ASSESSING THE EFFECT OF OUTSOURCING OF REVENUE COLLECTION ON ORGANIZATIONAL PERFORMANCE: A CASE OF MPANDA DISTRICT COUNCIL

By

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A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the Degree of Master of Business Administration (MBA) of Mzumbe University

2013
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation titled; Assessing the Effect of Outsourcing of Revenue Collection on Organizational Performance: The Case of Mpanda District Council in partial fulfillment of the requirements for award of the degree of Master of Business Administration of Mzumbe University.

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To these and others whom I did not mention their names, I appreciate for their immense help at diverse capacities.

Muhula, Flavian
August, 2013.

GOD BLESS YOU ALL
DEDICATION

This research report is dedicated first to my beloved wife Neema Maguru for her efforts and encouragement all the time when I was at the Mzumbe University.
### LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AEO</td>
<td>Agriculture extension officer</td>
</tr>
<tr>
<td>Cap</td>
<td>Companies Act of United republic of Tanzania</td>
</tr>
<tr>
<td>DC</td>
<td>District Commisioner</td>
</tr>
<tr>
<td>DO</td>
<td>District Officer</td>
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<tr>
<td>LGA</td>
<td>Local Government Authority</td>
</tr>
<tr>
<td>LGRP</td>
<td>Local Government Reform Programme</td>
</tr>
<tr>
<td>MDC</td>
<td>Mpanda District Council</td>
</tr>
<tr>
<td>NA</td>
<td>Native Authority</td>
</tr>
<tr>
<td>O &amp; OD</td>
<td>Opportunity and Obstacles Development</td>
</tr>
<tr>
<td>PPRA</td>
<td>Public Procurement Regulatory Authority</td>
</tr>
<tr>
<td>PPRM</td>
<td>Public Procurement Regulatory Manual</td>
</tr>
<tr>
<td>PSRP</td>
<td>Public Service Reform Programme</td>
</tr>
<tr>
<td>RC</td>
<td>Revenue Collector</td>
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<td>WEO</td>
<td>Ward Executive Officer</td>
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ABSTRACT

This study was to assess the effect of outsourcing of revenue collection on organizational performance a case study of Mpanda district council. Specific objectives of the study were: to identify sources of revenue which are being outsourced and whole process of outsourcing to identify the benefits of outsourcing revenue collection to identify the challenges accompanied by outsourcing and to assess the effect of outsourcing on organizational performance.

Data were collected from 60 respondents who were selected using purposeful sampling and simple random sampling. The research utilized both primary and secondary data. Method of data collection were questionnaire, interview and documentary records.

The findings of this study show that outsourcing has led to improved organizational performance through increased revenue collection and reduction in operating cost, although they have not attained the best performance. Findings of this research revealed that revenue sources which are outsourced to revenue collectors are; agricultural products, fishing products, livestock auction, hotel levy and market fees. It was further revealed that some revenue collectors do not comply to terms and condition of the contract is the challenge in outsourcing of revenue collection.

Recommendations for Mpanda district council are, to collect more realistic information from wards and division, increase supervision to revenue collectors by visiting them regularly and open a communication channel from top management to bottom with revenue collectors.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Local Government Authority

Local Government Authority is the authority in charge of affairs within a defined area. The local government authority represents the central Government and carries out duties and responsibility on behalf of the latter. The Local Authority have the autonomy of standing on its own, they are entitled to make by-laws, raise revenue, own property, enter into contract, sue and be sued in court of law.

The rationale of establishing Local Government Authority was to relieve the Central Government from; administrative task in municipals and localities around the whole country, the financial burden, and enhancing the service delivery throughout the country especially in remote areas, where the infrastructure network are not proper. In order to finance its local activities the LGA raises revenue from their own sources through the use of collection agents, who are selected through tendering process. Assessing the impact of using agents in District Council revenue collection is the aim of the research.

The Local Authority are categorized as follows; District Council, Town and Municipal Council and City Councils.

1.1.1 Background Information

Mpanda District Council situated in southern highland zone with coverage of 8600 km², latitude is 30º-32.40º and longitude 6º-8.7º, arising from sea level at height of 1000/1500/2000 meters with a population of 528,198 people, 6 wards, 119 villages and 119 families.

MDC was re-established in 1984 after a series of landmarks that led to the enacting of Local Governments Act No. 7 (district authorities) of 1982. It is one among three districts in Katavi region. The five years rolling strategic plan for Mpanda defines the future direction of the council for the period 2010/11-2014/15 by setting the goals,
defining the major strategy and target, the strategies, activities and resources needed to realize the vision. It is based on a systematic assessment of the existing situation and was developed through a highly participatory process involving all key stakeholders.

The government of Tanzania is committed to provide sustainable quality and responsive services to its citizens, through local government authorities. Against this background, the government, in 1996, prepared the local government reform agenda whose mission is to strengthen the democratically elected, autonomous local government authorities to deliver services according to locally defined needs, within the set national policy and legal frameworks.

The local authorities in Tanzania have been there to serve the interest of the public in their localities. They represent the central government in their area of jurisdiction, then the local authorities need sufficient amount of fund in order to carry out those responsibilities successfully. Not only that but also they should be willing to contribute towards the financial strength of their councils. This is done through legal sources of revenue collection in the local authorities, such as license fees, produce cess and miscellaneous receipts as stipulated under Local Government finance Act No. 9 of (1982) and in the Opportunity and Obstacles to Development (O & OD) theory and practice (2004).

MDC is among the 52 district councils under phase two of the LGRP which started in 2002. The major goal of the reform programme is to enhance the level of performance of local government and improving social services delivery in five sectors namely education, health, water, agriculture and works.

MDC is currently implementing 5th step of the restructuring process. The step included conducting of the major stakeholders workshop which bought together key stakeholders of the council. However, the main objectives of carrying out the second stakeholders’ workshop were:
The outputs of this workshop included the proposed council’s vision and mission statements; and the proposed specific objectives for improving service delivery. The workshop did also come out with the recommendations for the performance indicators and the possible services that could be outsourced.

Preparation of the council’s five year rolling strategic plan 2010/11-2014/15 aims at building the capacity and providing the direction for the district to fulfill its functional objectives efficiently and effectively. The strategic planning process, which was very participatory, comprised of six days planning workshop sessions involving the council’s strategic planning team (heads of departments or sectors) to review and agree on.

1.1.2 Clarification on outsourcing of revenue collection

Before the privatization in June 2003 it was clear that the local tax system was overripe for reform. It was complicated, costly to administrate and exacerbated inequity. Tax evasion was widespread, often reflected in persistent public resistance to pay. Moreover, the linkages between the central and local government tax systems were in general weak leading to double taxation and inconsistencies between tax policies implemented at various levels of government. Already in 1993, the Association of Local Authorities in Tanzania (ALAT) advised the government to abolish development levy. This advice was partly based on considerations of revenue generation, administrative costs, income distribution and economic efficiency. Furthermore, the widespread tax resistance threatened to undermine the legitimacy of local authorities (Fjeldstad, 2004).

One reasons was, it was expected that outsourcing of revenue collection to private collectors would have lead to a more predictable revenue stream for the councils and also lower administrative costs. Another reason was to avoid the problem of political interference in revenue collection. Furthermore, there was an assumption that revenue
collection agents would be able to more easily fire non-performing or corrupt staff as compared to LGAs (CAG report, 2012).

In 2002 the Prime Ministers Office-Regional Administration and Local Government (PMO-RALG) produced guidelines which rationalized and harmonized the various sources of revenue (PMO-RALG, 2002). In attempt to operationalize the guidelines, in June 2003, the Ministry of Finance (MoF) announced major reforms of local taxation systems. In the budget speech, among other things, the Minister for Finance abolished number of local taxes including the development levy, some licenses fees, and livestock cess (PMO-RALG, 2008).

Outsourcing of revenue collection in MDC started on 2003 before that revenues were collected by ward executive officers (WEOs) from every ward in MDC. The district planning team provided the ceiling of revenue to be collected and from what sources. The WEOs basing on ceiling given, collected and submitted revenue to cashier of revenue collection on behalf of District Treasurer (DT). Upon receiving of revenue the cashier banks the money in MDC general fund account currently known as own source collection account. The WEO performance was measured by comparing the budgeted estimate of revenue collection of a particular ward against the actual revenue collected from a ward at the end of the financial year. Those who performed above the budget estimate praise and appreciation were granted for them, but the WEOs whose performance were below the budget estimate warning letters were issued for them. The letters were reminding them to abide to term by ensuring more effort is utilized in order to meet the goal set. In extreme cases some of the WEOs were detained in police custody for questioning or suspended from their employment in case of non-submission revenue from the source (s) of revenue to the cashier for banking. The previous practice of revenue collection lacked means of recovering revenue in case of unfaithful WEOs and this led to loss of revenue to the MDC which could have been used to improve the social welfare of Mpanda citizens.

The Mission
Mpanda district council is committed to facilitate and coordinate order and provision of quality socio-economic services to the communities through participation of different stakeholders, good governance in order to alleviate poverty and bring about sustainable development.

**The Vision**

Mpanda district council aspires to be highly competent local government authority in terms of its ability to provide quality socio-economic services based on good governance principles to bring its people use available resources to bring about their sustainable development by year 2020.

**Motto**

"Hard working and knowledge is key to people's development"

**1.2 Statement of the Problem**

Mpanda District Council is the one of local Authorities in Tanzania, Since its establishment it has been collecting revenue through WEOs who are located at every ward. Though the council has several revenue sources from which it collects revenue but there was no absolute assurance of obtaining 100% of the collected revenue. In some cases collusion between ward executive officer and district council officers led part of the collected revenue diverging into wrong hands, only few people do benefit from the revenue collected but not the council as whole. All this led to under collection of revenue and the council to depend much on the central government grants, to implement their development plans and public service delivery such as health care service, education services, infrastructure maintenance and provision of water services.

The reasons for under-collection compared to the budget was due to poor revenue collection mechanism, narrow tax base, collusion, political interference from councilors, member of parliament and central government policies, lack of voluntary
compliance especially in remote areas where the public services are poor and the cost involved in the whole process of collecting revenue (Mideko, 2008).

To overcome the problems, and maximize the actual revenue collection outsourcing policy was introduced in the year 2003. Some of the revenue sources were outsourced expecting that outsourcing revenue would help the council to obtain sufficient revenue, minimize the cost of collection and reduce dependency on central government. It is the aim of this study to assess the effect of outsourcing revenue collection on organizational performance. Several research have been conducted in this area of outsourcing of revenue collection focusing on assessing the performance outsourced revenue sources, what has been collected before and after outsourcing. This study intended to go further in understanding the effect outsourcing of revenue collection on organizational performance, challenges, how to face those challenges and turn them into opportunities, how the outsourcing of revenue collection can be appropriately managed and monitored in order to establish a platform for more effective and efficient organizational performance.

1.3 Objectives of the study

1.3.1 General objective

To assess the effect of outsourcing revenue collection on organizational performance

1.3.2 Specific Objectives

i. To identify sources of revenue which are being outsourced and the whole process of outsourcing.

ii. To identify the benefits of outsourcing revenue collection.

iii. To identify the challenges accompanied by outsourcing.

iv. To assess the effect of outsourcing on organizational performance.

1.4 Research questions

i. What are sources of revenue which are being outsourced?
ii. How is the process of outsourcing being carried out?

iii. What are benefits of outsourcing district revenue collection?

iv. What are challenges of outsourcing district revenue collection?

1.5 Significance

The significance of the study is that by truly understanding outsourcing, benefits and challenges will help in establishing a platform for more effective and efficient local government financial administration in MDC. The research findings will be used by other councils with similar problems to find out causes and how to address them. The research findings will serve as a guide for future reference for practitioners, scholars and academicians who would be doing research in the same area.

1.6 Limitation

1.6.1 Geography of Mpanda District Council

MDC is widely spaced and its routes are not connected, to travel from one division to another it takes a lot of time. Mostly infrastructure during rain session are in bad shape this contributed to difficulty for the researcher to access remote areas for data collection.

1.6.2 Accessing information

The researcher faced challenges from revenue collectors during data collection. They were not ready to answer some of questions fearing that, it may give light to council officials on how much revenue are actually collected for one session against the amount stipulated in the contract.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter looks at a review of issues and theories that have been explored and studied in the existing literature globally, continentaly and nationally. After understanding what is already known concerning the study, the gap is examined and will be filled by findings from this study.

2.1 Theoretical literature Review
2.1.1 Understanding Outsourcing
Griffiths (2001) define outsourcing as “the strategic use of outside resources to perform activities traditionally handled by internal staff and resources”. Sometimes known also as “facilities management”, outsourcing is a strategy by which an organisation contracts out major functions to specialized and efficient service providers, who become valued business partners.

According to Ramirez (2009) outsourcing is a contract between a company with another company or individual. The second company or individual will provide job services remotely. These services can include but aren’t limited to call center services, e-mail services and payroll. Other outsourcing projects can be writing services and graphics services. These outsourcing companies or individuals who take on these projects specialize in the services that they offer. They may provide the same services to many different companies, or they may have an exclusive contract with just one.
Anderson (2011) defines outsourcing as the procurement or services or products, such as the parts used in manufacturing a motor vehicle, from an outside supplier or manufacturer in order to cut costs.

2.1.2 Theories of Outsourcing

2.1.2.1 Resource Based View (RBV)

According to Barney and Hesterly (1996) resources and capabilities can vary significantly across firms, and that these differences can be stable. If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. The resource-based view in outsourcing builds from a proposition that an organisation that lacks valuable, rare, inimitable and organised resources and capabilities, shall seek for an external provider in order to overcome that weakness. Therefore the most prominent use of the theory is in the Preparation phase of the outsourcing process for defining the decision making framework and in the vendor selection phase for selecting an appropriate vendor. The theory has been also used to explain some of the key issues of the managing relationship and reconsideration phases.

2.1.2.2 Transaction Cost Theory

This theory postulates amongst other things, that organizations exist because of market inefficiencies. Because of inefficiencies in economic markets; it is more efficient to organize activities in organizations. The normal coordination role of the price mechanism is missing when the market is inefficient or non-existing. So, if there is no external market you can organize that specific market activity within the organization and save transaction costs. The transaction is the object of study. This is interesting of to think about outsourcing and the transactions that are involved when dealing with outsourcing. The cost elements of the transaction involve information costs, the costs of
the setting up the agreement as well as the costs as maintaining the contract (Coase, 1992).

2.1.2.3 Relational View
According to McIvor (2005) relational view develops and explains how firms gain and sustain competitive advantage within inter-organisational relationships. The concept of relational rents has been explored to explain how firms choose their future outsourcing partners and preferred type of the relationship. It has been also utilized in studying the transition, managing relationship and reconsideration phases. This makes the relational view to be the only theory that has been applied in the research of all the outsourcing process phases.

2.1.2.4 Concept of Core Competences
Prahalad and Hamel (1990) defined the core competencies as the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams technologies. The concept has been predominantly used to develop and test various outsourcing decision frameworks arguing that the core activities shall remain in house. Learning and communication premises of the concept made it also applicable in the managing relationship and reconsideration phases. Vendor’s competences are assumed to be one of the most important factors that influence success of an outsourcing arrangement (Levina and Ross, 2003; Feeney et al, 2005).

2.1.2.5 Agency Theory
Jensen and Meckling (1995) the focus of the agency theory originally was on the relationship between managers and stakeholders but had spread over the time on explaining the relationship between two inter-firm subjects. In that context we associate the agency theory to understanding the relationship between outsourcer and vendor. Sources of the agency problem, moral hazards and adverse selection (Arrow, 1985) are should be resolved by monitoring and bonding (Barney and Hesterly, 1996). Consequently, the application of the theory in the outsourcing process research was in the preparation phase, when screening for vendors and defining its own attitude towards
the type of the relationship. Naturally, the managing relationship phase has been also explored, and to a very small extent the reconsideration phase.

2.1.2.6 Summary and Framework of the Theories of Outsourcing
For successful outsourcing of revenue collection which led to improved organizational performance the following are essential;

i. Preparation – selection of appropriate vendor with resources that a firm lack (resource based view) and such firm must possess a core competence unique to its rivals which will guarantee the success of outsourcing arrangement (core competence theory.

ii. Appropriate management of outsourcing relationship – the already established relationship have to appropriate managed to ensure it led to success. Management of issues between the council and the private revenue collectors are governed by agency theory. But to reduce friction between the two close relationship is important and should be continuously monitored (relational view)

iii. Recosideration – after expiry of contract period to choose a firm for the next contract it is important to reconsider if the already existing firm (s) have been in good relationship or in friction. Again for the successful of next outsourcing arrangement the relational view is used to define the type of firm to conduct business with in harmony
Appropriate management

Of outsourcing relationship

(Relational view, agency theory)

Good preparation ; Resource based view and core competence theory

Successful outsourcing

Improved organizational performance

Reconsideration phase

Relational view

Figure:2.1 Framework of outsourcing theories and their application (source: Barney and Hesterly, 1996).

2.1.3 Key factors necessary for Outsourcing
2.1.3.1 Open Communication
Griffiths (2001) believes that whatever the outcome of the outsourcing arrangement, managing change is fundamental to the success of the programme. Assessing stakeholder requirements is the first part of this process, and having open channels of communication during this time are vital. Everyone concerned should be involved in the process.

2.1.3.2 Executive Support
Strategic objectives, such as outsourcing initiatives, must come from the top echelons of a company. Senior management must articulate the goals and objectives of the outsourcing initiative and communicate how the process will benefit the organisation. Today’s managers are looking ahead and recognizing that the responsibility for ensuring the success of their enterprise’s outsourcing initiatives does not stop when the ink has dried on the contract. Ongoing management of the relationship is important. Senior management must stay involved during the implementation of the contract. Not only should there be a clearly defined escalation procedure, but senior management should meet at appropriate intervals to discuss the outsourcing relationship. Meetings should also be held at the operational level to address the workings of the outsourcing contract in practice, to identify and resolve any problems that have been encountered, and to agree on changes to ensure continued satisfaction (Griffiths, 2001).

2.1.3.3 Competence
Bourassa (1988) says that organisations should focus on core activities and leave the non-core activities to outside providers who have the skills to do them better. The providers who have all the required competence, skills, and service providers should be of desired level to be able to meet the company requirement.
Farrington (2006) also shows how important competence is, it is the core activities of the company that tell or manifest the performance of the organisation. These activities need much more time so as to come out at their best and give the company competitive advantage over others. This can be achieved through outsourcing non-core activities and concentrate on its core competence.

2.1.4 Drivers of Outsourcing

2.1.4.1 Control Costs

This was the first and the primary reason why companies started looking at outsourcing as an option. Organizations that did everything on their own had to spend huge amount of money on running every function in an effective way. Outsourcing service providers, on the other hand, could offer the same value at lower costs due to economies of scale (Miller, 2006).

2.1.4.2 Optimum utilization of Resources

According to Miller (2006) if some of the processes are being managed by an external service provider; internal resources can be utilized in a better way for some other functions. This avoids unnecessary expenditure by reducing the need to invest too much time and capital in non-core activities. The company's assets and resources can thus be made available for more important activities.

2.1.4.3 Focus on core Competence and Innovation

If the non-core activities of an organization are outsourced, it becomes easier for the company to focus on its core competence. As the company becomes more focused on its vision and all the internal resources are dedicated to these core business objectives, the company can achieve greater breakthroughs with innovation.

2.1.4.4 Access to World Class Capabilities

According to Grote (2012) world class providers makes extensive investments in technology, methodologies, and people. They gain expertise by working with many clients facing similar challenges. This combination of specialization and expertise gives
customers a competitive advantage and helps them avoid the cost of chasing technology and training. In addition, there are better career opportunities for personnel who transition to the outsourcing provider.

2.1.4.5 Free Resources for other purposes
According to Grote (2012) every organization has limits on the resources available to it. Outsourcing permits an organization to redirect its resources, most often people resources, from non core activities toward activities which serve the customer. The organization can redirect these people or at least the staff slots they represent onto greater value adding activities. People whose energies are currently focused internally can now be focused externally - on the customer.

2.1.5 Issues of Global Outsourcing
According to Hunt and Morgan (1995) in practice, in order to compete with other companies, a company should do its best to obtain useful sources from different channels and to build its sustainable comparative advantages by different approaches. Such comparative advantages will help companies to maintain and increase their market shares and profits. Global outsourcing will help companies find new sources such as low labour cost, unique materials, and new market opportunities, as well as encourage companies to continuously change in order to improve their flexibility. From this point of view, global outsourcing will eventually improve organizational performance.

2.1.5.1 Types of Global Outsourcing
Global outsourcing mainly includes nearshore and offshore outsourcing. Nearshore outsourcing is a practice of getting work done or a service performed by people in neighboring countries. Many companies in the USA, for example, outsource work to Canada and Mexico. It can be strong solution for companies if they operate in a single geographic location or require niche services. However, nearshore outsourcing shows localizing tendencies, which do not meet the needs of fast development in technology
and business. Given global influences, interconnectedness and economic integration, the globalization is inevitable.

Offshore outsourcing is a practice of getting work done or a service performed by people in overseas countries. All companies are seeking to save cost by moving some functions to low labour cost regions for short term competition priorities. They also want to increase staffing flexibility and expand the global market share by hiring local staff and accessing regional markets for longer-term strategic goals, so that they can quickly respond to business opportunities. However, arguments on offshore strategy still exist. Loss of future talent, intellectual assets, and organizational performance is major concern (Pfannenstein and Tsai, 2004)

2.1.5.2 Global Outsourcing in different countries

Global outsourcing is increasingly perceived as a must have core competency across numerous industries. It is becoming a key competitive weapon that most business must master. The world is full of entrepreneurs and nations trying to get into the outsourcing game. The USA and some European countries, such as UK and Germany, are the main importers in global outsourcing market. Developing countries such as India, China and Russia, become the largest exporters in global outsourcing market (Kathalawa, Zhang and Shao, 2005).

India is the prime offshore location, gathering 90% of all offshore revenue. It has the biggest IT global outsourcing market. Over the past few years, seeking to cut costs, companies from the USA and other western countries have hired about 170,000 workers in India for jobs such as payroll accounting, telemarketing and customer support services. India’s IT related exports earned US$ 10.5 billion in 2002-2003, creating 75,000 new jobs. More than 450 Indian companies operate in Britain, which is the second largest trading partner after the USA. Indians have the best command of English and possibly the most established, broadly based, knowledge of mainframes among those outsourcing exporting countries. The country produces more than 300,000
computer-engineering graduates annually. The support of leading new technology is easily found.

China and Russia are slowly gaining larger shares of this market and become the fast growing market for outsourcing. Russia earned $150 million to $200 million annually. Russia has very strong computer science and math capabilities. Its once pervasive military has created a legacy of strong process and delivery methodology. Low cost and highly trained workers are its strengths. But English is not nearly as widely spoken as in India or the Philippines, making certain projects, like call centres impractical. In addition, there is a little problem of political stability and technology infrastructure (Trombly, 2003).

China is one of the largest outsourcing locations for manufacturing. Cost advantages make foreign manufacturing companies select China to outsource their business. Now, more and more companies select China for their IT outsourcing. China’s role is largely focused on providing back-office support for financial services, telecom, software and retail companies in neighbouring Asian countries such as Japan, South Korea and Hong Kong and Taiwan in their language. China also has plenty of Japanese and Korean speakers. However, language turns into barrier as an outsourcing base for English speaking nations (Einhorn and Kripalani, 2003).

2.1.5.3 Issues of Outsourcing in Africa

The increasing cost of living and labor shortages occurring in China and India have shifted supply in these sectors to other developing nations. Key among them are Egypt, Ghana, South Africa and a handful of other investor-friendly African nations boasting a large workforce and relatively stable political climate. (Admin, 2011).

However, Africa also benefits from increased proximity to key markets and convenient time zones. Situated in closer proximity to the European Union and the eastern US, the cost of shipping physical goods is often lower, and the time required to transfer data is
also shorter. Perhaps most importantly, the time difference between locations is shorter. This allows the outsourcing company to design a more convenient work schedule for its agents that doesn’t require them to work through the night in order to synchronize working hours with clients in the host country.

According to Business Day the local call-centre industry has grown by about 8% a year since 2003. It directly employs about 54 000 people and contributes 0.92% to South Africa's gross domestic product (GDP). A government-backed BPO support programme, launched in 2007, aims to enhance South Africa's competitiveness and includes a budgeted R1.1-billion in investment incentives. International companies that have already chosen South Africa as a BPO destination include IBM, Fujitsu Siemens, Lufthansa, Virgin, Sykes, Avis and the Car Phone Warehouse. Other investments include:

- In May 2008, oil multinational Royal Dutch Shell opened a call centre in Cape Town. The centre will service Shell's customers in Belgium, Luxembourg and the Netherlands, with native Afrikaans-speaking operators trained to converse in Dutch and Flemish.

At the moment only 8,000 Kenyans work in BPO. Local banks and insurance companies, which are in growing need of their own call centres, guarantee some growth. But the government is much more ambitious: it reckons it can create 120,000 BPO jobs by 2020. The first step, officials argue, is to encourage consolidation among the country's many small call centres, with less than 100 seats. The economies of scale of giant centres of 5,000-10,000 seats, it is hoped, will minimize the disadvantages of doing business in the country.
Ghana is best known for producing cocoa and gold, but today Affiliated Computer Services (ACS), a Texas company that runs the outsourcing operation, is the country's largest private employer. African "key punchers" earn $4 to $5 a day - four times the legal minimum wage - and receive health insurance, meals, and subsidized transport. A small number of African engineers and professionals earn much more, and receive periodic training in advanced technologies (Sun, 2009).

2.1.5.4 Challenges facing African continent Outsourcing

According to Chanyalew (2012) African governments should put in place the necessary legislation for the outsourcing sector to thrive, including laws that ensure the protection of data, which will make foreign companies feel more secure to outsource work to the continent.

Michael Macharia, CEO of Kenyan IT company Seven Seas Technologies, says that for the industry to take off, African organisations first need to start using outsourcing services themselves. “We in our own markets don’t consume BPO. We are expecting that international customers consume our services as the BPO industry. It has to start with our own market consuming BPO services,” he said during a session at the recent held in Addis Ababa (Maritz, 2012).

According to Juma (2010) “Local firms have not captured the big deals because they do not bid for them and due to low profile in the international market,” said Nicholas Nesbitt, the chief executive of Kencall, the largest call centre in the country. Major outsourcing contracts from multinationals, similarly, are unlikely to land in the hands of local companies, primarily because the clients are extending their business to firms they have worked with in other markets, analysts say.

African governments also must be willing to start small: expend a lot of effort to attract pilot projects in the hope of larger employment in the future. With sensible reforms, many barriers can be removed or at least eased. Start with the following:

1 Word economic forum
• Better Governance: African governments often boast when they simply stop the corrosive effects of corruption and irrational business regulation. But little attention is given to the high cost of telecommunications, unreliable electrical-power systems, and the poor transport infrastructure.

• Greater Competitiveness: African leaders have been slow to realize that they must woo foreign corporations with special services, training programs for workers, and even subsidized offices. Asian countries attract many jobs by creating "industrial parks," with more reliable services, including ultra-reliable communications networks, offered at competitive prices. By restructuring their secondary schools and universities to train graduates with skills demanded by multinational corporations, Asian countries also create more competitive workforces.

To be sure, Africa is a far better place to do business than five years ago. The spread of mobile telephony has revolutionized ordinary life in a continent with the world's lowest penetration of fixed-line telephones. Satellite links have vastly improved Internet access, and a new undersea cable that runs along the coast of Africa (SAT-3) promises to improve and reduce the cost of all types of communications.

The problem is that, although Africa's economic appeal is increasing; India and China are improving more quickly, widening the gap. African cities are increasingly finding their way onto the short lists of corporate location experts, only to lose out to Asian cities. Africans can start winning only if they move faster.

2.1.6 Benefits of Outsourcing Revenue collection
2.1.6.1 Revenue enhancement and predictability

The contract normally specifies the amount of money which the agent shall remit to the council in monthly basis. For Mpanda district council this facilitates more predictable

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2 www.nigeria-planet.com
budgeting and planning, provided that the agent complies with the contract (Fjeldstad, Katera and Ngalewa, 2009).

2.1.6.2 Cost effectiveness

Fjeldstad et al, (2009) private collection generally implies lower administrative costs for local government authorities, since the costs of collection are shifted onto private sector rather than utilizing government employees for the same purpose.

2.1.6.3 Specialisation

Lyson and Gillingham (2003) says, Outsourcing allows an organisation to concentrate on areas of business that derive competitive advantage and outsource non core activities to specialist with better skills and expertise.

2.1.6.4 Access to Innovation

There are opportunities to have access to capabilities of new method of collection of revenue which may prove to be more efficient than what could have been done with the council in which case it relies onto rules and regulation on its every day practice3.

2.1.7 Challenges of Outsourcing

2.1.7.1 Monitoring Private Agents

In the initial phase of outsourcing some agents did not comply with their contracts, either by not submitting the revenue collected, or by submitting less money to the Mpanda district council than stipulated in the contract. In some cases, MDC brought the defaulting agent to court. However, this proved to be a costly and time consuming exercise.

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3 www.pwc.com
2.1.7.2 Corruption
The potential profits connected with outsourcing contracts make them vulnerable to corrupt arrangements between members of the tendering board and private tax collector. The capacity of the local government revenue administration to accurately assess the actual local revenue base is essential to minimizing corruption (Richard, 2009).

2.1.7.3 Fear of losing is the problem many companies are concerned about
Outsourcing usually reduces a company’s control over how certain services are delivered, which in turn raise the company’s liability exposures. Keeping everything in-house is the single best way to monitor your quality and control the processes. Quality control affects branding, production, and customer service.

2.1.8 Concept of Tax Management, its Principles and Tendering process
James & Nobles (1992) defined tax as a compulsory levy made to public authorities for which nothing is received directly in return. Taxes are transfers of money to the public sector, but they exclude loan transactions and direct payments for publicly produced goods and services.

According to Local Government Fiscal Review Tanzania (2004), the Local government authorities collect roughly about 5% of all public revenues and are responsible for 20% of public spending. Local government authorities play a major role in the provision of vital public services and assuring the quality of life for all Tanzanian.

According to local Authorities Financial Memorandum of (1997), the local authorities have a wide range of responsibilities of the provision of essential services and good government for citizens for their localities. In order to carry out these responsibilities, they have to collect public fund through taxes, licences and fees. Sound financial management is crucial if local authorities are to convince the public funds that have been properly accounted for have been spent for the purpose for which they were
intended, and have achieved maximum benefit possible. However the complains from the taxpayer on the spending of their funds are the normal talks, there might be poor collection or there is mismanagement of revenue collected.

Mponguliana (2005) discusses that most taxation professional agree that some broad principles or criteria for evaluation tax system, basic law regulation. On the other hand they differ on the degree or weight of these criteria. This difference in most cases is on individual personal thinking and value judgement.

Smith (1776) pointed out principle of taxation. These are:-

(i) **Canon of Equity**

The principle aims at providing economic and social justice to the people. According to this principle, every person should pay to the government depending upon his ability to pay. The rich class people should pay higher taxes to the government, because without the protection of the government authorities (Police, Defence, etc.) they could not have earned and enjoyed their income. Adam Smith argued that the taxes should be proportional to income, that is, citizens should pay the taxes in proportion to the revenue which they respectively enjoy under the protection of the state.

(ii) **Canon of Certainty**

According to Smith, the tax which an individual has to pay should be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax is to be paid to the government. In other words, every tax should satisfy the canon of certainty. At the same time a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax.

(iii) **Canon of Convenience**
The mode and timing of tax payment should be as far as possible, convenient to the tax payers. For example, land revenue is collected at time of harvest income tax is deducted at source. Convenient tax system will encourage people to pay tax and will increase tax revenue.

(iv) Canon of Economy
This principle states that there should be economy in tax administration. The cost of tax collection should be lower than the amount of tax collected. It may not serve any purpose, if the taxes imposed are widespread but are difficult to administer. Therefore, it would make no sense to impose certain taxes, if it is difficult to administer.

2.1.8.1 Requirement of a Good Tax Structure
The tax structure is a part of economic organisation of a society and therefore fit in its overall economic environment. No tax system that does not satisfy these basic conditions can be termed a good one. However, the state should pursue mainly following principles in structuring its tax system:-

The primary aim of the tax should be to raise revenue for public services. People should be asked to pay taxes according to their ability to pay and assessment of their taxable capacity should be made primarily on the basis of income and property. Tax should not be discriminatory in any aspect between individuals and also between various groups.

2.1.8.2 The Tendering Process
Outsourcing of revenue collection is usually an open tender process based on guidelines provided by the local government reform programme (June, 2003) and the Public procurement Act No 21 of 2004. Before floating a tender, the council often conducts an assessment to determine the revenue potential and the tender bids are expected to be within the council’s revenue estimates. The applicant is also required to show a bank guarantee or an asset as security. This measure aims to ensure that the council’s
revenues are not lost if the contractor defaults. To further minimize the losses if the contractor defaults, Mpanda district council has installed a system whereby the contractor has to submit revenue to the council monthly.

The bidding process generally has six steps in accordance with the Public Procurement Act 2004.

i. Advertise in newspaper and public notice board.
ii. Applicants submit their application to the council through the tender box.
iii. When the deadline is over the applications are opened in public, with all applicants invited to attend the opening.
iv. The council evaluates the applications.
v. Selection of the winner by the council’s tender board.
vi. Advertise the winner and inform those who have lost the tender.

2.1.9 Performance indicators

Key performance indicators are financial and non-financial indicators that organizations use in order to estimate and fortify how successful they are, aiming previously established long lasting goals. Appropriate selection of indicators that will be used for measuring is of a greatest importance. Process organization of business is necessary to be constitute in order to realize such effective and efficient system or performance measuring via key performance indicators (KPI). KPI are financial and non-financial measures that organizations use to reveal how successful they were in accomplishing long lasting goals. In order to constitute effective system of performance measurement it is very important to have defined and standardized all processes within the organization (Dragana, Velimirovic’b & Stankovica’, 2011).

Process definitions are base on which the whole philosophy of organization functioning have been constituted. The process approach means that attention is shifted from end output (products and services) to the activity chain that shapes this output (Rentzhog, 1997). Importance of process orientation arise from the first half of XX century, where
Walter A. Shewharts stated that highly qualified product could be get only by process management.

Process orientation constitutions are very important. Traditional ways of business that imply functional and hierarchical conditions, where rapid changing of business conditions seeks flexibility. Traditional organizations are too rigid to those changes. Process approach enables organization to steer their business to main duty, which is to make values that will satisfy their customers. Advantage of process organizations are (Heleta, 1998):

i. Put customers claims at the first place,
ii. Constitute interfunctional management,
iii. Defined process owners,
iv. Activities are done logically,
v. Employees do just they need to do,
vi. Internal relation suppliers - customer are constituted.

Beside control function indicators of performances also have two next functions:

i. Developing and guiding function – because they present a base for formulating and implementation of the strategy of the organization,
ii. Motivation function – induce management to fulfill goals and motivate all stakeholders to realize those goals and on even higher level (Pesalj, 2006; Stamatović & Zakic, 2010).

In all organizations, an employee knows that there are activities that are very important for the management team. In sense of defining a control package of indicators that represent success of some business conception of Key performance indicators were appeared. Key performance indicators (KPI) are financial and non-financial indicators that organization uses to testify how successful they were in achievement of long lasting goals. Some of indicators of performance are as follows;

i. Gross Profit = (selling price – cost price)
ii. Annualized sales per sales person = (annualized unit sales/number of sales people)

iii. Stock turnover = (Annualized unit sales / units in stock)

iv. Operating profit = Operating Profit/Turnover (x100)

v. Return on Sales (%) = Net profit after interest/ Company Turnover (x100)

vi. Return on Investment = Profit/Capital employment

vii. Return on capital employed = Capital gain/Total asset utilized (Dragana et al, 2011).

2.1.10 Knowledge gap Analysis

The study on revenue collection in district council have been undertaken by various researchers, including Nsemwa (1998) in a study titled “the effectiveness in collecting revenue in local authorities” a case of produce cess in Newala district council found out that that many of the inefficiencies in collecting produce cess have been caused by the failure of district organ to perform their functions effectively. Mideko (2008) in a study “assessment the performance of outsourcing revenue sources in local authorities” a case study of Ilala munici pal found out that, the performance of outsourced revenue sources has not improved. The collection of revenue was dropped by an average of 1.25% and 17.25% after outsourcing of market dues and property tax respectively. Further more, the study revealed that tax payer unwillingness to pay tax, political influence, lack of qualified personell and corporation between the council officials and agencies are major problems facing the revenue collection process. Fjeldstaad, Katera and Ngalewa (2009) in study of “outsourcing revenue collection to private agents: experience from local authorities in Tanzania” found out that, for some councils, the outsourcing of collection has increased revenue and made the revenue flow more predictable.

However, other councils have experienced serious problem due to corruption, as well as exceptionally high profit margins for the private agents at the expense of accomplishing reasonable returns to the councils. It the aim of this study to research on effect of outsourcing revenue collection on organizational performance focusing on
understanding outsourcing, the benefits, challenges and how come up with solutions for already existing hinderances.

2.2 Empirical Literature Review

2.2.1 Outsourcing in District Councils

Mwanza City Council pioneered the outsourcing of revenue collection in Tanzania as early as 1996 in response to complaints from citizens about council’s revenue collectors, and that the money collected did not benefit the people. Moreover, councilors often intervened in the revenue collection process and also in the recruitment of revenue collectors. Corruption was also perceived to be a problem at collection points. Revenue collection is outsourced to a range of different types of agents within the council, for instance, the collection of fish market fees is outsourced to a fish dealers’ organization, and the collection of fees at the central market is contracted to a vegetable cooperative operating at the market. This outsourcing resulted in substantial increase in revenue from these two sources. In 1997 the council then decided to outsource revenue collection from other sources, however, poor assessment of the revenue potential and political interventions in the tendering process led to overambitious bids and the engagement of unqualified agents. Consequently the city council received less revenue from the private agents acting in some of the outsourced markets than the collections made by the council staff prior to outsourcing. Similar problems were encountered with the private collection of property tax from unsurveyed land. The outsourcing in Mwanza, as well as by other local government authorities has been a ‘learning-by-doing’ process, where initial problems have been addressed on trial and error approach. One third (33%) of Mwanza city council’s own revenue are collected by 16 private firms, individuals, and market associations. On average, 32% of the officially reported revenue collected are retained by the agent to cover costs and profits. This is a high margin, even when taking into account the collection costs. Moreover, it is likely that the official data understate the actual margins, since the revenue potential reflected in the contracts generally seem to be underestimated (Fjeldstad, Katera and Ngalewa, 2009).
2.2.2 Management of outsourced revenue collection contracts

The contract is an important illustration of what is agreed on between the Councils and the contractors in order to safeguard the Council’s estimates. The contracts are also an important tool for monitoring and inspecting revenue collection agents’ performance and for use of sanctions in case of violation of the contract conditions. All councils except Mwanza CC, Misungwi DC claimed that they did not find the importance of attaching sample of contract in a bid document. The Controller Auditor General report of 2010 highlight some of weakness on the outsourcing contracts in 14 councils which were audited as follows:

2.2.2.1 Contracts not always prepared by technical staff

The head of the Procurement Management Unit is required under PPR GN 97 of 2005 to prepare bid document which includes among others a sample of contracts that Councils will enter with a successful bidder. Legal officer as a technical staff is required to provide advice on prepared contracts with the assistance of the subject matter technical staff depending on the source to be outsourced. However, reviewed contracts revealed that the technical staff were not involved as expected.

2.2.2.2 Contracts do not always safeguard public interest

A review of the contracts entered with revenue collection agents revealed weaknesses as follows:

97 out of 98 contracts did not have clauses that require a proper accountability of the collected revenue. Thus, those Councils did not know how much was collected. Most of contracts, except one, have got provisions for fixed sum which is to be paid by the agency to the council instead of percentage collected. Most of the contracts do not have clauses for the application of law in case of conflict. This is a very important provision which has to be included in the contracts. Contracts used are not based on the standard document and provided by PPRA
2.2.2.3 Terms and conditions of the contracts not adequately implemented by both parties

Contract implementation requires both parties to observe terms and conditions of the contracts. Among the terms and conditions which legally bind the Councils and the revenue collection agents are such as:

i. The private revenue collectors have to, upon request, provide the Councils with monthly financial and operational reports in order to observe the trend of revenue collection.

ii. Councils must conduct ad hoc inspections and routine inspections to the revenue collection agents to know how they conduct their activities

iii. Councils must implement sanctions against defaults in the implementation of contract requirements. However, the audit revealed that terms and conditions of the contracts have not been adequately implemented by both parties. The revenue collection agents were not asked by the Councils to submit operational reports as required by the contract. Also, it was revealed that routine inspections were not conducted by the council as required by the contracts. The Councils only conduct ad hoc inspections in very limited bases and whenever the agents failed to remit the agreed amounts on time. Inspections are rarely conducted when the agents remit the fixed agreed amounts in time.

2.2.2.4 No specific person (team) appointed to supervise contract implementation

The Contract Manager has a significant role in the management of the private revenue collector’s performance. Similarly, the local authority financial memorandum of 1997 under Order 281 requires the Council Director to appoint a Contracts Officer to be specifically responsible for the management of each contract and the monitoring of contractors’ performance. However, among the 14 Councils visited, the audit found out that revenue accountant was responsible in the issues of outsourced revenue collection after the private revenue collector had been awarded the work. This has been a normal practice simply because the person designated as Revenue Accountant is automatically assigned all revenue issues. There is no specific team chosen by the Council Director to
closely supervise the agent’s performance as is required through Order No. 281 of the Local Authority Financial Memorandum of 1997 (CAG report, 2010).

2.2.3 Financial insufficiency of local government authorities
It is common to find that the own-source revenue-raising powers of LGAs are not sufficient to meet the costs of providing public services they have been assigned. The resulting gap is therefore filled by vertical equalization i.e. transferring resources from the central government or by increasing revenue-raising powers of LGAs. Intergovernmental transfer mechanisms are often the most suitable way to achieve vertical equalization. Horizontal equalization is also important, because there are generally wide differences in the ability of LGAs to mobilize resources independently. If only local government own-source revenues were available to finance assigned local services, there would be substantial inter-jurisdictional differences in the quantity and quality of public services based largely on differences in resource endowments. Intergovernmental transfers are therefore a powerful mechanism to help equalize these differences in LGAs fiscal capacity (Mugonya & Chikongoye, 2011).

2.2.4 Monitoring of Revenue collectors
The aspect of supervision and monitoring by the division officials was found to be highly lacking. As a result, the field officers in the private firms operate in all ways they want. At the same time, in case of under remitting, the division had no basis of argument due to the lack of sufficient facts about the coverage and amounts collected per period of time. It is therefore imperative that a special department be instituted at the division with the sole responsibility of monitoring the performance of the private firms and approves or disapproves whatever was reported basing on an informed point of view (Sekiziyivu, 2009).

2.2.5 Taxpayers attitude
There was also concern that the taxpayers in Makindye had a negative attitude towards the payment of taxes. According to the study findings, this negative attitude was
related to the poor quality of services provided by the division. There is, therefore, need for the division to provide services to the people. This will enable taxpayers to relate the taxes they pay to the services they receive. It will also motivate taxpayers to pay taxes where there is tangible evidence of tax usage (Sekiziyivu, 2009).

2.3 Conceptual framework of effect of outsourcing revenue collection on organizational performance

- Successful of outsourcing
- Improved organizational performance
- Improved service delivery to community
- Positive perception from taxpayers’ altitude
- Basis of effective and efficient financial administration
CHAPTER THREE

Figure 2.3 Conceptual framework of effect of outsourcing revenue collection on organizational performance

Source: (Muhula, 2013)
DESCRIPTION OF THE STUDY AREA AND RESEARCH  METHODOLOGY

3.1 Study areas
Mpanda district council comprise six division namely Mpimbwe, Mwese, Mishamo, Inyonga, Karema and Kabungu. The study aim at assessing impact of using agent in revenue collection specifically in produce cess. Hence since Mpimbwe and Inyonga are the most productive area in case of food crop while other wards cultivate tobacco of which its cess is not collected by using agents. The selected areas for this study were Mpimwe and Inyonga division. The selection of Mpanda District Council as case study was based on the fact that, a researcher familiarity of the area of study, knowledge of revenue collection mechanism, cost and time since the researcher is an employee of MDC in accounts department.

Mpimbwe and Inyonga division were selected because they are more productive in food crops than other divisions. Productivity is directly related to revenue collection and that is reason of selecting the two divisions.

3.2 Research design
The study used a case study research design. A case study design is a design that uses specific subjects with common characteristics enough to represent the rest other than studying the entire population (Patton, 2001). Issues related to revenue collection apply to a wider scope that could not be effectively studied in the limited time range making the case study design the best option. The design was used because it enabled the researcher to dwell on the information from MDC for deductions and generalisations over revenue collection in Tanzania wider than the studied scope.

At the same time, it helped to save time because MDC worked as a case study that was used to understand the effect of outsourcing revenue collection on organizational performance.

3.3 Unit of inquiry
For the purpose of achieving the general objective of the study, Mpanda district council officials, agents of revenue collection and other people within MDC jurisdiction are the unit of analysis from which the sample of respondents was be selected. The selection of the following units of inquiry was subjective to their knowledge of council’s revenues collection activities. The units of investigation consist of the following :-

i. District Treasury (DT)

ii. District Legal Officer (DLO)

iii. District planning officer (DPLO)

iv. District agriculture and livestock development officer (DALDO)

v. Procurement Officer (PO)

vi. Revenue Accountant (RA)

vii. Revenue Collectors

viii. Ward executive officers (WEO)

ix. Agricultural extension officers

x. Other staff

The above groups are the participants who get involved in planning, implementation, monitoring and controlling the whole process of revenue collection. Furthermore they supervise revenue collection and estimate council’s expenditure despite the fact that the agents are the ones who manage and implement the daily procedure of revenue collection in the council.

3.4 Sample size

A sample size of sixty (60) respondents was used for this study. This sample size covered fourteen (14) key respondents and forty six (46) other respondents with ample knowledge on revenue issues in MDC. This sample size was representative since respondents involved in both planning and implementation of outsourcing of revenue collection were considered.
### 3.4.1 Sampling frame

A sample frame is a list of all individuals/respondents selected from a general population as representatives, from them data was collected about the research and the findings was considered as such of the general population (Kothari, 2004). Table below illustrate the categories and targeted number of respondents.

#### Table 1: Categories of respondents

<table>
<thead>
<tr>
<th>Categories of respondents</th>
<th>Number targeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Treasurer</td>
<td>1</td>
</tr>
<tr>
<td>District legal officer</td>
<td>1</td>
</tr>
<tr>
<td>District Planning officer</td>
<td>1</td>
</tr>
<tr>
<td>District agriculture and livestock development officer</td>
<td>1</td>
</tr>
<tr>
<td>Procurement Officer</td>
<td>1</td>
</tr>
<tr>
<td>Revenue Accountant</td>
<td>1</td>
</tr>
<tr>
<td>Revenue collectors and their assistants</td>
<td>4</td>
</tr>
<tr>
<td>Ward executive officer</td>
<td>2</td>
</tr>
<tr>
<td>Agricultural extension officer</td>
<td>2</td>
</tr>
<tr>
<td>Other staffs</td>
<td>46</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>

### 3.4.2 Sampling Techniques

Mashidethi (2012) suggest a minimum sample size between 60 - 100 for yielding a reasonable result. The size of sample should neither be excessively large, nor too small. It should be optimum. An optimum sample size is one which fulfills the requirements of efficiency, representative, reliability and flexibity. Cost too dictate the size of sample to be drawn (Kothari, 2004). In this study the sample size used was 60 basing on the type of research, representativeness, cost and time.

Consequently, for the reason of having a wide range of the relevant issues at stake the sample was taken from an area under jurisdiction of Mpanda district council. For the purpose of ensuring the chosen sample is truly a representive of the target population,
this study utilized various types of sampling measures depending on the group to be interviewed.

(i) **Purposeful Sampling Methods:**
The researcher used this type of sample design in selection of council officials basing on position, familiarity and knowledge of the respondents. This is due to fact that not all council’s officials are involved in revenue collection exercise. For instance council officials who were directly involved in outsourcing of revenue collection were as follows; district treasurers (DT), district planning officer (DPLO), revenue accountant (RA), district legal officer (DLO), district agriculture and livestock development officer (DALDO). Furthermore because of record and performance of revenue collection in Mpanda district council for the past two years the researcher decided purposely to choose two division which perform best among the five division. These two divisions are Mpimbwe and Inyonga. This technique was used because it helped the researcher to select only those respondents with ample knowledge of the research so as to access required information.

(ii) **Simple Random Sampling**
Simple random sampling was used to select one ward from each division which are known to be best in revenue collection. For example in the case of Mpimbwe division there are seven wards which are; Usevya, Ikuba, Mbede, Kasansa, Majimoto, Mwamapuli and Kibaoni. Equal sized piece of paper was cut, on it the names of the seven wards was written, the pieces will be placed in a hut mixed vigorously then a fellow member of staff took one piece of paper from the hut. The name on the chosen piece of paper represented a sample (ward) selected for study in Mpimbwe division, similar procedure was used in the case of Inyonga division. This sampling technique was used because it helped in avoiding biases based on convenience and prior experience.

3.5 **Types of data**
There are two types of data which are; primary data and secondary data. Primary data are those which are collected for the first time for a specific purpose or research while secondary data are those which already exist though it may have been there for different objectives but still it can be used for various purposes. In this research primary data were collected using questionnaire and interview. Secondary data was collected from documentary records.

3.6 Data collection methods

3.6.1 Questionnaire
Self-administered questionnaire having both closed and open-ended questions was used in this study for collecting data from respondents.

3.6.2 Interview
The interview method which was be used for areas where questionnaire did not meet the positive response from respondent and in areas of illiterate respondent.

3.6.3 Documentary Records
The documentary sources of information that was used to obtain information include: Audited financial report, council strategic plan, minutes from council meeting, Tender documents.

3.7 Data Analysis
Kothari (2009) refers to the computation of certain measures along with searching for patterns of relationship among data group. In the process of analyzing relationship, difference, supporting or conflicting with the research objectives, collected data was edited, corrected, coded and analysed by using the descriptive statistics in the software of SPSS. Descriptive analysis or unidementional analysis which is the study of distribution of one variable was used in this study.

3.8 Measurement of Performance
The unit of measure of organizational performance was amount of revenue collected for a given year, for instance revenue collection for the past two years. Then, comparison of revenue collection before and after outsourcing was used determine at what occasion did the organization performed better financially.
CHAPTER FOUR
DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction
In this chapter, data from the research are presented, analyzed and discussed starting; with general profile of respondents followed by frequency of research questions under different objectives. Frequencies and percentages were computed using SPSS software.

4.2 General profile of respondents
A total number of 60 respondents were engaged in this study. Data from 60 respondents who are council officials were collected through questionnaires and interview. Under this section the researcher intends to present; firstly respondents’ work experience. Employees with long work experience provided an insight of current outsourcing relationship in comparison with previous experience when council officials were engaged fully in revenue collection exercise. While those with short work experience have only experienced the current existing outsourcing relationship and they can easily provide their opinions on way forward to maximize benefits of outsourcing relationship without biased opinion of the past experience. Secondly, we present respondents level of education; knowledge of the education level help the researcher to select a language for communication or re-phrase a question to a level of respondent’s ability to understand. Lastly, we present the respondents’ department; the researcher targeted MDC employees from different departments. Each department took part in outsourcing either directly or indirectly. Some departments are involved in preparation phase, others in implementation phase. For better understanding of effect of outsourcing on organizational performance the researcher involved employees from different departments.

4.2.1 Respondents’ Work experience
The findings in table 4.1 present Mpanda district council’s employees with work experience between 0 and 5 who are 31 (51.7%) respondents, followed by respondents with working period of 11-15 years who are 15 (25%) and lastly the respondents who have worked for 6-10 years are 14 (23.3%).

**Table 4.1: Respondents’ Work experience**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5</td>
<td>31</td>
</tr>
<tr>
<td>11-15</td>
<td>15</td>
</tr>
<tr>
<td>6-10</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
</tbody>
</table>


### 4.2.2 Respondent’s level of Education

Respondents involved under this study were identified and classified as shown under Table 4.2. Respondents who are degree holders were 33 (55%). Twenty three (38.3%) respondents were diploma holders and 4 (6.7%) respondents were secondary education level.

**Table 4.2: Respondents’ level of education**

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>University</td>
<td>33</td>
</tr>
<tr>
<td>College</td>
<td>23</td>
</tr>
<tr>
<td>Secondary</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
</tbody>
</table>


### 4.2.3 Respondent’s Departments

Respondents were from different departments the finance department recorded were 24 (40%) employees, administration were 11(18.3%) employees, health were 10 (16.7%) employees, planning were 5 (8.3%) employees, procurement were 3(5%) employees, legal were 2 (3.3%) and education was 1 (5%) employee.
Table 4.3: Respondent’s departments

<table>
<thead>
<tr>
<th>Department</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance</td>
<td>24</td>
<td>40.0</td>
</tr>
<tr>
<td>Administration</td>
<td>11</td>
<td>18.3</td>
</tr>
<tr>
<td>Health</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Planning</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Procurement</td>
<td>3</td>
<td>5.0</td>
</tr>
<tr>
<td>Legal</td>
<td>2</td>
<td>3.3</td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
<td>5.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Muhula, 2013

4.3 Employee’s Awareness on existence of Outsourcing of Revenue Collection

Griffiths (2001) define outsourcing as the strategic use of outside resources to perform activities traditionally handled by internal staff and resources. Findings in table 4.4 reveal that 54 (90%) employees were aware of the existence of outsourcing of revenue collection and 6 (10%) employees were not aware of the existence of outsourcing of revenue collection.

Table 4.4: Employees awareness on existence of Outsourcing of Revenue Collection

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>54</td>
<td>90</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


4.3.1 Revenue Collection is Non-core activity

MDC have several operation which it carries out regularly, some operations/activity are core/fundamental and others supportive. The researcher was interested in finding
whether revenue collection is core or non-core activity for MDC. The findings reveal that 38 (63.3%) respondents recorded yes that revenue collection is non-core activity and 22 (36.7%) respondents said no. MDC core purpose is to provide service to the community under its area of jurisdiction. According to Bourassa (1988) organizations should focus on core activities and leave the non-core activities to outside providers who have the skills to do them better. MDC should concentrate in service delivery to the community and outsource non-core activity one being revenue collection to the external service provider. Organizations that did everything on their own had to spend huge amount of money on running every function in an effective way. Outsourcing service providers, on the other hand, could offer the same value at lower costs due to economies of scale (Miller, 2011).

| Table 4.5: Revenue collection is non-core |
|-------------------------------|-----------------|------------------|
|                               | Frequency | Percent |
| Yes                            | 38        | 63.3   |
| No                             | 22        | 36.7   |
| Total                          | 60        | 100    |


**4.3.2 Sources of Revenue which are Outsourced to Private Collectors**

Several sources of revenue exists in MDC among them are outsourced to private collectors. The researcher was interested to know revenue sources which are outsourced. When asked respondents said agricultural products is one among sources of revenue which is outsourced to private collectors. They also said fishing products is also a source of revenue which is privatized. Other revenue sources that are privatized are; hotel levy, livestock auction and market levy.

Revenue sources which are not outsourced to private revenue collectors are as follows; forest products, tobacco cess, harvesting licence, house rent and land rent.
Reasons of why those revenue sources are not outsourced are categorized for each revenue source as follows:

Revenue (fines and licence) from forest products are collected by district forest officer then submitted to revenue accountant for receipt and banking. Forest products are prohibited from being harvested by government environmental act, outsourcing such revenue source will be contrary to government rules and regulation and may lead to depletion of natural resources.

Tobacco cess is paid directly to MDC by tobacco company. District cooperative officer gather data from all primary societies of tobacco growers on the amount and value of tobacco purchased by tobacco company for a season. Then DCO prepare and issue an invoice to the tobacco company for making payment of five percent of total value in MDC own source collection account. This revenue source is not outsourced because tobacco company deal with farmers directly no intermediary person involved.

House rents are deducted directly from employees salary each month for all employees living in MDC quarters. This revenue source is not outsourced because it convenient and less cost to deduct monthly house rent from employees salary than delegating a task to external vendor.

Land rents are also paid directly by land owners to MDC land department for once a year. This source is not outsourced because it convenient and less cost to let the land owner to pay by themselves or otherwise after three consecutive years without payments that land will be forfeited from the former to the latter willing to pay in time.

4.4 Process of Outsourcing
The council through revenue accountant prepare revenue estimate for each source. Based on the previous year(s) revenue collections, adjustment are made by adding a percentage to previous actual collection, then the estimates for each revenue source for each division are presented in council finance committee for discussion and approval.
The council finance committees comprises of both heads of departments and councilors they may approve estimates from revenue accountant or disapprove. They have final judgment on matter. The approved estimates are sent to head of procurement unit for floatation of tender.

Outsourcing of revenue collection is usually an open tender process based on guidelines provided by the local government reform programme (June, 2003) and the Public procurement Act No 21 of 2004. The applicant is also required to show a bank guarantee or an asset as security. This measure aims to ensure that the council’s revenues are not lost if the contractor defaults. To further minimize the losses if the contractor defaults, Mpanda district council has installed a system whereby the contractor has to submit revenue to the council on monthly bases.

The bidding process generally has six steps in accordance with the Public Procurement Act 2004.

i. Advertise in newspaper and public notice board.

ii. Applicants submit their application to the council through the tender box.

iii. When the deadline is over the applications are opened in public, with all applicants invited to attend the opening.

iv. The council evaluates the applications.

v. Selection of the winner by the council’s tender board.

vi. Advertise the winner and inform those who have lost the tender.

**4.4.1 Process of Estimating/Calculating Amount to be remitted by Private Collector**

For truly understanding outsourcing, the researcher was interested in finding out what if the process of estimation revenue to be collected by revenue collectors benefits the two parties involved or it benefits only one part of a contract. The process is fair when the two parties of the contract receive benefits they rightful deserve nothing less or more. The findings in table 4.6 show that respondents who agreed the process of estimation
of revenue to be remitted by private collectors reflect fairness were 43 (71.7%) respondents and 17 (28.3%) respondents said no. Those who said that the process of estimation is not fair for MDC has following reasons; one is the base used in estimation which is previous year collections is not reliable. Each year collections depends a lot on favourable weather conditions especially in case of agricultural products which has a major contribution in revenue collection among privatized revenue sources. If previous year weather conditions was unfavourable, then even revenue collected would have been less compared to year(s) with good weather condition. Basing on such collections revenue estimation may lead to underestimation especially when a current year has the favourable and potential increment of crops to be harvested. The underestimation will affect MDC financial strength and will benefit revenue collectors. The second reason is political interference; councilors may hesitate to approve the estimated amount to be collected when comprises new higher tax rate, fearing that if her/his people are taxed more than previous year she/he may lose popularity for not defending them from such tax rates.

Table 4.6: Process of estimation of revenue to be collected by Private collector

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>43</td>
<td>71.7</td>
</tr>
<tr>
<td>No</td>
<td>17</td>
<td>28.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
</tr>
</tbody>
</table>


4.5 Benefits of Outsourcing Revenue Collection

The researcher was interested in knowing whether there are benefits of outsourcing of revenue collection or no benefits. The findings shows that respondents who argeed that there are benefits of outsourcing of revenue collection were 56 (93.3%) and 4 (6.7%) respondents said that there are no benefits of outsourcing revenue collection. We asked respondents to identify the benefits for outsourcing. The table 4.7 below display the benefits as follows; Twenty one (35%) respondents out of 56 said that outsourcing contributes to reduction of cost of collection or operating cost comparing if revenue
were to be collected by MDC finance department staffs. Seventeen (28.3%) respondents said that outsourcing yield to increase of revenue. Six (10%) respondents said that outsourcing contributes to improving standard of living of employees and the community surrounding it. Five (8.3%) respondents recorded receipt of revenue in time as among the benefit of outsourcing of revenue collection. Four (6.7%) respondents said that outsourcing led to effective collection of revenue and three (5%) respondents said that outsourcing contributes to MDC concentrating in other activities by letting revenue collection to be done by private collectors.

The four respondents who said there are no benefits of outsourcing of revenue collection stated their reasons as follows firstly, lack of realistic and updated information on revenue bases led the council officials in underestimation of the amount of revenue to be remitted by revenue collectors. This results in revenue collectors retaining substantial amount of revenue and MDC only receiving its portion. Secondly revenue collectors collectors are business oriented, it is unlikely in occasion when they collect additional revenue more than a contractual amount they submit such revenue to MDC. But back at the time when ward executive officers collected revenue, a honest one would have submitted all the revenue collected even when it is above the targeted amount. Such action can only be done by employee but not a businessman.

Table 4.7: Benefits of outsourcing of revenue collection

<table>
<thead>
<tr>
<th>Benefit of outsourcing of revenue collection</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce cost of collection/operation</td>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>Increase of revenue</td>
<td>17</td>
<td>28.3</td>
</tr>
<tr>
<td>Improve standard of living</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Receipt of revenue in time</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Revenue are collected effectively</td>
<td>4</td>
<td>6.7</td>
</tr>
<tr>
<td>MDC concentrate in other activities</td>
<td>3</td>
<td>5.0</td>
</tr>
<tr>
<td>Missing</td>
<td>4</td>
<td>6.7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

4.5.1 Trend of revenue collection

The focus of the researcher was to find out the trend of revenue for the past two years 2011-2012 from the outsourced revenue sources. The findings in table 4.8 reveal that revenue collected before outsourcing are much less than revenue collected after outsourcing. Also during outsourcing revenue has been increasing progressively year after year. It is clear that, trend of revenue collection has increased after outsourcing and it may continue to increase if challenges are minimized. Hence MDC was found performing better financially after outsourcing of revenue collection to private collectors.

Table 4.8: Trend of revenue collection for the past two years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Crop cess</td>
<td>60,000,000.00</td>
<td>293,284,221.60</td>
<td>473,306,228.73</td>
</tr>
<tr>
<td>2.</td>
<td>Fishing product</td>
<td>967,350.00</td>
<td>7,411,090.91</td>
<td>9,120,000.00</td>
</tr>
<tr>
<td>3.</td>
<td>Livestock auction</td>
<td>8,230,500.00</td>
<td>25,391,980.70</td>
<td>41,717,624.73</td>
</tr>
<tr>
<td>4.</td>
<td>Market auction</td>
<td>4,500,000.00</td>
<td>8,581,090.91</td>
<td>14,419,000.00</td>
</tr>
<tr>
<td>5.</td>
<td>*Hotel levy</td>
<td>-</td>
<td>-</td>
<td>950,000.00</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>73,697,850.00</td>
<td>334,668,384.12</td>
<td>539,512,853.46</td>
</tr>
</tbody>
</table>


4.6 Challenges of Outsourcing

The findings in table 4.9 shows that 58 (96.7%) respondents agreed that there are challenges of outsourcing and only 2 (3.3%) respondents said that there are no challenges of outsourcing. Twenty one (35%) respondents said that some revenue
collectors delays in submission of revenue as one challenge of outsourcing because it increases the cost of following up revenue collectors. Thirteen (21.7%) respondents said that unpredictable weather changes as another challenge since it lead to fluctuation of harvested crops. Nine (15%) respondents said that another challenge of outsourcing is difficult in estimation amount to be remitted by revenue collector since there is no realistic updated information on potential rise of fall in different revenue sources. Six (10%) respondents mentioned another challenge being some of revenue collectors are not well financially. They lack working capital to run their operations and payment of monthly installments, until the harvesting period when cash inflow increase from crop cess. Five (8.3%) respondents said that non-compliance with terms and condition of the contract is also a challenge because it consumes resources and time when a legal process have to be followed in enforcing contractual obligations between two parties. and 4 (6.7%) respondents said that also cost of following up dishonest revenue collectors is a challenge since it involve both time and resources which could have used elsewhere if the revenue collector have been faithful.

<table>
<thead>
<tr>
<th>Challenges of outsourcing revenue collection.</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Some revenue collectors delay in submission of revenue</td>
<td>21</td>
<td>35</td>
</tr>
<tr>
<td>Unpredictable weather changes</td>
<td>13</td>
<td>21.7</td>
</tr>
<tr>
<td>Difficult in estimation amount to be submitted by revenue collector</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Some collectors are not well financially</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Non-compliance with term and condition of the contract</td>
<td>5</td>
<td>8.3</td>
</tr>
<tr>
<td>Cost of following dishonest collectors</td>
<td>4</td>
<td>6.7</td>
</tr>
<tr>
<td>Missing</td>
<td>2</td>
<td>3.4</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100.0</td>
</tr>
</tbody>
</table>


4.6.1 Challenges faced by Revenue Collectors during Revenue Collection

This study aimed at assessing the effect of outsourcing on organizational performance, focusing on how the relationship between the revenue collectors and council officials
can be appropriately managed for sustained good organizational performance financially and administratively. The challenges of outsourcing as in table 4.9 were responses from council official, but the finding in table 4.10 is the response from two revenue collectors and their 2 assistants. They said that council officials are only interested in revenue collection; they do not listen to them when facing problem in meeting target/ submitting monthly collection. Also, they also said that unpredictable rise and fall in harvest year after year is also among the challenge facing them and lack of periodic site visit from council officials. The site visit might motivate taxpayers’ , and it will lessen their worries after knowing the tax imposed to them will be submitted to Mpanda district council and not ending in revenue collectors pockets.

### Table 4.10: Challenges faced by revenue collectors during revenue collection.

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council officials are only interested in collections</td>
<td>2</td>
<td>50</td>
</tr>
<tr>
<td>Unpredictable rise and fall in harvest</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>No periodic site visit from council officials</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>


Based on findings in table 4.10 the researcher went further investigating on what can be done to make revenue collection more effective. They said that contract should be fair for both parties; terms and condition stipulated in the contract must give equal right to both MDC and revenue collectors. They also said education to taxpayers is important to minimize negative perception about revenue collectors; council officials have to create awareness on revenue collection and its important to the community development. open communication channel between council top management and revenue collectors will reduce misunderstandings; the top management should not shut its door after signing the contract with revenue collectors but for effective performance on outsourcing, ongoing management of the relationship is important. Top management must stay involved during the implementation of the contract and regular meeting have
to be conducted between revenue collectors and management for clarifying and resolve misunderstandings.

Table 4.11: What can be done to make revenue collection more effective

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract should be fair for both parties</td>
<td>2</td>
<td>50.0</td>
</tr>
<tr>
<td>Educating taxpayers to minimize negative perception about revenue collectors</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Open communication channel between revenue collectors and council top management</td>
<td>1</td>
<td>25.0</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>100.0</td>
</tr>
</tbody>
</table>


4.7 Outsourcing has led to overall effective overall Performance

The researcher was interested to know whether outsourcing of revenue collection has led to effective overall performance in MDC or not. The response from respondents was as follows; 50 (83.3%) respondents agreed that outsourcing of revenue collection has led to effective overall performance and 10 (16.7%) respondents said no outsourcing has not led to effective overall performance. Ten (16.7%) respondents stated their reasons of saying no. Firstly MDC council officials underestimates the amount of revenue to be collected which is stipulated under the contract. Secondly poor communication between council official at headquarter and those in rural areas example ward executive officers, village executive officer. Thirdly the revenue collectors are left by themselves to do as wish because there is constant monitoring from council officials.

Fifty (83.3%) respondents who agreed outsourcing has led to effective overall performance in MDC, they identified their reasons as follows; 20 (33.3%) respondents said that outsourcing contributes to increased revenue collection. 15 (16.7%) said that
outsourcing has lead to reduction in operation cost because the private collectors have skills to better at lower cost than if MDC decide to use its resources in collection of revenue. Ten (16.7%) respondents said that outsourcing contributes to timely collection of revenue that is in monthly bases. Three (5%) respondents said that outsourcing yield to revenue collection as per estimate; this increase revenue predictability for MDC and enhances implementation of different programmes in time and 3 (5%) respondents said that outsourcing contributes to improving standard of living through improving of social welfare of the community.

**Table 4.11: Reason why outsourcing has led to effective overall performance**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased collection</td>
<td>20</td>
<td>33.3</td>
</tr>
<tr>
<td>Reduction in operation cost</td>
<td>15</td>
<td>16.7</td>
</tr>
<tr>
<td>Timely collection</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Collection as per estimate</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Improve standard of living</td>
<td>2</td>
<td>3.4</td>
</tr>
<tr>
<td>Missing</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


Therefore 50 respondents out of 60 recorded yes that outsourcing of revenue collection has led to effective overall performance in MDC through increased revenue collection, reduced cost of operation, timely collection, collection as per budget estimates and improving standard of living for employees and community surrounding it. This is consistent with the trend of revenue collection in table 4:8. The results show that before outsourcing in 2002/03 MDC collected 4,500,000/=; after outsourcing 8.5millions was collected in 2010/11 and 14.4millions was collected a year after. The findings imply that outsourcing of revenue collection has led to effective overall performance bearing in mind that the performance is reflected when an organization implements its plan in specified time and such ability is facilitated by various factors, among being availability of resources both financial and human. Human resources are employees in an organization and the increased revenue collection through outsourcing as the findings
above has revealed enhances the organization’s capability in performing its short-term and long-term obligations.

4.7.1 MDC performance after Outsourcing

The researcher conducted an interview of a total 10 respondents and categorized them in two groups, first group was made up by 6 respondents who are council officials and representatives working near revenue collection point. The second group of 4 respondents comprised of revenue collectors and their assistance who actively engaged in revenue collection. 3 (50%) respondents from the first group said that MDC performance after outsourcing was good; outsourcing of revenue collection contributes to increased revenue and an assurance that collections will be collected and submitted in time improves MDC capability in implementing its goals. 2 (33.3) respondents said that who said the performance was average and 1 (16.7%) respondents said that the performance was best. The findings shows the performance is good with outsourced revenue collection.

<table>
<thead>
<tr>
<th>Table 4.12: MDC performance with outsourced revenue collection</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td>Good</td>
</tr>
<tr>
<td>Average</td>
</tr>
<tr>
<td>Best</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Muhula, 2013

The researcher asked the respondents what can be done to achieve the best performance. The findings in table 4.13 reveals that 3 (50%) said that to achieve best performance in outsourcing MDC should increase supervision bonus for those who fulfils the target in time; this will motivate them to work hard in their supervision role. 2 (33.3%) respondents said that to achieve the best performance MDC should conduct research frequently on revenue sources; research will provide reliable and updated information on revenue sources to be used during estimation of the amount to be
submitted by revenue collectors and 1 (16.7%) respondent followed said that to achieve the best performance in outsourcing council officials should collect information from ward executive officers and agricultural extension officers about expected harvest instead of estimating basing on previous years collections.

Table 4.13: What can be done to achieve the best performance

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase supervision bonus for those who fulfill target in time</td>
<td>3</td>
<td>50.0</td>
</tr>
<tr>
<td>Conducting research frequently on revenue sources</td>
<td>2</td>
<td>33.3</td>
</tr>
<tr>
<td>Council management should collect information from WEOs and AEOs</td>
<td>1</td>
<td>16.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


4.8 Chapter Summary

Fifty four (90%) employees were aware of the existence of outsourcing in revenue collection and only 6 (10%) employees were not aware. It is clear that the issue of outsourcing is well known among MDC employees from different departments. Revenue sources which are outsourced to private revenue collectors are as follows: agricultural products, fishing products, livestock auction, hotel levy and market levy. Sources of revenue collection which are not outsourced to revenue collectors are as follows; forest product, harvesting license, tobacco cess and all others revenue sources which are not outsourced. Reasons of why those are not outsourced was because either they are collected by central government or avoiding conflicting of law example forest product like charcoal are prohibited, so outsourcing such revenue sources is conflicting with national rules and regulations. Another reason was convenience in collection of such revenue example house rent are deducted directly from employees salaries, land rent are paid by land owners directly to land officials, tobacco cess data are computed by district cooperative officer with help of tobacco growers primary cooperative society. The findings in table 4.5 revealed that 38 (63.3%) respondents agreed that
revenue collection is non-core function for MDC. According to Farrington (2006), for a company or organization to attain competitive advantage over others it should outsource non-core function and spent much time on its core activities. For MDC core activities is provision of services to the public. Moreover 43 (71.7%) respondents out of agreed that the process of estimating/calculating amount to be submitted by private collectors reflect fairness to MDC and 17 (28.3%) recorded no. Basing on the majority the process is fair, giving each part of the contract equal consideration; several measures have been in place to minimize risk in case the revenue collector defaults, such measures were;

- The applicant was required to show a bank guarantee or asset as security,
- The contractors have to submit revenue to the council monthly.

This stage is preparation phase of establishing outsourcing relationship, according to resource based view, it is vital due care and diligence to be taken to ensure the process produces a vendor with valuable, rare, inimitable and organized resources and capability that MDC lacks (Barney and Hesterly, 1996).

Fifty six (93.%) respondents agreed they are benefits of outsourcing revenue collection Twenty one (35%) respondents said outsourcing contributes to reduction in cost of operation. This is also supported by Fjeldstaad, Katera and Ngalewa (2009), private revenue collectors generally implies lower administrative costs for MDC, since the costs of collection are shifted onto private sector rather than utilizing government employees for the same purpose. Seventeen (28.3%) respondents said outsourcing yield to increase of revenue 58 (96.7%) respondents agreed there are challenges of outsourcing only 2 (3.3%) respondent did not agree that there are challenges of outsourcing. It then obvious that challenges of outsourcing are known and do exist. 21 (35%) respondents mentioned some of revenue collectors delays submitting monthly collection and 13 (21.7%) respondents said that unpredictable weather challenges is also a challenge of outsourcing. Four revenue collectors when interviewed on what challenges facing them during revenue collection, they said that council officials are
only interested in revenue collection; they do not listen to them when facing problem in meeting target/ submitting monthly collection. Their suggestion is contract designed should fair for both parties’ involved and council officials should educate taxpayer and visit revenue collection site to motivate and see the real work being done instead of sitting in office and wait for monthly collection.

Fifty (83.3%) respondents agreed that outsourcing has led to effective overall performance through increased revenue collection 20 (33.3%) respondents, reduction operation cost 15 (16.7%) respondents. Basing on majority outsourcing has led to increased revenue collection in MDC. Furthermore the trend of revenue collection shows that before outsourcing in 2002/03 MDC collected 4,500,000/= after outsourcing 8.5millions was collected in 2010/11 and 14.4millions was collected a year after. The findings implies outsourcing of revenue collection has led to effective overall performance.
CHAPTER FIVE:
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
In this chapter the summary of findings are presented and recommendations basing on findings are given. The main purpose of this study was to assess the effect of outsourcing revenue collection on organizational performance, The specific objectives are identifying sources of revenue which are being outsourced, assessing how is the whole process of outsourcing being carried out, assessing benefits of outsourcing of district revenue collection, assessing challenges accompanied by outsourcing of revenue collection and assessing the effect of outsourcing on organizational performance. The researcher used purposeful sampling and simple random sampling in selecting 60 respondents from Mpanda district council. The methods of data collection are interview, questionnaire, and documentary records.

Organizations in different countries across the globe seek to attain competence in what they produce or serve at a possible minimum cost in order to enjoy profit and satisfying customers’ needs. Organizations that did everything on their own had to spent huge amount of money on running every function on effective way. Outsourcing service providers, on the other hand, could offer the same value at lower costs due to economies of scale (Miller, 2011).

Outsourcing of revenue collection was enhanced by the guidelines on outsourcing local government services issued in 2001 by the President’s office – regional administration
and local government. Its implementation was in 2003/2004 in local authorities across Tanzania. The government couldn’t do it alone anymore, the cost of running its institutions were unbearable and delegating some of its functions to private partners was suitable alternative. Outsourcing was expected to be a solution by reduction of running cost and improvement in revenue collections, though findings from this study may or may not portray what really was expected but it can be a way for other to go further.

5.2 Summary and Conclusion

The aim of this study was to assess the impact of outsourcing revenue collection on organizational performance, benefits, and challenges, how to minimize those challenges for the sustained good organizational performance financially and administratively. Basing on the research findings the challenges are indentified in each specific objective as follows:

5.2.1 Identification sources of revenue which are being outsourced and the whole process of outsourcing

The study reveals that employees are aware of existence of outsourcing of revenue collection and revenue sources outsourced to private revenue collectors are; agricultural products, fishing products, livestock auction, hotel levy and market fees. Some revenue sources are not outsourced to private revenue collectors because either they are centralized or avoiding conflicting of laws.

Also it is reveals that revenue collection is non-core activity for MDC that is it outsources non-core activity to private contractor and concentrates on its core activity, this is supported by Farrington (2006) for a company to attain a competitive advantage it should outsource non-core function and spent much time in its core activities. Furthermore study reveals the process of estimating amount of revenue to be remitted is fair.

5.2.2 Benefits of Outsourcing Revenue Collection
The study revealed reduction in operating cost and increase of revenue are major benefits of outsourcing of revenue collection. The finding supports Miller (2006) the primary reason why companies started looking at outsourcing service providers, is because they could offer the same value at lower costs due to economies of scale.

5.2.3 Challenges of Outsourcing Revenue Collection

Some revenue collectors delays in submission of monthly collection is the challenge mentioned by many respondents who engaged in this study. Revenue collectors either they inject the revenue collected in their business or they don’t supervise or motivate their assistants to collect and submit in time. Another challenge is unpredictable weather changes which lead fluctuation in harvest. The study further reveals communication between revenue collectors and council official in time of hardship is not so good. The council officials have the responsibility of ensuring revenue from RCs are received and banked in time. Revenue collectors on the other hand have an obligation of abiding to contract terms. The two parties are bound by contract but Griffiths (2001) believes that whatever the outcome of the outsourcing arrangement, managing change is fundamental to the success of the programme. Assessing stakeholder’s requirement is first part of this process, and having open channels of communication during this time is vital. Hence it important to bridge the gap through open communication at all time and trying to understand the challenges facing revenue collectors, helping them in solving them and build a good relationship for long-term successfulness of outsourcing relationship.

5.2.4 Effect of Outsourcing on Organizational Performance

The study reveals that outsourcing has led to effective overall performance through reduction in operating cost and increased revenue collection. Increased revenue enables MDC to deliver services to the society effectively. Also the study reveals the best performance can be achieved by; increase supervision bonus for those who fulfill target in time, conducting research frequently on revenue sources and council management
should collect information from ward executive officers and agricultural extension officers about expected harvest instead of estimating basing on previous year collection.

5.3 Suggested Areas for Future Studies
Findings from this study lay down a starting point for other research to be done in area of outsourcing of revenue collection in local government authority and contribute to the pool of knowledge about outsourcing and how to make it work effectively in various institutions public, and private.

5.4 Recommendations
Findings show that outsourcing of revenue collection is performing well but not best, I do recommend the following:

- Mpanda district council have to design contract with terms and conditions that can be implemented and it should be fair to both parties involved.
- The team involved in estimation of revenue to be collected have to collect information from ward executive officer and agricultural extension officer who might be able to estimate amount to be harvested basing on experience and knowledge a particular area.
- Education must be provided to taxpayers to enable them to understand the importance of paying tax, also education of by-laws must be provided to revenue collectors assistant to facilitate their work and understanding of law involved.
- MDC top management should build an open communication channel with revenue collectors to facilitate and build a good relationship with them.
- District revenue accountant must conduct a periodic site visit for supervising the revenue collection exercise. By visiting periodic the revenue accountant might be enlightened of what really take place.
REFERENCES


http://www.southafrica.info.com (visited on 25.03.2013)

http://www.repoa.or.tz/documents/REPOA/pdf (visited on 17.02.2013)
APPENDIX 1: Questionnaire

Introduction
I am Flavian Mkombozi Muhula a student in the Mzumbe University Main campus. I am researching on the impact of outsourcing revenue collection on organizational performance. The information given is purely needed for academic purposes and therefore will be treated with utmost confidentiality. I request your cooperation and voluntary involvement.

PART ONE:
Respondent Personnel Information
1. Name of the respondent …………………………………………………………………………………
2. Year(s) under employment in local authority
3. Please tick the highest level of education you completed
   (Primary) (High school) (College/university) (Graduate school)
4. In which department are you working ……………………………………………………………

PART TWO: GENERAL
1. Are you aware that Mpanda district council use outsourcing services in revenue collection? (Yes/No)
1(a) If yes, what are sources of revenue which are being outsourced to private collectors
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   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

2. What are revenue sources which are not outsourced and why?
   i. ……………………………………………………………………………………………
   ii. ……………………………………………………………………………………………
   iii. ……………………………………………………………………………………………
   iv. ……………………………………………………………………………………………

   Others if any ……………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

3. Do you think revenue collection is non-core activity for MDC? (YES or NO)
   (a) If yes. explain briefly why is it so
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

4. In general, does the whole procedure of estimating/calculating amount to be remitted
   by private collector reflect fairness (YES or NO). If no explain why?
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………

4 (a) If yes, is any suggestion for improvement ………………………………………
   ……………………………………………………………………………………………
   ……………………………………………………………………………………………
5. What is the trend of revenue collection for the past 2 (2011-2012) years.
6. How many default collectors for the year 2011-2012?
   ...........................................................................................................................
6 (a) Was there any course of action taken against them? (Yes or No)
7. In general in you opinion do you think that by outsourcing of revenue collection has it led to effective overall organizational performance in MDC? (Yes or No). Why?
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8. What are significance benefits derived from outsourcing of revenue collection?
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9. What are setbacks or challenges of outsourcing revenue collection?
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10. What can be done to rectify such setback in question 9.
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