawneh (2014) did study on the impact of organizational structure on revenue performance and compared between private and public sector firms in Jordan. This was also done in a developed country while the current study will be done in a developing country. Here majority of the taxpayers appreciate the need for tax. Mascagni (2017) notes that there are many small, incremental organizational reforms that would be quite effective in increasing tax capacity and the overall performance of the system, such as building better data management systems, making sure datasets from different institutions and within the

same institution are connected and communicate with each other, and introducing automatic enrolment incentives such as a legal requirement to present tax registration information for services like taking out a loan, buying a house, and opening a bank account (Mascagni, 2017). Relevant government departments must be linked effectively (McCluskey, 2017). Reorganization of revenue administration according to taxpayer size rather than tax type has also been a successful innovation towards increasing tax revenue performance (McCluskey 2017).

Stephen and Timothy, (2012) did a study to examine the effect of organization structure on Value Added Tax compliance by Uganda Revenue Authority (URA) and found a significant positive relationship between span of control, tax knowledge and VAT compliance and an insignificant positive relationship between attitude and perception and VAT compliance. However, the study did not include the use of formalization and decentralization in enhancing VAT compliance.

2.6 Summary of Literature Review

Past studies have attempted to establish the relationship between organization structure and tax revenue performance. The chapter also explored the conceptualization of the independent and the dependent variables by analyzing the relationships between the two set of variables. In addition, the chapter outlines the research gaps emanating from reviewed literature.

Studies have indicated that organizational structure on revenue performance played a critical role in influencing the level of tax compliance by various categories of taxpayers (Al-Qatawneh, 2014). For instance, complex tax filing systems discouraged some taxpayers from being compliant hence encouraging loss of tax revenues. In some instances, costs incurred by taxpayers and third parties in filing tax and complying with various structures and levels of

taxation process have discouraged individuals and corporate from filing returns consistently and on time (Smith, 2010). According to (Liao, 2011), costs of compliance, administrative costs, and burdens borne by third parties often reflect the complexity of the tax system. Therefore, simplifying the tax structure or providing other forms of taxpayer service can significantly reduce compliance costs and in turn increase revenue productivity. The Centre for Tax Policy and Administration (2011) report indicated that organization structure may be considered the anatomy of an organization, providing a foundation within which the organization functions.

Mascagni (2017) notes that there are many small, incremental organizational reforms that would be quite effective in increasing tax capacity and the overall performance of the system, such as building better data management systems, making sure datasets from different institutions and within the same institution are connected and communicate with each other, and introducing automatic enrolment incentives such as a legal requirement to present tax registration information for services like taking out a loan, buying a house, and opening a bank account (Mascagni, 2017). Relevant government departments must be linked effectively (McCluskey, 2017). Reorganization of revenue administration according to taxpayer size rather than tax type has also been a successful innovation towards increasing tax revenue performance (McCluskey, 2017).

2.7 Research Gaps

There exist conceptual, contextual and methodological research gaps. The research by Kim and Lee (2006) did a comparative study on organization structure on tax compliance between public and private sector in the Asian context, specifically South Korea where the quantitative research design was adopted in contrast with the descriptive design used in this study. This exposed a methodological research gaps.

Other studies presented a contextual research gap since the focus was outside Kenya therefore their findings cannot be generalized to Kenya. Such studies include Al-Qatawneh (2014) who did study on the impact of organizational structure on revenue performance and compared between private and public sector firms in Jordan.

In the study by Mwachiro (2011) on effect of internal controls on Revenue Collection at KRA there exists a conceptual gap. He focused on internal control which is a sub set of organizational structure besides, among his variables for internal controls were segregation of duties, custody of assets, authorization, internal audit, records control and management supervision.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses how the research was conducted. As such, it includes the research design adopted, the target population, the sampling procedure and size, research instruments, data collection procedure, data analysis techniques adopted and the ethical considerations.

3.2 Research Design

Research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper and Schindler, 2003). This research adopted a descriptive research design. A descriptive research design determines and reports the way things are without any manipulation of the variables of the study (Mugenda & Mugenda, 2003).

3.3 Target Population

Mugenda & Mugenda, (2003) defines population as an entire group of individual or objects having common observable characteristics. A large set of observation is called a population while a smaller set is called a sample. The target population of this study are the senior managers at Kenya Revenue Authority Nairobi who are 316 in number. The summary is provided in Table 3.1.

Table 3.1 : Target Population

Category	Target Population (N)	Proportion (%)
Customs and Border Control	60	19
Domestic Taxes, Investigations and Enforcement	63	20
Corporate Support Services, and Strategy	61	19
Innovation and Risk Management departments	65	21
Internal Audit Department	67	21
Total	316	100

Researcher, 2019

3.4 Sampling Procedure and Sample Size

Cooper and Schindler (2003) defined a sample as a list of elements from which the sample is actually drawn and is closely related to the population. It is from the target population that the sample is extracted. Statistically, in order for generalization to take place, a sample of at least 30 elements must exist (Cooper and Schindler, 2003). Kothari (2004) argues that if well chosen, samples of about 10% of a population can often give good reliability.

Mugenda & Mugenda, (2003) sampling formula of 10-50% was used to select a sample size where the lower limit of 10% of the target population was chosen hence a sample size of 32 respondents. The sample was selected using stratified sampling technique. This is a probability sampling method where respondents are grouped into unique and non-overlapping categories before they are proportionally sampled. Each element in every category stands equal chances of being selected. Table 3.2 further presents this information in summary.

Table 3.2 : Sample Size

Category	Target Population (N)	Sample Size (n)
Customs and Border Control	60	6
Domestic Taxes, Investigations and Enforcement	63	6
Corporate Support Services, and Strategy	61	6
Innovation and Risk Management departments	65	7
Internal Audit Department	67	7
Total	316	32

3.5 Data Collection Instruments

The study used primary data. Primary data on the organization structure was obtained using structured questionnaires. The questionnaires were administered to the sampled population through drop-and-pick later method. This implied that blank questionnaires were distributed to the respondents and left for them to fill before completed ones were picked.

3.6 Data Collection Procedure

Kombo and Tromp (2009), states that data collection is important in research because it allows for dissemination of accurate information and development of meaningful programmes. The questionnaires were self-administered. The researcher informed the respondents that the instruments being administered was for research purpose only and their response would be kept confidential. The researcher also obtained an introductory letter from the University in order to collect data from the field.

3.7 Pilot Test

A pilot test was conducted in the five different categories as part of the main study. One respondent was randomly selected from each category giving a total of five respondents. To the five respondents, questionnaires were administered. Piloting helped in improving reliability and the validity of the data collection tools as well as in familiarizing with the data collection process (Mugenda & Mugenda, 2005). It was undertaken to test logistics and gather information in order to improve the quality of questionnaires and efficiency of data collection procedures to be applied in the research work.

3.7.1 Reliability of the Instrument

The questionnaire was subjected to overall reliability analysis of internal consistency. This was measured using Cronbach alpha as a coefficient of internal consistency. Internal consistency measures the correlations between different items on the same test (or the same subscale on a larger test) and whether several items that propose to measure the same general construct produce similar scores. The acceptable value of 0.7 was used as a cut-off of reliability for this study. All the variables were reliable since their cronbach alpha was above 0.7 which was used as a cut-off of reliability for the study. Table 3.2 shows the reliability results.

Table 3.3: Reliability

Variable	No of Items	α =Alpha	Comment
Tax Revenue Performance	5	0.764	Reliable
Decentralization	5	0.842	Reliable
Formalization	5	0.731	Reliable
Span of control	5	0.829	Reliable

3.7.2 Validity of Research Instruments

Validity is the degree to which a research instrument measures what it intends to measure and performs as it is designed to perform (Saunders et al 2013). It is a measure of relevance and correctness (Mugenda and Mugenda, 2003). Validity test is used in determination of a measurement if it really reflects the concept under the study. In this sense, only inferences related to the variables under study were considered during the match between test questions and content of the subject area of the study. To ensure validity of data collection instrument for the study, pretesting was done to determine whether the questions were acceptable, answerable and well understood. Pilot testing of research helped reveal vague questions, unclear instructions and enabled the researcher to improve the efficiency of the instruments.

3.8 Data Analysis

Collected data was coded and then processed, cleaned and tabulated using Statistical Package for Social Sciences (SPSS). The study used descriptive and inferential statistics to process data. Both Bivariate and Multivariate analysis techniques were used. Bivariate analysis used Pearson correlation test to determine the relationship between organizational structures and effective revenue collection at Kenya Revenue Authority.

Multivariate analysis technique involves the use of multiple regression analysis to determine the effect and impact of organizational structure on effective revenue collection at Kenya Revenue Authority.

The regression model for the study is: $Y = \beta_0X_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$

Where:

Y = Tax Revenue Performance

X₁ = Formalization

X₂ = Decentralization

X_3 = Span of Control

ε = Error Term for the regression model

$\beta_0 X_0$ = Beta Coefficient

β_1 , β_2 and β_3 are the regression coefficients for the variables X_1 , X_2 and X_3 respectively.

3.9 Ethical Considerations

Ethical clearance to carry out the research was obtained from Kenya School of Revenue Administration (KESRA). Confidentiality was observed during the study, by not disclosing the actual identity of the respondents. Moreover, proper explanation was given to the respondents regarding the aim of the study, and they were assured that their information was used only for the purpose of the research. No any form of coercion or manipulation was applied to collect data from the respondents. They were left to participate out of free will, and they were at liberty to withdraw their participation at any given stage of the study without any far-reaching consequences.

3.10 Operationalization & Measurement of Variables

The independent variables in this study is organizational structure which was operationalized to Decentralization, Formalization and Span of control whereas the dependent variable is Tax revenue performance which was operationalized as registered tax payers, tax payment and tax payers base. This section provides details of how each of the study variables will be operationalized and measured.

Table 3.4: Operationalization and Measurement of Study Variables

Variable	Source/Authors	Data Collection Instruments	Measurement Scale	Types of Analysis
Independent Variable				
Decentralization	Holtmann (2000)	Questionnaire	Likert Scale 1-5	Correlation and Multiple Regression
Formalization	Liao (2011)	Questionnaire	Likert Scale 1-5	Correlation and Multiple Regression
Span of control	Gittell (2010)	Questionnaire	Likert Scale 1-5	Correlation and Multiple Regression
Dependent Variable				
Tax Revenue Performance	PWC (2015)	Questionnaire	Likert Scale 1-5	Correlation and Multiple Regression

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter comprises of research findings and discussion. It presents the results and discussions of the collected data. The chapter encompasses the response rate, demographic characteristics, descriptive statistics and the inferential statistics. Results are presented in tables and diagrams. The data is in line with the research objectives.

4.2 Response Rate

The study administered 32 questionnaires. Of the total, 28 questionnaires were dully filled and returned which reveals an overall successful response rate of 87% as shown on figure 4.1 According to Babbie (2004), return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Based on these 87% response rate is adequate for the study.

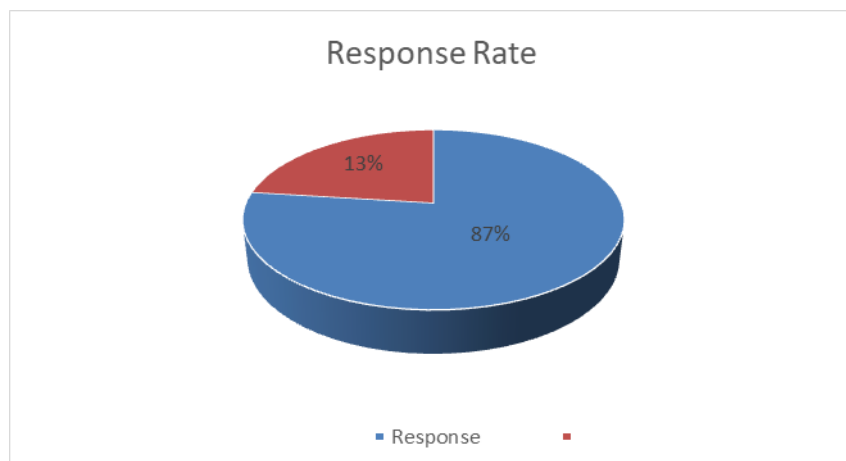


Figure 4.1: Response Rate

Survey Data (2019)

4.3 Demographic Characteristics

This section provides information that posits the basic characteristics such as gender, age, level of education, number of years worked at KRA, current designation and years of designation.

4.3.1 Gender

The study sought to establish the gender of the respondents. Results revealed that 60.7% were male while 39% were female. The results demonstrate that KRA upholds gender diversity since the number of female managers is almost equal to that of male managers.

Table 4.1: Respondent Gender

Gender	Frequency	Percentage
Male	17	60.7
Female	11	39.3
Total	28	100

4.3.2 Age

The study also implored the respondents to state their age bracket. Results in table 4.2 reveal that majority (35.7%) were aged between 41-50 years, 32.1% were aged between 31-40 years, 17.8% were aged above 50 years, while 14.2% were between 20-30 years. The result depicts that majority of the managers at KRA are middle aged.

Table 4.2: Respondents' Age Group

Age Group	Frequency	Percentage
20-30 years	4	14.2
31 – 40 years	9	32.1
41 – 50 years	10	35.7
Above 51 years	5	17.8
Total	28	100

4.3.3 Level of Education

Further, the study sought to determine the extent to which the respondents had pursued education. Results in the table below show that majority 39.2% had acquired education up to degree level, 25% had studied up to the college level and attained diploma, 21.4% had acquired education up to certificate level while the rest 14.2% had pursued education up to the master level. The results show that most of the managers at KRA are educated and thus they are equipped with requisite skills for their various roles at KRA.

Table 4.3: Highest Level of Education

Professional qualification	Frequency	Percentage
Certificate	6	21.4
Diploma	7	25
Degree	11	39.2
Master	4	14.2
Total	28	100

4.3.4 Number of Years Worked in KRA

The study sought to establish the number of years worked in KRA by the respondents. Results in table 4.4 show that 46.4% had worked for KRA above 15 years, 25% had worked for KRA for a period of between 11-15 years, 17.8% had worked for KRA for 1-5 years while 10.7% had worked for KRA for a period of between 6-10 years. The results depict that most of the managers at KRA had worked for a commendable number of years to accrue the necessary expertise to execute their duties.

Table 4.4: Years Worked in KRA

Years	Frequency	Percentage
1-5 years	5	17.8
6 – 10 years	3	10.7
11 – 15 years	7	25
Above 15 years	13	46.4
Total	28	100

4.3.5 Current Designation in KRA

Further, the study sought to determine the current designation of the respondents. Results in below show that majority 57.1% were top level management, 28.5% were middle level management and 14.2% were BOD members. The results show that most of the respondents were top level managers.

Table 4.5: Current Designation

Designation	Frequency	Percentage
Top level	16	57.1
Middle Level	8	28.5
BOD level	4	14.2
Total	28	100

4.3.6 Years in Current Designation

The study also implored the respondents to state their years in current designation. Results in table 4.6 reveal that majority 42.8% held the designation above 15 years, 32.1% held the designation between 11-15 years, 14.2% held the designation between 1-5 years, while 10.7% held the designation between 6-10 years. The result depicts that majority of the managers at KRA had held the current designation for many years

Table 4.6: Years in Current Designation

Years	Frequency	Percentage
1-5 years	4	14.2
6 – 10 years	3	10.7
11 – 15 years	9	32.1
Above 15 years	12	42.8
Total	28	100

4.4 Diagnostic Tests

Before undertaking regression analysis, diagnostic tests were done. They included: measures of normality and multi-collinearity.

4.4.1 Test of Normality

According to Razali and Wah (2011) Shapiro-Wilk is the most powerful normality test. The findings of the tests are presented in Table 4.7. The Shapiro-Wilk test was used in testing the data in this study. Shapiro-Wilk test of less than 0.05 implies that there is significant deviation of data from a normal distribution. The study's data set was subjected to a normality test and the results are shown in Table 4.7. The data presented was normally distributed as shown below and the results for Shapiro-wilk had p values greater than 0.05, which means the assumption of normality was not violated.

Table 4.7: Tests of Normality

	Tests of Normality			
	Kolmogorov-Smirnov ^a		Shapiro-Wilk	
	Statistic	Sig.	Statistic	Sig.
Decentralization	0.679	.005	0.900	0.63
Formalization	0.564	.006	0.710	0.12
Span of Control	0.587	.004	0.795	0.29
Tax revenue performance	0.759	.000	0.957	0.61

a. Lilliefors Significance Correction

Source: Research Data, 2019

4.5 Multicollinearity Test

Multicollinearity is the undesirable situation where the correlation among the independent are strong. It increases the standard errors of the coefficients using collinearity statistics to get tolerance and variance inflation factor (VIF). In order to test for multicollinearity, VIF was computed using statistical packages for social science (SPSS). Multicollinearity increases the standard errors of the coefficients and thus makes some variables statistically not significant while they should otherwise be significant (Osborne and Waters, 2014).

Tolerance is the amount of variance in independent variable that is not explained by the other independent variable. Hair et al., (1995) stated that lower levels of VIF are better while higher levels of VIF are known to affect adversely the result associated with a multiple regression analyses. The authors argued that VIF above 10 start to indicate relatively high levels of multicollinearity. The Variance Inflation Factor test in the study regression model ranged between 1.297 and 1.438. These values were lower than the 10 level therefore; multicollinearity was not a problem on this analysis. Thus the study findings were able to fulfill the threshold as shown in the table 4.8.

Table 4.8 : Multicollinearity Test Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
(Constant)		
Decentralization	0.790	1.438
Formalization	0.756	1.432
Span of control	0.880	1.297

a. Dependent Variable: Tax revenue performance

4.6 Descriptive Statistics

This section presents the descriptive results on decentralization, formalization, span of control and tax revenue performance.

4.6.1 Decentralization

The study sought to establish the effect of decentralization on tax revenue performance. Results in Table 4.9 prove that Decentralization improves effective decision making and hence tax revenue performance with a mean score of 4.71, respondent agreed that Sub-ordinate staff participate in decision making on matters relating to tax revenue performance with mean score of 4.28, all operation activities undertaken by the corporation are approved by Chief Executive officer with a mean score of 4.47. The results also affirmed that Staff are asked to give their input on the adoption of new policies and procedures with a mean score of 4.19, while agreement was made on no or little action can be taken by staff on any matter without supervisor permission with a mean score of 3.87.

Table 4.9: Decentralization

Statement	Mean	SD
Decentralization improves effective decision making and hence tax revenue performance	4.71	0.65
Sub-ordinate staff participate in decision making on matters relating to tax revenue performance	4.28	0.88
All operation activities undertaken by the corporation are approved by Chief Executive officer	4.47	0.79
Staff are asked to give their input on the adoption of new policies and procedures	4.19	0.76
No or little action can be taken by staff on any matter without supervisor permission	3.87	0.43
Average	4.3	

4.6.2 Formalization

The study sought to establish the effect of formalization on tax revenue performance. Results in Table 4.10 prove that formal departmental meetings and or briefings conducted on a regular basis increase amount of tax revenue collected with a mean score of 4.60, respondent agreed that Existence of formal guidelines on how to deal with every operational activity and the availability of the guidelines to staff increase amount of tax revenue collected with mean score of 4.86, Use of Written formal communications through established channels on every engagement with tax payers promotes the number of new taxpayer’s registration with a mean score of 3.64. The respondents agreed that written job description for every position in this corporation has seen an increase in tax revenue collected with a mean score of 4.10, while agreement was made on Formal orientation program for new members of staff enhances tax revenue performance with a mean score of 3.51.

Table 4.10: Formalization

Statement	Mean	SD
Formal departmental meetings and or briefings conducted on a regular basis increase amount of tax revenue collected.	4.60	0.64
Existence of formal guidelines on how to deal with every operational activity and the availability of the guidelines to staff increase amount of tax revenue collected.	4.86	0.75
Use of Written formal communications through established channels on every engagement with tax payers promotes the number of new taxpayer’s registration.	3.64	0.52
Written job description for Every position in this corporation has seen an increase in tax revenue collected	4.10	0.63
Formal orientation program for new members of staff enhances tax revenue performance.	3.51	0.45
Average	4.1	

4.6.3 Span of Control

The study sought to establish the effect of span of control on tax revenue performance. Results in Table 4.11 prove that the number of subordinates under each supervisor affect tax revenue collected with a mean score of 3.68, respondent agreed that Availability of time with supervisor led to improvement in tax revenue collected with mean score of 4.07, The number of returns submitted has increased since more staff were added to my section with a mean score of 2.98. Contribution of more employees enables us to collect more revenue with a mean score of 3.53, while agreement was made on the returns submitted from taxpayer have declined since the staff in my section were reduced with a mean score of 4.45.

Table 4.11: Span of Control

Statement	Mean	SD
The number of subordinates under each supervisor affect tax revenue collected	3.68	0.41
Availability of time with supervisor led to improvement in tax revenue collected	4.07	0.58
The number of returns submitted has increased since more staff were added to my section	2.98	0.30
Contribution of more employee enables us to collect more revenue	3.53	0.39
The returns submitted from taxpayer have declined since the staff in my section were reduced.	4.45	0.87
Average	3.7	

4.6.4 Tax Revenue Performance

The study sought to establish the effect of tax revenue performance on tax revenue performance. Results in Table 4.12 prove that the number of registered taxpayers has increased with a mean score of 4.86, respondent agreed that the level of reporting compliance among taxpayers has gone up with mean score of 4.65, the level of payment compliance

among taxpayers has gone up with a mean score of 3.71. The number of taxpayers who have filed their returns on time has increased with a mean score of 4.94; while agreement was made on the tax base of taxpayers has expanded with a mean score of 3.82.

Table 4.12: Tax Revenue Performance

Statement	Mean	SD
The number of registered taxpayers has increased due to decentralization at KRA.	4.86	0.74
The level of reporting compliance among taxpayers has gone up due to KRA procedures, rules and guidelines.	4.65	0.58
The level of payment compliance among taxpayers has gone up due to good interorganizational relations KRA enjoy.	3.71	0.42
The number of taxpayers who have filed their returns on time has increased due to narrow span of control.	4.94	0.99
The tax base of taxpayers has expanded as a result of the involvement of employees in decision making.	3.82	0.47
Average	4.3	

4.7 Inferential Statistics

The study performed Pearson correlation analysis to assess both the respective strengths and direction of relationships among the independent variables and between the independent variables and dependent variables. The variables were computed with the aid of the Statistical Package for Social Sciences. Multiple regression analysis was also conducted to determine the effect of the various independent variables on the dependent variable and therefore test the hypotheses of the study.

4.7.1 Correlation Analysis

Table 4.13 presents the results of the correlation analysis. The results presented in the Table 4.13 shows that decentralization and tax revenue performance are positively and significantly

associated with tax revenue performance as shown $r=0.796$. The results also show that formalization and tax revenue performance are positively and significantly associated with tax revenue performance as shown $r=0.983$. Further, results show that span of control and tax revenue performance are positively and significantly associated with tax revenue performance as shown $r=0.874$.

Table 4.13: Correlation Matrix

Variable		Tax Revenue Performance	Decentralization	Formalization	Span of Control
Tax Revenue Performance	Pearson Correlation	1			
Decentralization	Pearson Correlation	0.796	1		
Formalization	Pearson Correlation	0.983	0.894	1	
Span of Control	Pearson Correlation	0.874	0.794	0.849	1

Correlation is significant at the 0.05 level (2-tailed).

Survey Data (2019)

4.8 Regression Analysis

The broad objective of the study was to investigate the effect of organization structure on Tax revenue performance in Kenya. To achieve this objective, three specific objectives and three corresponding questions were set and formulated respectively. To achieve the set objectives and to answer the questions, the study used various inferential statistical tools and multiple regression analyses was used.

Model Summary

The results in Table 4.14 indicate that decentralization had a positive correlation on tax revenue performance up to 51.7% or ($R= 0.517$). The findings reveal that decentralization

caused a variation of 26.7% or ($R^2=0.267$ and adjusted $R^2 =0.262$) on tax revenue performance. This implies that the remaining 73.3 % of the change was caused by other factors not included in the model. (F value = 44.283, $P=0.00 < 0.05$).

Table 4.14 Effect of decentralization on Tax Revenue Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.517 ^a	0.267	0.262	0.34681

a. Predictors: (Constant), Decentralization _mean

ANOVA

Model	Sum of Square	df	Means Squares	F	Sig.
Regression	5.706	1	5.706	44.283	.000
Residual	23.498	27	0.870		
Total	29.204	28			

a. Dependent Variables: Tax Revenue Performance

b. Predictor: (Decentralization)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.766	.519		5.329	.003
	DCT	.351	.073	.517	4.808	.000

a. Dependent Variable: Tax Revenue Performance

The results in Table 4.15 indicated that formalization had a positive correlation with revenue performance up to 35.6% or (R= 0.356). The findings reveal that formalization caused a variation of 12.7% or ($R^2= 0.127$ and adjusted $R^2 = 0.123$) on revenue performance. This implies that the remaining 87.3 % of the change was caused by other factors not included in the model. (F value = 31.321, $P=0.03 < 0.05$).

Table 4.15 : Effect of Formalization on Tax Revenue Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.356 ^a	0.127	0.123	0.21478

a. Predictors: (Constant), formalization _mean

ANOVA

Model	Sum of Square	df	Means Squares	F	Sig.
Regression	9.291	1	9.291	31.321	.000 ^b
Residual	11.428	27	0.423		
Total	20.719	28			

a. Dependent Variables: Tax Revenue Performance

b. Predictor: (Formalization)

Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	
	B	Std. Error	Beta	T		
1						
	(Constant)	3.486	1.058		3.294	.000
	FMN	.501	.083	.356	6.036	.003

a. Dependent Variable: Tax Revenue Performance

The results in Table 4.16 indicated that span of control had a positive correlation with revenue performance up to 63.5% or (R= 0.635). The findings reveal that span of control caused a variation of 40.3% or ($R^2=0.403$ and adjusted $R^2 =0.399$) on revenue performance.

This implies that the remaining 59.7 % of the change was caused by other factors not included in the model. (F value = 31.086, P=0.000 < 0.05).

Table 4.16 : Effect of Span of Control on Tax Revenue performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.635 ^a	.403	.399	.45265

a. Predictors: (Constant), Span of Control _mean

ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.675	1	8.675	31.086	.000 ^b
	Residual	17.096	27	.633		
	Total	25.771	28			

a. Dependent Variables: Tax Revenue performance

b. Predictor: (Span of Control)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	4.386	0.980		4.475	.000
	SPC	0.412	0.102	0.635	4.039	.000

a. Dependent Variable: Tax Revenue Performance

Model Summary

Results in 4.17 show that decentralization, formalization and span of control were considered satisfactory in explaining tax revenue performance. Decentralization, formalization and span of control had a positive correlation with tax revenue performance up to 82.1% or (R= 0.821). The results reveal that decentralization, formalization and span of control caused a variation of 67.4% or (R²=0.674 and adjusted R² =0.669) on tax revenue performance. This implies that the remaining 32.6% of the change was caused by other factors not included in the model.

Table 4.17: Overall Effect of Organizational Structure on Tax Revenue Performance

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std.Error	Beta	T	Sig
(Constant)	0.516	0.095		5.431	0.006
Decentralization	0.313	0.042	0.214	7.452	0.000
Formalization	0.279	0.073	0.297	3.821	0.004
Span of control	0.292	0.096	0.356	3.041	0.000
R	0.821				
R Square	0.674				
Adjusted R Square	0.669				
F	23.465				
Sig	0.000				

- a. Dependent Variable: Tax Revenue Performance
- b. Predictors: (constant), decentralization, formalization, span of control

Regression equation:

$$Y = 0.516\beta_0 + 0.313X_1 + .279X_2 + 0.292X_3 + e$$

A unit change in decentralization, formalization and span of control increase tax revenue performance by 31.3%, 27.9% and 29.2% respectively.

4.8.1 Analysis of Variance

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.17 on overall effect of organizational structure on tax revenue performance shows an F statistics value of 23.465 with a significance level of 0.000 which was less than the conventional probability of 0.05 significance level. Hence establishing the model is statistically significant. The implication is that each independent variable (decentralization,

formalization and span of control) contributes significantly to changes in the dependent variable (tax revenue performance).

4.8.2 Test of Research Objectives

The first objective was to determine the effect of decentralization on tax revenue performance at Kenya Revenue Authority. To satisfy the objective, decentralization was found to have a positive relationship effect on tax revenue performance at KRA. The results on Table 4.17 revealed that p value was less than 0.05, $\rho=0.000$ which implies that relationship was statistically significant.

The second objective was to establish the effect of formalization on tax revenue performance at Kenya Revenue Authority. Similarly, formalization is seen to have a positive relationship effect on tax revenue performance at KRA. The results on Table 4.17 revealed that p value was less than 0.05, $\rho=0.004$ which implies that relationship was statistically significant.

The third objective was to determine the effect of span of control on tax revenue performance at Kenya Revenue Authority. Span of control has a positive relationship effect on tax revenue performance at KRA. The results on Table 4.17 revealed that p value was less than 0.05, $\rho=0.000$ which implies that relationship was statistically significant.

4.9 Discussion of the Findings

This chapter presents discussion of the results of various tests carried out on the study. The results of each of the objectives in this study will be discussed.

4.9.1 Effect of Decentralization on Tax Revenue Performance

First objective of the study was to determine the effect of decentralization on tax revenue performance in Kenya. The findings of this study was statistically significant at a p value of 0.000 which is less than 0.05 the conventional probability significance level. Similar to the views of Stephen and Timothy, (2012) who did a study to examine the effect of organization

structure on Value Added Tax compliance by Uganda Revenue Authority (URA). The study found improved performance towards revenue for respondents through attendance to training and seminars on revenue matters.

4.9.2 Effect of Formalization on Tax Revenue Performance

Second objective of the study was to determine the effect of formalization on tax revenue performance in Kenya. The findings of this study was statistically significant at a p value of 0.004 which is less than 0.05 the convectional probability significance level. The study concurs with Al-Qatawneh (2014) who did a study on the impact of organizational structure on organizational commitment and compared between private and public sector firms in Jordan. The study findings indicated that among the structure dimensions, formalization exhibited the largest correlation with organizational commitment in public firms. Organizational commitment means more knowledge and experience thereby improving performance.

4.9.3 Effect of Span of Control on Tax Revenue Performance

Third objective of the study was to determine the effect of span of control on tax revenue performance in Kenya. The findings of this study was statistically significant at a p value of 0.004 which is less than 0.05 the convectional probability significance level. Similar to the views by Tomlinson (2013), the first scholar to empirically study the impact of span of control in India and Pakistan. Tomlinson did a study on effect of span of control on Value Added Tax in Pakistan, he found out that organizations evidenced higher levels of profitability when their U.K. parents assumed a more relaxed attitude toward control. These findings are consistent with those of Hendericks (2010) who sought to determine the impact of narrowing span of control on organizational performance in Greece. The study found out that, employee supervision enhances efficiency in tax administration and improved performance of services offered by Greek tax authorities.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter addresses the summary of the findings, the conclusions and the recommendations. This is done in line with the objectives of the study.

5.2 Summary of Findings

The general objective of the study was to determine the effect of organizational structure on tax revenue performance in Kenya. In particular, the study sought to determine the effect of decentralization, formalization and span of control on tax revenue performance.

5.2.1 Decentralization and Tax Revenue Performance

The first objective of the study was to determine the effect of decentralization on tax revenue performance in Kenya. Results revealed that decentralization affected tax revenue performance in Kenya. These results were supported by the correlation result which showed that decentralization and tax revenue performance had a positive and significant association. Further, these results were supported by the regression results which revealed that there is a positive and significant relationship between decentralization and tax revenue performance.

5.2.2 Formalization and Tax Revenue Performance

The second objective of the study was to determine the effect of formalization on tax revenue performance in Kenya. Results revealed that formalization affected tax revenue performance in Kenya. These results were supported by the correlation result which showed that formalization and tax revenue performance had a positive and significant association. Further, these results were supported by the regression results which revealed that there is a positive and significant relationship between formalization and tax revenue performance.

5.2.3 Span of Control and Tax Revenue Performance

The third objective of the study was to determine the effect of span of control on tax revenue performance in Kenya. Results revealed that span of control affected tax revenue performance in Kenya. These results were supported by the correlation result which showed that span of control and tax revenue performance had a positive and significant association. Further, these results were supported by the regression results which revealed that there is a positive and significant relationship between span of control and tax revenue performance.

5.3 Conclusion

The study concluded that organizational structure affected tax revenue performance in Kenya. Specifically, the study concluded that decentralization, formalization and span of control affected tax revenue performance in Kenya. Further, the study concluded that the effect of organizational structure on tax revenue performance was positive. The effect was in form of the increase in the number of registered taxpayers, higher levels of payment compliance among taxpayers, increase in the number of taxpayers who file their returns on time and expansion of the tax base of taxpayers.

5.4 Limitations of the Study

The study had some limitations on response rate. Some of the respondents were reluctant to fill the questionnaire for fear of victimization. This was mitigated by assuring the respondents that data collected was for academic research only. Further, they were assured of confidentiality of the information.

5.5 Recommendation

KRA should decentralize its operations from Nairobi to the rest of the country, empower and facilitate her employees to participate in decision making. This will see an increase in the number of registered tax payers thereby expanding the tax base.

5.6 Suggestions for Further Research

The study determined the effect of organizational structure on tax revenue performance at KRA. Subsequently, the study suggests a study on effect of other variables such as technology on tax revenue performance in Kenya.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

Dear Respondent,

The following questions are concerned with organizational structure and tax revenue performance at KRA. Completion of this questionnaire is voluntary and confidentiality of information is assured. No individual data will be reported. Please take a few minutes to complete this questionnaire for me.

Thank You!

PART A: PERSONAL AND DEMOGRAPHIC INFORMATION

1. Gender of the respondent

Male

Female

2. Age of the respondent

20-30

31-40

41-50

51-& above

3. Highest Education level of the respondent

Certificate

Diploma

Degree

Masters

Other specify

4. Years worked for KRA

1-5 years

6-10 years

11-15 years

15 & above years

5. Current designation/rank of the respondent

Top-level Management

Mid-level Management

BOD member

6. Years worked in current designation/rank

1-5 years

6-10 years

11-15 years

15 & above years

PART B

SECTION I: DECENTRALIZATION

7. In a 5-point Likert scale where 1=No Extent, 2=Little Extent, 3=Moderate Extent, 4=Great Extent, and 5=Very Great Extent, how much would you agree with the following propositions regarding decentralization contribution to tax revenue performance at KRA?

RESPONSES	1	2	3	4	5
i. Decentralization improves effective decision making and hence tax revenue performance					
ii. Sub-ordinate staff participate in decision making on matters relating to tax revenue performance.					
iii. All operation activities undertaken by the corporation are approved by Chief Executive officer					
iv. Staff are asked to give their input on the adoption of new policies and procedures					
v. No or little action can be taken by staff on any matter without supervisor permission					

SECTION II: FORMALIZATION

8. In a 5-point Likert scale where 1=No Extent, 2=Little Extent, 3=Moderate Extent, 4=Great Extent, and 5=Very Great Extent, how much would you agree with the following propositions regarding formalization on tax revenue performance at KRA?

RESPONSES	1	2	3	4	5
i. Formal departmental meetings and or briefings conducted on a regular basis increase amount of tax revenue collected.					
ii. Existence of formal guidelines on how to deal with every operational activity and the availability of the guidelines to staff increase amount of tax revenue collected.					
iii. Use of Written formal communications through established channels on every engagement with tax payers promotes the number of new taxpayer's registration.					
iv. Written job description for Every position in this corporation has seen an increase in tax revenue collected.					
v. Formal orientation program for new members of staff enhances tax revenue performance.					

SECTION III: SPAN OF CONTROL

9. In a 5-point Likert scale where 1=No Extent, 2=Little Extent, 3=Moderate Extent, 4=Great Extent, and 5=Very Great Extent, how much would you agree with the following propositions regarding contribution of span of control contribution to tax revenue performance at KRA?

RESPONSES	1	2	3	4	5
i. The number of subordinates under each supervisor affect tax revenue collected					
ii. Availability of time with supervisor led to improvement in tax revenue collected					
iii. The number of returns submitted has increased since more staff were added to my section					
iv. Contribution of more employee enables us to collect more revenue					
v. The returns submitted from taxpayer have declined since the staff in my section were reduced.					

SECTION IV: TAX REVENUE PERFORMANCE

10. In a 5-point Likert scale where 1=No Extent, 2=Little Extent, 3=Moderate Extent, 4=Great Extent, and 5=Very Great Extent, how much would you say the following have been witnessed in tax revenue performance as a result of organizational structure at KRA?

RESPONSES	1	2	3	4	5
i. The number of registered taxpayers has increased due to decentralization at KRA					
ii. The level of reporting compliance among taxpayers has gone up due to KRA procedures, rules and guidelines					
iii. The level of payment compliance among taxpayers has gone up due to good interorganizational relations KRA enjoy					
iv. The number of taxpayers who have filed their returns on time has increased due to narrow span of control					
v. The tax base of taxpayers has expanded as a result of the involvement of employees in decision making.					