

Revenue Mobilization and Financial Performance of County Governments in The Western Region of Kenya

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Abstract- *Ten years after devolution, county treasuries are still not meeting the 2010 constitutional and other laws that sought to increase own-source revenue of the counties (Commission on Revenue Allocation, 2023). This study, therefore, examined the effects of the method of revenue collection on the financial performance of counties, with a more focused and testable question of in Bungoma, Busia, Kakamega and Vihiga, does the relationship between the manner of mobilizing revenue and the financial performance of counties yield a measure of movement of the financial performance of the counties once examined through the lenses of Optimal Taxation Theory and Agency Theory? An explanatory, cross-sectional design was used. A sample of 283 finance officers, budget officers, revenue officers and internal auditors was chosen from the four county treasuries and 272 were returned, representing a 96.1 percent return rate. Revenue mobilization was evaluated using a validated Likert scale questionnaire with the following categories: methods of revenue mobilization, capacity of the officers, recording practices, support for the use of policies and financial performance was deliberately kept separate and was assessed using records from the County Treasury and the Controller of Budget on revenue absorption and own-source revenue (OSR) for the 5 years between 2020/21 and 2024/25. The use of partial Least Squares Structural Equation Modelling in STATA showed that the revenue mobilization was positively and statistically significant with $\beta = 0.185$, $t = 3.655$, $p < .001$ and accounted for 28.0 per cent variance of the financial performance ($R^2 = 0.280$). That is, each of the four counties has fairly sound revenue collection operations, but it depends on the ability of the officers in running those operations to determine their worth in terms of money.*

Key Words: *Revenue mobilization; Financial performance; County governments; Devolution; Own-source revenue; Public finance management*

I. INTRODUCTION

These 47 county governments were established in the 2010 Constitution and were responsible for nearly one-third of public spending in Kenya – almost from

the outset (World Bank, 2019). An equal thrust to raise revenue locally, through property rates, business permits, cess and various fees and charges which counties have the right to levy would be necessary so that devolved units would not go on relying on transfers from the national exchequer indefinitely (Commission on Revenue Allocation, 2018). There has been some improvement in this regard as noted by Njoroge and Kamau (2020) the policy framework on county revenue has been increasingly structured over the years. Despite this, the majority of counties are still not meeting their own-source revenue targets in the Controller of Budget reporting area, even 11 years after devolution began, and this trend is apparent in the counties' absorption of development funds as well (Commission on Revenue Allocation, 2023). The numbers are not small, Kenya Institute for Public Policy Research and Analysis 2023 revealed that only less than half of the counties collected the amounts they had collectively set for own sources during the first three quarters of the 2022/23 financial year.

This challenge is not evenly distributed throughout the country, and Western Kenya has a higher burden than would be expected. Agriculture is the main economic activity in the region, the informal sector has a disproportionately high share of employment, and the border with Uganda is porous which makes tax administration more challenging than in other regions (Kristensen et al., 2019). Studies at the national level have consistently shown that greater collection results are linked to automation, multiple revenue instruments, and stronger enforcement (Wawire, 2018; Bird, 2020; Kagendo, 2024); and Githui and Macharia (2021) list the practical challenges, inadequate staffing, outdated technology, and weak enforcement that revenue officers in the field often encounter. The literature has not done that, however, and Western Kenya in particular has been subjected to scant critical

analysis of its mobilization practice to an outcome that can be verified independent of what officers themselves perceive of their own performance. Rotich and Chebet (2023) are closest, suggesting that the more successful the mobilization effort in the region, the more sustainable the fiscal situation, but their sustainability focus is limited to a broader financial-sustainability issue, which is not a focus of this study.

The present study tackles this gap, exploring the effect of revenue mobilization on the financial performance of the county governments in Bungoma, Busia, Kakamega and Vihiga, and testing whether there is any significant relationship between the two. In order to avoid the immediate difficulty of opinion being sought from the finance staff, who might well mark their own counties favourably, the financial performance for the counties was not taken from the respondent opinion at all but was taken from the records of performance in the field of budget absorption and own-source revenue.

II. LITERATURE REVIEW

A. Theoretical Review

Two theories, namely Optimal Taxation Theory and Agency Theory, are used for the analysis.

In 1927 Ramsey suggested that a good tax system should strike a balance between equity and efficiency, raising the revenue public demand and minimizing the distortion of economic actions. A wide-based and well-targeted and well-managed tax base is more likely to approach that balance than a narrow-based or poorly managed tax base. In the context of county government, the theory provides an explanation for the design of local revenue instruments in Western Kenya, their reactions from businesses and residents and the extent of revenue that counties are legally entitled to collect. A lack of a strong point lies on the assumption that taxpayers act rationally and that administrative capacity is sufficient to match; this is not always compatible with the informality of the region and the loose enforcement and lack of taxpayer awareness in many places (Kristensen et al. 2019).

Agency Theory (Jensen and Meckling, 1976) is about what is left unexplained by Optimal Taxation Theory. It tries to shift the accountability of citizens from the

side roles of taxpayers to the principal role of participants and places revenue officers and county management in the role of 'agents' whose actions and performance must be monitored and incentivised if issues of under-collection, leakages, and mis-reporting are to be curtailed. In this study, that translates to performance targets, technical training and accountability systems that focus on and drive officer behavior to be consistent with a county's fiscal priorities and, most importantly, the expectations of residents for public service delivery. Both theories warrant a joint consideration of the revenue mobilization process from either the structural or human side of the equation, as defined by the process of collection, the process of record keeping, the degree of policy assistance, and officer capacity and technical competence.

B. Empirical Review

Studies examining the link between revenue mobilisation and financial performance at the county level have mixed findings in Kenya, and many of the studies have been on revenue collected size rather than a validated measure of financial performance.

Sintomer and Herzberg (2021) found that the automation of financial revenue stream increased revenue collection and effective management of the revenue streams in Trans Nzoia County. The study, however, only focused on automation and did not include other mobilization strategies, like grants or partnership financing, and thus does not really discuss the extent to which automation alone can go to achieve overall financial performance.

While Nganga and Onyango (2021) noted that the financial statements of ten counties, including Machakos and Ngeri, showed that as counties diversify and expand their mobilization strategies, they become financially healthier and perform better in terms of service delivery compared to those that continue to rely largely on national transfers. In the counties studied by Kimani and Waweru (2022), the results were similar—mobilization practice is related to positive financial performance. The studies both had a cross sectional design, however, which meant that we could not isolate the contribution of the practice of revenue mobilization from the other public

finance management practices that occurred during that period.

A clear example of the impact technology-driven mobilization can have is with the introduction of an electronic tax collection system in Mombasa County, where there was an estimated 30 per cent increase in revenue (Wawire, 2018). The four-county comparative design is supposed to fill this gap in trying to determine the implications of such a result for counties with different administrative resources and economic structures.

Jurisdictions with automated processes in place and in stronger legal frameworks are more likely to be fiscally sustainable, Bird (2020) found, and non-tax revenue streams, fines, fees and various charges are also often underutilized across developing-country subnational governments, especially in the context of weak non-tax revenue collections, low transparency and corruption. Likewise, Kioko (2020) observed that counties with more effective non-tax revenue-raising systems had better financial condition and less reliance on transfers from the national government among the counties in Kenya, without considering the reasons for why counties were unable to diversify their revenues.

In Opiyo's (2012) case studies of selected counties, he identified institutional capacity and strategic planning as key factors in achieving mobilisation success, but the counties analysed were already relatively successful, and this study tackles head-on the constraints and staff technical capacity of less successful counties. The other side of the equation is that if collection systems are effective, the financial success of the counties would improve, as was the case in this study, if property taxes are effective, and if business permits and service charges are effective.

This is confirmed by the new studies done in Kenya. In Nairobi City County, Nyangito (2023) found that the practices of revenue mobilization positively and significantly influenced organizational revenue growth ($\beta = 0.184$, $p = 0.046$), a coefficient that is more impressive than that reported in this study and budgeting proved to be a better predictor than the practices of revenue mobilization. On a wider scale, Kemboi, Onyuma and Kung'u (2025) concluded that resource mobilization has a significant contribution to

the variation in financial performance, accounting for 61.1% of the variation in financial performance (adjusted $R^2 = 0.611$) besides resource allocation, internal controls and supportive government policy. Their findings suggest that the success of mobilization reforms is strongly linked to the strength of the wider legal context. Similarly, Kagendo (2024) found that operational determinants of own-source revenue collection were significantly related to financial performance in Meru County, and that the county should increase its financial resources for training its staff and organizing seminars, as this study has confirmed. These findings by county are situated in the context of the general revenue mobilization story, which has repeatedly reinforced financial management at the county level throughout the country, Ochieng and Mutiso (2021) found.

Indicator for each of the 20 county-year observations and then added to the individual respondent record, by county of work. This manipulation of the dependent variable and respondent perception was done intentionally as a precautionary measure to prevent common method bias and over-reporting.

III. METHODOLOGY

A. Research Design

The study was of an explanatory cross-sectional design appropriate for testing hypothesised causal relationships, and typically adopted in survey research (Creswell and Creswell, 2022; George and Merkus, 2021; Zikmund, Babin, Carr and Griffin, 2013). This enabled revenue mobilization data to be collected by respondents as well as secondary data independently collected about financial performance in the same exercise.

B. Study Area, Target Population and Sample

The study was conducted in the four counties of Western Region in Kenya (Bungoma, Busia, Kakamega and Vihiga). It aimed to cover 965 individuals representing the finance departments of the four county treasuries, accountants, auditors, assistant directors, directors, economists, finance officers, supply chain officers and revenue officers – the people at the heart of day-to-day public finance management. Using the formula given by Yamane (1967) with 0.05 margin of error and 95 percent

confidence level gave a sample size of 283. The sample was stratified by county and by professional role, and the size of each stratum was determined in proportion to the county's or professional role's population size, which ensured an adequate level of within-group variability while maintaining an adequate representation of each group (Kothari, 2004; Neuman, 2014).

C. Data Collection Instruments

Primary data was obtained using a structured largely closed ended questionnaire which was been administered to finance officers, budget officers, revenue officers and internal auditors. Revenue mobilization was assessed using 5 Likert items ranging from Strongly Disagree (1) to Strongly agree (5) with the items adapted from Kiprotich and Wanjiku (2018) and Wawire (2018) being improved collection methods, number of revenue officers, technical skills of officers, revenue recording on time, and supporting policy interventions. Secondary data was collected through document analysis guide which was applied on County Treasury records and Controller of Budget County Budget Implementation Review Reports for the five fiscal years 2020/21 to 2024/25. Two objective indicators were calculated for each county-year: the budget absorption rate (total expenditures/total approved budget); and the own-source revenue performance rate (actual own-source revenue/total own-source revenue budget). These two indicators were combined into a composite financial performance indicator for each of the 20 county years and then linked to each respondent's record by county of work. This separation of the dependent variable from respondent perception was deliberately taken to help prevent common method bias and high levels of self-reporting.

D. Reliability and Validity

The instrument was pretested in Trans Nzoia County which was selected because of its administrative as well as economic similarity with the four study counties and then modified accordingly. As PLS-SEM was the preferred method of analysis, reliability was assessed using Cronbach's alpha (0.70) and Composite Reliability (0.70) as a satisfactory level of internal consistency (Hair, Risher, Sarstedt and Ringle, 2019). Average Variance Extracted (Fornell and Larcker, 1981) as well as Heterotrait-Monotrait

ratio (Henseler, Ringle and Sarstedt, 2015) were determined for convergent and discriminant validity, both of which were found to be 0.50 or higher, indicating good validity. The Kaiser – Meyer – Olkin measure of sampling adequacy was calculated and a value of 0.60 and above was considered adequate (Kaiser, 1974) and also the Bartlett's Test of Sphericity was calculated.

E. Diagnostic Tests

The data were not normally distributed and so diagnostic tests were run for multicollinearity and homoscedasticity. To check for multicollinearity of the predictor constructs, the VIF and tolerance statistics were used, which is recommended to be under 5.0 and over 0.20 respectively (Hair, Hult, Ringle and Sarstedt, 2021). Non-significant p-value of the Breusch Pagan test ($p > 0.05$) was obtained and the constant variance of the residual variance was confirmed. To guard against any common method bias, a double check was performed using Harman's single factor test (Podsakoff, MacKenzie, Lee and Podsakoff, 2003), and this was further bolstered by using objective secondary measures of financial performance as opposed to the same instrument used to collect secondary measures of the revenue mobilization constructs.

F. Model Specification

The model is described in this section, and then analysed. The relationship of the mobilisation of revenue and financial performance was specified as:

$$FP = \beta_0 + \beta_2 RM + \varepsilon$$

Where FP is financial performance, RM is the revenue mobilization, β_0 is the constant term, β_2 is the standardized path coefficient, and ε is the error term. To conduct the PLS-SEM analysis, the command "plsem" was used in STATA software package, which is suitable for small sample size and do not assume multivariate normality (Hair et al., 2019). The hypotheses were examined at a 5% level of significance and Cohen's (1988) small, medium and large effect sizes were used to compare with the parameters of 0.02, 0.15 and 0.35 respectively.

G. Ethical Considerations

Before starting the data collection, approval was obtained from the university as well as from the relevant county authorities. All respondents were asked to participate voluntarily, and all respondents were asked to give their consent. Also, individual answers were not identified during taking and analyzing.

IV. RESULTS

A. Response Rate and Sampling Adequacy

The questionnaires were sent to finance officers, budget officers, revenue officers and internal auditors in all the four counties and 272 questionnaires were returned giving a response rate of 96.1 per cent which exceeds the survey based social science standard of 70 per cent (Kothari, 2004). In order to check the suitability of the data for extraction of latent variables, Kaiser-Meyer-Olkin score was found to be in the meritorious range (KMO = 0.824) and Bartlett's Test of Sphericity was highly significant ($\chi^2 = 1,418.63$, df = 171, $p < .001$).

B. Respondent Profile

A total of 272 respondents, of which 57.4 per cent were male and 42.6 per cent were female. The overall level of education was high: 84.2 per cent had a university degree or higher (52.2 per cent had a Bachelor's degree, 29.1 per cent a Master's and 2.9 per cent a Doctoral degree); and 73.6 per cent had more than six years' experience of working in the public sector. Kakamega had the highest proportion of respondents at 30.9 per cent while Busia had 23.2 per cent, Vihiga had 21.3 per cent and Bungoma had 24.6 per cent. By role, 62.5 percent of the sample consisted of County Finance Officers, 26.5 percent were Budget Officers, 23.2 percent were Revenue Officers and 16.9 percent were Internal Auditors.

C. Reliability and Validity of the Revenue Mobilization Scale

Table 1 sets out the item statistics and reliability results obtained for the revenue mobilization measurement scale.

Table 1: Revenue Mobilization Item Statistics and Reliability (N = 272)

Item	Mean	SD	Outer Loading	Decision
RM1: Improved collection modes enhance financial performance	4.09	1.12	0.726	Retained
RM2: Increasing revenue officers improves financial outcomes	4.16	1.18	0.748	Retained
RM3: Revenue officers have required technical skills	3.41	1.16	0.703	Retained
RM4: All revenue collected is recorded immediately	4.21	1.01	0.779	Retained
RM5: Government policy interventions strengthen performance	4.12	1.03	0.763	Retained
Composite ($\alpha = 0.811$; CR = 0.861; AVE = 0.554)	4.00	0.29	—	Satisfactory

Note. Source: Field Data (2025). RM3 = revenue officers' technical skills; RM4 = immediacy of revenue recording

Of the five items, all exceeded the 0.70 outer-loading threshold with RM4 (prompt recording) loading the highest (0.779) and RM3 (technical skills) loading the lowest (0.703). Cronbach's alpha (0.811) and composite reliability (0.861) were greater than 0.70, and an average variance extracted (AVE) of 0.554 indicated the convergent validity. However, despite its measure of weakness revealed by the technical-skills item, revenue mobilization had the highest composite mean (4.00) of all the constructs measured in the overall study, indicating that it is implemented relatively well.

D. Descriptive Results for Revenue Mobilization and Financial Performance

Respondents were generally positive about the collection systems, recording practice, and support for the policy, with one striking exception being that of the technical skills of the revenue officers (M = 3.41, SD = 1.16). The strongest agreement was for revenue collected is promptly recorded (M = 4.21, SD = 1.01), supported by the perceived benefit from increasing the number of revenue officers (M = 4.16, SD = 1.18), government support for revenue officers (M = 4.12,

SD = 1.03) and improved revenues collection methods (M = 4.09, SD = 1.12).

The financial performance in the 20 county-year observations (FY 2020/21 to 2024/25) was generally favourable with an average of 58.81 on the composite index (SD = 9.39) varying from a low of 39.00 in Busia during FY 2021/22 to a high of 80.37 in Vihiga during FY 2024/25. The performance of own-source revenue was at 51.73 percent (SD = 17.06), significantly below and less stable than budget absorption at 65.89 percent (SD = 5.75), similar to the mobilization challenges that spurred this study and the national trend of counties underperforming own-source revenue targets (Kenya Institute for Public Policy Research and Analysis, 2023).

E. Diagnostic and Correlation Results

In the inner structural model, the tolerance (0.746) and VIF (1.418) values of the predictor constructs were both within the limits recommended by Hair et al. (2021) and did not pose any potential problem of multicollinearity. The homoscedasticity assumption was supported by a non-significant Breusch Pagan test ($p = 0.177$). Harman's one factor test yielded a result of 34.2 per cent, which falls below 50 per cent to indicate a lack of common method bias. A bivariate Pearson correlation test showed that there was a significant and positive relationship between revenue mobilization and financial performance ($r = 0.472$, $p < .001$).

F. Financial Performance and the Effect of Revenue Mobilisation

The results of the PLS-SEM path analysis for the hypothesis that revenue mobilization does not have a significant effect on the financial performance of county governments in the western region of Kenya are reported in table 2.

Table 2: *Path Analysis of Revenue Mobilization on Financial Performance*

	Unstd. B	Std. Error	Std. β	t-value	p-value
(Constant)	1.811	0.315	—	6.107	<.001
Revenue Mobilization	0.284	0.080	0.185	3.655	<.001

	Unstd. B	Std. Error	Std. β	t-value	p-value
R = 0.529	R ² = 0.280	Adjusted R ² = 0.277	F = 12.507	(p < .001)	

Note. N = 272. Source: STATA plssem output, Field Data (2025).

The relationship between revenue mobilization and financial performance was positive and statistically significant ($B = 0.284$, $\beta = 0.185$, $t = 3.655$, $p < .001$): A one-unit increase in revenue mobilization equaled a relative increase in financial performance score of 0.185 units. Revenue mobilization alone accounted for 28.0 percent of the variance in financial performance of the counties ($R^2 = 0.280$) and the overall model was statistically significant ($F = 12.507$, $p < .001$). Despite this, a medium Stone-Geisser Q² of 0.263 for financial performance was still achieved, but the overall structural model had a Stone-Geisser Q² of 0.263, which is above the threshold of zero indicating medium predictive relevance (Hair et al., 2021). Overall, the evidence is adequate to refute the null hypothesis, that is, "revenue mobilization has a meaningful and substantive impact on financial performance of counties in the Western region of Kenya."

V. DISCUSSION

The results of the revenue mobilization significantly and positively predicting financial performance is compatible with findings of Kiprotich and Wanjiku (2018), which found counties with good collection systems with a mix of property taxes and business permits/service charges to perform better financially and to have lower dependence on national transfers. It is also consistent with Nganga and Onyango (2021), who found that a comprehensive diversified approach to mobilisation was associated with greater implementation of development expenditure and absorption with a coefficient of 0.19, nearly identical to that obtained here, and with Nyangito's (2023) study in Nairobi, which found that revenue mobilisation had an impact on organisational revenue growth with a coefficient of 0.184.

The increase in revenues Wawire (2018) reported in Mombasa after introducing electronic collection of

taxes, which was around 30 per cent, is an example of what can be achieved by mobilisation through technology; the small to moderate effect size identified in Mombasa indicates that Western Region counties have yet to fully realise the potential of this mobilization. It is in line with Bird's (2020) observation that non-tax revenue is underutilized in many subnational governments in developing countries due to weak revenue collection systems and limited enforcement capabilities, and with Kemboi, Onyuma and Kung'u's (2025) conclusion that the effectiveness of mobilization efforts is highly dependent on the robustness of the broader legal and policy environment.

A particular pattern in these findings is worthy of special mention: the gap between the apparent success of revenue mobilization on paper and its impact on financial outcomes is small. Revenue mobilization had the highest composite mean of all the constructs studied (4.00), which indicates that the recording systems and policy support are strong, but its standardised effect ($\beta = 0.185$) and variance accounted (28.0 percent) are not commensurable with that descriptive strength. The critical reading of this disconnection itself is telling; Western Region counties have established systems, policy, and adequate numbers of staff to collect revenue but have yet to report proportionate improvements in revenue performance. The same is indicated by the much higher volatility in the own-source revenue performance ($SD = 17.06$) compared with the budget absorption ($SD = 5.75$), with the conclusion that while own-source revenue may look good on paper, it is not yet producing stable and predictable financial results in practice.

The most likely scenario is that officers are not technically skilled in the area required ($M = 3.41$) by the revenue mobilization scale, as the lowest ranking item. Regardless of the quality of collection and recording infrastructure, it will only function as well as the individuals who use it. This mirrors what Opiyo (2012) observed in Kenya where institutional capacity plays a significant role in successful resource mobilization and Kagendo's suggestion based on the Meru County data, regarding improved institutional capacity in counties through training and seminars for revenue officers. The identified skills gap in this

document is, in fact, a new issue that would need more attention as the mobilization systems mature, compared to the systemic weaknesses that are discussed much more extensively in the literature as discussed by Ochieng and Mutiso (2021).

The positive mobilization effect supports from a theoretical perspective the theory of optimal taxation (1927, Ramsey): counties have made tangible advances in documenting and providing support for revenue, bringing them closer to the revenue structure that is idealized by the theory: broad-based and efficiently administered. The ongoing skills gap, however, provides reason for the Agency Theory (Jensen and Meckling 1976) that says the delegation of revenue collection responsibility effectively requires accountability mechanisms, performance metrics and technical training to ensure the conduct of officers is aligned with a county's fiscal interest, otherwise even well designed systems will continue to fall short of their potential.

VI. CONCLUSION

The study aimed at finding out the effect of revenue mobilization on financial performance of county governments in Western Region of Kenya. The study applied PLS-SEM to 272 Finance Officers, Budget Officers, Revenue Officers and Internal Auditors from different government revenue collection units in Bungoma, Busia, Kakamega and Vihiga which were then subjected to five years of objective secondary financial performance data to reveal that revenue mobilization has a positive statistically significant impact on financial performance ($\beta = 0.185$, $p < .001$) and accounts for 28.0 percent of the variance observed. Revenue mobilization, therefore, is no mere administrative routine, it is a real measurable instrument that can lead to improved financial performance of the counties, albeit the technical capacity of revenue officers remains a challenge that needs to be overcome to fully realize this potential.

Treasuries in the Western Region could benefit more from improving the revenue mobilization processes they already have in place than from creating new ones from scratch, especially with the strong ratings for implementation. Priority action areas include the speeding up of investment on electronic tax systems,

mobile payment platforms and integrated billing solutions; regular and structured technical training for revenue officers on assessment procedures and taxpayer engagement; diversifying revenue sources via public-private partnerships and untapped revenue-generating potential in existing laws; and further policy enforcement through enhanced monitoring and compliance audits to ensure that policy is translated consistently into revenue collection.

This study has some limitations. While its cross-sectional design captures revenue mobilization practice and financial performance at a single point in time, it cannot claim the same causal effect as a longitudinal design would provide, which Tanui and Kiprotich (2024) longitudinal analysis of the effect of revenue mobilization on county financial performance is better suited to. Revenue mobilization was assessed by the self-report of respondents and while Harman's one factor test yielded a satisfactory result, it is important to note that social-desirability bias could not be completely excluded. The results are also restricted to four counties in western Kenya, and may not be representative of counties with significantly different fiscal characteristics. Future studies should follow the revenue mobilization and financial outcomes over time between different electoral and budget cycles, expand the scope of counties compared to a larger sample of counties in Kenya, and explore more in-depth the impact of specific technical training interventions on financial outcomes based on an increase in revenue collection infrastructure.

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