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Effect of Revenue Collection Process Innovations on Financial Performance of Selected County Governments in Kenya

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Abstract- *Most of the county governments in Kenya lack enough finances to fund their recurrent and development budgets which has led to stalling of projects. In order to meet their financial obligations, county government should devise innovative ways to increase revenue collection. County governments in Kenya are faced with a number of tax collection challenges which include; a narrow tax base which reduces potential revenues and makes the county more dependent than it could be on a small section of society. The general objective of the study was to investigate the effect of revenue collection processes innovations on the financial performance of selected county governments in Kenya. The study adopted a descriptive research design. The target population consisted of all the employees in the county revenue collection department. Clustered random sampling technique was used in this study to select the respondents. The total sample in this study was 124 respondents. Data was primarily collected to provide information regarding a specific topic. Primary data was gathered by use of a semi-structured questionnaire and captured through a 5-point type Likert scale. The collected primary data was analyzed using Statistical Package for Social Science (SPSS) version 20. A linear regression analysis was conducted on the data set. The Pearson Product Moment was used to analyze the data in which correlation coefficient (R) and the coefficient of determination (R^2) of the variables was established. The findings revealed a strong positive relationship between the independent variables and the dependent variable. The study recommends that all the staff that is in revenue department in all county governments should be trained on revenue collection.*

Keywords- *County Governments; Revenue Collection Processes Innovations; Financial Performance*

1. INTRODUCTION

Governments in both developed and developing countries collect taxes to fund public services. Strengthening domestic resource mobilization offers many benefits to countries economic development by reducing the dependency on external flows, reduces volatility in resource availability, and vulnerability to external shocks. Revenue collection is an important determinant of the economy of any country (Lubua, 2014). Adequate revenues allow government to support its operations in administrative activities, infrastructure constructions and service provision. A study by Ebeke (2010) pointed out the importance of developing countries to adequately manage its sources of revenue to accelerate developments. Enough revenue discourages donor dependence for its developments and offers government ability to make different developmental decisions (Komanya, 2013). In the Kenyan context where we have devolved system of government, it gives greater policy space, increases their ownership of development process as well as strengthening their income capacity (Hope, 2013). New and innovative ways to increase revenue collection must be sought. The need for additional revenue is important in many developing countries. Improving revenue mobilization is able to alleviate poverty and improves infrastructure thus achieving Millennium Development Goals. This will require low-income countries to raise their tax-GDP ratios (United Nations, 2005).

Tax revenue collections are relatively poor in most counties in Kenya and affects service delivery to the public (Githinji, 2014). Raising additional tax revenue is further constrained by weak state legitimacyas taxes have often not translated into improvements in public service delivery. Tax and revenue administration agencies are therefore under constant pressure to find ways to maximize revenue through improving efficiency in its operations. This requires having a strategic view of their enterprise, knowing that success only comes with the alignment of all elements of an organization, people, processes and technology with improved revenue collection being the ultimate goal (Abiola & Asiweh, 2012).To maintain both flexibility and simplicity, the government agencies have been taking advantage of technological innovations in different areas of its operations. For instance, in Kenya, the Kenya Revenue Authority (KRA) has spearheaded the introduction of the Electronic Tax Registers and Electronic Signature Devices. These devices offer unique benefits to traders and the Revenue Authority alike by recording transaction data in such a manner that it cannot be tempered with (Githinji, 2014).

Automation through technological innovation is not an end in itself, but a crucial component of taxation reforms, which aims at modernizing tax administrations and aligning the legal framework and procedures with international standards and best practices. Automation facilitates the clearance of legitimate trade, improves the efficiency of taxation controls and secures revenue collection reliability as well as the simplification of border-crossing and administrative procedures (Di John, 2006). Sohne (2003) noted that automated systems are capable of introducing massive efficiencies to business processes that can result in increased revenue. Applying technological innovation towards achieving key goals by the government is a key step towards transforming government into an entity that can keep abreast of the needs, requirements and expectations of today's modern world.

In 2010, Kenya promulgated a new constitution which created constitution created 47 county governments across the country as devolved government, these counties must have the means and the autonomy to begin to address local needs, and their citizens may be more able to hold them accountable for their performance (Khaunya, Wawire & Chepng'eno, 2015).Contrary to what was expected, many county governments in Kenya have failed to discharge their functions due to lack of enough finances. This denotes that most of these counties have poor financial performance which results to financial deficit. Therefore there is need to find innovative ways of revenues collection in order to discharge their mandate.

1.2 Statement of the Problem

County governments in Kenya have experienced a number of challenges such as the inability to meet financial obligations (Hornsby, 2013). To meet their financial obligations, they must devise innovative ways to increase revenue collection. Tax collection challenges which include; a narrow tax base reduces potential revenues and makes the county more dependent than it could be on a small section of society (Masira, 2014). It is clear from the onset that there is great need for county revenue authorities to have sufficient funds to deliver the much needed community services. Tudose (2013) analyzed the financial performance of local authorities in the context of budgetary constraints in Kenya and found out that local authorities, due to the low income generation capacity, face a shortage of own resources, creating dependency on the state budget. Moreover, the study demonstrated that lack of resources limits both the investment capacity and the decision-making autonomy of local authorities in prioritizing spending. Therefore the current study tries to fill this knowledge gap by ascertaining the effect of revenue collection process innovations on financial performance of selected counties governments in Kenya. The focus is on training, mobile money payment, online tax remittances and revenue database system.

2. LITERATURE REVIEW

Defee, Randal, Thomas & Williams, 2010 and Mentzer, Stank & Esper (2008), emphasized that a good research should be grounded on theory. This study was guided by the following theories. *Technology Acceptance Model (TAM) which is* an information systems theory that models how users come to accept and use an innovation, Unified Theory of Acceptance and Use of Technology is a technology acceptance model formulated by (Venkatesh et al, 2003) comprises of four key constructs; innovation performance expectancy, effort expectancy, social influence and facilitating conditions. The first three being direct determinants of usage intention and behavior, and the fourth a direct determinant of use behavior. Lastly the *Innovation Diffusion Theory this theory that was developed by Rogers 1995*explains consumer behavior towards new technology Roger further states that, the following are the characteristics of any innovation are relative Advantage, compatibility, Complexity and Trial ability.

2.2 Empirical review

The spirit of decentralization is that local government should be in a position to identify local needs, and to deliver public services accordingly (Brewer, Chandler &Ferrell, 2006). The county government must identify and raise revenue from local sources in form of rates, tolls, property tax, fees and fines among others to boost their financial base for development. Public revenue collection is an integral component of fiscal policy and administration. It is the fuel of every government through which government funding is ensured. With growing donor fatigue and dwindling domestic revenue reserves in most developing countries, the need to strengthen national revenue collection systems has become particularly imperative. Yet, devising efficient means of collecting tax revenue remains a daunting challenge, especially in developing countries. Tax revenue collection should comply with best practices of equity, ability to pay, economic efficiency, convenience and certainty (Zhou, 2012).

Gomes, Alfinito& Albuquerque (2013) analyzed local government financial performance and concluded that, larger cities are more likely to manage revenue and expenditure better than are smaller cities. This conclusion stems from the findings that in small municipalities' mayors have fewer conditions to improve financial performance due to the difficulty of raising and collecting taxes and of reducing expenditure. A strong local revenues base is essential for the sustainability of decentralization programmes. Local revenue forms a core means of building an independent and accountable local governance system (Republic of Uganda, 2010). County Governments with strong local revenue collection have greater scope for autonomy, and are more responsive to the needs and priorities of their citizens.

Training provides employees with specific skills or helps to enhance their performances, while development is an effort to provide employees with abilities the organization will need in the future (Chew, 2004). Training makes organizations to utilize optimally human resource. This further enhances employee to achieve the organizational goals as well as their individual goals (Adeniji, Osibanjo & Abiodun, 2013).

Chen, Hsu and Huang (2013) conducted a study on lagged effect of training on financial performance: evidence from longitudinal data and found out that both partners' and assistants' training has significantly positive effect on financial performance. Positive and significant association between training and financial performance informs practitioners that training contributes to audit firms and justifies the continuous education requirement in the public accounting profession. Evans and Annuziata, (2012) argues that innovations promise to bring greater speed and efficiency to industries as diverse as aviation, rail transportation, power generation, oil and gas development, and health care delivery. It also holds the promise of stronger economic growth, through improved revenue collection and high performance of governments.

The mission of collecting tax and revenue in accordance with the applicable legislation is a complex task because of the massive amount of taxpayers and the different rules that are applied for each case (Davenport, 2013). To perform the alluded duty, many different systems exist with the intention of assisting the IRS personnel to carry out their job.

Mobile money transfer refers to services whereby customers can use their mobile devices to send and receive money or to transfer money electronically from one person to another using a mobile phone. Phones support the current reality of informal information systems, they can help extend social and business networks, and they clearly substitute for journeys and, in some cases, for brokers, traders and other business Intermediaries (Nyandika, 2014). They also meet the priority Information needs of communication rather than processing of information (Otiso, Simiyu & Odhiambo, 2013). They also have a direct basic task of running a business reducing costs, increasing income, managing risk and link them to core functions of mediated communication technologies, particularly the substitution for journeys (Donner, 2009)..

Jack and Suri (2011) noted that in mobile money services have been extended to offer financial services for formal financial products (savings, credit, insurance), informal service providers (moneylenders), personal networks (on-demand, scheduled payments, sending and receiving money), in-store merchant payments (goods and services), and remote payments (salaries, pensions, loan disbursements, bill payments, online/e-commerce). Cheruiyot, (2015) conducted a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya and concluded that for e-filing to effectively take off in Kenya skills, infrastructure and a good business environment are needed.

Over the past decade, governments world-wide have invested heavily in e-government services. The scale of this investment can be gauged from the various benchmarking reports on e-government (Connolly & Bannister, 2008). Having invested in this technology, governments are naturally interested in both the level and the nature of the use of online services made by citizens and businesses and they have employed a variety of instruments to try to measure this, from crude hit rate counts to citizen surveys. In surveys of e-government carried out over the past five years, (Accenture, 2006; CapGemini, 2006), the computerization of taxation services is one area in which most countries score highly. One aspect of collecting tax on-line is making the process attractive to citizens. While governments and tax authorities can provide various inducements (such as later payment dates) for citizens to file on-line, a key factor in the success of such systems is the design quality of the public interface.

In a study conducted by Muita (2011) on the factors influencing the adoption of e-filing in Kenya, found out that use of electronic filing will lead to managerial benefits and savings of costs. For example, on-line lodgment and transfers and the greater use of electronic submission and transfers, are likely to reduce compliance costs for small businesses. From the existing empirical studies, it appears no study has been done in Kenya on the effect electronic filing on small taxpayers as far as tax compliance is concerned.

Simiyu (2015) argues that proper database systems help to ensure that the organization is not unnecessarily exposed to avoidable financial risks and that financial information used within the business and for publication is reliable. He also noted that revenue database system contribute to the safeguarding of assets, including the prevention and detection of fraud and misuse of organizational resources. In another similar study, Mwachiro (2013) established that proper database systems help to ensure that the organization is not unnecessarily exposed to avoidable financial risks.

Ojha, Sahu and Gupta (2009) did a study on the antecedents of paperless income tax filing by young professionals in India. They sought to find out how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance. The regression analysis carried out found that the antecedents of young Indian professionals depended on the perceived ease of the tax system, personal innovativeness in information technology, relative advantage, performance of filing service, and compatibility.

In Malaysia, Ling and Nawawi (2010) carried out a survey on Integrating ICT Skills and tax software in tax education. The aim was to establishing the necessary skills required by taxpayers to fully utilize a tax online system. The study found that three skills are needed by a taxpayer to interact well with technology based tax system namely, spread sheet software, word-processing software and e-mail.

After literature review the following hypotheses were developed to guide the study

$H_0$1: Training on revenue collection do not have asignificant effect on the financial performance of selected county governments in Kenya.

$H_0$2: Mobile money payments do not have a significant effect on the financial performance of selected county governments in Kenya.

$H_0$3: Online tax remittances do not have a significant effect on the financial performance of selected county governments in Kenya.

$H_0$4: Revenue Data system systems do not have a significant effect on the financial performance of selected county governments in Kenya.

3. METHODOLOGY

The study adopted a descriptive research design in the population of study was collected from three counties in Kenya that had adopted revenue collection processes innovations by June, 2015. The study focused on Nairobi County, Kiambu County, Machakos County and Mombasa County. The target population consisted of all the employees in the county revenue collection department which comprised 413 employeesout of which sample of 30% of the employees of the selected county revenue collection department. Clustered random sampling technique was used in this study to select the respondents since the respondents were from different geographical regions. The total sample in this study was 124 respondents.

Primary data was collected by use of a semi-structured questionnaire and captured through a 5-point type Likert scale by research assistants prior to using a questionnaire to collect data it should be pilot tested. The purpose of the pilot test was to refine the questionnaires well as to test validity and the likely reliability of the data that was collected. Cronbach alpha achieved was above 0.7. Primary data was analyzed using Statistical Package for Social Science (SPSS) version 20. A linear regression analysis was conducted on the data set. The Pearson Product Moment was used to analyze the data in which correlation coefficient (R) and the coefficient of determination (R^2) of the variables was established. The empirical regression model that was adopted for this study was as shown below.

$$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \in \text{ ---- (i)}$$

Where

Y_1= Financial Performance,

α = the constant term,

X_1= Training on Revenue Collection,

X_2= Online Tax Payments,

X_3= Mobile Money Payment,

X_4= Revenue Database System

$\beta_i \; i = 1 \; to \; 4$ measure of the sensitivity of the dependent variable (Y) to unit change in the predictor variables $X_1, X_2, X_3 \; and \; X_4$

$\in$ = is the error term which captures the unexplained variations in the model.

4. DATA ANALYSIS

After administering 124 questionnaire, a total of 91 questionnaires were duly filled and returned translating to 75%

The Cronbach alpha was used to test reliability where of six questionnaires were randomly selected and the Cronbach alpha attained was above 0.7 as shown indicating that the data was reliable

4.1 Correlation Analysis

Results are said to be statistically significant if the probability value (P – value) is less than 0.05 The results revealed that all the variables training, mobile money, online tax remittance and revenue data base system on revenue collection and financial performance are significantly related and have moderately strong positive correlation indication (r=0.664 p=0.000), (r=0.557, p=0.000), (r=0.525, p=0.000) and (r=0.603, p=0.000) respectively This implies that an increase in any unit of the variables leads to an improvement in financial performance of the county government..

Table 4.1 below present the fitness of model used in the regression model to explain the study phenomena. Training on revenue collection, mobile money payment, online tax remittance and revenue database system provides a moderately good fit in predicting changes in financial performance of the county government. This is supported by coefficient of determination also known as the R square of 65.8%. This means that training on revenue collection, mobile money payment; online tax remittance and revenue database system explain 65.8% of the variations in the dependent variable which is financial performance of the selected county governments. This results further means that the model applied to link the relationship of the variables provided a relatively good fit.

TABLE 4.1Model Fitness

Indicator	Coefficient
R	0.811
R Square	0.658
Adjusted R Squared	0.642
Std. Error of the Estimate	0.18353

Table 4.2 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model provided a relatively good fit. Further, the results imply that the independent variables are good predictors of financial performance. This was supported by an F statistic

of 41.388 and the reported p value (0.000) which was less than the conventional probability of 0.05significance level.

TABLE 4.2 Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.576	4	1.394	41.388	.000
Residual	2.897	86	0.034		
Total	8.473	90			

Regression of coefficients results in table 4.3 shows that training on revenue collection and financial performance are positively and significant related (r=0.491, p=0.000). The table further indicates that mobile money payment and financial performance are positively and significant related (r=0.144, p=0.015). It was further established that online tax remittances and financial performance were positively and significantly related (r=0.196, p=0.002) while revenue database system and financial performance were also positively and significantly related (r=0.278, p=0.001)

TABLE 4.3 Regression of Coefficients

	B	Std. Error	t	Sig.
(Constant)	-0.428	0.313	-1.371	0.174
Training on revenue collection	0.491	0.089	5.551	**0.000**
Mobile money payment	0.144	0.058	2.495	**0.015**
Online tax Remittances	0.196	0.06	3.276	**0.002**
Revenue database system	0.278	0.077	3.607	**0.001**

Thus, the optimal model for the study is;
Financial performance of the county government= -0.428+ 0.*491Training on revenue collection*+ 0.144 *Mobile money payment*+ 0.196 *Online tax Remittances*+ 0.278*Revenue database system*

4.2 Hypothesis Testing

To test the first hypothesis on Training, the calculated p value of 0.000 was less than the critical p value (0.05). This indicated that the null hypothesis was rejected hence training on revenue collection had a significant effect on the financial performance.
On mobile money payment**,** the calculated p value of 0.015 was less than the critical p value (0.05). This indicated that the null hypothesis was rejected hence mobile money payment had a significant effect on the financial performance
The calculated p value on online tax remiittances wasof 0.002 was less than the critical p value (0.05). This indicated that the null hypothesis was rejected hence online tax remittances had a significant effect on the financial performance
To test revenue databases system,the calculated p value of 0.001 was less than the critical p value (0.05). This indicated that the null hypothesis was rejected hence revenue database system had a significant effect on the financial performance.

5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

In analyzing training, the findings revealed that training on revenue collection has a positive and significant effect on the financial performance of selected county governments in Kenya. This is in agreement with that of Chen, Hsu, and Huang (2013) who conducted a study on lagged effect of training on financial performance. The study found that both partners' and assistants' training have significantly positive effect on financial performance with the former occurring in the current and one-year-lagged periods and the latter occurring in the one-year-lagged and two-year-lagged periods. Positive and significant association between training and financial performance informs practitioners that training contributes to audit firms and justifies the continuous education requirement in the public accounting profession.
It was established that mobile money payment has a positive and significant effect on the financial performance of selected county governments in Kenya. These findings agree with that of Raymond, Bergeon& Bill (2005) who concluded that mobile money payment has a positive and significant effect on the financial performance. Jack and Suri (2011) also noted that mobile money transfer services improve performance.
Online tax remittances on financial performance of selected county governments in Kenya revealed a positive and significant effect on the financial performance of selected county governments in Kenya. In a similar study Connolly and Bannister (2008) who concluded that online tax remittance also concludea positive and significant effect on the financial performance. The findings also agree with that of Musya (2014) who found that weak online tax remittances lead to poor performance. The study recommended for proper online tax remittances.
As per revenue database system, the findings revealed that revenue database system has a positive and significant effect on the financial performance of selected county governments in Kenya. This is in agreement with Emasu (2007) who argued that a proper database system enhances maintenance of proper accounting records, employee accountability, timely reporting on financial matters, risk mitigation by internal employees, effective communication among employees, efficient and effective utilization of financial and non-financial resources and information and communication technology in service delivery. Mwachiro (2013) also established that proper database systems help to ensure that the organization is not unnecessarily exposed to avoidable financial risks and thus improving the financial performance.

5.1 Conclusions

In relation to the study findings the study concluded that training on revenue collection, mobile money payment, online tax remittances and revenue database system influences financial performance of selected county government in Kenya. The findings revealed a strong positive relationship between the independent variables and the dependent variable.

The study also concluded that mobile money payment reduces uncertainty risks. In addition it promotes efficiency and confidence in the financial system thus winning the public trust. Mobile money payments have also reduced transaction costs in the county.

The study also concluded that by county using online services, the county performance is increased. In addition online tax collections minimize the county costs.

The study also concluded that proper database system enhances maintenance of proper accounting records in the county government. It also assist in ensuring that the county is not unnecessarily exposed to avoidable financial risk.

5.2 Recommendations

The study recommends that all the staff that are in revenue department in all county governments should be trained on revenue collection. The study also recommends that senior managers and supervisors should nominate all their employees for training on revenue collection. Scholarships and sponsorships should be made available for all staff in the revenue department to be trained on revenue collection

The study also recommends that the all-county government should use mobile money transfer services for making payments to citizens and collecting revenues such as taxes. The county governments should also use SMS reminders.

The study also recommends that the county government should invest on e-government services. It should also computerize the taxation services. The county government should also ensure that online remittance systems are well enhanced.

The study also recommends that all county governments should ensure proper database system since weak database system encourage collusion to fraud, loss of revenue and embezzlement of collected revenue. The county government should also ensure that the employees in the revenue collection department have the necessary skills required by tax payers to fully utilize a tax online system.

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