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Outsourcing of Revenue Collection on Optimization of Revenue Collection in Western Kenya

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Abstract: *In a context of rapidly rising government needs and insufficient revenues to meet investment needs, county governments are increasingly looking for innovative means of outsourcing tax collection. Though county Governments have made some progress in revenue collection, revenue collection is yet to be optimized. This paper sought to examine how outsourcing revenue collection can optimize revenue collection in western Kenya. The study employed a survey research design. The target population consisted of all revenue staff in the 4 identified counties. A census inquiry was used to study all the revenue staff in the selected counties. The sample from counties consisted of 32 staff from Busia, 29 Kakamega, 24 Bungoma, and 25 from Vihiga leading to 112 sampled respondents. Data was collected using a questionnaire after ascertaining its content validity through experts and internal consistency reliability through the Cronbach alpha result. Data were analyzed using descriptive and inferential statistics. The study revealed that a correlation exists within western counties ($p<0.000$) between outsourcing and optimization of revenue collection in Kenya. This implies that outsourced revenue collection increased collected revenue, therefore, enhancing optimization of revenue collection within the western counties. The study concluded that outsourcing affects the optimization of revenue collection in Western Counties. It is recommended that the revenue collection department of the county government needs to adopt proper contract reforms precisely in the public documents and regulations to stipulate clearly the responsibilities of private revenue collectors outsourced for effective revenue collection for enhanced service delivery in the counties.*

Keywords: *Outsourcing, Training, Optimization, Strategic Innovation, Kenya*

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1. Introduction

In recent times, there have been numerous changes in the world of business and government revenue collection (Omondi, Tobias & Mose, 2022). Outsourcing is one of the strategies of an organization in revenue collection. In this paper outsourcing is defined as a business practice in which a company or individual performs tasks, handles operations, or provides services that are either usually executed or subletting an assignment to the professionals to perform the contract on the behalf of another firm or an agreement which company contracts-out part of the existing internal activity to another independent company. For, Fjeldstad, Katera and Ngalewa, (2009) outsourcing of revenue sources is when the sources of revenue are identified and a specific private sector will be given tender to collect revenue in their respective sources. Outsourcing of revenue sources includes a collection of property tax, parking, and bus stand.

Stockamp, (2016) notes that this will ensure specialization of tax collection according to the source of tax therefore it ensures maximum collection of each source of revenue. When revenue is collected maximally optimum tax collection will be achieved. Studies such as (Fosu & Ashiago, 2012; Mrutu & Mganga, 2016)

indicate that outsourcing revenue collection services maximize revenue collected. This is for the reason that profit incentives earned by private agents are based on a percentage of total revenue collected, private agents yarn to maximize earnings by increasing revenue collection for the organization (Khan, et al. 2014). The risks associated with cash handling such as thefts and robberies are transferred to the private agent (Mabhuye, 2013).

Bii & Namsonge, (2021) find that the adoption of outsourcing as a management tool in the service industry allows competitive firms to partner through public-private arrangements. Such partnerships improve service through; access to the technology, risk mitigation, and acquisition of competitive advantage, which enables organizations to survive in a competitive environment. The outsourcing strategy basically meets efficiency in the delivery of services by lowering operation costs, enabling organizations to deal with the unexpected rise in demand, ease access to market and by allowing firms to concentrate on their core tasks as non-core functions are outsourced to specialists (Manning, 2013).

The changes kicked off when technological innovation was equipped for use. Evidently, Information communication and technology strategies for revenue collection applications started in the USA and spread to other parts of the world including Kenya (Muthama, 2013). The need for efficient revenue collection has been necessitated by the significant shortages in revenue collection at all levels of government. Organizations gain outsourcing advantage through superior quality, marketing advantage, cost efficiencies, or value chain optimization. Maku & Alvaro (2014) agree that outsourcing practice promotes value chain optimization by enhancing quality at the lower cost possible.

This paper draws its findings from the study that aimed at assessing the strategic innovation on revenue collection that optimizes the amount of revenue collection in Kenya. Kamolo (2014) noted that county governments collect revenue through taxes so that they can effective budgets through tax instruments. It is required that the county government optimizes revenue collection to be able to meet their financial demand without dependence on the national government. However, this is not the case.

Though the county Governments have made some progress in revenue collection such as full adoption of the Integrated Financial Management Information System (IFMIS), the establishment of County Budget and Economic Forums (CBEF), and improvement in the absorption of development funds revenue collection is not optimized. Odoyo, Moses, John, Aila, Ojera, and Siringi (2013), western Kenya's revenue collection has been on the decline and the target is not met despite the high need to serve the locals this has affected the economic performance of the counties. The counties in the region have not allowed advanced strategies in revenue collection methods which has led to minimum revenue collection (Siringi et al. 2013). This paper examines the effects of outsourcing revenue collection on the optimization of revenue collection in western Kenya.

2. Literature Review

The theoretical grounding of this paper is based on Technology Acceptance Model (TAM) by Davis, (1989). It argues that external variables, perceived usefulness, perceived ease of use, attitude towards using, behavioral intention to use, actual system use determine the uptake of a new innovation. TAM suggests that when presenting users with new technology, some factors affect their decision on when they will use it and how to use. For instance, perceived usefulness is the extent to which an individual believes on his /her enhancement of job performance when they use a particular system. On one hand, perceived usefulness is the degree to which a person believes that using a particular system would his or her job performance.

On perceived ease-of-use is the extent to which a person believes on the use of a particular system that it will free them from effort. Attitudes and intentions are formed by people as a way of learning to use them before the initiation of directed to their use. Attitudes base on intentions to use and may lack in conviction or otherwise may occur after straggling to learn to use involved technology. Therefore, actual use of the technology may not happen immediately or directly because of the intentions and attitude. The technology acceptance model is based on the assumption that there is Perceived Ease-of-Use and Perceived Usefulness. The developers of technology acceptance theory assumed there is ease of use and perceived usefulness of the theory. Contrary to TAM, surveys indicates that external variables may have direct effects on usage behavior over and above their indirect effects mediated by TAM. The model also is consistently better and appears significant ot predicting frequency as compared to volume usage.

Brill and Hassett (2007) argue that maximum revenue collection in a country is the main aim of every state since revenue collected from the country is the main way in which the state can sustain itself. Shleifer and Vishny (1993) notes that the success of development projects depends largely on the amount of revenue collected in a given country. States come up with approaches of optimizing revenue collection such as use of computers in revenue recording, revenue forecasting, fraud detection in revenue collection and leakage of revenue collected through corruption (Buyonge, 2007). Outsourcing of revenue collection is a strategy used to optimize revenue collection, discounting encourages tax payment and investment which in return will increase revenue collection in the country. The growth of revenue collected in a country is also an indicator of optimum revenue collection (Hutchcroft, 2000). World Bank

report 2017 on urban development argue that low revenue collected by local governments crippled development of projects hence hindering service delivery. To improve delivery of essential services to citizens in developing cities therefore, efficiency in tax collections is necessary (Mrutu & Mganga 2016).

Haas & Manwaring (2018), argues that as profits and incomes of those managing tax collection depend directly on maximizing revenue collection and minimizing costs of collection, private firms are more likely to be incentivized to maximise revenue collection. This is coupled with the fact that private managers are often more able to motivate collectors through performance-related pay contracts and the threat of termination for poor performance. Private firm managers are also likely to have lower political incentives to collude with those liable for taxation than government officials, reducing revenue leakages from corruption.

Managers have been tasked to come up with various policies to ensure maximum collection of tax. Such policies have seen local governments outsource tax collection to private companies. For McKerchar and Evans (2009), optimization of revenue collection is an area of concern to most states. In the Philippines and the United Kingdom, for example, each local government unit (LGU) is granted the power to create its own sources of levy tax and revenue, charges, and fees, which is inconsistent with the policy of local autonomy. According to Aizenman, Kletzer, and Pinto (2007), the tax fees and charges accrues mainly to the legal government unit following the power of political subdivisions to tax. The revenue cycle staffs are insights on how the practice can prevent errors and better manage processes to prevent denials. A summary of taxes collected by the state for 5 broad tax categories and up to 25 tax subcategories is the annual Survey of State Government Tax Collections (STC) in United States (Hutchcroft, 2000).

To improve services, organizations have outsourced revenue collection to banks and mobile service providers to encourage mobile banking. The mobile payment system has been adopted widely due to its flexibility. Outsourcing revenue collection attracts the use of advanced technology that allows organizations to offer exceptional service to its clients. The development of electronic payment system is more efficient, cheaper and faster. For instance, it ensures automatic account adjustments providing correct account balances free from human errors, and such statements are readily available upon request. This is in agreement with a study conducted by Mulama, (2012), that outside service providers implement inevitable changes brought by modern technology in the service industry. Such changes enable consumers to receive exceptional service.

In Africa, Tanzania has a reformed system of revenue collection as a way of increasing the amount of revenue collection. Privatization of revenue collection in rural areas such as Kiloso and Kasarawe and urban councils such as llala and Kinodini is a way in which the country outsources the collection of revenue to private sectors. Outsourcing of revenue collection in Tanzania it's the result of complaints by the citizen about the revenue collectors and that the money collected from the revenues does not benefit them. In addition, government officials intervene in the revenue collection process and also in the recruitment of revenue collectors.

In Kenya, Kamolo (2014) finds that county governments in Kenya are required to collect maximum revenue through tax to meet their financial expenditure budget and to balance between the allocation of budget and revenue collected through tax instruments. However, the county government has not attained this goal due to improper mechanisms employed in revenue collection. In the case of county governments, local government tax collection in the general transaction is intensive and often involves direct interaction between tax collectors and taxpayers which often facilitate corruption at the point of collection. Similarly, political interference has also affected tax collection. Hence, the need for outsourcing of revenue collection (Chatama, 2013). This paper, therefore, aims at examining the influence of outsourcing on the optimization of revenue collection in Kenya's western counties.

3. Methodology

The study adopted a survey research design. The target population consisted of all revenue staff in the 4 identified counties. A census inquiry was used to study all the revenue staff. The study population to be used therefore consisted of 32 staff from Busia County, 29 from Kakamega County, 24 from Bungoma County and 25 from Vihiga County, leading to a total of 112 sampled respondents. Census inquiry method was used in sampling the study participant since the target population was small enough to allow for complete enumeration. Sampling error was therefore eliminated and study results reflected actual population parameters.

To reach the appropriate study population the researcher deployed purposive, clustered, stratified, and random sampling techniques. For the employees of the company, purposive sampling was adopted. This is because the researcher wanted to reach the respondents who are privileged with access to the information that was required for this study. Data was collected using a questionnaire after ascertaining its content validity through experts and internal consistency reliability through the Cronbach alpha result. This data was then analyzed using descriptive and inferential statistics.
The regression equation was as illustrated
$Y=b_0+b_1X_1+e$
Where:

Y-represents dependent variable - Optimization of revenue collection

b_0-represents the constant when the value of independent variables is zero

b-represents independent variable Coefficients

X-represents the independent variables – Strategic innovations

X_1-represents Outsourcing

e- represents error term

The multivariate regression analysis was based on the assumptions that; First multivariate analysis assumes that the data from group *i* has a common mean vector μ_i. This assumption says that there are no subpopulations with different mean vectors. Here, this assumption might be violated if data collected from a given site was imported from multiple sites. Secondly, multivariate analysis assumes that the subjects are independently sampled. This assumption was satisfied if the assayed pottery is obtained by randomly sampling the pottery collected from each site. This assumption would be violated if, samples were collected in clusters. Thirdly multivariate analysis assumes normality: Multivariate analysis assumes that there were multivariate normally distributed.

4. Results and Discussion

4.1 Outsourcing and Optimization of Revenue Collection

The study sought to examine the influence of outsourcing on the optimization of revenue collection in Kenya's western counties.

Table 1: Outsourcing on Optimization of Revenue Collection

Statements	1	2	3	4	5	Mean	Std	Min	Max
Privatized revenue collection has enhanced efficiency and effectiveness in revenue collection	1	9	5	42	53	4.25	0.94	1	5
	0.9	8.2	4.5	38.2	48.2				
Outsourced revenue collection has increased collected revenue	5	21	14	42	28	3.61	1.19	1	5
	4.5	19.1	12.7	38.2	25.5				
Third-party management of revenue collection has decreased costs of revenue collection to the county government	12	26	18	28	26	3.27	1.35	1	5
	10.9	23.6	16.4	25.5	23.6				

Analysis in table 1 above revealed that privatized revenue collection has enhanced efficiency and effectiveness in revenue collection thus, increasing the level of revenue collection within the counties as evidenced by a mean of 4.25 and standard deviation of 0.94. The data were normally distributed and had high dispersion since they had a high range. From the findings, it is evident that outsourced revenue collection has increased collected revenue. Thus, enhancing optimization of revenue collection within the western counties as shown by a mean of 3.61 and standard deviation of 1.19. The data were normally distributed and had high dispersion since they had a high range.

It was also revealed that third-party management of revenue collection has decreased costs of revenue collection to the county governments, hence, enhancing optimization of revenue collection in the counties as evidenced by a mean of 3.27 and standard deviation of 1.35. The data were normally distributed and had high dispersion since they had a high range. From the results, optimization of revenue collection in western counties as far as outsourcing was concerned was very high. This is an implication that western counties in Kenya are working towards enhancing optimization of revenue collection by adopting outsourcing as strategic innovation. The study findings are in line with Mgonja & Poncian, (2019) who revealed that outsourcing helps in increasing revenue collection. This is due to their critical role in development and governance, where they need adequate financial resources to deliver the many developmental functions.

For Seasons (2013) once the revenue collected is available, interventions have to be put in place to be utilized maximally. The study indicated there was a significant correlation between outsourcing and optimization of revenue collection in Western Kenya since there was a strong positive association between the two variables with an r of .850**. A correlation exists within western counties ($p<0.000$) between outsourcing and optimization of revenue collection in Kenya. This implies that outsourced revenue collection has increased collected revenue, therefore, enhancing optimization of revenue collection within the western counties. The findings revealed that taking all other independent variables at zero, a unit increase in outsourcing would lead to a 0.663 increase in optimization of revenue collection in Western Kenya. On hypothesis testing, the results are shown in Table 2 below:

Table 2: Results of Hypotheses Testing

Hypotheses	P-Value	Decision Rule
$H_0$2. There is no significant influence of outsourcing on the optimization of revenue collection in western Kenya.	P=0.000<0.05	Reject $H_0$2

Table 2 above showed a probability value of (p=0.000 < 0.05) was obtained, implying that the hypothesis (there is no significant influence of outsourcing on optimization of revenue collection in western Kenya) is rejected and therefore indicating the existence of a significant relationship between outsourcing and optimization of revenue collection in western Kenya. Kathungu (2016) argues that private revenue collection facilitates predictive budgeting and planning thus increasing revenue collection. Besides, the budget process is motivated by appropriation by the levels of revenues collected for use. For Fjeldstad and Haggstad (2012) however, this can be possible if there is progressive training of tax collectors and employing effective measures for accountability by relevant county government authorities.

5. Conclusion and Recommendations

5.1 Conclusion

The research revealed that outsourcing affects the optimization of revenue collection in Western Counties of Kenya where privatized revenue collection has enhanced efficiency and effectiveness in revenue collection thus increasing the level of revenue collection within the counties; outsourced revenue collection has increased collected revenue, therefore, enhancing optimization of revenue collection within the western counties, and third party management of revenue collection has decreased costs of revenue collection to the county government thus enhancing optimization of revenue collection in the counties. From the study, it was revealed that outsourcing affects the optimization of revenue collection in Western Counties. This is described by diffusion of innovation theory, through outsourced revenue collection has increased collected revenue, therefore, enhancing optimization of revenue collection within the western counties.

5.2 Recommendations

The research findings established that outsourcing affects the optimization of revenue collection in Western Counties. This study, therefore, recommends that the revenue collection department of the county government need to adopt proper contract reforms precisely in the Public Procurement and Disposal Act (2015) and Regulation (2020), Public Finance Management Act (2012), and Regulation (2015) to stipulate clearly the responsibilities of private revenue collectors so that they can comply with a collection of revenue in the counties for enhanced service delivery.

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