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ABSTRACT

This study assessed the effect of identifying risk on performance of Kenya Revenue Authority in collection of national revenue in Kenya. *The ultimate intention of the study was to benefit policy makers and academicians in the same quest. The study's time frame was from 2018 to 2022. The study was anchored on stakeholder theory. The study adopted a descriptive research method, from a population of 3906 KRA employees. A total of 294 divisional representatives were sampled using a mix of stratified, purposive and judgmental sampling. To the representatives of KRA there was a survey questionnaire structured according to the objectives of the study. The questionnaire was presented on a drop- and-pick method in order to ensure high response rate. In two steps, the data was coded and examined. In the first stage there was confirmatory factor analysis, the second stage was structural regression equation model. The imminent primary data was coded and analyzed statistically using R in lavaan programing language. Under the assumption of no linearity the data was analyzed using the structural equation model methodology to specifically identify the confirmatory factor structure followed by a measurement model in the form of multiple regression. The model was diagnosed using normality, model identification status testing, multicollinearity and model fit diagnostics of fit test. This was done by standardizing all the covariances. As part of ethical consideration the researcher created rapport with the respondents by assuring them of utmost confidentiality and presenting them with an authorization letter from NACOSTI. From the findings, risk identification had significant positive effects on KRA performance in national revenue collection. Policy recommendations from this study was that KRA can improve revenue collection performance by exploiting the potential in harmonizing the application of risk identification practices.*

Key Words: *Revenue Collection, Risk Identification, KRA, Taxation*

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INTRODUCTION

Government institutions known as "revenue authorities" are entrusted with, among other things, collecting tax money for their various governments. A research by Kigen and Ndegwa (2021) revealed that the Kenyan Parliament established Kenya Revenue Authority in the year 1995 and mandated it with authority to mobilize and enhance government revenue collection amongst other duties. The act of parliament and according to written laws grants KRA right to collect, assess and account revenue collection for the government. According to Gwaro (2019), the Commissioner General and KRA board members report to Cabinet Secretary of the National Treasury since it is an agency under the ministry.

According to indeed.com (2022) risk identification comprises of identification of the potential risks and analyzing them on the effects of a business, risks emanate in different forms and every sector or industry have their unique risks. Risk analysis is the process of assessing the potential events or risks that may have a negative impact on the business, though conducting risk analysis it acts as a guide on the way forward in mitigation of risks. Risk evaluation is how to determine the extent of the potential risks, it involves risk analysis and risk assessment. Risk control are ways in which potential risks are evaluated and necessary action is undertaken in order to overcome them.

Established in 1995 under Cap 469 of Kenyan laws, KRA is mandated by the government to assess, collect and enforce collection of revenues as its main objectives (Kigen & Ndegwa, 2021). The organization faces numerous challenges in its maneuvers towards the attainment of its goals which includes but not limited to; tax evasion, poor operational processes and unethical work ethos across all administrative levels. Similarly, KRA has insufficient support infrastructure, staff illicit trade and corruption involvement. Further, expansion of government spending has pressed KRA to upsurge its revenue collection in order to fund deficit and finance the Kenya government over the years.

Regardless of the economic sector in which an organization operates, empirical evidence points at some relationship between environmental factors (therein risk factors) and organizational performance. According to Muriayi (2018), it is critical for a business entity to scan its operating environment and identify, assess, and control imminent risks regardless of good or great performance records of the past. A research by Kipkorir and Maina (2022) puts enterprise risk management at the forefront of performance. Accordingly, the research concludes that such aspects of risk management as internal and external regulation compliance, incident management, risk indicator identification, self-assessment and risk control were an organizational indefeasible weapons of failure conquest.

Empirical evidence with regard to causality of risk management practices has failed the generalization test on different grounds, for instance, Kinyua (2015) and Owuor (2010) conducted different studies on risk management practices and organizational performance and using different study and methodological contexts arrived at the evidence of significant effect. Conversely, Al-Taminim and Al-Mazrooei (2007) conducted a study with similar objectives but arrive at a dilemma regarding causality. A study by Muriayi (2018) cites different effects of the individual factors depending on organizational business environment.

Statement of the Problem

Understanding an organization's environment and taking proactive operational interventions is an important ingredient of the performance success mix, more so in an environment laden with such breakaway possibilities as tax evasion and avoidance against a revenue collection authority. According to OECD (2022), enterprise risk management is a driver of corporate governance which in turn enhances performance.

Kenya Revenue Authority main mission is enforcing compliance with tax and customs regulations, to increase government revenue mobilization and to promote the expansion of economic activity and commerce (Cacho et al., 2019).

Kenya Revenue Authority main mandate is to collect and enforce laws related to government revenue in the tax collection (Cacho et al., 2019). The authority has witnessed increased revenue collection deficit over the years (Omondi and Theuri, 2019).

KRA did not attain its target in the financial year 2019/2020 in collecting corporate tax by Kshs 167 billion against a set target of Kshs. 489 billion which was attributed to tax evasion. The agency also missed its target in the financial year 2020/2021 where corporate tax of Kshs 173 billion was collected against the set target of Kshs. 506 billion (KRA, 2021). Other challenges faced by Kenya Revenue Authority is lack of resources and supportive telecommunication infrastructure (Obiero and Genga, 2018). In the period October – December 2022 KRA missed the revenue collection target by Kshs 27 Billion, they had a target of Kshs 493.11 Billion but ended up collecting Kshs 466.46 Billion.

Tax collection performance is a major boost to GDP growth which in turn boosts economic growth. In Kenya tax collection growth rate has been lagging behind that of the GDP growth rate, one of the supported reason is empirical studies in risk management studies.

In investigating the effect of risk management and organizational performance, disparate sets of studies emerge; The first category asserts a significantly positive effect, for example Anamanjia and Maina (2022), Belo (2020), Adeyeye (2019), Ermoko et al. (2018) and Al-Khalifa (2016). A second set of empirical researches does not provide evidence on the direction of the relationship. These studies include Oluwaleke (2022), Murayi (2018), OECD (2014) while finally yet another set points at the possibility of adverse relationship and disparate effects. In this categories are studies like Alhaji et al., (2020), Kaliti (2015); Bekele (2015); Owuor (2010).

In the context of the literature reviewed, the three sets of studies fail to reach a point of generality due to divergence of methodological, evidence, population, contextual, conceptual and knowledge gaps/ differences therein. The lack of generality is a recipe for sub-optimal performance evaluation and target achievement, with regard to enhancing risk management, besides being a setback to more informed performance planning. Accordingly, the two (foregoing) grey areas may require (an) additional study (ies), hence the grounds for conducting the current one.

Objective of the Study

This study's goal was to assess the effect of identifying risk on performance of Kenya Revenue Authority in collection of national revenue in Kenya. The study tested the following research hypothesis;

- H_0: Risk identification has no significant effect on performance of Kenya Revenue Authority in collection of national revenue in Kenya.

LITERATURE REVIEW

Theoretical Review

Stakeholder Theory

Edward Freeman originally detailed the stakeholder theory of organization management in 1984. This theory holds managers must understand and account for all internal and external entities with which it has a relationship. A stakeholder in this case is defined as an entity that has direct or indirect interests in the activities of a particular organization.

There are multiple benefits and risks posed by the various stakeholders. The stakeholders of any organization can make or break the organization and hence management should be able to understand them. Kenya Revenue Authority has individual and corporate tax payers as some of the key stakeholders.

The management of KRA ought to understand the activities of the tax payers that would result to risks and specific risks that may lead to nonpayment of taxes as they fall due. This theory would be relevant to this study as it tries to explain the need of risk identification. Stakeholder theory was tied to the objective of the study "identifying risk on performance of Kenya Revenue Authority in collection of national revenue in Kenya".

Empirical Literature Review

Risk identification and revenue performance

Definition of the company goals is a vital first step in risk reduction since it is difficult to identify potential hazards for an organization without a clear direction. The clarity of firm's organization is achieved through review of the proposed firms plan and strategies. The process of risk identification should do away with discords, ambiguity and other possible disagreements.

Al Tamimi and Al Mazrooei (2007) studied the banking sector on risk management in UAE. From the findings the common risks facing commercial banks were foreign exchange risk, credit and operating risks. The research design used modified questionnaire. The results indicated a significant positive significant influence of risk management on commercial bank performance. From this evidence there is a contextual gap in terms of industry and geographical focus. This current study will take place in Kenya, not in UAE.

Ayenew (2016) examined the determinants of tax collection level in Ethiopia, the study is based on the 1974 to 2013 sample period. The results indicate that in the short run GDP per capita was positively while inflation was negatively and significantly impactful on the target objective. This presents an evidence gap because in contrast the current study does not look at effect of macro-economic factors. Further the country context is different hence evidence and conceptual gap.

Anamanjia and Maina (2022) conducted a research on strategic alignment and performance of KRA. The study's particular goals were to ascertain how the Kenya Revenue Authority's performance was impacted by resource alignment, cultural alignment, structural alignment, and business environment compatibility. In the study, a descriptive research approach was used. The research determined that the Kenya Revenue Authority's performance was positively and significantly impacted by resource alignment, cultural alignment, structural alignment, and business environment alignment. The current study will focus on risk management practices and performance of KRA.

Conceptual Framework

Risk identification		Performance of Kenya Revenue Authority
▪ Likert scale indicators	→	▪ Recorded revenue collection target achievement rate
Independent Variables		**Dependent variable**

Figure 1: Conceptual Framework

Source: Researcher (2023)

METHODOLOGY

This study incorporated a descriptive research since it allows for extensive data collecting about the population being studied and enables a researcher generalize the findings to a larger population. For the independent variable side of this study, the target population comprised of the 3906 employees of the Kenya Revenue Authority (KRA) as by October 20, 2022. This number was sourced from KRA 2022. Two hundred and ninety-four (294) divisional representatives was drawn from the 41 agencies countrywide. The Kenya Revenue Authority had 7 regional divisions in Kenya, each with 7 departments. The 7 departments were present in all the 41 agencies hewn from the 7 regions, so that the total number of department managers is 7 at each of the 41 agencies, hence the target population. The study stratified the key sectors of the population in order to get representation from each sector. After stratification on the bases of 7 regions, there was purposive selection of all the attached agencies by region, out of which judgmental sampling of 7 agency-based department representatives (managers/supervisors) were selected. A sample of 294 respondents was drawn from the entire population of KRA employees.

Secondary and primary data was used in this current research. While the secondary data source (on performance rate) from the target set was gathered and achievement records via a data capture sheet. The primary data was collected via a survey questionnaire of the independent variable, (risk identification). The data in focus was that of 2018 - 2022 financial years.

The data was gathered, coded, and analysed using R package using Laavan programming language. The data was analysed in two stages. In the first stage there was confirmatory factor analysis (CFA). After that structural regression model followed, in which the coefficients were evaluated using the CFA. Since the confirmatory factor analysis mirrors the conceptual framework diagram. It was a multifactor model.

FINDINGS AND DISCUSSIONS

The study collected data from 151 male and 143 female respondents. In this case the study showed that the sample consisted of 51.38% and 48.64% female respondents respectively.

On principal components analysis, the results showed that risk identification loaded positively on at most 2 components safe for bow-tie analysis in risk analysis. This preliminary finding revealed a weak variation in the factor responses presented and meager effect on some of the risk management sub-factors.

Tests for normality, multicollinearity, model identification diagnosis and model fit diagnosis were used to confirm the study's data quality. To corroborate results after the normality test was carried out the researcher applied the Shapiro Wilk Test to make sure the data were evenly distributed. The results showed that risk identification did not have a probability (p-) value lower than or equal to 5% (or 0.05). It was therefore inferred that all data values in risk identification study variable was normally distributed and therefore tenable for analysis.

For confirmation of non-collinearity of the predictor variable, the Variance Inflation Factor (VIF) criterion was used. The result showed that Risk identification had Variance Inflation Factors (VIFs) lower than 3, occasioning the conclusion that these criterion variable had no problem of multicollinearity. This further enhances the data set’s suitability for regression (Structural equation) modeling.

On model Identification diagnosis , the first part of model diagnosis was assessment of the identification status. The measurement model consisted of risk identification. After running confirmatory factor analyses, each of the model’s latent variable was found to have at least five (5) degrees of freedom. Since risk identification variable in the measurement model had less than 1 degree of freedom, the model was over-identified and this formed a basis for structural equation model. The p-values of the degrees of freedom was found to be above the threshold of 0.05 confirming that the latent variable had an over-identification status. The risk identification variable was hence tenable for a structural equation model with identifiable solutions.

In order to assess the goodness of fit of the structural model, the researcher computed the model’s Comparative Fit Index (CFI), the Tucker-Lewis Index (TLI) and the Root Mean Square Error approximation (RMSEA) statistics. The decision on fit criteria proposes that both the CFI and TLI should at least be 0.5 and where the values are non-positive; CFI should be greater than TLI in absolute terms. Further, the RMSEA was evaluated against the null hypothesis that RMSEA<= 0.05. From the results, it was found that risk identification had a good fit in the measurement model. It had a CFI>=0.5 and where TLI was below 1, the CFI was greater in absolute terms. The p-values of the RMSEA was greater than the hypothetical null of 0.05, affirming the fitness. The latent variable was tenable for the structural model.

Having identified the measurement model and diagnosed it for goodness of fit, the regression model followed the Structural Equation Model (SEM) of one manifest endogenous variable and one exogenous latent variable. The structural model of the study involved the level of KRA revenue collection performance as the manifest variable influenced by latent Risk Identification. The manifest variable was taken to be the endogenous while the latent variable was exogenous. From the findings, it was determined that the level of revenue collection performance at the KRA had a positive function of the risk identification latent variable.

Hypothesis Testing

H_0: Effect of Risk Identification on performance of Kenya Revenue Authority in collection of national revenue in Kenya

The alternative hypothesis postulated for the objective was that Risk Identification had no significant effect on performance of KRA in collection of national revenue in Kenya. From field data, Risk Identification (with, a structural equation coefficient of 0.267) was significantly positively effective on revenue collection performance at KRA, at 3.3% level. According to the results, the null hypothesis could not be validated. The findings agreed with those of Al Tamim and Al Mazroei (2007) in and effect but different factors, are a contrast of Ayenew (2016) in terms of causality direction and are straddled in Anamanjia and Maina (2022) in the perspective of methodology and similarity of the factors and methodology used.

CONCLUSIONS AND RECOMMENDATIONS

Regardless of the attention given to risk identification in general, it remained the responsibility of individual organizations to determine which elements of the process to focus on. Besides, generalization of results was not possible because of industry and geopolitical differences hence the possibility of disparate findings. Not all findings could totally concur with empirical literature, because of methodological, conceptual, contextual, evidence and knowledge gap differences, this again presenting generalization challenges. The findings presented under the hypothesis tests were therefore particular to KRA or at best, revenue collection authorities.

Policy recommendations imminent from this study was that KRA could improve revenue collection performance, first by exploiting the potential in harmonizing the application of risk identification practices. For risk analysis, KRA can do better by harmonizing in its risk identification practices, the application of root-cause analysis in risk identification, bow-tie analysis and use of experts should be applied universally at all necessary levels and agencies.

Areas for Further Research

This study examined the impact of latent risk identification variable on a manifest variable. It was recommended that a further research be conducted on KRA revenue collection performance using historical data on statistics drawn from performance records. Further, a study is required to determine how the metrics and variables used in this research could be replicated to another revenue collection authority, to see if the effects of these variables can universally be predicted.

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