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ABSTRACT

Across the globe, many local governments face a financial crisis occasioned by their inability to raise sufficient revenue to finance their operation and meet the needs of their people. As a result, most of the local governments end up being over reliant on funds transfers from the central government to remain operational. To alleviate the weakness in revenue collection, the use of agents/third parties to collect revenue on behalf of the local authorities (commonly referred to as outsourcing) has gained popularity in recent years all over the world. To enhance their revenue performance, many of the governments around the world have sought to outsource their tax services. In view of this, the current study sought to establish the impact of outsourcing tax services on revenue collection performance among County Governments in Kenya. Specifically, the study explored the impact of outsourcing of ticketing services, outsourcing of property rates collection and outsourcing of licencing on revenue collection performance among Counties in Kenya. The study used a descriptive research design. The target population of the study was the 47 Sub County Revenue Collection Units in Kenya. The study utilized secondary data which was collected using a Secondary Data Collection Sheet. The study data was analyzed through descriptive statistics and presented through percentages, frequencies, mean and standard deviation. In addition, the study applied the ANOVA test and F ratio at a significance level of 5% to test the study’s null hypothesis that there was no difference between pre and post IT outsourcing revenue collection performance. The statistical analysis was performed using the Statistical Package for Social Science (SPSS version 23.0). The study findings were presented in tables. The study found that the difference between the pre and post outsourcing of ticketing services, property rates and licencing revenue collections among Counties in Kenya was statistically significant. The study also showed that the increase in the mean values of revenue collected from ticketing services, property rates and licencing was higher in the post-outsourcing period than in the pre-outsourcing period. The study concluded that outsourcing of ticketing services, property rates collection and licencing had a significant impact on the revenue collection performance among Counties in Kenya. To continually improve its revenue collection performance, the study recommends that the administration of County Government in Kenya should consider outsourcing revenue collections from sources that are not yet outsourced. Further, the County Government should continually review its outsourced revenue collection functions in order to ensure that they are meeting the intended objective of helping the county maximize its revenue collection performance.

Key Words: e-ticketing services, e-property rates, e-licencing and revenue collection performance

1.0 INTRODUCTION

1.1 Background of the Study

Fiscal decentralization—the devolution of revenue mobilization and spending powers to lower levels of government has become a main theme of local governance in recent years (Fjeldstad & Heggstad, 2012). As an outcome of discontent with the performance of centralized systems, reformers turned to decentralization to split the hold of central government and induce broader participation in democratic governance. Many countries have devolved government for the purpose of enhancing service delivery to their citizens (Kosaye, 2018). Further, it is in the same spirit that the Kenyans promulgated a new Constitution of Kenya on August 2010 which brought with it a new system of governance leading to formation of 47 counties, each distinct but interdependent with the National government. This development has brought the need for better service delivery at County level (Kosaye, 2018). Moreover, (Adenya & Muturi, 2017) argue that for good governance and
effective delivery of service, County governments require sufficient and reliable sources of revenue and the Constitution of Kenya 2010 provides a framework for county funding through own revenue.

A report by (World Bank Group-Kenya, 2014), submits that Sub-National governments (SNGs) took over the delivery of devolved services with a starting expenditure layout of 5.4 percent of GDP or 20 percent of total expenditure in fiscal year 2013/2014. Transfers to County governments were budgeted at 4.3 percent of GDP (comprising of the equitable share, donor funded projects, conditional grants to Level 5 hospitals, and the Equalization Fund) and were projected to remain at the same level during the Medium Term Expenditure Framework (MTEF) period (2015-2017). The report also shows National government expenditure averaged 22 percent of GDP, County government budgets had an initial revenue projection of 1.2 percent of GDP, bringing the total subnational expenditure outlay to 5.4 percent of GDP.

1.2 Statement of the problem

The importance of revenue collection in governments cannot be overemphasized. It is through revenue collection that governments are able to meet the costs of offering public goods and services such as education, health, security, housing and infrastructure. Therefore, an efficient, reliable, and fair revenue collection system is critical for the government to be able to gather sufficient financial resources to support the provision of these public goods and services to the society (Madzibuko, 2016). The application of outsourcing public financial management is intended to enhance the overall fiscal performance of the national and local governments (Fjeldstad et al., 2014). The Counties in Northern Eastern Region have embraced tax outsourcing services in the areas of ticketing services, property rates collection and licence fees collection in an effort to increase the county’s revenue basket. However, in spite of these efforts, those counties have not been able to meet its revenue collection targets. For instance, in 2020/21, the Counties in Northern Eastern Region’s total internal revenue was KES 2.11b against a target of KES 3.2b while in 2021/2022 the total revenue collected was 2.45b against a target of 3.3b (KNBS, 2022). This clearly illustrates that the Counties in Northern Eastern Region are still having challenges in revenue collection.

Locally, Wachira (2016) evaluated the impact of outsourcing on profit-making organisations in various industry sectors in Nairobi, Kenya and observed that outsourcing can yield positive and/or negative outcomes depending on the risks encountered in the business environment, company policy, function/s to be outsourced and the competence and commitment of the outsourcing vendor. Masinga and Kiarie (2014) studied the effects of outsourcing decision on organizational performance of Unilever Group Limited and found that outsourcing positively correlated to the firm’s organizational performance. Ochieng (2012) investigated the effects of outsourcing strategies on organizational performance using a case of the Kenya Revenue Authority and established that the decision to outsource part of KRA functions or activities was prompted by potential cost savings, access to technological innovations and desire to achieve service quality improvement. Existing local studies on outsourcing had not focused on the impact of outsourcing tax services on revenue

1.3 Objectives Of the Study

i. To establish the impact of outsourcing of e-ticketing services on revenue collection performance among Counties in Kenya.

ii. To determine the impact of outsourcing of e-property rates collection on revenue collection performance among Counties in Kenya.

iii. To explore the impact of outsourcing of e-licencing on revenue collection performance of among Counties in Kenya.
2.0 Literature Review

2.1 Theoretical Framework

2.2.1 Resource Dependency Theory

The Resource dependency theory (RDT) has its origins back in the 1970s and is traced to the publication of Pfeffer and Salancik in 1978 titled “The External Control of Organizations: A Resource Dependence Perspective”. The Resource dependency theory posits that power is based on the control of resources that are considered strategic within the organization. RDT has its origins in open system theory as such organizations have varying degrees of dependence on the external environment, particularly for the resources they require to operate. This along these lines represents an issue to an association confronting vulnerability in asset obtaining and raises the issue of association’s reliance on the earth for basic assets. This hypothesis depends on the reason that the acquirement of outside assets is a significant precept of both the key and strategic administration of any organization (Khakia & Rashidib, 2012).

2.2.2 Technology Acceptance Model Theory

The Technology Acceptance Model (TAM) was developed by Davis in 1989. This model relates the individuals’ behavioural intentions and his/her ICT use. It is suggested that, the actual behavior of a person is determined by his behavioural intention to use, which is in turn influenced by user’s attitude toward and perceived usefulness of the technology. However attitude and perceived usefulness are both determined by ease of use (Pedersen, Kerly & Humphrey, 2014). The model proposes that when clients are given another innovation, various elements impact their choice about how and when they will utilize it, and most quite saw value which is how much an individual accepts that utilizing a specific framework would improve their activity execution. Adopting the TAM model requires the understanding of end-users requirements regarding usefulness and user friendliness (Pedersen et al., 2014). From this model, usefulness and user friendliness affect users’ attitudes towards adoption of any service (Davenport, 2013).

2.2.3 Agency Theory

The agency theory with its roots in economic theory was exposited by Alchian and Demsetz in 1972 and further developed by Jensen and Meckling in 1976. The theory defines the connection between the chiefs who are essentially the investors and specialists who are for the most part the organization heads and supervisors. In this hypothesis, the administrators delegate the running of business to the chiefs or supervisors, who are the investor’s specialists (Namazi, 2013). According to Saltaji (2013) the theory reduces the corporation to two participants - managers and shareholders. Agency theory states that shareholders expect the agents to act and make decisions in the principal’s interest. However, this is not always the case as the managers of organizations can be self-interested (Mello, 2010).
2.3 Conceptual Framework

![Conceptual Framework Diagram]

Locally, a number of studies have focused on outsourcing. For instance, Macharia (2014) who studied outsourcing and organizational performance in the Media Industry in Kenya; Masinga and Kiarie (2014) who investigated the effects of outsourcing decision on organization performance in the manufacturing industry in Kenya using a case of Unilever Group Limited; Musau (2016) who looked at the impact of strategic outsourcing on organizational performance using a case of Bidco Africa Limited and Mwichigi (2015) who explored the relationship between outsourcing and operational performance of Kenya’s Energy Sector using a case study of Kenya Power. While these examinations enhanced the scientist’s understanding regarding the matter of redistributing and authoritative execution, the investigations had not concentrated on outsourcing of tax services and its effect on income assortment execution in the nation. Further, existing proof from different experimental investigations on outsourcing of tax services and income assortment execution propose that outsourcing of tax services had blended outcomes in with respect to its effect on income assortment execution. For instance, studies by Bers (2012) in Denmark, Amaechi (2017) in Nigeria, Naresh (2017) in India and Madzibuko (2016) in South Africa reported a positive relationship between outsourcing of tax services and revenue collection performance while studies by Tahiru et al. (2014) in Ghana and Fjeldstad et al. (2014) in Tanzania reported a negative relationship between outsourcing of tax services and revenue collection performance. This showed lack of clarity on the study subject and hence the need for further research.

2.5 Summary of Literature Review

From the above review of existing literature on outsourcing of tax services and its impact on revenue collection performance, it is evident that there lacks consensus as to the impact of outsourcing of tax services on revenue collection performance given that some researchers including Naresh (2017) of India, Onaolupe (2016) of Ghana, Okiro (2015) of Kenya and Garcia (2014) of Philippines found that outsourcing of tax services had a significant positive impact on firm’s revenue collection performance while researchers including Amaechi (2017) of Nigeria, Madzibuko (2016) of South Africa and Fjeldstad et al. (2014) as well as Mrutu (2016) of Tanzania found that outsourcing of tax services did not have any significant impact on firms’ revenue collection
performance. In addition, majority of the existing studies examining the impact of outsourcing of tax services on revenue collection performance have been conducted in other countries [for instance, Amaechi (2017) - Nigeria; Madzibuko (2016) – South Africa; Omaolue (2016) - Ghana; Fjeldstad et al. (2014), Ishabailu (2013) and Mrutu (2016) -Tanzania; Garcia (2014) - Philippines and Naresh (2017) - India] where the business environment is different with the Kenyan business environment. There was need therefore to evaluate the impact of outsourcing of tax services on revenue collection performance in the local context, which was the focus of the current study.

3.0 METHODOLOGY

The study adopted a descriptive research design. The target population of this study was County Revenue Collection Units from 47 Counties in the country. This formed the study population. The study was a census survey. For the purpose of this study, the researcher used secondary data which was collected using a Secondary Data Collection Sheet (Appendix I). The secondary data was obtained from the annual financial and management reports of 47 Counties in the country for a period of 8 years between 2015 and 2022. The study period was divided into two parts; pre-outsourcing period [2015-2019] and the post-outsourcing period [2019-2022]. The data extraction involved obtaining details relating to the amounts collected from outsourcing based ticketing, property rates and licencing services by Counties in Northern Eastern Region over the 8-year period.

Data collected was coded and classified into different components to facilitate a better and efficient analysis. The study data was analyzed through descriptive statistics and presented through percentages, frequencies, mean and standard deviation. In addition, the study applied the ANOVA test and F ratio at a significance level of 5% to test the study’s null hypothesis that there was no difference between pre and post tax services outsourcing revenue collection performance among 47 Counties in the country.

The study model specification was as follows;

Revenue After = β₀ + Revenue Before

4.0 REGRESSION RESULTS

4.1 Inferential Statistics

The study applied the ANOVA test and F ratio at a significance level of 5% to test the null hypothesis that there was no difference between pre and post tax services outsourcing revenue collections from ticketing services, property rates and licencing and determine whether any of those means were statistically significantly different from each other. From the findings in Table 4.6 above, the significance value...
is 0.0000 which is less than 0.05, implying that the pre- and post outsourcing revenue collection performance means of the three study variables were statistically significantly different from each other. The F statistic was significant (as was $= 57.410$ which is $> F$ critical value of 3.03) and this showed that the model had a good fit. Based on these findings, the study rejected the null hypothesis that there was no difference between pre and posts tax services outsourcing revenue collection performance and hence accepted the alternate hypothesis that there was a difference between pre and post tax services outsourcing revenue collection performance. This agreed with Mabhuye (2013) and Geys and Sorensen (2016) who asserted that there exist a strong link between government outsourcing practices and the need to enhance revenue collection performance and hence outsourcing of revenue collection is one of the mechanisms that governments world over use when faced with revenue scarcity challenges. Similarly, Mungai (2015) established that outsourcing had a positive and significant effect on the financial performance of banks in Kenya as evidenced by growth in their revenue generation in the post-outsourcing period

5.0 CONCLUSION

Given the significant differences between the pre and post-outsourcing of ticketing services revenue collections, the study concludes that outsourcing of ticketing services had a significant impact on the revenue collection performance. Given the significant differences between the pre and post-outsourcing of property rates revenue collections, the study concludes that outsourcing of property rates collection had a significant impact on the revenue collection performance. Given the significant differences between the pre and post-outsourcing of licencing revenue collections, the study concludes that outsourcing of licencing had a significant impact on the revenue collection performance.

References


