

**STRATEGIC RISK MANAGEMENT PRACTICE BY KENYA
REVENUE AUTHORITY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF
THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION
(MBA), SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI**

NOVEMBER, 2011

DECLARATION

This research project is my original work and has not been presented for the award of degree in any other university or institution for any other purpose.

Signature

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This research project has been submitted for examination with my approval as University supervisor.

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DEDICATION

I dedicate this project to my family for their unfailing encouragement, love and support.

To my Dad, for walking this journey with me and being the pillar of my strength

To my mum, for her precious advice and for constantly revitalizing me

To my husband for his support, perseverance and watching over our baby while I was away.

To my sister for lending me her laptop to use

To my brothers for cheering me on

To my loving children, May this accomplishment be an inspiration to you in your pursuit of knowledge and excellence. Always keep in mind that anything is possible and you can do it.

ACKNOWLEDGEMENT

I wish to thank most sincerely all those whose contributions have made this project a success. To my supervisor Florence Muindi for her assistance and advice all through making this project a success. To my parents and the rest of my family for their support both morally and financially. Most of all I thank God for the gift of wisdom and strength to complete this project.

I feel indebted to the management of Kenya Revenue Authority for making this project a success, more so to my supervisor Florence Muindi who walked with me all the way. To my classmate Maxi and all other people who in one way or another played part in my entire MBA process.

To my supervisors at work, thanks for granting me permission severally to attend to my studies.

To my work mates, thanks for holding forth for me many times I was away on many occasions in pursuing this noble course, to all of you my Almighty God bless you abundantly.

ABBREVIATION

CG	-	Commissioner General
ERM	-	Enterprise Risk Management
IA	-	Internal Audit
ICT	-	Information and Communication Technology
KRA	-	Kenya Revenue Authority
RM	-	Risk Management
SDC	-	Senior Deputy Commissioner
SEC	-	Security Exchange Commission

ABSTRACT

Strategic direction for a business means understanding what drives the creation of value and what destroys it. The capability of an organization to flourish in the face of risks that either bring forth opportunities or threats is a major sign of its ability to maintain competitive advantage. The management of a business is about managing its risk exposure and therefore it is essential to for a manager to be conversant with the types of risk the firm is exposed to as the organization pursues its strategic objectives. The success of an organization depends upon the risk management practices put in place by an organization as it reduces earning volatility, maximizes value for shareholders and promotes job security and financial security in the organization.

The objective of the study was to establish the strategic risk management practices in Kenya Revenue Authority. The research design was a case study of Kenya Revenue Authority. The data collection tool was an interview guide. Content analysis was used to analyze the qualitative primary data which had been collected by conducting interviews and secondary information from the organization.

The findings from the study was that relationship between risk management and organization mission, there exist a structured and well documented risk management approach, there was a link between the strategic plan and an understanding of all organizational risks, there is a risk implementation team in the organization, risk was identified by the process owners, guidance on risk identification is been offered, financial health analysis is done in the organization, business objectives and performance measures are adequately communicated, risk evaluation is carried out, internal risk control framework exist and annual reports contain the internal reports.

The study recommended that the management of KRA should continue being at the forefront in the management of risks in the organization, they should also continue disseminating the information on evaluated results, the management should continue managing the risks as it improves the performance of the employees.

TABLE OF CONTENTS

Declaration	ii
Dedication	iii
Acknowledgement	iv
Abbreviation.....	v
Abstract	vi
Table of contents.....	viii
CHAPTER ONE: INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 Concept of Strategy	2
1.1.2 Risk Management	4
1.1.3 Risk Management Practices	5
1.1.4 Kenya Revenue Authority	7
1.2 Problem Statement	8
1.3 Objective of the Study	10
1.4 Value of the Study.....	10
CHAPTER TWO: LITERATURE REVIEW.....	12
2.1 Introduction	12
2.2 Risk Management	12
2.3 Risk Management Practice	15
2.3.1 Risk Identification	17
2.3.2 Risk Analysis.....	18
2.3.3 Risk Treatment	20
2.3.4 Risk Evaluation and control	20
CHAPTER THREE: RESEARCH METHODOLOGY	23
3.1 Introduction	23

3.2 Research Design.....	23
3.3 Data Collection	23
3.4 Data Analysis.....	24
CHAPTER FOUR:DATA ANALYSIS, FINDINGS AND RECOMMENDATIONS.....	25
4.1 Introduction	25
4.2 Respondents Profile	25
4.3 Risk exposure.....	26
4.4 Risk management practices	29
4.4.1 Risk Identification	29
4.4.2 Risk Analysis.....	32
4.4.3 Treatment of Risks.....	34
4.4.4 Risk Evaluation and Control	35
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	37
5.1 Summary of the study	37
5.2 Conclusions	39
5.3 Recommendations for the study.....	40
5.4 Suggestions for further research	40
REFERENCES	41
Appendix I: Interview guide.....	1
Appendix II: Risk management structure in KRA.....	5

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Institutions and executives who lead them must be able to demonstrate ability to deal with frequent and often abrupt changes, fuelled by the new market developments, political events, technological innovations and different environment hazards that confront their activities across the global economy (Bernstein, 1996). These risks affect the activities of large multinational corporations, medium sized enterprises, small commercial entities, public institutions and the very communities they operate in. According to Gupta (2004), there has been tremendous increase in the public focus of corporate risk in recent years due to the higher frequency of major risk events over the past decade, some of which had severe repercussions for the exposed organisation with a potential to affect severely economic activity at large. The growing trend is for companies to take an enterprise-wide risk management (ERM) approach to protecting themselves against the many risks of running an organization. There is interest in accelerating the evolution of ERM as a core business process (Gupta, 2004).

According to Peris-Ortiz (2009), strategy is a fascinating subject. It is about the overall directions of all kinds of organisations, publics or privates, multinationals corporations or entrepreneurial start-ups, great or small business. The strategy raises the big questions about these organisations subordinate to frequent and often abrupt changes fuelled by new market developments, political events, technological inventions and different environmental hazards that confront their activities across the global economy (Hechavarria and Reynolds, 2009). They must analyse the risk and uncover shortcomings in their current risk management practices adopted. In short, the underlying risk management concerns have wide ramification and consequently apply to a wide

constituency, including both private and public institutions as well as policy makers who care about the wider consequences of risk (Koelling, Neyer, and Moeslein, 2010).

The primary benefit of a risk-based approach to strategic execution is that it allows managers to focus on the opportunities outlined in their firms' strategic plans, while at the same minimize the potential impact of any threats. A risk-based management control system allows managers to quickly and confidently react to opportunities (or threats) (Berinato, 2004). Kersnar (2009) notes that another notable advantage of systematically integrating risk into the management control system is that firms achieve higher stock prices if its managers effectively demonstrate to financial analysts that they understand risk and are managing it (Kaplan and Norton, 2008). Further, Lam (2003) noted that nearly all operational tasks and processes are now viewed through the prism of risk. It is thought that it is not possible to create a business that doesn't take risk. Thus the end result of successful strategic direction setting must be the capacity to take a greater risk, for this is the only way to improve entrepreneurial performance.

1.1.1 Concept of Strategy

According to Olsen (2005) a strategy is a long term plan of action designed to achieve a particular goal, as differentiated from tactics or immediate actions with resources at hand. The reason for strategic or long-range planning is to assist organizations in establishing priorities and to better serve the needs of the stakeholders. It is the determination of the basic long-term goals and objectives of an enterprise, adoption of courses of action and the allocation of resources necessary for carrying out those goals. Thus one can say that the concept of strategy embraces the overall purpose of the organization.

Johnson and Scholes (2002) propose that corporate strategy constitutes three core areas of corporate strategy namely: strategy analysis, strategy development and strategy implementation. Strategic analysis deals with examining the environment within the organization operates. Strategy formulation is concerned with determining where the organization is, where it wants to go and how to get there. It involves carrying out situation analysis that leads to setting of objectives. Vision and mission statements are crafted and overall corporate objectives, strategic business unit objectives and tactical objectives are also developed. Strategy implementation on the other hand is the process of allocating resources to support an organization's chosen strategies. Further, Simmons (2000) observes that the strategy implementation process includes the various management activities that are necessary to put strategy in motion and institute strategic controls that monitor progress and ultimately achieve organizational goals. Strategy evaluation includes review of external and internal factors that are bases for strategies formulated, measuring performance and taking corrective action, if necessary. This is important as all strategies are subject to future modification depending on environmental turbulence.

According to Gole (2005), strategy formulation and implementation is an on-going, never-ending integrated process requiring continuous reassessment and reformation. Strategic management is dynamic and involves a complex pattern of actions and reactions. It is partially planned and partially unplanned. Strategy is planned, emergent, dynamic and interactive (Thompson and Strickland, (1980). Pearce and Robinson (2007) states that to effectively direct and control the use of the firm's resources, mechanisms such as organizational structure, information systems, leadership styles, assignment of key managers, budgeting, rewards and control systems are essential strategy implementation ingredients.

1.1.2 Risk Management

According to Wickham (2007), risks are internal and external events that will increase the firm's costs or decrease its revenues, and hence negatively impact its financial performance. Risks are everywhere as evidenced by many corporate events reported in the popular press, including major scandals around once venerable companies like the Maxwell group, Baring Brothers, WorldCom, Enron etc. the business environment is equally witnessing a steady increase in man-made disasters around the world and even the emergence of mega-catastrophes caused by willful human actions that have both direct and indirect economic effects. All these challenges facing the firm are considered as risks (Goh, Lim, and Meng, 2007) and therefore, appropriate strategies need to be developed to mitigate its effects.

Risk management is a process, effected by an entity's board of directors, management and other personnel (everyone), applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives, which makes it a practice of the organization (Jorion, 2001). Risk is unavoidable in the business activity since economic activity by definition commits present resources to the uncertain future. Hence, to take risk is the essence of economic activity. Business yields greater economic performance only through greater uncertainty, or in other words taking greater risk. (Drucker, 1977, p.256)

A risk management strategy defines means of coping with risks. A firms risk strategies should establish guidelines to include; organizations responsibilities, organizations risk attitudes, ownership of specific risks, criteria of risk assessment and definition of critical risks (Bernstein, 1996). In addition, a firm can include creative risk financing solutions, lending financial, insurance and capital market strategies. Opportunities should be capitalized upon in most

circumstances. Not taking advantage of opportunities leads to growth of competitors and thus increased risks. If opportunities are pursued, enterprise strategy can be modified to manage the particular risks involved (Goh et al. 2007). The tenets of risk management must be ingrained within a corporate culture in order for such practices to be effective (Gillett, Fink, and Bevington, 2010).

According to Camerer (2005) providing strategic direction for a business means understanding what drives the creation of value and what destroys it. This in turn means the pursuit of opportunities must entail risk judgment and risk acceptance. Internal risk management is more directly the responsibility of the organization's management and its participants. The management should be responsible to the management of financial, production and structural capacities that will enable to firm to reduce or mitigate the effects of risks. They are responsible for programs to provide adequate workplace safety, which has proven to be cost-beneficial to organizations as well as fulfilling social responsibilities. Different conventional strategic and risk management tools can be combined and applied to perform analysis of corporate risk landscape beyond hazards and market-based risks and thus enabling the organization to sense, observe and react to environmental changes in a timely manner (Khan et al. 2008).

1.1.3 Risk Management Practices

Risk management is a process, effected by an entity's board of directors, management and other personnel (everyone), applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives, which makes it a practice of the organization (Jorion, 2001). From a business perspective, risk management is the process by which organizations methodically address the risks attaching to their activities in

pursuit of organizational objectives and across the portfolio of all their activities (Collier et al. 2007). Firms adopt various risk management methods for identifying, assessing, evaluating and treating risks. These methods may vary on the dimensions of sophistication (basic to sophisticated analysis) and quantification (qualitative to quantitative).

The capability of an organization to flourish in the face of risks that either bring forth opportunities or threats is a major sign of its ability to maintain competitive advantage (Faulkner and Campbell, 2006). In order for a formal and documented risk management process to work, it must be mandated by the board of directors (Board), chief executive officers, and other top level management of the organization. In addition, since a business has several risk components, understanding the risks accepted by the company as it pursues its strategy to achieve its objectives is essential for the board and relevant stakeholders. The risk management process involves commitment of substantial financial resources. To understand the financial commitment the process will take; the board should oversee a study to estimate the cost to implement the risk management process. Once the costs are understood, it may be best to hire an expert consulting team to provide technical assistance to management in the development of an implementation plan and to designate an internal team to be responsible for the implementation. To be successful over time, a separate department for organizational risk management process should be empowered to collect risk reports monthly and assimilate information to be reviewed by the board. At a minimum for smaller organizations, there should be a chief risk officer assigned to monitor the process (Lam, 2003).

1.1.4 Kenya Revenue Authority

Revenue authorities are government agencies tasked with the job of first and foremost collecting revenue on behalf of their respective governments, amongst other roles that they play. The Kenya Revenue Authority (KRA) is a government agency under the Ministry of Finance. It was established by an Act of Parliament (Cap 469) on 1st July 1995. The Authority is charged with the responsibility of collecting revenue on behalf of the government. It is under the general supervision of the Minister for Finance; to whom the KRA's Board and Chief Executive report (Kenya Revenue Authority, 2011).

The board has its membership drawn from the public and private sector and its core duty is to make policy decisions to be implemented by KRA management. The board's Chairman is appointed by the President. The board is composed of following: Chairman to be appointed by the President; Commissioner-General (CG); Permanent Secretary, Ministry of Finance or his representative; Attorney-General or his representative; six other persons appointed by the Minister by virtue of their knowledge and experience in accountancy, commerce, law, taxation, business administration or public administration. (Kenya Revenue Authority, 2011)

Kenya Revenue Authority was established with the following objectives as its main mandate: assessment, collection and administration and enforcement of laws relating to revenue. In order to achieve these objectives, the organization has been divided into five segments namely; Support services, Road transport, Customs, Domestic and Large taxpayers Office. The support services division is tasked with elimination of tax evasion by simplifying and streamlining procedures and improving tax service and education thereby increasing the rate of compliance. The transport division is charged with collection of revenue for the government and to administer and enforce written laws or specified provisions of written laws pertaining to assessment,

collection and accounting for all revenues in accordance with these laws. The large tax payers unit is meant to provide a one stop shop in the administration of Income Tax and VAT matters affecting large taxpayers and also efficient tax administration with the goal of achieving compliance at minimum cost to both taxpayers and the Kenya Revenue Authority. (Kenya Revenue Authority, 2011)

Towards the achievement of its objectives, the organization faces several challenges in its operations. These challenges include resistance to change such as automation by the many stakeholders affected by the organization; incidences of tax evasion and avoidance are still rampant, lack of automation of client's services and frequent political interference in the management of organization (Kenya Revenue Authority, 2011).

1.2 Problem Statement

The contingency approach to management is based on the idea that there is no one best way to manage and that to be effective, planning, organizing, leading, and controlling must be tailored to the particular circumstances faced by an organization. Managers have always asked questions such as “What is the right thing to do? Should we have a mechanistic or an organic structure?, A functional or divisional structure?, Wide or narrow spans of management? Tall or flat organizational structures? Simple or complex control and coordination mechanisms?, Should we be centralized or decentralized? Should we use task or people oriented leadership styles? What motivational approaches and incentive programs should we use?” (Jarion,2001). The contingency approach to management (also called the situational approach) assumes that there is no universal answer to such questions because organizations, people, and situations vary and change over time. Thus, the right thing to do depends on a complex variety of critical

environmental and internal contingencies. In addition to the contingencies identified above, customer diversity and the globalization of business may require product or service diversity, employee diversity, and even the creation of special units or divisions (Mullins, 2005).

The Kenya Revenue Authority plays a critical role of assessment of taxes, collection of revenue, administration and enforcement of Laws relating to revenue on behalf of the government. In addition, according to the Act of Parliament Cap 469, KRA is also tasked with the role of enhancing and mobilization of government revenue, providing effective administration and sustainability of revenue collection. This noble objective can only be achieved if the organization lays down effective strategies of achieving these goals and manage risk. However, the current business environment is quite turbulent and as such risks abound in the realization of KRA objectives such as tax evasion and avoidance, not meeting revenue collection targets, political interference, sabotage of the systems by stakeholders and weak laws governing tax collections. The end result of successful strategic direction setting must therefore be the capacity to take a greater risk in its operations. Therefore, it is imperative that the organization puts in place elaborate risk management practices to reduce and manage the effects of these risks on the strategic results of the organization.

Several studies have been undertaken locally on the area of organisational risk management. Abuya (2008) studied on the strategic risk management practices among state corporations in Kenya. He observed that when faced with risk, strategists often feel challenged or uncomfortable with the demand to make a decision and as result, emotions come into play and these can affect decision making in a number of subtle ways. At the same time he observed that parastatals had sparingly adopted strategic risk management practices in their organization. Safari (2003) undertook a survey of risk factors in the strategic planning process of selected parastatals in

Kenya. He noted that with a risk-based approach to strategic execution process, managers will focus on the opportunities outlined in their firms' strategic plans, while at the same minimize the potential impact of any threats. On the other hand, he observed that a risk-based management control system allows managers to quickly and confidently react to opportunities arising in the business set up. Salesio (2006) on his part studied on the Risk mitigation strategies adopted by Insurers in Kenya. He noted that perception of risk influences the way in which different options are evaluated and implemented in an organisational setting and thus adaptability “is viable, only when the pace of organizational change matches the pace of environmental change.” When the environment changes either more rapidly or more slowly, then the intrinsic capacity of organizations for adaptation is very limited. As can be evidenced in the above studies, there has been no study done on risk management practices adopted by Kenya Revenue Authority organizations that the researcher is aware and the above therefore leads to the following research question, what risk management practices are adopted by Kenya Revenue Authority?

1.3 Objective of the Study

The overall objective of this study was to:

Establish the strategic risk management practices adopted at the Kenya Revenue Authority.

1.4 Value of the Study

The study will be beneficial to various stakeholders; this study will be an instant source of information to KRA management on the various strategic risk management practices being adopted by the organization and other potential strategies that they can employ towards attainment of their goal. This study will also be helpful since it help the Authority in controlling

much more effectively the execution and realization of their strategies as it will be able to incorporate the possible risks to be faced in their operation.

Revenue collection and other organizations will benefit from the study since they will be able to adapt the findings of this study in their organizational set-up. Some light will also be shed on the loopholes in enterprise risk management.

The policy makers can obtain knowledge of the industry dynamics and the appropriate strategies and therefore they can obtain guidance from this study in designing appropriate policies that will regulate the industry and methods that can be used to mitigate risks during the strategy implementation.

To the academicians, the study will contribute to the existing literature in the field of strategic management in general and enterprise risk management. It should also act as a stimulus for further research to refine and extend the present study especially in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides information from publications on topics related to the research problem. It examines what various scholars and authors have said about strategic risk management practices in various organization. The chapter is divided into two main areas: risk management and risk management practice.

2.2 Risk Management

From a business perspective, “risk management is the process by which organizations methodically address the risks attaching to their activities in pursuit of organizational objectives and across the portfolio of all their activities” (Collier and Berry, 2007, p.78). Firms adopt various risk management methods for identifying, assessing, evaluating and treating risks. These methods may vary on the dimensions of sophistication (basic to sophisticated analysis) and quantification (qualitative to quantitative). While the use of interviews, brainstorming, scenario analysis and likelihood matrices are more basic methods of risk management; statistical modeling, statistical analysis, and risk management software usage are viewed to be more technical and sophisticated. Interestingly, Collier and Berry (2007, p.11) found that ‘the use of more subjective methods intuition, hindsight and judgment was the most common, followed by the use of external risk consultants and basic methods. Technical methods were the least commonly used for risk management’.

Risk management starts with identification of significant factors that expose economic assets and business activities not unlike the consideration of strengths, weaknesses, opportunity and threats

in strategy analysis. Once these factors are identified, the vulnerability to the various risks can be analyzed and the potential economic effects determined. Measures of the impact on asset values and economic performance provide a basis to analyse potential benefits from different risk mitigation efforts and need for risk transfer and financing arrangements. According to Kelling (2000), many important risks are hard to quantify as they are bound in human behaviors, competitive moves, technological changes, product and process innovations, political events etc. While formal control systems enable the monitoring of these types of exposure, the effective handling may to a large extent depend on informal adaptive strategy processes that enhance organizations responsiveness.

The management of a business is about managing its risk exposure and therefore it is essential to for a manager to be conversant with the types of risk the firm is exposed to as the organization pursues its strategic objectives (Gaudenzi, and Borghesi, 2006). The execution of the risk management process will be implemented by a management team at all levels of the organization. A formal process with a realistic timeline must be established. All members of the organization need to participate to insure that all risks are known and that key risks are managed by the department or reporting unit under a comprehensive master plan. The internal audit department cannot be responsible for risk management but can be involved in the development and monitoring of the risk management plan (Kersnar, 2009).

According to Keeling (2000), the consequences of a risk range between maximal to minimal, e.g. serious time overrun with late completion or a total failure to deliver to minor differences to specified results or quality during the projects life cycle. Therefore the success of an organization depends upon the risk management practices put in place by an organization. He observed that risk management reduces earning volatility, maximizes value for shareholders and promotes job

security and financial security in the organization. Appropriate risk management practices should be put in place depending on the type of risk a firm faces. Two types of risks can be identified; systematic and project risk. Systematic risk is risk associated with the general economy or macro conditions affecting all projects while project risks are risks associated with the specific types of project risks taken by a specific project.

According to Hoag (2005) risk management concepts could be portrayed through the well-established strategic management literature on business. The process will assist businesses by developing a risk management plan that takes into consideration strategic objectives, like resources, risk preferences and the long-term goals of the operation, tactical tools to address risk problems, and operational steps to see that the plan is implemented, monitored, adjusted, and reapplied. The process is cyclic with feedback and reevaluation as conditions change. That is risk management requires continuous evaluation and reevaluation. Management decisions are based on the operation's goals, actual performance, and consider current and forecast conditions that affect all types of risk.

According to Andersen (2006) strategic risk management increasingly is being viewed as a core competency at both the management and board levels. The exact steps that an organization should take will depend on the level of maturity of its overall organizational risk management processes. For some organizations that have already started to implement risk management processes, the focus on strategic risks will be a refinement and evolution of their activities. For those just starting or just considering an RM effort, an initiative focused on strategic risks will start by assessing the maturity of the organization's ERM efforts relative to its strategic risks, this involves considering whether management and the board feel that they have a good understanding of the organization's strategic risks and the related risk management processes,

then conducting a strategic risk assessment followed by review of the process for strategy setting, including the identification of related risks. This stage involves reviewing the organization's process for setting and updating its strategies and strategic objectives and ensuring that the process requires the identification and assessment of the risks embedded in the strategies, then review of the processes to measure and monitor the organization's performance and finally development of an ongoing process to periodically update the assessment of strategic risks.

Organizational risk management should be a process whose mechanisms should be/are built into the infrastructure of the entity with the goal of ensuring, with reasonable assurance, that the entity's objectives are achieved. These objectives are that the board of directors and management has reasonable assurance that they understand to what extent the entity's strategic objectives are being met or affected, ensure operations objectives are met, that the entity's reporting is reliable and that all applicable laws and regulations are being complied with. It is therefore of great importance for businesses to take advantage of making appropriate strategic decisions on uncertain outcomes, as at worst it would cut-down losses due to disaster and at best, improve profitability in cases of opportunities. In this context, management need to appreciate that uncertainties present both risks and opportunities, with potential to erode or enhance value (Busman, 1998).

2.3 Risk Management Practice

Every enterprise is subject to several types of risks and the focus varies across organizations and as such organizations have traditionally entrusted corporate treasurers, portfolio managers, insurers and the hedgers to manage such risks (Shimpi, 2001). According to Jorion (2001), the success of organizations depends upon the risk management and understanding properly the

firm's sensitiveness to different types of risk. Lam (2001) further posits that risk management reduces earning volatility, maximizes value for shareholders and promotes job security and financial security in the organization.

Organizations will therefore be advantaged to establish risk management practices to mitigate various risks facing the organization. According to Kersnar (2009), the formal risk management practices entail; risk identification, risk analysis and risk evaluation and control.

In order for a formal and documented RM process to work, it must be mandated by the board of directors (Board), chief executive officers, and other top level management of the organization. Because business is risk management, understanding the risks accepted by the company as it pursues its strategy to achieve its objectives is essential for the board and relevant stakeholders (King, 2001). Risk management is central to the execution of the organization's strategy so there must be a linkage between the organization's strategic plan and initiatives and an understanding of all organizational risks across the entity. The coordination of risk assessment and strategy development will assure that both internal and external stakeholders will consistently manage organizational risk effectively and efficiently. A mandate from the top is needed to assure the risk management team's success in establishing the RM program to aid in the achievement of organizational goals.

To understand the financial commitment the process will take, the Board should oversee a study to estimate the cost to implement an RM department. Once the costs are understood, it may be best to hire an expert consulting team to provide technical assistance to management in the development of an implementation plan and to designate an internal team to be responsible for the implementation. To be successful over time, a separate department for RM should be

empowered to collect risk reports monthly and assimilate information to be reviewed by the Board. At a minimum for smaller organizations, there should be a chief risk officer assigned to monitor the process (Kersnar, 2009).

2.3.1 Risk Identification

Simmons (2000) posit the definition of the business objectives is a crucial initial step towards mitigation of risk because if an organization does not know where to go it is difficult to identify what risks may arise. In fact, an unclear business objective is a strategic risk in itself, and should be remedied at this stage. By reviewing the strategy and plans, and through interviews and a management session on targets and objectives, the business objectives are assessed for clarity. Further as noted by Kersnar (2009) the risk identification process should try as much as possible to remove ambiguity, discord, disagreements and other vagueness as possible.

An effort must be made across the entity to collect all known or anticipated risks. If risks are managed in organizational silos, poor communication and the resultant ignorance of the full potential of organizational threats could result in an iceberg of risk. Known risks are reduced and the hidden ones could sink the corporate ship (Rasmussen and McClean, 2007). All employees are responsible for identifying and sharing potential organizational risks. Those that affect the achievement of the organization's strategy are most important, but this assessment will be done in a later step.

The line managers and risk specialist have been found to mostly use past experience analysis and process analysis as tools of identifying risks facing an organization. However, sophisticated tools of identifying risks available like scenario analysis and strengths, weaknesses, opportunities and

threats (SWOT) analysis are not frequently used in case of companies where the risk identification responsibility is that of board of directors/executive management team (Gupta, 2009). He further observes that the use of operational modeling techniques is low because of its limited use by some respondents. Further, Gates (2006) observes that internal auditors or functional heads use the interviewing/focus group techniques and thus concluded that risk analysts in companies do not use the modern tools of risk analysis, which may be due to convention or lack of awareness or skills.

Based on discussion across the organization, a Risk Dictionary should be developed so that everyone agrees on the meaning of each risk term. This Risk Dictionary will be used in all education programs to roll out the RM program to each department or unit. This step is just a data collection and risk definition effort. Value judgments as to likelihood of an event occurring or financial impact are not to be made at this time. Based on the area's objectives, each reporting department or entity needs to provide input on the risks of not achieving the objectives. At the stage of designing the area's report, the objectives and risks will be tied to performance measures (Simmons, 2000).

2.3.2 Risk Analysis

After an organization has identified its problems, the next step in the risk management practice is for the organization to analyse organization risk exposure. This step involves a brainstorming session (Berinato, 2006) and will entail analysis of the institutional strengths, weaknesses, opportunities and threats in order to come out with effective analysis for the strategic risks. In an effort for an organization to evaluate the effect of the risks on asset values and economic

performance analysis of potential benefits from different risk mitigation efforts and need for risk transfer and financing arrangements will have to be determined (Berinato, 2006).

According to Gupta (2009), in order for the brainstorming session to be successful in analyzing the risks, the members should review significant business information prior to the brainstorming so that she/he can ask penetrating questions. Both risks and characteristics should be identified from the widest possible range of issues, including at least strategy, operations, culture, systems, competence and brand. Although, impossible to fully achieve, the issues should be exhausted. In addition, to effectively manage the various exposures that an organization might face, an organization should put in place corporate accounting systems to identify and measure the relevant exposures as well as internal control processes adopted to check whether exposures are kept within bounds and whether processes remain in line (Shimell, 2002).

According to Gates (2006), the next step is to determine risk priorities, both for the company and for the business unit by using a risk mapping technique. This process is done before considering the mitigation of risks resulting from internal controls or other risk mitigation methods such as: insurance, risk avoidance or accepting risk are adopted. Each risk must be evaluated for the impact of potential loss or consequence of the risk to the company. After mapping the risks, consider the existing environment, the corporate strategy, and those risks that could impede achieving stated goals and objectives. Decide what controls are in place that could mitigate the risks and what controls would be needed if they were not already in place (Jorion, 2001).

Based on the analysis of risks, the RM implementation team can work with each reporting department-level to link the organization's strategy to that area's objectives and residual risks to develop performance measures to be reported to the risk department. This will allow the

organization to monitor progress on achieving the corporate objectives and highlight areas where improvements need to be made or problems need to be addressed (Lam, 2003).

2.3.3 Risk Treatment

Risk treatment involves identifying the range of options for treating risk, assessing those options, preparing risk treatment plans and implementing them. According to Shimell (2002) the options available for the treatment of risks include: To retain/accept the risk; if after controls are put in place, the remaining risk is deemed acceptable to the organisation, the risk can be retained. However, plans should be put in place to manage/fund the consequences of the risk should it occur; Secondly is to reduce the likelihood of the risk occurring by preventative maintenance, audit and compliance programs, supervision, contract conditions, policies and procedures, testing, investment and portfolio management, training of staff, technical controls and quality assurance programs.

The other risk treatment options are to reduce the consequences of the risk occurring through contingency planning, contract conditions, disaster recovery and business continuity plans, off-site back-up, public relations, emergency procedures and staff training. The fourth practice is to transfer the risk. This involves another party bearing or sharing some part of the risk by the use of contracts, insurance, outsourcing, joint ventures or partnerships. The last practice is to avoid the risk. This entails deciding not to proceed with the activity likely to generate the risk, where this is practicable (Berinato, 2006).

2.3.4 Risk Evaluation and control

Gupta (2009) notes that formal strategy process resemble the risk management process by including a strategic control element whereby corporate management is supposed to monitor

performance outcomes against intended strategic goal to ensure that corporate activities remain on track and correspond to the set course is that some digression from the beaten track also can hold the key for generating innovation ideas and adaptive responses to changing environmental conditions. Once an organization notices some diversions from the norm, then appropriate mechanism should be put in place to realign the results with what the organization intends to achieve (Shimell, 2002). Hence several control techniques such as balance score and financial measures will be adopted during this period.

Corporate decision on whether these exposures are acceptable in view of prevailing organisation responses should be assessed and agreed by the strategy team and then ways of overcoming the same risks will have to develop. Risk assessments in project management see a need to balance planning with adaptive solutions that arise as the projects are implemented. Once these factors are identified, the vulnerability to the various risks can be analyzed and the potential economic effects determined (Berinato, 2006).

At this stage, the implementation team needs to review company strategy with each business unit to determine how the unit's deliverables result in the achievement of the corporate objectives. Department level objectives must be identified that enable the organization's strategy to be achieved. The objectives should contain defined targets and be SMART. SMART objectives are Specific, Measurable, Achievable, Results-oriented, and Timely. Based on the targets, performance measures should be developed to compare actual results to the targets. As performance measures affect behavior, they should be easily understood by all employees, achievable, limited in number, and result in the correct behavior. Unethical behavior can result if employees' have unattainable goals set for them or misunderstand the objective (Shimell, 2002).

Having a risk management plan and implementing is not adequate for ensuring that the plan is followed or that the company is controlling its risks. A feedback loop ensuring that the report results get back to the RM department, upper-level management, and the Board is vital to organizational and strategic success. The reporting structure should do or include the following in a monthly monitoring system. On a regular basis, the RM department should do an analysis of internal and external events that could force revision of the overall strategic plan. Each unit should evaluate how these changes would affect their targets and risks (DeLoach, 2002).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter includes the methods that are employed to provide answers to the research questions. It includes the research design, data collection and data analysis.

3.2 Research Design

The research design was a case study. A case study design was deemed as the best design to fulfill the objective of the study as the results were expected to provide an insight in understanding of what risk management practice the institution has put in place during its operations. It is through an interview with some selected persons concerned with formulation and implementation of the organizations strategies that the researcher was able to identify the risk practices put in place by the management. As a result of this, a case study research design was an appropriate design.

3.3 Data Collection

The study made use of primary data which were collected through a face to face interview with the respondents. An interview guide was used to collect data on risk management practices adopted at Kenya Revenue Authority to mitigate any possible risk in the realization of its mission. The respondents were the head of departments in internal audit, security and Information and communication departments who the researcher believes are instrumental in the development, implementation and evaluation of the organization's risk management practice.

3.4 Data Analysis

The data obtained from the interview guide was analyzed using qualitative analysis. The qualitative analysis was done using content analysis. Content analysis helped the researcher to observe and have detailed description of objects, items or things that comprise the object of study. The themes that were used in the analysis were broadly classified into two: risk management practice and factors determining the success of risk management practice.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND RECOMMENDATIONS

4.1 Introduction

The research objective was to establish the strategic risk management practices and factors affecting the success of risk management practice in the Kenya Revenue Authority. This chapter presents the analysis and findings with regard to the objective and discussion of the same.

4.2 Respondents Profile

This section of the interview guide wished to establish the respondent's academic as well as professional qualifications. In addition, their work experiences were also to be established. From their academic qualification backgrounds as well as work experience, the researcher was able to assess their capacity to answer questions on the risk management practices as well as the factors affecting its success.

The respondents comprised the senior managers in Kenya Revenue Authority (KRA). In total, the researcher interviewed all the five targeted respondents. All the respondents interviewed had university degrees with three of them having a Masters degree as well. The interviewees had different educational backgrounds that ranged from, Accounting, Finance, public administration, BA (Economics) and Human Resource. With such academic and professional background the respondents were deemed to be capable to analyse and critically identify and respond appropriately to the risk management practices.

The work experience for the respondents ranged from six to over fifteen years both within the organization and without. On average, the respondents had worked in the organization for three years. The job description of these respondents ranged from legal services manager, manager internal audit, risk manager, information and communication manager and domestic taxes

manager. Having worked in the organization for such a period, the researcher believes that the respondents have firsthand experience on risk management. With this background, it was felt that the respondents were knowledgeable enough on the research subject matter and thus of help in the realization of the research objective.

4.3 Risk exposure

In this section, the respondents were to give their opinion on what they consider to be the risks which the Authority is exposed to. It was important to understand the risks which the organization faces as it affects the operation of the organization in achieving its objectives.

The respondents in totality agreed that risk management in the organization is concerned with coming up with policies which would assist the organization to reduce the effect of the risks to a manageable level. The respondents were of the view that risk management was very important to the organization as if not managed the risks would lead to non achievement of the corporate objectives as contained in the strategic plan and revenue loss. As a result, a policy guide on risk management would be very important. The risks facing the authority are far and wide and ranges from financial risks, infrastructure risks, operational risks, reputational risks, strategic risks, revenue leakage, inadequate supervision and monitoring, damage to the authority's image and failure to meet targets. On being asked which among the identified risks poses the greatest challenge to the organization, the respondents indicated that it was financial, operational risks and revenue leakage as they would not only affects the operations of KRA but rather the whole country as the revenue collected by the organization are the ones which are used to finance the operations of the entire government.

The organizations vision and mission statements are the guiding factors towards the achievement of objectives by the organization. The respondents noted that as KRA gears itself towards enhancing its operations they need to align its strategies with the mission and vision of the organization. The respondents unanimously agreed that risk management and mission were related since risk management enables the organization to realize its mission through a systematic approach by setting the best course of action under uncertainty and also due to the fact that the organizational structure and the strategies which have been put in place by KRA to meet its goals ultimately affects the mission which has been set. The respondents further indicated that the mission which has been in use by the organization has enabled it to achieve tremendous growth in terms of revenue collection through institution of measures which has brought many tax payers to honouring their obligations. However as the institution makes great strides towards meeting its objectives, the risks which they are exposed to increases thus the need for stronger institution pillars like the mission.

The most important thing when implementing any strategy in an organization is the management commitment to it. This is undoubtedly a prerequisite for risk management. The respondents indicated that the management of KRA (the board of directors) has demonstrated their willingness to give energy and loyalty to the process as they have approved the risk management framework which was prepared by a unit within the internal audit and risk management department. This commitment by the management of KRA has become a positive signal to all the employees of the institution as they have provided direction as they pursue a common mission in risk management. Effective leadership is very crucial during the execution of the intended strategy and these can be achieved through participation by all groups and individuals

and these has already been demonstrated by the management as delegating the formulation of the framework to the employees in the department will give them the morale to implement the recommendations fully as they were part of the process.

The respondents indicated that previously, risk management was done on departmental levels which essentially implies that there was no structured and documented way of managing risk, however the approval of policy and framework which adopts the ISO 31000:20091 approach means that there will be a structured and well documented risk management approach in the organization and these will go a long way in ensuring that the risks which the institution faces are dealt with in a manner that will ensure that the institution achieves its objectives without any hindrance. The strategic plan of an organization for an organization covers a specific period of time in which the organization highlights what they intend to achieve within the period. The current strategic plan covers all the areas in which the institution deals with and their possible threats. The respondents emphatically agreed that there is a link between strategic plan and organizational risks as the aim of the framework was to promote a common understanding of all organizational risks and also that key strategic risks are identified as a concern to top management and their management is reported to both senior management and the Board. Other operational risks are dealt with at managerial level at the department.

On the existence of a specific risk implementation team, a department or a chief risk officer to link the organizations strategy to objectives, the respondents noted that there exist an implementation team been chaired by senior management appointed by the commissioner general who will coordinate the risk management in the organization by working with other sub-

implementation teams within the internal audit and risk management department whose task is to collect and collaborate the risks facing the organization. In order to ensure that the risk facing the organization has been dealt with adequately, the management has decided to institute risk committees in all departments so that they can identify the risk facing their department and report to the overall committee which will come up with a definite solution to it. The existence of risk committees in all the departments will ensure that the risks which would otherwise have taken time to be identified and dealt with thus posing a challenge to the organization will now be acted upon as soon as they are detected. The organization has also come up with the post for credit risk officer who maintains the database of all the risks facing the organization through coordination with the risk management committee. The existence of the credit risk officer was to ensure that the risks which were faced by the organization have been kept so that in case the same risks affect the organization in the future then they understand how to deal with them and these will reduce the costs which the organization would have incurred in risk management.

4.4 Risk management practices

The risk which an organization has to be dealt with accordingly by the organization in order to achieve its desired objectives and these entails the identification of various methods of identifying, assessing, evaluating and treating the risks. This section of the interview guide was meant to identify the risk management practices which have been instituted by the management of KRA. On being asked who was responsible for risk identification in KRA, the respondents noted that the process owners were responsible.

4.4.1 Risk Identification

The identification of risks in the organization will enable the organization to come up with strategies to counter them before affecting the operations of the authority. The respondents noted

that currently there is no formal system for risk identification as different departments identify their own risks and these was the case before the institutionalization of the risk management policy which has now come up with a definite process of identifying the risks which is through a Risk and Control self Assessment workshops for each process to establish the risk causes, events, effects and the appropriate controls applicable to their treatment. By involving the whole process in risk identification through to the controls, the respondents noted that these will enable them to know the possible risks which they face as they undertake their duties and in these they come along the risks they know how to deal with them and these will give them the confidence to work as they feel to have been involved in the process. Due to the involvement of the process in identifying the risks facing their process, the respondents were of the view that the process was adequate and these would result to total support to the process which will in turn leads to efficient management of the risks in the organization.

The adoption of the risk management policy framework in the organization brought into the organization a structured way of dealing with the risks, otherwise initially there was no structured way of dealing with the risks and that posed a challenge to the organization as they were exposed to the risk resulting from non existence structure of dealing with the risk. The reporting structure which is contained in the policy framework starts from each department identifying its risks and reporting them to the credit risk management officer and head of business unit who will in turn report to the risk management committee. Within the risk management committee, there is the audit committee who will take up the matter and report to the board of directors for action. The existence of the structure will enable KRA to involve the whole organization in identifying risks facing their respective department so that action can be taken against them.

The involvement of the employees in risk identification within their departments would result to consensus as to the risk identification process. The respondents indicated that there was no ambiguity, discord or disagreements in the process of identification as all the employees in a department are agents of risk identification and since they were involved in drafting the policy framework on risk, which stipulates how the risk identification and management would be undertaken then there, would be no disagreements. The respondents went ahead to say that the policy framework stipulates that workshops be held regularly for each department and all the employees be accorded opportunity to attend so that it encourages consensus building in risk identification. They indicated that the minimum information stipulated by the policy for risk register will remove ambiguity in risk identification as there is a set limit on the kind of information which has to be registered regarding a risk within the department as once the risk registers are prepared, they will help remove any ambiguity in risk identification.

The organization is the direct beneficiary of risk identification and management as the risks will be acted upon before causing any effect to the organization operations which is collecting taxes thus enabling the organization to achieve its set targets yearly. The organization offers guidance on risk identification to its employees both directly and indirectly as it enlisted the services of risk management procurement to offer consultancy services which includes developing of the risk library, includes training of its risk management officers and risk champions while a consultant was procured to roll out risk management in the organization. The organization also provides templates for risk profiling and at the same time updates will be posted in the internal mail. Before the adoption of policy framework on risk management in the organization, there was no formal structure which was being followed to identify, report and act on the risk and therefore in the organization there is no previous reference material which can be used as a

source of material, the only reliance now is the guidelines on the policy and framework document.

4.4.2 Risk Analysis

The respondents were to establish how KRA analysis its operating environment by analyzing its strengths, weaknesses, opportunities and threats in order to come out with effective analysis for the strategic risks. This entails evaluation of the effects of the risks on asset values and economic performance of potential benefits from different risk mitigation efforts. In the organization , risk is categorized based on their impact to the organizational performance and it includes the risks being insignificant, minor, moderate, major or fundamental while the likelihood effect of the risks to the organization was categorized as rare, unlikely, possible, likely or almost certain. At the same time the organization uses risk matrix to determine the rankings and score of the risks based on likelihood and impact. The categorization of the risks based on their impact and likelihood effect to the organization, will enable the managers of the risks to adopt the appropriate strategies to deal with the risks and these will reduce the costs which will be incurred by the organization to mitigate itself against the risks as they understand the solutions to the risks.

The results on the financial health analysis being done in the organization was that it was being done through the preparation of various reports like the revenue performance report which are prepared to reflect daily, weekly, monthly, quarterly and annual basis. The actual performance reports will then be compared with the targeted results and in case of any discrepancy which results to the organization not meeting its targets then actions can be taken in order to improve the performance. At the same time also the financial health of the organization was factored into

its revenue and expenditure through the budgetary process so that the organization can set aside resources to use for various projects to be undertaken within that year. The business objectives of KRA are reviewed through the strategic plan review while the performance measures are done through performance contracting and appraisals. The strategic plans which have been put in place by the organization assists the organization to map out the objectives which they have to achieve within a certain period of time and these can only be met through each employee contribution and in these case then performance contracting was used to ensure that each employee meets its own targets which would eventually leads to organizational performance.

The achievement of an organization objectives and performance depends on the employees of an organization as they are the ones who carry out the various tasks within the organization and therefore adequate communication to them on what they are organization objectives is needed. In KRA, the employees were communicated on the objectives of the organization through the corporate plan which posted on the intranet while quality objectives are discussed and then they are cascaded to the employees. Performance contracts on the other hand were used to evaluate the performance of the employees at the end of the period through performance appraisal. The performance appraisal carried in the organization will be based on what the employees would have signed at the beginning of the year and these makes the employees to be accountable to the organization for what they have done during the period. The risk policy and framework outlines that there be continuous assessment of risks in the organization on to day to day basis using the operations tools contained in the framework. The continuous assessment will enable the organization to detect the risks at early stage and remedial action can be taken against them.

The performance of KRA is measured in terms of the revenue collected during a particular period. KRA has been surpassing its targets in terms of revenue collection and these has been attributed to measures which have been taken by the organization which includes management of risks which promotes greater transparency and accountability at all levels, risk reduction and resilience. In order to ensure that the areas which are prone to risks in the organization are secured, the management of the organization concentrated more resources to the areas so that the whole organization can contribute towards greater performance.

4.4.3 Treatment of Risks

This section of the interview guide aimed at establishing the efforts towards treatment of risks by KRA. On these area the respondents, did note that the organization categorizes risks based on the effect which they can have on the performance of the organization. The risks which are categorized as low will be accepted while in the case of the major ones; controls are instituted to minimize the risks. The control of the risks which can be detrimental to the organization will ensure that the risks do not affect the operations of the organization. Regarding the reduction of likelihood of the risk occurring, the respondents indicated that KRA has reduced the likelihood of the risks occurring by instituting controls such as having preventive officers or border control officers, training of staff, having policies and procedures in place , having a marketing and communication department, audit and compliance programs, technical and quality assurance. On reducing the consequence of risk occurring, KRA applies: technical controls such as having back-up generators, having off-site back-up and disaster recovery. Although measures have been put in place by the organization, the risks which the organization faces keeps on changing and these necessitates constant improvement of the measures to be able to detect and act on the risks.

The organization is not able to manage all what they intend to do so as to achieve its objectives and these has resulted to the organization outsourcing some of the work to third parties, insuring others, partnering with other institutions and much more. This is done by the organization so that they transfer to third parties some unforeseen obligations and responsibilities which could occur in future, outsourced various services such as collection of revenue (cash) by banks, security, cleaning service and contracting quality assurance companies. This is meant to ensure that the organization only concentrates on activities which they are specialist in and thus reduce the costs of employing their own staff and at the same time makes it easier for tax payers to pay their taxes without visiting the KRA offices. The organization works with organizations like the Kenya Bureau of Standards in order to avoid the risks which they could have faced in case they carry out their tasks alone.

4.4.4 Risk Evaluation and Control

This part of the interview guide aimed at identifying the risk evaluation mechanisms and controls which have been put in place to realign the results with what the organization intends to achieve by KRA. The organization uses various risk evaluation techniques so as to suit the different kind of risk which the organization face, however the risk policy which is used by the organization considers risk matrix to be the appropriate mechanism for evaluating risks in the organization although various departments such as CSD, DTD and ICT can use different mechanisms, the risk matrix approach will ensure that there is a standard way in which the organization can evaluate its risks within the organization thus standardization of all the risks evaluation.

The respondents noted that the organization has an internal risk control framework which was approved by the board of directors and subsequently adopted by the management. This would

ensure that the organization institute measures in each department which would curb the potential risks which may occur in the department. The annual reports which are released by the organization contain the internal reports which are prepared by the internal audit and the risk management team. The final report outlines the risks which the organization faced during the period and the measures which they took control them although it may not mention exactly that they were able to control the risks internally, the report however emanates from the internal reports.

The success or failure of risk management needs to be evaluated so that in case it does not succeed in managing the risks then the organization can take action urgently. The organization has put in place balance score cards which is done both annually and semi annually, for individuals while regular revenue performance reports are prepared by departments and regions as well as expenditure reports. The monthly, quarterly, semi annually and annually score cards are done for the organization. This would ensure that the performance of each individual, department and the organization in managing risks can be monitored. The finding of the evaluation done on risk management was communicated to all the employees on quarterly basis. The findings would enable the employees to know how they are performing and these would motivate them to work harder.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the study

The study established that risk management was very important in the organization. The knowledge about the management of the risks in the organization was exhibited by the respondents as they have worked in the organization for more than six years and also due to the fact that the respondents were managers who are involved with management of risk in the organization. In addition, the respondents were found to be well versed with the subject matter of the study and had all solid academic background having attained a first degree.

It was found out that as KRA gears up to effectively respond to the changed environment, it needs to become aware of the ever emerging conditions pertaining in the local and external economy that will affect its operations. One of these conditions was the management of the risks which it faces. The risks facing the organization was found to be financial risks, infrastructure risks, operational risks, reputational risks, strategic risks, revenue leakage, inadequate supervision and monitoring, damage to the authority's image and failure to meet targets. The risks would affect the operations of the government as they rely on the revenue collected from KRA thus it needs thorough management.

The management of the risks was sanctioned by the management through the approval of the policy and framework which adopts the ISO certification which gives a clear structure of managing risks in the organization. There exist an implementation team chaired by senior management appointed by the commissioner general who will coordinate the risk management in the organization by working with other sub-implementation teams within the internal audit and

risk management department whose task is to collect and collaborate the risks facing the organization.

Risk identification in the organization was being done by the process owners although there is no formal process through which the risks are identified as different departments identify their own risks. The reporting structure in the organization was contained in the policy framework outlines the way of dealing with the risks. There was no ambiguity, discord or disagreements in the process of identification as all the employees in a department are agents of risk identification and since they were involved in drafting the policy framework on risk, which stipulates how the risk identification and management would be undertaken then there, would be no disagreements. The organization offers guidance on risk identification to its employees both directly and indirectly as it has enlisted the services of IASRMD to offer consultancy services which includes training of its risk management officers and risk champions while a consultant was procured to roll out risk management in the organization.

The risks facing the organization was categorized based on their impact to the organizational performance while the likelihood effect of the risks to the organization was categorized as rare, unlikely, possible, likely or almost certain. The employees were communicated on the objectives of the organization through the corporate plan which posted on the intranet while quality objectives were discussed and then they are cascaded to the employees. The risks analysis in the organization was done using a risk matrix although the departments can use mechanisms which suit their work. There exist an internal control framework and the reports generated from it was reflected in the annual report.

5.2 Conclusions

From the research findings, some conclusions can be made about the study:

Risk management is vital for the functioning of any organization. From the findings, it was established that risk management in the organization was an all inclusive exercise where the employees were involved in the formulation of the policy and framework on risk management which was adopted as the official risk management policy in the organization. The employees are the ones who implement the policy and their involvement was necessary in order to ensure the success of the policy ultimately. The organization faces various risks in its day to day operations and the alignment of the process with strategic plan and the mission of the organization was a step towards the achievement of the objectives by the organization.

The existence of the coordinating risk management committee would ensure that the risks facing the organization would be dealt with adequately as they will be collaborating the risks which are facing the various departments. The existence of risk evaluation and control would ensure that the organization would be able to gauge whether the practices which they have put in place to control the risks are working and if they are not then they can come up with others thus discouraging a situation whereby the risks would affect the performance of the organization. Communication is an essential tool in an organization as it a way of disseminating information between the employees and the management. The communication of the objectives and performance measures and the evaluated results openly throughout the organization would inspire the confidence of the employees as they will be able to know what measures were used to measure the performance and at the same time they will know the current results and aspire to achieve greater results in future.

5.3 Recommendations for the study

The study recommends that in order for the risk management team to carry out its task effectively, the management of KRA should allocate more resources to the team so that they can be able to tackle the risks facing the organization which emanates from the financial, infrastructure, operational, reputational, strategic, revenue leakage, inadequate supervision and monitoring, damage to the authority's image and failure to meet targets. The management of the organization provides leadership which is critical to the running of the organization. The commitment which they have shown towards the management of the risks should be sustained so that they act as role models to the rest of the employees that all of them needs to come together in order for the organization to achieve its objectives.

The nonexistent of a well structured way of reporting the risks could have led to poor performance by the organization, however the approval of the policy resulted to the existence of a structure. The management of the organization should however ensure that the structure is short and not bureaucratic so that action can be taken immediately the risk is reported. The employees of the organization are the ones who interact with the operating environment of the organization and therefore it is recommended that all of them should be trained on how to identify the risks.

5.4 Suggestions for further research

The study confined itself to Kenya Revenue Authority. This research should therefore be replicated in other government Authorities so as to establish the risk management practices which they have adopted and comparison be drawn whether there is consistency among the Authorities on the kind of practices which they adopt.

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APPENDIX I

INTERVIEW GUIDE

The interview guide will seek to achieve the following objective;

- Establish the strategic risk management practices adopted at the Kenya Revenue Authority.

The following sections provide sample questions to be used in evaluating strategic risk management practices in Kenya Revenue Authority.

a) Respondent Profile

What is your academic qualification?

What is your professional qualification?

Work Experience?

Job description?

b) Risk Management Practices Exposure

- In your opinion, how important is risk management in your company?
- What type of risks is the authority faced with?
- Which among the ones identified above constitute the greatest risk? Why?
- Is there a relationship between risk management and organization mission? Expound.
- Is risk management mandated by the top management in KRA? Explain.
- Does your organization have a structured and well documented risk management approach? Elaborate.

- Is there a link between KRA's strategic plan and initiatives and an understanding of all organizational risks across the organization? Expound.
- Is there a risk implementation team, a department or a chief risk officer that works with each reporting department to link the organization's strategy to that area's objectives and residual risks in your organization? Expound.

c) Risk Management Practices:

i) Risk Identification

- Who are responsible for risk identification in your organization?
- How does the company identify the risks it is exposed to and do you think the process is adequate? Expound.
- Explain the reporting structure of risk management in KRA.
- does the risk identification process in your organization try as much as possible to remove ambiguity, discord, disagreements? How?
- To what extent is guidance on risk identification been offered by the organization both directly (internal consulting services) or indirectly (documents, such as tool kits)?
- Is there a risk dictionary or related reference material in the organization?

ii) Risk analysis

- How does the organization categorize the risks in terms of impact and likelihood in your organization?
- Is financial health analysis done in your organization say performance reports? Explain.

- Is review of business objectives and performance measures done in KRA? Explain.
- Are business objectives and performance measures adequately communicated to employees? Expound.
- What are the efforts towards continuous assessment of risks in KRA?
- Does risk management improve your organization's performance? Explain

iii) Treatment of risks

- What are the efforts towards treatment of risks in KRA?
 - Retaining/accepting the risk? –Explain
 - Reduce the Likelihood of the risk occurring - by preventative maintenance, audit & compliance programs, supervision, contract conditions, policies & procedures, testing, investment & portfolio management, training of staff, technical controls and quality assurance programs etc –Explain
 - Reduce the Consequences of the risk occurring e.g. through contingency planning, contract conditions, disaster recovery & business continuity plans, off-site back-up, public relations, emergency procedures and staff training etc – Explain
 - Transfer the risk e.g. the use of contracts, insurance, outsourcing, joint ventures or partnerships etc.-Explain
 - Avoid the risk. Explain

iv) Risk evaluation and control

- How are risks evaluated in the organization?
- Is there an internal risk control framework in KRA? Expound.
- Do the annual reports in KRA contain internal control reports?
- Has the management of your organization put in place measures such as balance score card, financial measures or any other to evaluate the success of risk management strategies put in place?
- Does the organization communicate the evaluation results openly throughout the organization? How?

APPENDIX II: RISK MANAGEMENT STRUCTURE IN KRA

The chart below gives the organization structure for ERM governance in KRA

FIGURE 1: RISK MANAGEMENT STRUCTURE IN KRA

