

**STRATEGIC CAPABILITIES AND PERFORMANCE OF KENYA REVENUE
AUTHORITY**

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DECLARATION

The contents in this project is originally my work and it to my honest declaration that it has not been used for any academic award in any other institute of higher learning.



.....
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.....
Date

Reg No: D53/CTY/PT/37585/2016

It is my confirmation that this project was done under my supervision as the University supervisor and I declare it suitable for examination.



Sign:

Date

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DEDICATION

This work is dedicated to the Almighty God and my family for their unwavering support. My research is dedicated to my family and friends. Mr. and Mrs. Gatama, I owe a special debt of gratitude to you, their encouraging words harmonized the melody of completing my studies. To my siblings thank you for always assisting to lean my academic ladder in the right wall.

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TABLE OF CONTENTS

DECLARATION	i
DEDICATION	ii
ACKNOWLEDGEMENT	iii
LIST OF TABLE	vii
LIST OF FIGURE	viii
LIST OF ABBREVIATIONS	ix
DEFINITION OF OPERATIONAL TERM	x
ABSTRACT	xii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Firm Performance	2
1.1.2 Strategic Capabilities	2
1.1.3 Strategic Capabilities and Firm Performance	4
1.1.4 Kenya Revenue Authority (KRA)	5
1.2 Statement of the Problem.....	7
1.3 Objectives of the Study	9
1.3.1 General Objective	9
1.3.2 Specific Objectives	9
1.4 Research Questions.....	10
1.5 Significance of the Study	10
1.6 Scope of the Study	11
1.7 Limitations of the Study.....	11
1.8 Organization of the Study	12
CHAPTER TWO: LITERATURE REVIEW	13
2.1 Introduction.....	13
2.2 Theoretical Review	13
2.2.1 Resources Based Theory.....	13
2.2.2 Information Diffusion Theory.....	14
2.3 Empirical Review.....	15

2.3.1 Market Linking Capabilities	15
2.3.2 Firm Performance and Market Sensing Capabilities	17
2.3.3 Information Technology Capabilities and Firm Performance	19
2.3.4 Management Capabilities and Firm Performance.....	21
2.4 Summary and Gaps.....	23
2.6 Conceptual Framework.....	25
CHAPTER THREE: RESEARCH METHODOLOGY	26
3.1 Introduction.....	26
3.2 Research Design.....	26
3.3 Target Population.....	27
3.4 Sample Design and Sample Size.....	27
3.5 Data Collection Instrument	28
3.6 Pilot Study.....	29
3.6.1 Validity	29
3.6.2 Reliability.....	30
3.7 Data Collection Procedure	31
3.8 Analysis and Presentation of Data	31
3.9 Ethical Considerations	32
CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION	33
4.1 Introduction.....	33
4.2 Response Rate	33
4.3 Demographic Characteristics	33
4.3.1 Gender	34
4.3.2 Age in Years.....	34
4.3.3 Academic Qualifications	35
4.3.4 Job Experience	35
4.4 Results of Descriptive Analysis.....	36
4.4.1 Marketing Capabilities	36
4.4.2 Market Sensing Capability	37
4.4.3 Information Technology Capabilities.....	39
4.4.4 Management Capabilities.....	41

4.5	Results of Analysis of Regressions.....	43
	CHAPTER FIVE	47
	SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	47
5.1	Introduction.....	47
5.2	Summary	47
5.3	Conclusion	48
5.4	Recommendation	49
5.5	Suggestions for Further Studies.....	50
	REFERENCES	52
	APPENDICES	58
	Appendix I Letter of Introduction.....	58
	Appendix II Questionnaire.....	59

LIST OF TABLE

Table 2.1: Empirical Literature Summary and Gaps	23
Table 3.1: Presentation of Population.....	27
Table 3.2: Presentation of Sample Size	28
Table 3.3: Results of Reliability Test	30
Table 4.1: Response Rate.....	33
Table 4.2: Respondents' Age.....	34
Table 4.3: Work Experience	35
Table 4.4: Marketing Capabilities.....	36
Table 4.5: Market Sensing Capabilities	38
Table 4.6: Information Technology Capabilities	39
Table 4.7: Management Capabilities	41
Table 4.8: Model Summary	43
Table 4.9: Analysis of Variance.....	43
Table 4.10: Coefficients.....	44

LIST OF FIGURE

Figure 2.1: Conceptual Framework	25
Figure 4.1: Respondent's Gender	34
Figure 4.2: Respondent's Academic Qualification.....	35

LIST OF ABBREVIATIONS AND ACRONYMS

CRM	Customer Relationship Management
EFA	Exploratory Factor Analysis
KRA	Kenya Revenue Authority
SPSS	Statistical Packages for Social Scientists

OPERATIONAL DEFINITION OF TERMS

KRA Performance	A degree of change in tax collection and compliance in Kenya Revenue Authority (Santos & Britos, 2012).
Information Technology Capabilities	In firms, cross-functional integration and internal communication are facilitated by IT capabilities. Firms with better information technology capabilities have greater organizational success perform better (Mwithiga, Njihia & Iraki, 2017)
Management Capabilities	The capability of building a power base & establishing the right connections, ability to motivate people, understand and work and ability to coordinate all the activities of the firm are the competence areas involved in management capability (Ahmed & Shafiq, 2014).
Market Linking Capabilities	Focused market linking and sensing outside the organization. Many scholars insist performance of a firm is significantly affected by its ability in sensing and seizing market opportunities and accordingly readjusting its resources (Bakran & Zumrut, 2017).
Market Sensing Capabilities	Refers to skills in integrating marketing activities, in pricing and advertising, in targeting and segmenting

markets (Lin & Huang, 2012)

Strategic Capabilities

This refers to the state of resources endowment within an organization. These capabilities are linked to market linking, market sensing, information technology and management capabilities ((Pandza & Thorpe, 2009)

ABSTRACT

Resources endowment in an organization provides platform for competitive advantage. Thus, there is need for all corporations to evaluate their assets and skills and align them with sole purpose of transforming and achievement of organization goals and objectives. The government budget deficit or surplus magnitude has been the most likely single most important indicator used to assess the influence of government fiscal policy on an economy. This has been partly attributed to the various governments desire in positively responding to the ever- going up populace demands and at the same time enhancing accelerated economic development and economic. Hence, this study sought to examine the effect of firm performance; a case of Kenya Revenue Authority. The study specifically focused on how marketing capabilities, market sensing capabilities, information technology capabilities and management capabilities influenced performance. The study was based on resources-based view and information technology diffusion theory. A design in descriptive research was used. Target population comprised of 842 tax compliance officers. Stratified sampling was used to select 123 respondents from Nairobi region. Pilot testing was carried out in Thika sub County KRA offices among 12 compliance officers. Primary data was collected through issue of questionnaires among compliance officers. Reliability will be tested through use of Cronbach Alpha coefficient. Descriptive statistics that include mean, frequency, percentage and inferential statistics and standard deviation including regression and correlation analysis analyzed the data. The study discovered a positive and significant influence of marketing capabilities, market sense capabilities, information technology capabilities and management capabilities on performance. The study concluded that the organization with a strong marketing capability will enable the firm to achieve better targeting and positioning its brands relative to competing brands. According to the findings, the study concluded that the capacity to market sense has a favorable and significant impact on the quality of market entry, having information communication capabilities allows a company to acquire unique access to client information and preferences while also lowering future business search costs, management capacity is critical in inspiring employees to work harder, developing channels for bilateral communication, and allowing for employee engagement, recommendations, and criticism. The study recommended that the company should improve its marketing capabilities in key functional areas. The businesses improve their market sensing abilities by first comprehending each phase of their process, then critically reviewing their market learning capability, and then rectifying any learning deficiencies. The company's business performance can be improved by exploiting its IT capabilities to generate revenues, lower expenses, or do both. Managers must ensure that employees are aware of the forces driving change, that they are included in the planning process, and that they are aware of how to work together to overcome opposition to change.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Tax is a levy or financial charge imposed by a state upon taxpayers who can be a legal entity or an individual with an aim of raising revenue to meet price of public services and goods provision to the citizens. Tax is the main government revenue source that is used to provide public services and good like infrastructure education, security, health care etc. Fujiwara (2005) notes that an efficient tax system should satisfy most taxation cannons. Tax should be levied in proportion to the revenue enjoyed under the protection of the state. These include; Diversity, Simplicity, Economy, Convenience, Certainty and Equality. In Kenya, tax classification is based on effect, base and rates.

According to Frey & Feld (2008), a number of studies on taxation subject imply that in many economies taxation remains an unresolved issue. Taxation is the single largest government revenue source in Kenya. Moyi & Ronge (2006) posit that, between 1995 and 2004, of all government revenue averagely, 80.4 constituted per cent tax revenue. Kenya has moved over time to a high tax burden from a low tax burden country, even with this Kenyans haven't accepted the culture of paying tax. Studies show that, even from the global point of view, no one likes tax paying, not least because of public good involvement and there are incentives to free ride.

1.1.1 Firm Performance

Firm performance is an outcome of the input process in organization production process (Butali & Njoroge, 2017). According to Mahfouz (2019) firm performance is an outcome by an individual, group and/or organization. In some sectors such as manufacturing firm performance is achieved through value addition in the production process (Ogohi, 2018). Further, firm performance can be evaluated through social economic benefits, customer satisfaction, growth opportunities and learning platform (Rula, 2017).

To enable an organization to perform optimally requires adopting value chain process through examination of input from customers and other stakeholders who may have a role in enhancing sustainability of an organization and promoting effectiveness in service provision (Kasaya & Munjuri, 2018). According to Abusa and Gibson (2017) performance can be evaluated through use of financial and non-financial measures. Non-financial measures include employee satisfaction, customer satisfaction, customer loyalty, changes in market share and sales revenue. Financial measures are: Tobin's q, return on equity (ROE) and return on assets (ROA). The current study will adopt tax filling, tax payment and tax administration.

1.1.2 Strategic Capabilities

Resources endowment in an organization provides platform for competitive advantage. Thus, there is need for all corporations to evaluate their assets and skills and align them with sole purpose of transforming and achievement of organization goals and objectives (Pandza & Thorpe, 2009). Coherent combination of organization resources would aid in amalgamation and gathering or resources aimed at achievement of organization goals and objectives. Strategic

capabilities are crucial tool in this endeavor, Teece (1997) perceived them to firm's capacity to align their ability to adapt to a changing and inconsistent business environment. A shift in focus to strategic capabilities can reduce if not eliminate the applicability of the non-substitutable, inimitable, rare and valuable framework since its emphasis is the strategist shift to continuously creating capabilities and/or resources that yield future competitive advantages from trying to protect current competitive advantages sources (Kimsop, Korir & White, 2015).

Strategic capabilities in an organization is contingent to organization capacity to configure its resources to tap into competitive advantage opportunities available though none of them is immune from external threats, market share cannibalization and low staff morale and support. It is recommended that corporation ought to have short term and long term objectives which they seek to achieve, this will shield them from drastic and volatile changing business environment which may have far reaching consequences if not well addressed. This is mainly due to arguments that competitive advantage is possible if organization harmonizes its complex competences, skills, strategies and capabilities.

According to Kimsop et al., (2015) strategic capabilities can be classified into different dimensions which include: management capabilities, information technology capabilities, technology capabilities, market linking capabilities and marketing capabilities. Capabilities of technological are deemed to organization capacity to differentiate its production capacity as compared to its competitors. Strategic capable firm should minimize its production costs or manage its production process to minimize resources spillage in production process. Market linking capabilities are aimed at identification of clients niches and alignment of distribution channels to be in tandem with their needs and ease in communication amongst different

stakeholders. Marketing capabilities incorporate marketing and advertising mechanisms adopted by an organization to enhance its market penetration, dominance and influence. Information technology capabilities are strategic approach aimed at elimination degree of information asymmetry in different facets of a corporation. Management capabilities are governance, human capital and resources allocation strategies adopted by an organization so to strengthen achievement of its goals and objectives. Although, these capabilities may be assured in every organization how institutions align themselves in different facets have implication on achievement of its goals and objectives.

1.1.3 Strategic Capabilities and Firm Performance

Focused market linking and sensing outside the organization are market linking capabilities. Many scholars insist performance of a firm is significantly affected by its ability in sensing and seizing market opportunities and accordingly readjusting its resources ((Bakran & Zumrut, 2017). The primary idea of this capability is developing market intelligence concerning what clients will need in future, what they need now, communicating the information within an organization answerable to it. It is necessary for KRA to disseminate requisite information that would aid in VAT tax compliance.

Marketing sensing capabilities include skills in integrating marketing activities, in pricing and advertising, in targeting and segmenting markets. Marketing activities include: control of marketing activities, resources allocation, revenue forecasting and market planning. The purpose is enabling the organization communicate the unique advantages of its products with the aim of attaining customer loyalty and satisfaction, hence ultimately improving competitiveness.

Information technology (IT) includes all technology forms used in creating, storing, exchanging and utilizing information in different forms with business data included. In firms, cross-functional integration and internal communication are facilitated by IT capabilities. Firms with better information technology capabilities have greater organizational success perform better (Mwithiga, Njihia & Iraki, 2017). This happens if there is creative use of IT in delivering superior value to clients. Studies have proved that generally improved competitiveness and successful new products are achieved IT is used creatively ensuring better cross functional transmission and enhancing performance. This is important among small and big tax payers so as to enhance VAT compliance

Management in human organization activity and business areas is bringing people together with an aim of accomplishing the set objectives and goals. It involves controlling, directing or leading, staffing, organizing and planning an institution to accomplish a goal. It needs the capability to perform the tasks, evaluate performance, prepare budgets and develop programs necessary in implementing strategy of the firm (Ahmed & Shafiq, 2014). The capability of building a power base & establishing the right connections, ability to motivate people, understand and work and ability to coordinate all the activities of the firm are the competence areas involved in management capability. Managerial capabilities are: ability to manage market planning, forecast revenues, manage human and financial resources, control costs and integrate logistic systems.

1.1.4 Kenya Revenue Authority (KRA)

KRA was founded in 1995 by an Act of Parliament, Kenyan Laws Chapter 469. The Kenya Income Authority (KRA) is in charge of collecting revenue on behalf of the Kenyan government.

These are its primary functions: assessment, collection and accounting for all revenue as per laws of Kenya. Provide advisory opinion on matters revenue collection, administration and performance. Undertake revenue issues as mandated by treasury and cabinet secretary in charge of ministry of treasury. The main source of government financing worldwide is taxation though there are others sources such as fines, penalties, license fees and foreign aids and grants (Membratu, 2016). According to Mondugu and Anyanuba (2014) government tax collection capacity is dependent on tax payer's voluntary compliance where tax payers fill and provide accurate taxation information. Despite of government efforts to improve the degree of tax compliance, the amount of revenue collected in developing and developed economies does not always meet the expenditure gaps.

Tax compliance can be defined as collection of procedures and steps that include filling, reporting, registration, payment and management of tax (Marti, Wanjohi & Magutu, 2014). According to Osebe (2013) tax compliance cost is perceived to be the set of tax payer's trust on authority and power of tax authorities. Mwiti (2016) perceives tax compliance to comprise of technical and administrative compliance costs. Administrative compliance cost is concerned with rules and regulations governing tax filling dates and degree of compliance with statutory requirement procedures. In technical compliance cost there is need to ensure that tax is correctly filled. Further, Tadesse and Goitom (2014) perceives that to fully comply with tax requirements then tax payers should adhere to tax systems on aspects of tax rules, regulation and procedures. Hence, tax compliance can be perceived to filling returns as they fall due and accurately.

Mohdali, Khadijah and Salwa, (2014) asserts that tax laws are complex and should be simplified on aspects of tax measurements, impact of tax legal compliance, tax estimation costs and causes

of tax complications. The tax compliance level is a reflection of the state of performance of revenue collection entities (Mogeni, 2014). To enhance performance of KRA Revenue authorities have adopted alternative measures aimed at managing tax compliance costs and enhance its payments (Nur, Titiek & Sursani, 2018). According to Omondi and Theuri (2019) in past tax reforms had inappropriately subdued SMEs due to their structures and size. Hence, there is need to evaluate tax compliance upon their incorporation as turnover tax payers. Further, costs associated with turnover tax have impact on pursuance of tax avoidance and evasion (Oladipupo & Obazee, 2016). This may have short- and long-term effect on government achievement of social and economic development goals.

Kenya introduced the tax modernization program hoping that this would enhance collection of revenue and it has not yielded results. The government's recent failure through KRA in meeting its yearly revenue targets has forced the need for looking to other ways leading to increment in generated revenue by taxation. Additionally, the new devolved system government structure is expected to increase expenditure of the government. This requires policy makers to find ways to enable the government in internally raising more funds. Despite measures KRA has taken in improving revenue collections e.g modernizing programs and introducing reforms, the organization has not been meeting its targets in revenue. Hence, the need to empirically evaluate how strategic capabilities influences firm performance in Kenya Revenue Authority.

1.2 Statement of the Problem

The government budget deficit or surplus magnitude has been the greatest likely the single most important indicator used to assess the influence of government fiscal policy on an economy. This has been partly attributed to the various governments desire in positively responding to the ever-

going up populace demands and at the same time enhancing accelerated economic development and economic. In order to supplement the government revenue, the Kenyan government introduced various taxes but the extent of tax compliance is low. This lowers the extent of Kenya Revenue Authority performance as occasioned by missed targets. Statistics on percentage of revenue collected as percentage of GDP indicates that in 2014 it was 16.9%, 2015 16.3%, 2016 16.2%, 2017 15.6% and 2018 15.1% (OECD, 2019).

To enhance tax compliance several measures has been adopted that include change of laws and policies aimed at enhancing tax compliance. For example, in 2016 value added tax withholding at 6 percent was introduced to enhance tax filling and payments. Despite of these measure KRA has not managed to meet its targets, this has led to adoption of alternative strategies for example monthly tax periods which are aimed at educating Kenyan on their mandate as tax payers. One of the challenges noted show that voluntary consent where tax payers willingly determine their tax liabilities and pay is giving space to some form of manipulation (Gangl, Hofmann, Kirchler & Hoffman, 2015). This means that all the taxes due in a particular time period including may be delayed or ignored all together leading to loss of revenue to the government. King'oina (2016) investigated factors that influence VAT compliance and discovered that tax compliance is significantly affected by knowledge and understanding on tax.

Previous empirical studies have registered mixed findings for instance Omondi and Theuri (2019) documented positive effect on tax awareness and education on tax compliance among SMEs in Nakuru County. Mwititi (2016) tax compliance among SMEs in Nairobi County documented significant positive through tax reforms. Ahmad, Hittulah and Samsudin (2016) reported that sales tax compliance is dependent on tax administration structure, moral, fairness

and sales turnover. Mohdali, Khadijah and Salwa (2014) documented that threats to punishment inversely affected tax compliance in Malaysia. Oladipipo and Obazee (2016) reported positive effect of tax knowledge penalties and tax compliance in Nigeria. Newman and Nokhu (2018) documented significant effect of tax knowledge and understanding on tax compliance. Membratu (2016) reported significant effect on probability of detection and tax compliance in Ethiopia.

Despite of existing empirical evidence there are methodology, conceptual and contextual gaps. Methodologically, there is a higher probability of drawing biased conclusions since regression modelling was fitted in absence of diagnostic tests. Further, some studies relied only on descriptive statistics to draw conclusions. Conceptually, most studies have considered individual effect of market linking, management and information technology capabilities on firm performance. Contextually, studies have been carried out in different counties and countries in revenue collection may be undertaken through different models. Thus, the need for empirical investigation on how Kenya Revenue Authority performance is influenced by strategies capabilities.

1.3 Objectives of the Study

1.3.1 General Objective

To examine how strategic capabilities influence performance of Kenya Revenue Authority.

1.3.2 Specific Objectives

- i. Evaluate how marketing capabilities influences performance in Kenya Revenue Authority.

- ii. Determine the influence of market sensing capabilities on performance in Kenya Revenue Authority.
- iii. Assess the influence of information technology capabilities on performance of Kenya Revenue Authority.
- iv. Find out the influence of management capabilities on performance of Kenya Revenue Authority.

1.4 Research Questions

- i. What is the influence of marketing capabilities on performance of KRA?
- ii. Do market sensing capabilities influence performance of KRA?
- iii. How do information technology capabilities influence performance of KRA?
- iv. How do management capabilities influence performance of KRA?

1.5 Significance of the Study

The study findings were a contribution to the existing works on tax reforms and in providing a more understanding of tax reforms effects on budget deficit, tax mobilization and tax compliance. Scholars would benefit from this study due to the detailed understanding on the influence of strategic capabilities on value added tax compliance and lay a foundation for other studies in future particularly in relation to tax instruments.

The findings could benefit management of Kenya Revenue Authority since they would gather insight on firm performance is impacted by strategic capabilities. Through examination of the effect of market linking, market sensing, information technology and management capabilities.

Policy makers in KRA would develop customized policies that would enhance achievement of its objectives.

1.6 Scope of the Study

Strategic capabilities was evaluated in terms of management capabilities, information technology capabilities, market linking capabilities, and marketing capabilities aimed at promoting firm performance in KRA. Nairobi County is the location where the study will be done. This study drew respondents in domestic income tax department since it generates revenue from different sectors of the economy unlike customs that is customized to import and export activities. The study targeted 842 tax compliance officers in Nairobi hub. They were considered to be appropriately knowledgeable on strategic capabilities adopted by KRA and how they impact on its performance. The study was carried out in November to December 2020.

1.7 Limitations of the Study

Employees of Kenya Revenue Authority were not willing to take part in the research and disseminate data on strategic approach and measures aimed at bridge tax compliance gaps. To manage the stalemate, the research sought research approval from human resources department and adhere to non-information disclosure by not disclosing their identity while answering questions in the questionnaires

The study was designed as a descriptive research and was limited to the responses of the interviewees to various questionnaire items. The study was also limited to four strategic

capabilities though there are more strategic capabilities which could have influenced on KRA performance.

1.8 Organization of the Study

The project has 5 chapters. Chapter one background to study, problem statement, main objective, specific objectives, research questions, significance of the study, limitations of the study and organization of the study has been presented.

Chapter two presents literature review, both theoretical and empirical which details past studies on strategic capabilities and firm performance. From empirical review emerging research gaps will be identified. Conceptual framework will show the nexus between strategic capabilities and firm performance.

Chapter three covers research study methodology. It will have research design, population targeted, sampling technique, sample size, tools for collecting data, piloting, procedure in collecting data, analysis and presentation of data.

Chapter dealt with findings of the study and interpretation based on empirical studies.

Chapter five dealt with summary, conclusions, recommendations and suggestions for further studies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In a situation whereby, the government's expenditure has exponentially grown, there are a number of ways that are implemented in order to increase the ultimate tax base. As the tax base is increased, synergistically, more revenue is collected and therefore leading to the servicing of government projects. In this section theoretical and empirical review supporting strategic capabilities and firm performance will be discussed.

2.2 Theoretical Review

2.2.1 Resources Based Theory

Barney in the years 1991 came up with the Resource Based View theory; he argued that an organization utilizes the available resources for performance improvement and attainment of competitive advantage. Peteraf and Bergen (2003) posit that all firms are in competition of the market share and the success of it can only be achieved through optimal allocation of resources and organization capabilities. Moreover, past empirical findings have documented that there is need to evaluate an organization sources of competitive advantage while holding all the other factors constant. Peteraf and Bergen argued that the advantage can originate from internal and external sources. According to Vijande et al., (2012), the RBV premise is that imperfect resources mobility and heterogeneity between firms is the reason for provision of superior customer value/relatively lower costs achievement by the firms which lead to superior financial performance and market shares that are dominant.

All organizations have heterogeneous resources which assist the management to fulfill the goal and vision of the organization (Melville et al., 2004). In telecommunication there is need for continued training of employees so as to harness their skills in relation to expected service delivery. Secondly, an organization ought to adopt market capabilities which are geared towards maximizing the market share and minimizing the attrition rates of the current number of customers. Finally, the management ought to be perceived as a pool of resources which are geared towards attained of organization competitive advantage.

The theory does not take into account the dynamic marketing environment impact where firms are operating (Lengnick and Wolf, 1999). Priem and Butler (2001) posit that it fails in explaining the development and deployment of resources for competitive advantage achievement. Due to these shortcomings proponents of this theory developed the dynamic capabilities theory (Odhiambo, 2014). The theory is appropriate for the current study since firm performance can be influenced by information technology capabilities, management capabilities, market linking capabilities and market sensing capabilities.

2.2.2 Information Diffusion Theory

Rodgers in the years 1962 founded the Information Diffusion Theory which seeks to explain the rate, why and how new ideas are spread in an organization. Moreover, he argued that the success of an innovation is attributed to adoption of appropriate communication mediums. In order for an innovation to be diffusive then it ought to satisfy the following four attributes; innovation which a unit of an item which is perceived as new (Rodgers, 2003). Secondly, there is need for appropriate communication channels which will ensure successful sharing of information among different players (Rodgers, 2003). Thirdly, there is need for an appropriate time frame within

which the proposed innovation ought to be communicated to the relevant parties and finally the new development ought to operate in the social system which will adopt and accommodate it and consequently reap the benefit associated with a particular innovation.

Although, companies continuously develop new products which are geared towards technological adoption there is need to sensitize the public in order to increase the chances of their adoption this is because the success of an ICT adoption is based on the opinion formed by the end users (Agarwal, 2000).

The theory is fit for this current research as it is essential to adopt ICT in service delivery. This will increase organization performance since it will minimize operational costs. Moreover, the organization should communicate and sensitize all players involved in service delivery so that the new innovation can be easily incorporated in an organization.

2.3 Empirical Review

2.3.1 Market Linking Capabilities

Kabiru, Theuri and Misiko (2018) studied how Kenyan agricultural state-owned entities' performance is influenced by planning. Primary data was gathered from 42 state corporations, they used Descriptive research design. Analysis of quantitative data was through use of univariate, bivariate and multivariate statistics while qualitative data was thematically analyzed. Study findings documented significant influence of planning on organization performance though state owned organizations were not compliant with planning strategy that they had put in place. It was suggested that measures aimed at promoting women's rights be developed and evaluating compliance with strategies that had been put in place. Though the study was carried out in State Corporation its function differed from those of KRA hence the need to carry out a

study skewed towards KRA. Further, the study did not jointly evaluate the effect of market linking, market sensing, information technology and management capabilities on firm performance hence the need for the current study.

Ogohi (2018) investigated the effect of marketing strategies on Nigerian firms' organization performance. Questionnaires were used in getting primary data from 213 respondents, descriptive research design used. Univariate, bivariate and multivariate analysis. Study findings documented positive and significant effect promotional strategies and organization performance. This study was limited to use of quantitative data though it may have had shortcoming associated with limited responses to information stipulated in questionnaires as compared to use of qualitative research tools that may allow collection of information not limited to questions though it may be inhibited by researchers interviewing techniques and capability.

Ogunmokun and Tang (2012) investigated how Singapore based small and medium enterprises' organization performance was impacted by market planning behavior. The applied descriptive research design, primary data collected by issuing questionnaires. Analysis of quantitative data done by use of univariate, correlation and chi square analysis techniques. Study findings documented significant effect of market planning behavior on organization performance. The study focus was on SMEs whose market niche compared to Kenya Revenue Authority is smaller hence difficult to generalize the findings to KRA. Furthermore, the state of economic development in Singapore is different as compared to Kenyan perspective.

Adewale, Adesola and Oyewale (2013) investigated marketing strategy effect on small and medium enterprises performance in Nigeria. Primary data was gathered among 103 respondents whom were issued with closed ended questionnaires. Quantitative data was analyzed through use

of univariate, bivariate and multivariate techniques. Multiple regression analysis documented positive and significant effect of product, promotion, place, price, packaging, after sale services and organization performance of SMEs in Nigeria. These findings may not be generalized in KRA since SMEs and KRA are guided by different motives with the former aiming at profit maximization and later on social economic role. Furthermore, this study considered single attribute of strategic capabilities unlike the current that will consider joint effect of market linking, market sensing, information technology and management capabilities on organization performance.

2.3.2 Firm Performance and Market Sensing Capabilities

Lin and Huang (2012) did a study on how dynamic capabilities affects performance. Document content analysis was carried and secondary data was collected from past empirical and theoretical evidence. Past empirical studies agreed that there is need for corporations to develop market sensing strategies which would aid in consolidating and gathering information aimed at discovery of blue ocean market and competitive advantage. The study ought to have considered quantitative evidence that has documented how firm performance is affected by dynamic capabilities.

Nyachanchu, Chepkwony and Bonuke (2017) study explored how dynamic capabilities affects performance in manufacturing companies in Nairobi County. Questionnaires were used in data collection. Stratified sampling technique was employed and 369 respondents were selected and the method of analyzing data was multivariate, bivariate and univariate techniques. The findings obtained the results of regressions showed as significant positive from sensing, seizing and reconfiguration capabilities on manufacturing company's performance in Nairobi County. These

findings may not be generalized in KRA since it's meant to achieve social economic benefits as compared to manufacturing companies which are profit motivated.

Gunday, Ulusoy, Kilic and Alpkın (2011) investigated how firm performance was affected by innovation types. Selection of 184 respondents was done using simple random sampling. Correlation, inferential and descriptive analysis was used in data analysis. It was found that organization, product, marketing and process innovations significantly and positively impacted firm performance in Turkey. Since the study drew respondents from different sectors it was recommended that specific sectoral study ought to be done to examine innovation effect on firm performance. Moreover, geographical variations may lead to different findings between Kenyan and Turkish study.

Rajapathrana and Hui (2018) studied impact of innovation capability, innovation types and firm performance amongst insurance-based companies in Sri Lanka. 379 managers hailing from insurance companies were selected by randomly sampling them. Semi structured questionnaire was utilized in collecting data. Descriptive and structural equation modelling was used in analyzing data. Innovation capability, innovation type and insurance performance had a significant and positive relationship.

Nasution and Ahmad (2018) investigated the how organization performance in Indonesia was affected by customer relationship management. Exploratory design was adopted. 82 respondents were selected using stratified random sampling. Descriptive statistics, regression and correlation analysis analyzed the data. Study findings documented that customer relationship management practices such as training orientation, customer orientation and top management support positively and significantly affected organization performance. These findings may not be

generalized in Kenyan perspective owing to differences in state of economic development. Also, regression modelling was adopted in absence of classical assumptions test.

2.3.3 Information Technology Capabilities and Firm Performance

Rehman, Nor, Taha and Saad (2018) investigated how small and medium enterprises performance in Pakistan were impacted by information technology capabilities. In addition, moderating effect of corporate entrepreneurship was examined. Primary data collection was among 420 respondents who were selected through stratified sampling technique, they used cross sectional research design. Questionnaire was the main tool for data collection. For data analysis, Univariate, multivariate and bivariate techniques were utilized. Documentation was done that information technology capabilities have significant effect on small and medium enterprises performance. These findings may not be generalized into Kenyan Kenya revenue authority since it guided by different objective as compared to SMEs which are profit making entities. Also, the study should have complemented quantitative data through use of qualitative data.

Cemal, Busra, Bulent and Ali (2010) evaluated how National oil and multinational companies in Turkey were impacted by information technology investments. Specifically, the study examined the level of information technology investment, information technology usage, information technology perceptions and integration of information technology in decision making. A sample of 158 firms was considered through cluster sampling and questionnaires administered as tool for data collection. Multiple regression, descriptive statistics and bivariate analysis was used in analyzing the data. It was documented that level of information technology investment, IT perception, IT usage had positive and significant impact on firm performance. Owing to heterogeneity on state of economic development between Kenya and Turkey these findings may

not be generalized in Kenyan perspective hence the need for localized to explore how firm performance is impacted by information technology.

Nada, Rusinah, Ibrahim and Mahmoud (2015) examined how innovation performance in private universities in Iraq is impacted by information technology. They selected 75 participants using simple random sampling and data collection by use of questionnaire. They adopted descriptive research design. Univariate, multivariate and bivariate analysis were adopted for data analysis. Study findings documented positive and significant impact of information technology on innovation in public universities in Iraq. There is need for localized study that would incorporate different types of information technology capabilities and examine their impact on firm performance.

Mwithiga, et al., (2017) investigated how Kenyan firm performance are impacted by information technology integration. Primary and secondary data was collected amongst commercial banks in Kenya. Multiple regression, correlation and descriptive statistics analyzed the data. Findings documented that information technology integration positively and significantly affected firm performance. Firm performance was significantly and positively impacted by business operational strategy. There is need for a study in government-based institution such as KRA to compare findings from private entities which are mostly guide by profit and wealth maximization principle.

Bakran and Zumrut (2017) examined firm performance and the types of information technology capabilities. Through descriptive research design, the research investigated the effect of IT human resources, IT relationship resources, IT business experience and IT infrastructure. 150 respondents were selected and collection of data was done using structured questionnaires.

Analysis followed univariate, bivariate and multivariate statistics. The findings documented that IT human resources, IT relationship resources, IT business experience and IT infrastructure had a significant influence on performance. There was need for the study to incorporate other forms of capabilities instead of evaluating the effect of information technology capability alone.

2.3.4 Management Capabilities and Firm Performance

Fakhar, Rana, Ayesha and Lalarukh (2012) investigated how organization performance in Pakistan was influenced by organization culture. The study adopted meta-analysis of alternative conceptualization and measurement of organization culture. Document content analysis was the main approach of data collection and it documented that organization culture had influence on employee behavior, alteration of norms and minimized degree of absenteeism among employee. Furthermore, it was evidenced that those organizations in which employees were motivation their level of commitment was higher it impacted performance positively. This calls for examination of management capabilities adopted by Kenya Revenue Authority.

The effect of organization culture on organization performance in telecommunication industry was assessed by Ahmed and Shafiq (2014) study. Organization performance was measured using balance score card. Quantitative data collection was from 22 respondents. Univariate, multivariate and bivariate techniques analyzed data. Documented was that organization performance was affected by masculinity/femininity, individualism/collectivism, uncertainty avoidance and power distance. The study should have considered use of exploratory factor analysis prior to classical modelling so as to retain attributes that had the highest explanatory power on variables under examination. Also, the study should have considered other attributes of strategic capabilities rather than focusing on management capabilities.

Chilla, Kibet and Musienga (2014) investigated the effect of organization culture and organization performance in hospitality industry and discovered organization culture had positively affected organization performance in hospitality. This was effect was positively moderated by adherence to organization vision and mission. Since, hospitality industries are anchored on profitability there is need for study that will consider from non-profit making entities such as KRA that is aimed at achieving social economic benefits.

Yamoah (2014) investigated the relationship between job performance and human resources capacity building. The study adopted meta-analysis technique and reviewed past literature through document content analysis. Past empirical studies supported the need for human capacity building since it created employee satisfaction. Furthermore, the degree of employee commitment in an organization increased with increased human capability development.

Asgari and Amirnezhad (2015) investigate how performance of Khuzestan's social security organization was impacted by organization learning capabilities and human resources measures. Cross sectional research was adopted and primary data was collected among 220 who constituted target population through issue of structured questionnaires. Descriptive statistics, correlation, regression and structural equation modelling analysis were used in data analysis. The documentation was that Khuzestan's social security organization performance was significantly and positively impacted by human resources measures, organization learning capabilities. In comparison to KRA, which is designed to achieve social-economic advantages, these firms were profit-making entities.

2.4 Summary and Gaps

Literature was reviewed on the basis of objectives. Three theories have been used to explain the strategic capabilities assumed to have influence on firm performance. Resources based theory was used to show how the level of resources endowment improves organization performance. The level of resources endowment can be improved through innovation, development of customized products aimed at cutting costs and improving organization efficiency. Information diffusion theory shows the need to continuously develop more products which are skewed towards technological solution to problems facing the telecommunication sector.

Scanty of literature to explain the causal strategic capabilities effect on Kenya Revenue Authority firm performance addressing the research questions in the current study precipitates the need for more studies to address the research gap. Although most of the studies seem to have coherent findings there is a methodological gap since majority of them have adopted descriptive analysis and there is need to use inferential statistics so as to draw conclusions. Even though, some studies have used inferential statistics it was not appropriate to use correlation and regression analysis on data in Likert scale.

Table 2.1: Summary and Gaps

Name(s)	Objectives/Purpose	Key Results	Gaps	Focus of this Study
Ogohi (2018)	Effect of marketing strategies on organization performance in Nigeria	Positive and significant effect of promotional strategies on organization performance.	Use of regression modelling without reporting diagnostic tests.	Will fit multiple regression model on examination of the influence of strategic capabilities on firm performance.
Ogunmokun and Tang (2012)	Effect of market planning behaviour on organization performance of SMEs in Singapore	Significant effect of market planning behaviour on performance of	Reliance on data from SMEs which are aimed at maximizing profitability.	Will fit regression model on data drawn from KRA which is not a

		SMEs in Singapore		profit-making entity.
Adewale <i>et al.</i> , (2013)	Effect of marketing strategy on SMEs performance in Nigeria.	Positive and significant effect of marketing strategy on SMEs performance in Nigeria.	The study has contextual differences since Kenya and Nigeria has different economic, political and social characteristics that may have effect on firm performance.	The study will carry out diagnostic tests for regression analysis before fitting the model. The study will use quantitative data hence it can examine the effect of strategic capabilities and firm performance through modelling
Lian and Huang (2012)	Effect of dynamic capabilities on firm performance.	Performance of a firm was dependent on dynamic capabilities in place Customer relationship management practices had positive effect on organization performance Information technology capabilities significantly affected performance of SMEs	Use of qualitative data alone.	Will fit regression after reporting on diagnostic tests
Nasution and Ahmad (2018)	Effect of customer relationship management on organization performance	Information technology capabilities significantly affected performance of SMEs	Used regression modelling without justification from diagnostic tests	Will fit regression after reporting on diagnostic tests
Rehman <i>et al.</i> , (2018)	Impact of information technology capabilities on performance of SMEs in Pakistan	Information technology investment have effect in decision making	SMEs are profit making while KRA is aimed at serving social economic role	Will fit regression after reporting on diagnostic tests
Cemal <i>et al.</i> , (2018)	Impact of information technology investment in decision making in Turkey.	Information technology positively impacted performance of private universities in Iraq.	Oil companies are multinationals.	Will fit regression after reporting on diagnostic tests
Nada <i>et al.</i> , (2015)	Impact of information technology on innovation performance in private universities in Iraq.	Organization culture have impact on performance of firms in Pakistan	Private universities have different governance structure compared to KRA which is a public entity.	Will fit regression after reporting on diagnostic tests
Fakhar <i>et al.</i> , (2012)	Impact of organization culture on organization performance in Pakistan	Organization culture have positive impact on organization performance in telecommunication sector.	The study used secondary data.	Primary data will be used. Influence of strategic capabilities on organization performance in KRA will be examined.
Ahmed and Shafiq (2014)	Effect of organization culture on organization performance in telecommunication sector.		Telecommunication sectors aims at achieving different objectives compared to KRA.	

Source: Researcher, 2020

2.6 Conceptual Framework

The study's hypothesis is that strategic capabilities had influence on firm performance of Kenya Revenue Authority as shown in figure 2.1.

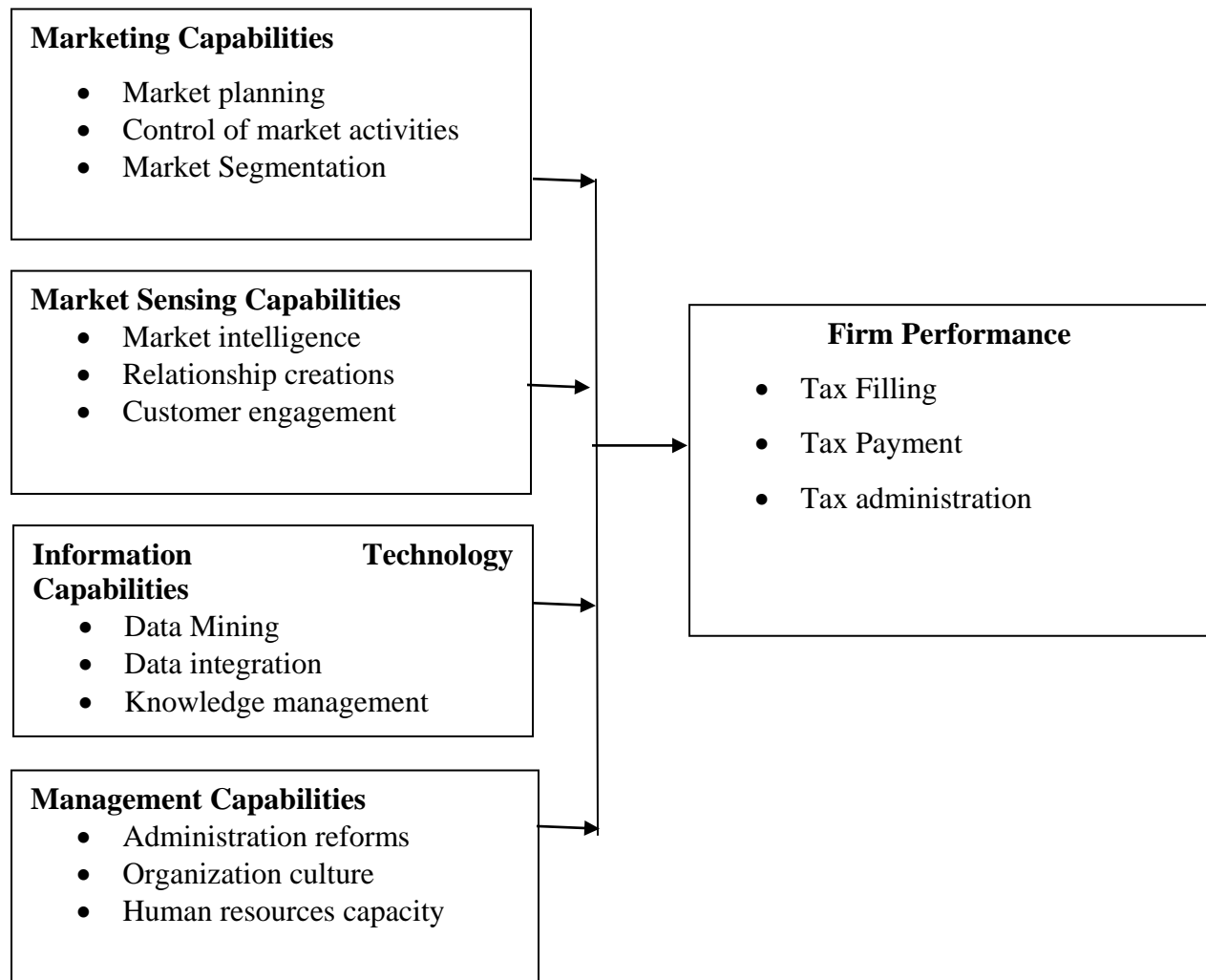


Figure 2.1: Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The sections of this chapter constitutes of study design, population, sampling and sample size, instruments of data collection, piloting, procedures in collecting data, analysis and presentation of data and how ethics will be considered.

3.2 Research Design

This is a systematic procedure that guides how research will be undertaken (Sekaran & Bougie, 2013). Cooper and Schnidler (2013), note that the study design can be divided into two categories: quantitative and qualitative, depending on the type of data employed. Data utilized in research can be either quantitative or qualitative. Quantitative design is classified into descriptive, expo facto and experimental design (Sekaran & Bougie, 2013). Descriptive research design was appropriate as it explained the how strategic capabilities have affected performance of Kenya Revenue Authority.

Descriptive research design was employed because of it is capable aiding in consolidation of required information in any quantity and effectively. Also, it has the advantage of aiding in gathering of information in shortest time possible. Thirdly, descriptive research design would clearly clarify modernization of Kenya Revenue Authority (KRA) and effect it has on revenue mobilization (Cooper & Schnindler, 2013; Kothari, 2011; Bichanga & Aseyo, 2013).

3.3 Target Population

Population comprises of all elements under consideration (Kothari, 2011). Population of the study comprised of 842 tax compliance officers in Nairobi City County. The region was selected since it is a cosmopolitan and has the highest number of tax payers as compared to other regions. Also, the degree of information communication technology penetration is higher in Nairobi City County as compared to other counties. The target population was distributed into three tax hubs in Nairobi region.

Table 3.1: Target Population

Nairobi Regions	Compliance officers	Percentage
East and south hub	275	32.7
West hub	262	31.1
North hub	305	36.2
Total	842	100

(KRA, 2012)

3.4 Sample Design and Sample Size

A sample design involves a way of selecting target population representative of considered as respondents (Saunders, Thornhill & Lewis, 2014). A sample is deemed to be subset of the population and it is considered for subsequent examination during the study owing to constraints such as budgetary, geographical diversity and time plan for executing the study (Sekaran & Bougie, 2013). Sampling technique can be either probabilistic if all the respondents have equal likelihood of being considered or when some subjective criterion are adopted for selection of respondents (Cooper & Schnidler, 2013).

Stratified sampling was adopted to select respondents from tax hubs in Nairobi region. According to Kothari (2011) stratified sampling is adopted when respondents can be clustered into different groups with unique features such as region. The sample size was achieved through the following formula:

$$n = NC^2 \div (C^2 + (N-1) e^2)$$

(note: n=sample; N=population; C=co-efficient $\leq 30\%$; e= error ranging from 2-5%). A 2.5% error margin was the basis for the determination of the sample size and 30% variation coefficient (Nassiuma, 2000).

$$n = 842 * 0.32 \div (0.32 + (841) * 0.0252) = 123.$$

Table 3.2: Presentation of Sample Size

Nairobi Regions	Compliance officers	Percentage
East and south hub	40	32.7
West hub	38	31.1
North hub	45	36.2
Total	123	100

3.5 Data Collection Instrument

There are two categories of data: primary and secondary data, which are used to collect quantitative and qualitative information, respectively (Saunders *et al.*, 2014). The most common tools for data collection are questionnaires, focus group guide and interview guides. Questionnaires can be used to collect qualitative and quantitative data and focus group guide and interview guide are used to gather qualitative data (Sekaran & Bougie, 2013; Kothari, 2011). Closed ended and opened questionnaire was used in collecting primary data.

According to Saunders *et al.*, (2014) questionnaires are considered by most researchers owing to their ease in answering questions, can be administered using alternative approaches either physically or electronically, they do not require personalized attention while responding to them. Closed ended questions were used in gathering quantitative data. The main reason as to why a quantitative research is commendable is because it makes use of measurable data in facts formulation and the end point leads to the uncovering patterns in research (Sekaran & Bougie, 2013; Kothari, 2011).

3.6 Pilot Study

Pilot testing involves research instrument administration amongst respondents who have similar characteristics with study population though they are excluded in the final study (Kothari, 2011). Through, piloting the researcher can easily identify shortcoming in the research instrument which may hinder achievement of study objectives. This was in congruence with Saunders *et al.*, (2014) who argued that pretesting of research instruments is the best strategy to minimize research instrument shortcomings which may violate likelihood of achieving study objectives. The research instrument will be piloted in KRA offices based at Thika in Kiambu County. This was selected owing to its proximity to Nairobi hubs and Kenyatta University hence minimize on piloting costs. According to Sekaran & Bougie (2013) piloting respondents ought to be 10 percent of the study sample, hence the study piloted 13 questionnaires.

3.6.1 Validity

Validity and quality control are to be ensured through face validity during construction of the questionnaire by consulting the supervisors (experts) for checking if it is measuring the expected

measures. Validity was measured using content validity. Maintaining of construct validity was restricting the questions to the variable conceptualizations and ensure particular indicator variable fall within the same construct

3.6.2 Reliability

Research instruments reliability is its capability giving similar results if administered to different group of respondents (Saunders *et al.*, 2014). Validity is the extent to which the intended characteristic is measured by a questionnaire measures or a measurement procedure (Sekaran & Bougie, 2013). Also, Kothari (2011) posited that criterion validity, construct and content are the three dimensions which can be used to examine validity. Consistency of research instrument items was examined through gathering information from alternative sources on item of interest (Sekaran & Bougie, 2013). Parallel questions were developed during questionnaire development and they were ranked in order of importance as per past study findings.

Even though, reliability may be examined using alternative methods, Cronbach Alpha coefficient will be adopted in the study. Sekaran and Bougie (2013) reported that this coefficient ranges from 0 to 1 and the research instrument is more reliable when it's closer to 1. The following summary was used interpretation of reliability coefficient.

Table 3.3: Findings of Test of Reliability

Variable	α	Items	Conclusion
Marketing capabilities	0.802	7	Reliable
Market sense capabilities	0.754	6	Reliable
Information technology capabilities	0.697	5	Reliable
Management capability	0.874	4	Reliable

Firm Performance	0.869	3	Reliable
Aggregate	0.799	25	Reliable

Source: Pilot Data (2021)

As presented in Table 3.3, the alpha values of management capability was higher ($\alpha= 0.874$) as compared to firm performance ($\alpha=0.869$), marketing capabilities ($\alpha=0.802$), market sense capability ($\alpha=0.754$) and information technology capabilities ($\alpha=0.697$). The observation by Orodho (2005) is that is the alpha value is equal to 0.7 or higher, the instrument has a higher reliability. Therefore, it was concluded that all the values of the variables studied and the overall value at 0.799 showed that the instrument had a higher reliability.

3.7 Data Collection Procedure

Trained research assistant were employed who were deployed during data collection. Self-administration of questionnaires through drop and pick method was used during data collection to enhance maximum efficiency and response rate. Administration of questionnaires was done to respondents stationed in domestic tax department. These respondents were selected owing to their direct involvement in implementation of several tax issues which seek for information from several groups. All respondents were notified through human and resources department.

3.8 Analysis and Presentation of Data

Counter checking collected data in each questionnaire was done to assess completeness, coded then entered into Microsoft Access and later exported to SPSS. Inferential statistics and descriptive statistics were utilized in analyzing quantitative data. Descriptive statistics including mean and standard deviation analyzed quantitative data. Multiple regressions were adopted to establish how one variable influenced the other. Multiple regression equation was of the following:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Y = Firm Performance; β_0 = Constant Term; β_1 , β_2 , β_3 and β_4 = Beta coefficients; X_1 = Market linking capabilities; X_2 = Market sensing capabilities; X_3 = Information Technology; X_4 = Management Capabilities; ε = Error.

3.9 Ethical Considerations

A letter from the University was sought and used in applying for NACOSTI and which are compulsory and significant in giving legitimacy to the research proposal and demonstrating that the research was done as per the required principles. The researcher further pursued an approval to collect data from human resources department of KRA Nairobi hub. In achieving an informed consent, respondents were briefed early on the study purpose so that they participate willingly and voluntarily. The privacy of respondents and confidentiality of the information was assured. The study did not use the real names of the respondents. All cited articles were properly referenced and acknowledged.

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The results of analysis are presented in this chapter which using tables and figures.

4.2 Response Rate

The study had a sample of 123 questionnaires which were taken to the respondents from east and south hub, west hub and north hub and the response rate is given below.

Table 4.1: Response Rate

Response	Total number of response	Percentage
Yes	115	93.5
No	8	6.5
	123	100

Source: Field Data (2021)

According to Table 4.1, those who responded account for 93.5%, while those who did not account for 6.5%. According to Baruch and Holtom (2014), a response rate of greater than or equal to 80% is sufficient for data analysis. As a result, the 93.5% overall return rate was impressive. This was largely due to the researcher's capacity to communicate directly with the respondents.

4.3 Demographic Characteristics

The focus of the respondents' characteristics was on their gender, age, academic qualifications and work experience.

4.3.1 Gender

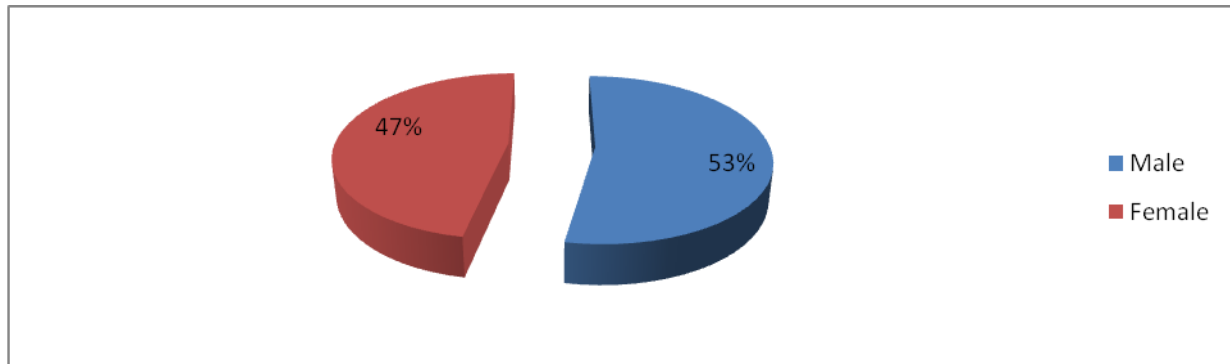


Figure 4.1: Respondent's Gender

Source: Field Data (2021)

As demonstrated in Figure 4.1, male respondents account majority at 57% and female respondents account 47%. Therefore, male and female representation was well considered in the study.

4.3.2 Age in Years

Table 4.2: Respondents' Age

Years	Frequency	Percentage
21 to 30	11	9.6
31 to 40	29	25.2
41 to 50	74	64.3
51 to 60	1	.9
Total	115	100

Source: Field Data (2021)

As illustrated in Table 4.2, a large percentage (64.3%) of the respondents' age ranged from 41 to 50 years, those with their ages ranging from 31 to 40 years followed with 25.2%, 9.6% with their ages ranging from 21 to 30 years and only 0.9% accounted for those aged from 51 to 60 years.

This implied that the respondents who participated in the study covered all age categories from the young and the old.

4.3.3 Academic Qualifications

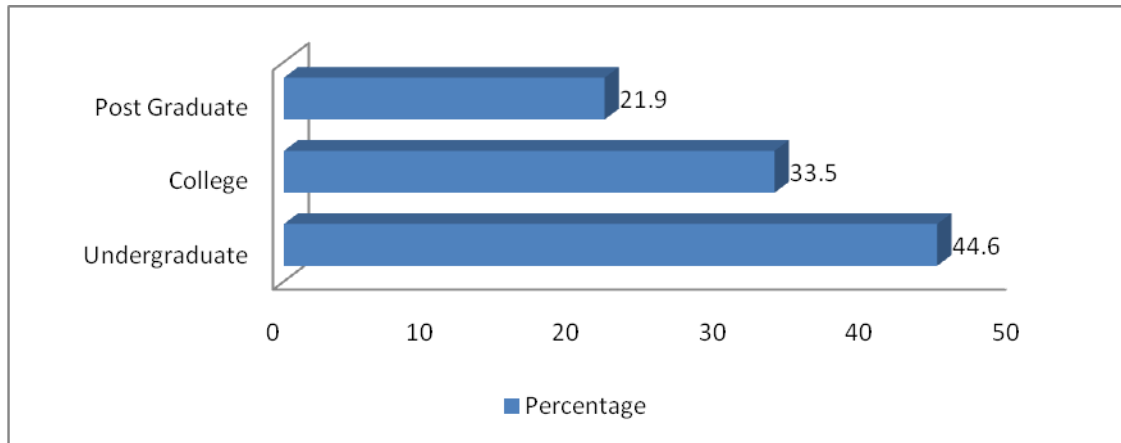


Figure 4.2: Respondent’s Academic Qualification

Source: Field Data (2021)

Figure 4.2 gives the findings that a larger percentage at 44.6% of the respondents had achieved the first degree, 33.5% had attended college and 21.9% had post graduate diploma. Therefore, it can be observed that the respondents involved in the study had the required level of education.

4.3.4 Job Experience

Table 4.3: Job Experience

Years	Frequency	Percentage
Less than 5	9	7.8
6 to 10	7	6.1
11 to 15	25	21.7
16 to 20	51	44.3
21 and above	23	20.0
Total	115	100.0

Source: Field Data (2021)

As indicated in Table 4.3, the respondents who had worked for a period ranging from 16 to 20 years were at 44.3%, those with experience ranging from 11 to 15 years were represented by 21.7%, those with 21 years of experience and more accounted for 20.0%, 7.8% below 5 years and those with their years of experience ranging from 6 to 10 years were represented by 6.1%. Therefore, the respondents involved had quite a substantial experience with the operations of the organizations.

4.4 Results of Descriptive Analysis

The findings of descriptive analysis were done using Mean (M) and Standard Deviation (SD) and their discussion are presented as follows:

4.4.1 Marketing Capabilities

The descriptive results of how marketing capabilities influences performance of Kenya Revenue Authority are presented as follows.

Table 4.4: Marketing Capabilities

Statement	M	SD
Media is most used to market our product and services	4.10	1.147
Plans to integrate our media with our marketing future products and services are underway	4.05	0.826
KRA is focused on service differentiation so as to win loyalty from the tax payer.	4.30	0.607
In KRA we have undertaken segmentation of services so as to increase levels of tax compliance.	4.01	0.837
Aggregate Score	4.14	0.854

Source: Field Data (2021)

Marketing capabilities was found to have an influence performance of Kenya Revenue Authority with an aggregate mean score of 4.14 and standard deviation of 0.854 as illustrated in Table 4.4. This finding is in concurrence with Ogohi (2018) study that assessed how marketing strategies affects performance in Nigerian firms and study findings documented positive and significant effect promotional strategies and organization performance.

The respondents agreed on the statements KRA is focused on service differentiation so as to win loyalty from the tax payer (M=4.30, 0.607), media is most used to market our product and services (M=4.10, 1.147), plans to integrate our media with our marketing future products and services are underway (M=4.05, 0.826) and that in KRA we have undertaken segmentation of services so as to increase levels of tax compliance (M=4.10, 0.837)

The is in collaboration with Ogunmokun and Tang (2012) study that investigated how Singapore based small and medium enterprises' organization performance was impacted by market planning behavior and study findings documented significant effect of market planning behavior on organization performance. The findings also collaborates with the findings of a study by Adewale, Adesola and Oyewale (2013) that investigated effects of marketing strategy and small and medium enterprises performance in Nigeria and these findings may not be generalized in KRA since SMEs and KRA are guided by different motives with the former aiming at profit maximization and later on social economic role.

4.4.2 Market Sensing Capability

The descriptive results of how market sensing capabilities influences performance of Kenya Revenue Authority are presented as follows.

Table 4.5: Market Sensing Capabilities

Statement	M	SD
KRA has engaged in customized services to suit our customer needs	4.53	0.551
To enhance penetration in different tax groups we have enhanced our information gathering strategies.	4.50	0.627
KRA strategic plan dictates how market sensing should be done	4.62	0.506
KRA is focused on minimization of tax collection costs	3.77	1.541
KRA have adopted use of alternative media platforms so as to increase its customer base.	3.31	1.489
Aggregate Score	4.15	0.943

Source: Research Data (2021)

Market sensing capabilities was found to have an influence performance of Kenya Revenue Authority with an aggregate mean score of 4.15 and standard deviation of 0.943 as illustrated in Table 4.5. The results are in consistence to a research by Nasution and Ahmad (2018) on how organization performance in Indonesia was affected by customer relationship management and study findings documented that customer relationship management practices such as training orientation, customer orientation and top management support positively and significantly affected performance in organizations.

The statements strongly agreed by the respondents include: KRA strategic plan dictates how market sensing should be done (M=4.62, 0.506), KRA has engaged in customized services to suit our customer needs (M=4.53, 0.551) and that to enhance penetration in different tax groups

we have enhanced our information gathering strategies (M=4.50, 0.627). This is in agreement with the findings of Rajapathrana and Hui (2018) study that studied impact of innovation capability, innovation types and firm performance amongst insurance-based companies in Sri Lanka and innovation capability, innovation type and insurance performance had a significant and positive relationship.

The statements agreed by the respondents included; KRA focuses on minimization of tax collection costs (M=3.77, 1.541). This finding agrees with Nasution and Ahmad (2018) study that investigated how organization performance in Indonesia was affected by customer relationship management and study findings documented that customer relationship management practices such as training orientation, customer orientation and top management support positively and significantly affected organization performance

The statement moderately rated by the respondents was that KRA have adopted use of alternative media platforms so as to increase its customer base (M=3.31, 1.489). This is in contrast with Lin and Huang (2012) study that investigated the effect of dynamic capabilities on firm performance and past empirical studies were in agreement that there is need for corporations to develop market sensing strategies which would aid in consolidating and gathering information aimed at discovery of blue ocean market and competitive advantage.

4.4.3 Information Technology Capabilities

The descriptive results of how information technology capabilities influence performance of Kenya Revenue Authority are presented as follows.

Table 4.6: Information Technology Capabilities

Statement	M	SD
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KRA has joined most of the social media platforms	4.49	0.820
IT applications are used in the management of KRA plans	3.30	1.723
KRA encourages the use of IT in all our product processes	3.92	1.085
Does you agree that research and development department are based on IT innovations	4.81	0.826
IT is being used to manage and serve information needs	4.83	0.494
KRA has IT resources that help management and sourcing	4.83	0.381
Aggregate Score	4.36	0.888

Source: Field Data (2021)

Information technology capabilities were found to have a greater influence on the performance of Kenya Revenue Authority with an aggregate mean score of 4.36 and standard deviation of 0.888 as illustrated in Table 4.6. The finding agrees with a study carried out by Rehman, Nor, Taha and Saad (2018) that investigated how small and medium enterprises performance in Pakistan were impacted by information technology capabilities and it was found that information technology capabilities have significant effect on how small and medium enterprises performed.

The statements that IT is being used to manage and serve information needs (M=4.83, 0.494), KRA has IT resources that help management and sourcing (M=4.83, 0.381) and that research and development department are based on IT innovations (M=4.81, 0.826) were strongly agreed by the respondents. The results are in agreement to the study by Cemal, Busra, Bulent and Ali (2010) that evaluated how National oil and multinational companies in Turkey were impacted by

information technology investments and IT usage had positive and significant impact on firm performance.

The statements that KRA has joined most of the social media platforms (M=4.49, 0.820) and that KRA encourages the use of IT in all our product processes (M=3.92, 1.085) were agreed by the respondents. The results are in support by Nada, Rusinah, Ibrahim and Mahmoud (2015) study that examined how innovation performance in private universities in Iraq is impacted by information technology and study findings documented positive and significant impact of information technology on innovation in public universities in Iraq.

The statement that IT applications are used in the management of KRA plans (M=3.30, 1.723) was rated to a moderate extent by the respondents. This contradicts the findings of a study by Bakran and Zumrut (2017) that examined firm performance and the types of information technology capabilities and study findings documented that IT human resources, IT relationship resources, IT business experience and IT infrastructure positively and significantly influenced firm performance.

4.4.4 Management Capabilities

The descriptive results of how management capabilities influence performance of Kenya Revenue Authority are presented as follows.

Table 4.7: Management Capabilities

Statement	M	SD
KRA has structure that is followed to the letter	3.97	0.417
There is strong leadership team that work together to ensure that the objectives of KRA are met	4.44	1.208

Communication skills has helped KRA to share information effectively	4.81	0.736
Internal flow of information is effective when it comes to communicating strategic plans	4.10	1.667
Strategic leaders and heads of department possess exception leadership skills that enable the company to achieve more and to aim higher.	4.71	0.558
Leaders in KRA conduct themselves to see that all the plans as spelt out in our strategic plan are executed successfully	4.06	0.764
To what level of agreement can you say that leaders in KRA are focused to future growth	4.28	1.120
Aggregate Score	4.34	0.924

Source: Field Data (2021)

Management capabilities were found to have a greater influence on the performance of Kenya Revenue Authority with an aggregate mean score of 4.34 and standard deviation of 0.924 as illustrated in Table 4.7. The results consistently agree with study by Yamoah (2014) that investigated the relationship between job performance and human resources capacity building and Past empirical studies supported the need for human capacity building since it created employee satisfaction.

The statements that communication skills have helped KRA to share information effectively (M=4.81, 0.736) and that strategic leaders and heads of department possess exception leadership skills that enable the company to achieve more and to aim higher (M=4.71, 0.558) were strongly agreed by the respondents. The result is supported by Asgari and Amirnezhad (2015) study that

investigated how performance of Khuzestan’s social security organization was impacted by organization learning capabilities and human resources measures and the documentation was that Khuzestan’s social security organization performance was significantly and positively impacted by human resources measures, organization learning capabilities.

The statements that there is strong leadership team that work together to ensure that the objectives of KRA are met (M=4.44, 1.208), leaders in KRA are focused to future growth (M=4.28, 1.120), internal flow of information is effective when it comes to communicating strategic plans (M=4.10, 1.667), leaders in KRA conduct themselves to see that all the plans as spelt out in our strategic plan are executed successfully (M=4.06, 0.764) and that KRA has structure that is followed to the letter (M=3.97, 0.417) were agreed by the respondents. This is consistent with Fakhar, Rana, Ayesha and Lalarukh (2012) study that investigated how organization performance in Pakistan was influenced by organization culture and it was evidenced that those organizations in which employees were motivation their level of commitment was higher it impacted performance positively.

4.5 Results of Analysis of Regressions

Table 4.8: Analysis of Regressions

Model	R	R ²	Adjusted R ²	Estimated Std. Error
1	.943 ^a	.890	.886	.171

Source: Field Data (2021)

As presented in Table 4.8, the value of R² which is 0.886 represents that contributing value of performance of Kenya Revenue Authority by the independent variables studied. This implies that the remaining 0.114 factor represent other variables not studied.

Table 4.9: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regressions	25.957	4	6.489	222.463	.000 ^a
	Residuals	3.209	110	.029		
	Total	29.165	114			

Source: Field Data (2021)

As illustrated in Table 4.9, the level of significance is at 0.000^a which is below 0.05 an implication that the statistically signified that independent variables had an influence on dependent variable. In addition, the value of F at 222.463 is more than the 6.489 representing the tabulated value with an allowance of 5% error. This implies that the model was significant.

Table 4.10: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.766	.159		7.319	.000
	Marketing capabilities	0.707	.029	4.248	7.035	.000
	Market sensing capabilities	0.612	.023	1.185	4.865	.000
	Information technology capabilities	0.792	.037	1.863	1.291	.000
	Management capabilities	0.569	.032	2.333	8.410	.000

Source: Field Data (2021)

The results indicate that holding marketing capabilities, market sensing capabilities, information technology capabilities and management capabilities as the independent variables studied performance of Kenya Revenue Authority would be at a factor of 0.766. It was established that when marketing capability is increased by a single unit Kenya Revenue Authority performance will have been increased by 0.707 factor, when market sensing capability is increased by a single unit Kenya Revenue Authority performance will have been increased by 0.612 factor, when

information technology capability is increased by a single unit Kenya Revenue Authority performance will have been increased by 0.792 factor and when management capability is increased by a single unit Kenya Revenue Authority performance will have been increased by 0.569 factor.

The equation of regression formed was as below:

$$Y = 0.766 + 0.707X_1 + 0.612X_2 + 0.792X_3 + 0.569X_4$$

Y = Performance of KRA

X₁= Marketing capabilities

X₂= Market sensing capabilities

X₃= Information technology capabilities

X₄= Management capabilities

The study revealed Kenya Revenue Authority performance was positively and significantly influenced by the marketing capabilities (t=7.035, <0.005). These findings are in agreement with Ogohi (2018) study that investigated the effect of marketing strategies on Nigerian firms' organization performance and study findings documented positive and significant effect promotional strategies and organization performance.

The study established that Kenya Revenue Authority performance was positively and significantly influenced by the market sensing capabilities (t=4.865, <0.005). The results are in agreement with the findings of Rajapathrana and Hui (2018) study that studied impact of innovation capability, innovation types and firm performance amongst insurance-based companies in Sri Lanka and significant relationship was found in innovation capability, innovation type and insurance performance.

The study determined that Kenya Revenue Authority performance was positively and significantly influenced by the information technology capabilities ($t=7.035$, <0.005). These findings are supported by Nada, Rusinah, Ibrahim and Mahmoud (2015) study that examined how innovation performance in private universities in Iraq is impacted by information technology and study findings documented positive and significant impact of information technology on innovation in public universities in Iraq.

The study determined that Kenya Revenue Authority performance was positively and significantly influenced by the management capabilities ($t=1.291$, <0.005). These findings are in line with Yamoah (2014) study that investigated the relationship between job performance and human resources capacity building and Past empirical studies supported the need for human capacity building since it created employee satisfaction.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives findings in summary form, conclusion, recommendation and suggestion for further studies.

5.2 Summary

The study mainly examined how strategic capabilities affects performance in Kenya Revenue Authority. The study specifically evaluated the influence of marketing capabilities, market sensing capabilities, information technology capabilities and management capabilities on firm performance. Questionnaires were used in collecting data. Data in quantitative form was analysed through descriptive analysis and the results are summarized as follows:

The study evaluated how marketing capabilities affects performance of Kenya Revenue Authority. It was established marketing capabilities positively and significantly influences performance in Kenya Revenue Authority. KRA is focused on service differentiation so as to win loyalty from the tax payer, media is most used to market our product and services, in KRA we have undertaken segmentation of services so as to increase levels of tax compliance and that plans to integrate our media with our marketing future products and services are underway.

The study determined how market sensing capabilities influences performance in Kenya Revenue Authority. It was revealed that market sensing capabilities positively and significantly influences performance in Kenya Revenue Authority. KRA strategic plan dictates how market sensing should be done, KRA has engaged in customized services to suit our customer needs and

that to enhance penetration in different tax groups we have enhanced our information gathering strategies.

The study established how information technology capabilities influence the performance in Kenya Revenue Authority. It was found that information technology capabilities positively and significantly influences performance in Kenya Revenue Authority. IT is being used to manage and serve information needs, KRA has IT resources that help management and sourcing and that research and development department are based on IT innovations.

The study sought to find out the influence of management capabilities on performance of Kenya Revenue Authority. It was revealed that management capabilities had a positive and significant influence of firm performance in Kenya Revenue Authority. Communication skills have helped KRA to share information effectively and that strategic leaders and heads of department possess exception leadership skills that enable the company to achieve more and to aim higher.

5.3 Conclusion

The study concludes that an organization with great marketing capabilities will be able to better target and position its brands in comparison to competitors. Marketing qualities such as coming up with fresh business ideas and developing new products can help a company achieve long-term success. Marketing capability can assist firms in detecting and responding to market changes such as competitor moves, technological evolution and revolution, enabling firms to leverage the capabilities and resources of partners for value creation, and assisting firms in anticipating and anticipating customer explicit and latent needs.

In addition, the capability to market sense positively and significantly affect the quality of market entry. Capability in sensing motivates a company to put forth effort in gathering market

information, operating under varying conditions to outsmart competitors, establishing and maintaining cordial relationships with employees and customers, and incorporating inner strengths in conformity with external environments..

Moreover, it was concluded that information communication capability permits a company to acquire unique access to client information and preferences, as well as save down on future business search expenditures. This confidential knowledge can be a helpful resource for a company looking to grow into a new market without investing significant costs.

Furthermore, management capability plays an essential role in motivating employees to work better, providing bilateral communication channels, allowing for employee engagement, comments, and criticism. Personnel management has a tremendous impact on the corporate climate. Good practices in the area generate a sense of belonging, demonstrate the value of everyone to the organization, and demonstrate how much their job contributes to the achievement of business objectives.

5.4 Recommendation

First and foremost firms ought to develop marketing capabilities in key functional areas. Within the firm, marketing procedures necessitate a number of unique competencies that enable the firm to carry out the actions required to move its products or services through the value chain. Firms should act based on their market knowledge, and market knowledge dissemination is strongly linked to the firm's ability to exploit new market possibilities in particular, as well as its overall innovation performance.

Secondly, organizations should improve their market sensing abilities by first comprehending each phase of their process, then critically evaluating their market learning capabilities, and

finally rectifying any learning impairments. Mastering each stage of the market-sensing capabilities model is therefore critical. The company should look for ways to improve how new knowledge is obtained, analyzed, interpreted, and distributed, as well as how it is used to make marketing decisions.

Thirdly, by using its IT capabilities, the company can improve their business performance by increasing revenues, lowering costs, or doing both. To gain a competitive advantage and improve service delivery to customers, the company should embrace IT tools and services. In addition, the firm should develop internal capacity to handle IT system policies and procedures in order to retain IT workers and develop backup plans.

Fourthly, managers must ensure that employees are aware of the forces driving change, that they are involved in the planning process, and that they are aware of how to deal productively with resistance to change. Understanding what motivates people in the workplace, as well as the variables that contribute to people feeling demotivated, is crucial for managing performance at work. Managers should establish strategies to train staff and attempt to improve significant qualities for professional performance such as leadership, trust, communication, and time management, according to the report.

5.5 Suggestions for Further Studies

The study mainly examined the influence of strategic capabilities on performance of Kenya Revenue Authority. Strategic capabilities were evaluated in terms of marketing capabilities, market sensing capabilities, information technology capabilities and management capabilities. Therefore, it can be suggested that another study can be done with a focus on other evaluation of strategic capabilities on firm performance. Further, another study could be done that focus on different organization other than Kenya Revenue Authority.

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APPENDICES

Appendix I Letter of Introduction

Nelius Njoki Gatama

P.O. Box

Nairobi.

Date

Name of Respondent-----

Company Name and address-----

Dear Sir/ Madam,

RE: REQUEST FOR RESEARCH DATA

I am currently undertaking masters of business administration as part of partial requirements, this a study on “**Strategic Capabilities and Firm Performance; A case of Kenya Revenue Authority**”. You have been selected as respondents through filling the attached questionnaire. All information will be treated with utmost confidentiality and if you need a copy it may be provided at the end of the study. The same will be available in soft copy in Kenyatta university repository.

Kind Regards,

Nelius Njoki Gatama

Dr. Lucy Kavinda

(MBA. Candidate)

(Supervisor

Appendix II Questionnaire

The questionnaire has three sections, kindly respond to all questions with honesty. Do not put any information that might identify your personal details

SECTION 1: Demographic Characteristics

(Instruction-tick where appropriate)

1. Gender

Male Female

2. Age in years

21-30 31-40 41-50 51-60

3. Highest education level attained

College Undergraduate Post graduate

4. Working experience in years

Less than five 6-10 11-15 16-20 21 and above

5. Kindly indicate your Nairobi hub

East and South hub West hub North hub

Section B: Strategic Capabilities

BI: By ticking the appropriate related choice, please indicate your level of agreement with the accompanying statement on marketing connecting capabilities. **SD=Strongly Disagree, D=Disagree N=Neutral, A =Agree and SA=Strongly Agree**

		SD	D	N	A	SA
a	Media is most used to market our product and services					
b	Plans to integrate our media with our marketing future products and services are underway					
c	KRA is focused on service differentiation so as to win loyalty from the tax payer.					
d	In KRA we have undertaken segmentation of services so as to increase levels of tax compliance.					

BII: By ticking the appropriate related choice, please indicate your level of agreement with the accompanying statement on marketing sensing capabilities. **SD=Strongly Disagree, D=Disagree N=Neutral, A =Agree and SA=Strongly Agree**

		SD	D	N	A	SA
a	KRA has engaged in customized services to suit our customer needs					
b	To enhance penetration in different tax groups we have enhanced our information gathering strategies.					
c	KRA strategic plan dictates how market sensing should be done					
d	KRA is focused on minimization of tax collection costs					

e	KRA have adopted use of alternative media platforms so as to increase its customer base.					
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BIII: By ticking the appropriate related choice, please indicate your level of agreement with the accompanying statement on information technology capabilities.. **SD=Strongly Disagree, D=Disagree N=Neutral, A=Agree and SA=Strongly Agree**

		SD	D	N	A	SA
a	KRA has joined most of the social media platforms					
b	IT applications are used in the management of KRA plans					
c	KRA encourages the use of IT in all our product processes					
d	Does you agree that research and development department are based on IT innovations					
e	IT is being used to manage and serve information needs					
f	KRA has IT resources that help management and sourcing					

BIV: By ticking the appropriate related choice, please indicate your level of agreement with the accompanying statement on management capabilities. **SD=Strongly Disagree, D=Disagree N=Neutral, A =Agree and SA=Strongly Agree**

		SD	D	N	A	SA
a	KRA has structure that is followed to the letter					
b	There is strong leadership team that work together to ensure that the objectives of KRA are met					
c	To what extent do you agree that communication skills has helped your KRA to share information effectively?					
d	Internal flow of information is effective when it comes to communicating strategic plans					
e	Strategic leaders and heads of department possess exception leadership skills that enable the company to achieve more and to					

	aim higher.					
f	Leaders in KRA conduct themselves to see that all the plans as spelt out in our strategic plan are executed successfully					
g	To what level of agreement can you say that leaders in KRA are focused to future growth					

Section C: Firm Performance

C1: In the past five kindly the percentage change in tax filling, tax payment and administration cost

	2014			2015			2016			2017			2018		
	<5%	5%-10%	>10%	<5%	5%-10%	>10%	<5%	5%-10%	>10%	<5%	5%-10%	>10%	<5%	5%-10%	>10%
Tax payment															
Tax filling															
Minimization in administrative cost															

