



**FACTORS INFLUENCING FINANCIAL PERFORMANCE OF SHIPPING COMPANIES IN KENYA (A CASE STUDY OF MOMBASA COUNTY, KENYA)**

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**ABSTRACT**

*The shipping industry is in a way the first global industry. It is the link between nations and continents. The establishment of international co-operation and conventions has a long history in the shipping industry. The shipping companies need to monitor and manage their financial risks in order to improve on their performance. The researcher therefore sought, through the research process, and a solution to the problem on leverage and Inflation Rate in relation to its influence on financial performance of shipping companies in Kenya. This Research aimed and explicitly found out the factors affecting financial performance of shipping companies in Mombasa County, Kenya. The specific objectives of the study were determined the influence of Leverage and analyzed the influence of inflation rate on Financial Performance of Shipping Companies in Mombasa County, Kenya. The scope of the study has been within the Mombasa County and the significance was to the management of shipping companies, investors, the government and the finally the researchers. Descriptive research was used. Questionnaires were distributed and filled with various top managers, heads of department, middle level managers and general staff member of shipping companies. The target population and sample size was from 43 (forty three) members of Shipping companies in Mombasa County. Stratified sampling method was used and drawn the sample size of 50 employees and data analysis by use of SPSS.*

**Key terms:** Financial Performance, Shipping Companies in Kenya, Leverage, Inflation Rate

## INTRODUCTION

Shipping is considered as the lifeblood of the global economy. This is so because most of the industries in the world rely on shipping either as exportation or importation of goods and services. Mason & Nair (2013) argue that more than 80% of the world goods are carried by ship. These sentiments are supported by (Sui and Lam, 2011). Agarwal and Ergun, (2008) further retort that USA, the largest trading nation in the world uses sea cargo to move more than 90% of her export freight.

Based on Panayides & Wiedmer, (2011). States that, the global economic activities are changing and shipping industry is facing some structural changes. There is a dramatic shift in the world manufacturing and trading. The market and marketplaces are now global and production is located everywhere. China is the world manufacturer; India and other Asian countries are following the same economic model.

According to Stop ford (2009) claimed that managing the shipping industry itself is volatile. The volatility in the shipping industry is driven by the freight rates, which is determined by the demand and supply in the shipping market. Furthermore, the freight rates are the income for the shipping companies, i.e. they generate the revenue to shipping companies and thereby influence the stock price of the shipping companies. So if the freight a rate goes up then the stock price to the shipping companies also goes up and vice versa if the freight rates goes down.

According to (Robinson, 2005; Fremont,2007) the major shipping lines who were initially concentrated on the East West routes which linked the main three poles of the global economy (Europe, Asia, USA), are now serving the North South routes with the maritime liberalization. As they started newest and largest ships on East West routes, they shifted the oldest resources to the North South markets. This new design of the world trade makes

mandatory the need for a fully connected and highly integrated system. Mega carriers with multi-ocean networks are being the pattern, (Fjeldstad, 2010).

Financial performance is defined by the financial and market measures to evaluate the company's efficiency and effectiveness, such as growth rates in market share, growth in annual sales, growth in return on sales and growth in return on assets (Huo et al,2008).With the globalization of companies and the consequent competitive pressures, there has been an increasing dependence on the ability of companies to deliver customer adapted products all over the world quickly and on time( Sohail & Sohal, 2003).

Based on Liao (2009), the increase of competitive pressures will tend to increase innovation and incentives to meet consumer demands effectively. Instead of being stuck in the high cost and unsatisfactory innovation of managing logistic operation by themselves, many companies choose to outsource some or all of their logistics activities to specialist firms. The environment in which the organizations nowadays operate is dynamic and success depends upon meeting the changing needs of all stakeholders an organization cannot build a self-centered performance measurement system. The companies need to evaluate performance from an external perspective, listening to customers, suppliers and other stakeholders.

Organizational performance is the ultimate dependent variable of interest for researchers concerned with just about any area of management.

This broad construct is essential in allowing researchers and managers to evaluate firms over time and compare them to rivals. In short, organizational performance is the most important criterion in evaluating organizations, their actions, and environments.

Performance measurement systems play a key role as a source of information about financial outcomes

and the internal operations shown in the financial statements (Yeniyurt, 2008). This type of information is useful for decision making process (i.e. planning, directing and controlling). The selection of performance measures depends on organization's objectives, a clear calculation method to compare, and these should be selected through people who are involved in the organization (Neely, 2009).

According to the studies of (Ngobo & Stephany 2007), they are three major trends in performance, the Work on the various sources of performance has become necessary and grown significantly in recent years. Moreover, the theoretical and empirical literature on this subject grew at an impressive rate. Consultation with a lot of this work highlights the fact that the concept of performance and evaluation are not treated the same way in different approaches.

Although primarily used for internal management and control, balanced scorecards explicitly include measures of financial performance, customer outcomes, innovation and internal processes (Kaplan & Norton, 2009). However, in doing so they are more closely tailored to each individual firm. Allowing for this tailoring in order to compare firms would be almost impossible, given that the implementation of a balanced scorecard for a single firm is already complex and difficult (Neely, Bourne & Schneiderman, 2009).

Budgeting and accounting have different meanings among managers, planners, and the personnel who use these. Both are critical components that must interact to achieve the goals and objectives of an organization. Accounting is a system used to record, classify, and summarize business operation (Margolis & Walsh, 2009).

The role of keeping the financial information and ongoing analysis necessary to provide management and outside interests with the facts necessary for decision, is also considered (Bhattacharya, 2007).

Relying on certain standards and GAAP (General Accepted Accounting Principles), the accountant of a company develops and reports data to measure firm performance; to assess its financial position to comply with and file reports needed by securities regulators; to file and pay taxes; and to prepare the balance sheet, financial statements and the cash flow of the company to recognize sales revenue, expenses etc. when they are incurred.

African shipping has been largely deregulated. However, many African countries are trapped in a vicious circle of high tariffs discouraging traffic and further increasing costs. Poor inland links and wasteful and costly port administration accentuate this problematic situation. The lack of an integrated land distribution system, particularly for transit, impedes container traffic.

East Africa is not on the major shipping routes and has little potential to become a hub. Furthermore, the volumes of trade between Eastern Africa and the major areas are too small to warrant regular direct lines that will call in Mombasa and Dar es Salaam. For example, the total trade of Eastern Africa to Europe is only around 100,000 TEUs both ways. The only direct to Mombasa and Dar es Salaam are from the Far East. Direct service from North Europe has been cancelled in mid-2004.

According to Kenya Maritime the shipping trends show that East African ports are increasingly served by feeder ships ports. Currently Mombasa port receives 40 to 50 container ships per month. On average these ships carry 2000 containers but due to the increase of feeders the ships are getting smaller.

Therefore it is reasonable, to anticipate a relative increase in the number of calls compared to the throughput. For Kenyan operators these patterns pose potentially serious constraints. Not only Kenya is far from the main markets, but it is being served by feeder ships that increase the delivery time and

create uncertainty in delivery dates. The Middle Eastern ports like Jeddah are facing more and more congestion which means that the containers may not be transhipped in real time.

### **Shipping Industry in Kenya**

The shipping industry is one of the major driving forces behind the Kenyan economy providing direct and indirect employment. Its liberalization has also enticed further presence of foreign owned liners, many stretching and redirecting their routes to more lucrative destinations. The bearish trend of the Nairobi Securities Exchange has meant that the economy is now riding on the back of private investments and so the industry is critical to the economy since most of the liners and related organizations are privately owned.

Shipping is a business that is extremely in tune with prevailing market sentiment. Its success depends on a prospering economy due to the increased global trade. It is also partially sheltered from temporary downturns because businesses will switch from more expensive air freight and save costs by using shipping as their means of transporting their goods instead.

The industry is also an extremely competitive one as there are only two main considerations why businesses will prefer one shipping company over another the price and speed at which their goods are delivered to their destination. This has made it difficult for companies to differentiate themselves and demand a higher premium for their services.

It should be noted that Maritime transport of goods and passengers accounts for 15 percent of the coastal economy.

The Mombasa Port at Kilindini is one of the largest and most important ports along the entire East African coast. The port serves Kenya and the landlocked neighboring countries such as Uganda, Rwanda, Democratic Republic of Congo and South Sudan. The total number of ships that docked at the

Mombasa Port averaged at 1 772.8 during 2004-2008.

Cargo traffic handled in the port increased steadily from 12.92 million to 16.42 million deadweight tons over the same period. The volume of traffic handled at the port of Mombasa in 2008 was 16.4 million tons compared to 16.0 million tons in 2007, a 2.8 percent increase. 19.1 million tons were handled in 2009 and 19 million tons in 2010 (Article on fresh water, Coastal and Marine Resources, 2011).

Based on Blas, (2013) argued that by Improving Kenya's infrastructure to the level of middle-income countries could boost annual growth by more than three percentage points. He further stated that Infrastructural development is of priority for the political and geo-economic agenda: 30% of the national budget is allocated to the sector. Financial Performance directly contributes to the organizational performance of any company. Bhattacharya, (2007) states that for a business firm to be able to sustain its business operations and meet its goals and objectives it must manage its financial practices effectively and prudently.

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The Kenyan shipping industry comprises of shipping liners which function as the main global carriers such as Maersk Liner, CGM CMA, among others. Other players include the agencies that act as a contact between shipper and liner and clearing and forwarding agents who assist in clearing cargo and aiding in further logistical delivery. The industry is regulated by the Kenya Maritime Authority (KMA)

and the Kenya Ports Authority (KPA), whilst other major stakeholders include the Kenya Ships Agents Association, the Kenya Revenue Authority (KRA), the Kenya Shippers Council (KSC), and the Kenya International Freight and Warehousing Association (KIFWA).

It is estimated that fifty ships of various types are in the major shipping lanes off the Kenyan coast at any given time. These can be characterized as follows: Oil tankers, bulk carriers, general cargo, container ships, passenger ships, tank barges, fishing trawlers, offshore supply, amongst others (UNCTAD, 2011). The Merchant Shipping Act of 2009 is an act of parliament that makes provision for the registration and licensing of Kenyan ships to regulate proprietary interests in ships, the training and the terms of engagement of masters and seafarers and matters ancillary thereto (Kenya Shipping Act, 2009). Section 317 of the Act denotes that the KMA issues licenses in respect to registration of Shipping Lines and Shipping Agents. These are subsequently registered with the KPA.

The shipping industry in Kenya is dominated by multinational shipping lines whose vessels call at the port of Mombasa to discharge and load cargo. These multinational firms have set up presence in Kenya either through their fully owned subsidiaries or through representative agents. These serve as client service centers as well as vessel handling and port operation/logistics offices. The client base consists of import and export customers, cargo forwarders, clearing agents acting for and on behalf of the importers/exporters, and logistics providers such as transporters and warehouse operators, container depot operators as well as independent Container Freights Station operators. The shipping companies have been in operational since, however what is not clear is how has been financial performance of the companies in the face of myriad of factors in play: such as corruption, manipulation, uneven play ground to mention but a few. A

number of research studies have been done for instance, Kitonga, (2013) did a research on the relationship between financial management and financial performance in the shipping industry in Kenya. Siba (2012) did a study on the relationship between financial risks management practices and financial performance of commercial banks in Kenya. She found that bank managers are financial risk averse and avoid uncertain business ventures. Thus there performance relies on practices that they deem not risky. Based on the above studies no study has been done on factors affecting financial performance on private organizations. It's against this premise, therefore, that the study seeks to investigate the effect of return on equity, inflation rate, firm policies and corporate governance on financial performance of shipping industries in Mombasa County.

## LITERATURE REVIEW

### Theoretical Framework

#### Agency Theory

Empirical research on corporate governance is based on the theoretical framework of agency theory advanced by (Jensen & Meckling 2007), (Fama & Jensen 2008), with a focus on the principal-agent problem. In corporations, principal-agent problem occurs when the interest of managers (the agent) is not in line with the interest of owners (the principal). Agency theory provides a framework to explain how to create an effective monitoring and incentive scheme under uncertainty and incomplete information. Corporate governance is a set of mechanisms that affect how a corporation is operated. It deals with the welfares and goals of all the stakeholders, including shareholders, management, board of directors, lenders, regulators, and the economy as a whole. The purpose of corporate governance is to achieve

the best overall welfare of all stakeholders and promote economic efficiency both internally and externally.

In addition, agency theory suggests that a better-governed firm is expected to have better performance and higher valuation due to lower agency costs. This prediction is supported by many empirical studies. For example, (Gompers et al. 2003) find that better corporate governance is associated with higher firm valuation measured by (Tobin's Q. Brown & Caylor 2006) find that better-governed U.S. firms have higher return on equity (ROE), higher return on assets (ROA), and higher (Tobin's Q. Dittmar & Mahrt 2007) find that good corporate governance has a substantial positive impact on U.S. firms' value.

Agency theory also predicts that a better-governed company is associated with higher ownership concentration, which is further associated with firm performance. For instance, (Gedajlovic & Shapiro 2007) find positive relationship between the ownership structure and firms' financial performance in Japan. Joh (2008) finds Korean firms with low ownership concentration have low firm profitability during the period of 1993 to 1997. These findings validate the claim that ownership concentration improves corporate governance and firm performance.

The first approach uses a composite measure of corporate governance. For instance, (Gompers et al.2003) use data from Investor Responsibility Research Center (IRRC) to develop a Governance Index (GIndex). This G-Index summarizes 24 governance provisions, including tactics for delaying hostile takeover, voting rights, director/officer protection, other takeover defenses, and state laws. Although (Gompers et al.2003) find better governed firms have higher valuation and better operating performance (measured by the net-profit-margin

and sales growth), they do not find corporate governance as a significant factor in explaining returns on equity (ROE), another widely used performance measure.

(Core et al. 2005) find Gompers' inconsistent results on ROE puzzling because net-profit-margin, sales growth, and ROE are all measures of operating performance and should be similarly affected by corporate governance. Consequently, (Core et al.2005) further investigate the issue by relating G-Index to another performance measure, ROA. They argue that ROA is a better measurement of operating performance because it is not affected by the use of financial leverage and the way they compute extraordinary items. They find that the G-Index is significantly related to this operating performance measure.

In general, transaction costs symbolize "friction losses", i.e. the lost resources for the involved parties, but which are inevitable to reach certain goals. In firms, transaction costs may include the costs of organizing business activity over time, planning the future and limiting as well as allocating risks which may arise in the future. It therefore includes the elements of uncertainty and opportunism, which are both indispensable for debates in corporate governance.

This theory affirms that a firm is a "black box" operated so as to meet the relevant marginal conditions with respect to inputs and outputs, thereby maximizing profits, or more accurately, present value. The theory helps to explain why an entrepreneur or manager in a firm which has a mixed financial structure containing both debt and outside equity claims will choose a set of activities for the firm such that the total value of the firm is less than it would be if he were the sole owner and why this result is independent of whether the firm

operates in monopolistic or competitive product or factor markets (Kantarelis, 2007).

### **Equity Theory**

According to equity theory, individuals make subjective assessments of the ratio of their inputs (effort) and outcomes (compensation) to those of their contemporaries (referent others). A perceived imbalance is said to create dissonance, and may lead the perceivers to take actions such as decreasing their inputs, trying to negotiate higher pay, or ultimately leaving the organization. On the other hand, if the difference in pay is seen as justified based on the other's' greater inputs or outcomes, it is accepted as being fair. (Wallace & Fay 1983) argued that the critical theme that exists at the center of all compensation theory and practice is equity. Empirical evidence in social psychology indicates that individuals routinely overestimate their abilities and contributions relative to those of others (Moore and Small, 2007).

Referred to as self enhancement,' this human tendency has been shown to be particularly strong when there is ambiguity regarding individuals' contributions and performance (Fiske & Taylor, 2008), and is pronounced among top executives (Chatterjee & Hambrick, 2007; Hayward & Hambrick, 1997). Such executives typically have generally experienced a lot of success during their careers, which often makes them the targets of ingratiating behaviors (Westphal, 1998).

As a result, their dispositions and personalities leave these individuals prone to making self-enhancing comparisons with other top executives (Hayward and Hambrick, 1997). The Self enhancement human tendency can be a hindrance to the applicability of equity theory in compensation. However, equity theory seems to be in concurrence with Labor economics theory contribution where it is posited

that those who make greater contributions should receive greater pay and the CEO's arguably make greater contributions within the organizations. The traditional labor economics theory would attribute differences in pay between individuals in an organization to differences in their marginal products. Those who make greater contributions should receive 17 greater pay. This concept is applicable to all employees in an organization; executives are supposed to be compensated in the same way. CEOs are argued to have greater impact on firms' value due to the quality and importance of the decisions they made (Ang, et al., 1998).

### **Transaction Cost Theory**

One of the prevailing economic based theories of organizational corporate governance is the transaction cost theory. According to Coase (2002) , its origin can be traced back to the 1930s. However, the idea of transaction costs is recognized as a useful analytical tool in the 1970s through works of several authors, for instance, Oliver Williamson. The transaction cost theory states that a firm as a sum of contracts put in practice in order to organize and regulate transactions serves for accomplishing contractual relations.(Badulescu, 2008).

Its main concern is in carrying out economic transactions based on the most efficient governance structure. Transaction costs refer to explicit fees associated with a transaction as well as implicit fees of monitoring and controlling a transaction. Transaction cost includes the costs of information, search, negotiation in addition to contracting and enforcement. The economic implication is decision-makers have to weigh costs associated with performing an activity in-house against that of outsourcing it to the market. Thus, if the transaction cost of using the market is higher, the transaction should be executed by the firm (in-sourcing). In addition, if they choose to execute a

transaction through the market, they have to determine the most appropriate contract to use (Coase, 2002) .

Based with Williamson, (1998) With regard to the choice of governance structure by decision-makers, human and environmental factors influences the decision makers attributed. Human factors include bounded rationality and opportunism. Bounded rationality comes from limited capacity of shareholders and managers to process all the available information and consider every possible outcome associated with any transaction. This exposes the contracting parties to some level of risk, for instance, employees or vendors may take advantage of the owners.

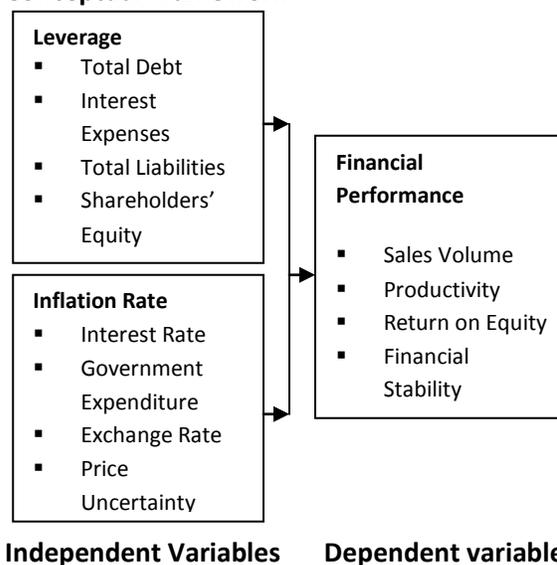
In order to prevent such an outcome, owners may incur costs related to gathering such information. Meanwhile opportunism is an assumption that human behavior is self-interest seeking with guile“. This means that principals and agents have different goals and will pursue their own self-interest. For example, problems may arise when agents do not deliver as promised (moral hazard) or misrepresent themselves (adverse selection). Environmental factors consist of information asymmetry and asset specificity. Information asymmetry occurs when information related to exchanges or transactions is not evenly distributed. For example, the principal (shareholder) does not possess certain information pertaining to the agent’s (manager) behavior or shortcomings and additional costs are incurred to obtain such information through various governance mechanisms. Asset specification refers to assets that are very specific and fixed and hence reducing flexibility in investment decisions, (Williamson,1998)

These factors have implications on how the firm interacts with its employees as well as other firms. As suggested by (Williamson 1998), firms can

choose from three generic governance structures namely the market, hierarchy (vertical integration) and hybrid of both. For example, should there be higher uncertainty from information asymmetry and an increase in asset specificity, the risk of opportunism will rise in decision-makers.

It can be summed that the transaction cost theory seeks the best governance structure that would control the agents“ opportunistic behavior in pursuit of profit maximization for their shareholders.

### Conceptual Framework



**Fig 1: Conceptual Framework**

### Leverage

According to Rajan & Zingales (1995), leverage can be defined as the ratio of total liabilities to total assets. It can be seen as alternative for the residual claim of equity holders. Aquino (2010) studied the capital structure of listed and unlisted Philippine firms. His study showed that high debt ratio is positively associated with the firm’s growth rate and profitability. Joshua (2005) research paper revealed significant relationship between the ratio

of total debt to total assets and ROE. The results of (Aivaziana et al 2005) examined the impacts of financial leverage on the investment decisions and found that this is a negative relationship. In another study, (Ahna et al 2006) found that the negative impact of financial leverage on the investment in the unimportant sectors is much important than the key sectors. Results of (Youmatelo 2012) show that financial leverage negatively affects the investment decisions and those companies with higher debts are less eager to invest in the capital assets.

### **Inflation Rate**

Huybens & Smith (2002) argue that an increase in the rate of inflation could have at first negative consequences on financial sector performance through credit market frictions before affecting economic growth. In fact, market frictions entail the rationing of credit which reduce intermediary activity and capital formation. The reduction of capital investment impacts negatively both on long-term economic growth and equity market activity.

However, (Azariadis & Smith 2000) emphasize the importance of threshold level of inflation in the relationship between inflation and financial sector performance. The negative consequence of inflation on financial sector efficiency becomes effective once the rate of inflation exceeds some threshold. These models further suggest another threshold, Huybens and Smith (2002) over which additional increase of inflation will have no damaging impact on financial sector performance.

Ball & Sheridan (2005) in their study of twenty OECD economies, out of which seven have adopted inflation targeting in the 1990s which was not responsible for low inflation or its volatility. They concluded that there is no evidence that inflation targeting improves economic performance as

measured by the behavior of inflation, output and interest rates.

Other studies have also shown that the much mouthed beneficial claims do not necessarily derive from adopting inflation targeting mechanism. Example is the study of (Honda 2000), who opined that inflation targeting had no effect on either inflation or any other variable in Canada, New Zealand and the UK. Also, studies focusing on advanced economies mainly showed insignificant and small effects of inflation targeting on the various performance measures used. (Ball & Sheridan 2005).

The effects of inflation on the economy are diverse and can be both positive and negative. The negative effects are however most pronounced and comprise a decrease in the real value of money as well as other monetary variables over time. As a result, uncertainty over future inflation rates may discourage investment and savings, and if inflation levels rise quickly, there may be shortages of goods as consumers begin to hoard out of anxiety that prices may increase in the future.

According to Geetha et al. (2011), financial theorists believe that there are direct and indirect aftermaths of inflation in every sector of the economy ranging from exchange rates, investment, unemployment, interest rates, and stock markets among others.

These researchers concluded that inflation and stock markets share a very close association, and that the rate of inflation influences stock market volatility and risk.

On the other hand, stock markets promote savings and investments by providing an avenue for portfolio diversification to both individual and corporate investors. These markets fuel economic growth through diversification, mobilizing and

pooling of savings from different parties and availing them to companies for optimal utilization.

The equity markets create a forum for trading in financial assets, whereby business firms are able to acquire investment funds through the issuance of shares; and thus facilitating them to meet their investment objectives. Stock markets, as (Olweny & Kimani 2011) observed, encourage investors with surplus funds to invest them in additional financial instruments that better matches their liquidity preferences and risk appetite. In that respect, better savings mobilizations increases the savings rate, thereby stimulating investments and subsequently earning investment income to the owners of those funds. In addition, the liquid nature of these markets makes it possible for the investors to exchange ownership of securities, and reap capital gains in the process.

Research conducted (Brown 2005) after the crisis in Thailand, and (Guo 2006), found that leverage has a negative and significant effect on ROA. (Rayan, K 2008) found financial leverage has a negative and significant effect on firm value. Salehi, M (2009) who conducted research in Iran, also found that financial leverage has a negative impact on corporate performance, ROA firm performance. While (Bhatti, et al 2010), found that high levels of leverage that will create a high systematic risk and high volatility in stock prices.

According to (Gill, et al.2008), compensation management (CEO compensation) can take the form of cash compensation, stock compensation, and fringe benefits. Murphy (1998), found a positive relationship between performances of companies with cash compensation manager (CEO cash compensation).( Liao, et al.2009) in his research found that there are indications of a positive market reaction to the announcement of stock bonuses.

## Financial Performance

According to (Moore & Reichert, 1989), financial management practices are defined as the practices performed by the accounting officer, the chief financial officer and other managers in the areas of budgeting, supply chain management, asset management and control.

The most common financial management practices used are Accounting Information Systems (AIS), Financial Reporting and Analysis (FRA), Working Capital Management (WCM), Fixed Asset Management (FAM) and Capital Structure Management (CSM). All these practices are crucial for an efficient financial management in organizations.

According to (Glendenning, 1998, Davies, 2007) Positive financial performance in a manufacturing firm can be achieved by eradicating waste in benefits services processes and systems. The “critical success factor” for a manufacturing firm is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical. The information obtained from a sound internal control system as reflected from financial statements will provide a report on a firm’s financial performance and position that is useful to a wide range of users for assessing the stewardship and making economic decisions.

The ability of an organization to analyze its financial position is essential for improving its competitive position in the marketplace. Through a careful analysis of its financial performance, the organization can identify opportunities to improve performance of the department, unit or organizational level. In this context researcher has undertaken an analysis of financial performance of pharmaceutical companies to understand how management of finance plays a crucial role in the growth.

It gives an idea as to how efficient management is at using its assets to generate earnings. It is

calculated by dividing a company's annual earnings by its total assets and it is shown as a percentage. Because of the limitations cited in using stock market prices, this study will employ Return on Assets (ROA) to measure the operating efficiency of the shipping companies in Kenya.

## METHODOLOGY

The study adopts a descriptive research design. According to Mugenda & Mugenda (2012), the purpose of survey research is to determine and report the way things are and it helps in establishing

the current status of the population under study. A survey research design was also chosen because it attempted to collect data from members of a population within the various set ups of similar characteristics in terms of their perception, attitudes, behaviors or values. A survey research design deemed necessary as the researcher aimed to generate detailed information regarding key concepts of population of the study. The study sought to establish the relationship between financial performances within shipping companies in Kenya between the periods 2009 – 2014.

## FINDINGS

### Influence of Leverage on Financial performance of Shipping Companies

**Table 1: Influence of Leverage on Financial performance of Shipping Companies**

#### Descriptive Statistics

	N	Mean	Std. Deviation
Does change in Leverage affect your firm	56	1.18	.386
Valid N (list wise)	56		

Respondents were asked if change in Leverage affected their firms. Majority disagreed to the statement indicating a mean of 1.18 with a standard

deviation of .386. This indicated that Respondents felt that Leverage did not affect their firm's performance.

**Table 2: Influence of Leverage on Financial performance of Shipping Companies**

#### Descriptive Statistics

	N	Mean	Std. Deviation
Leverage influences the total Debt in our firm's Financial Performance.	56	2.98	1.433
Change in Leverage affects the Interest expenses	56	3.41	1.462
Leverage changes influence the shareholders equity decisions making.	53	4.00	1.271
The total liabilities of the firm influences by Leverage in term of its Assets.	53	3.09	1.418
Valid N (list wise)	50		

The study sought to determine the Influence of Leverage on Financial performance of Shipping Companies Table 2 summarizes respondents' level of agreement to the statements indicating the influence of leverage on financial performance of shipping companies in Mombasa County. Majority of respondents disagreed with the statement that leverage influenced the total debt in their firm's Financial Performance with a mean of 2.98 and standard deviation of 1.433

Respondents were neutral on the statement that change in Leverage affected the Interest expenses

**Influence of inflation rate on Financial Performance of Shipping**

**Table 3: Influence of inflation rate on Financial Performance of Shipping**

**Descriptive Statistics**

	N	Mean	Std. Deviation
How is inflation rate affecting your firms financial performance	56	1.70	.784
Valid N (listwise)	56		

Respondents were asked to agree or disagree to the statement how inflation is affecting their firm's financial performance. From the table above majority of the respondents agreed to the statement indicating that there was a significant

with a mean of 3.41 and standard deviation of 1.462. However, a number of respondents as indicated in table above agreed to the statement that leverage changes influenced the shareholders equity decisions making giving a mean of 4.0 and standard deviation of 1.271. Majority of respondents gave a neutral response to the statement that the total liabilities of the firm influenced by Leverage in term of its Assets with a mean of 3.09 and standard deviation of 1.418.

effect between inflation rate and the financial performance of shipping companies in Mombasa County. This was evident by respondent's response by agreeing with a mean of 1.7 and standard deviation of 0.784

**Table 4: Influence of inflation rate on Financial Performance of Shipping**

**Descriptive Statistics**

	N	Mean	Std. Deviation
Inflation rate affects the Interest Rate as source for foreign finance and loans	56	3.95	1.212
Government expenditure influences the Inflation rate which affects percentage of foreign ownership in your firm.	56	3.96	1.250

Inflation rate changes in terms of exchange rate and Fiscal policy affects decisions to give out foreign loans (in foreign currency)	53	3.74	1.211
Valid N (listwise)	53		

The study sought to investigate Influence of inflation rate on Financial Performance of Shipping Table 4 summarizes respondents' level of agreement on the influence of inflation rate on Financial Performance of Shipping. Most of the respondents agreed that Inflation rate affected the Interest Rate as source for foreign finance and loans with mean of 3.95 and standard deviation of 1.212 Respondents also agreed that inflation rate affected the Interest Rate as source for foreign finance and loans with a mean of 3.95 and standard

deviation of 1.212. Respondents further agreed to the statement that Government expenditure influenced the Inflation rate which affected percentage of foreign ownership in their firm with a mean of 3.96 and standard deviation of 1.250.

Finally respondents also agreed to the statement that inflation rate changes in terms of exchange rate and Fiscal policy affected decisions to give out foreign loans (in foreign currency giving a mean of 3.74 and standard deviation of 1.211

**Performance of Shipping Companies**  
**Table 5: Performance of Shipping Companies**

**Descriptive Statistics**

	N	Mean	Std. Deviation
The Financial performance influences the sales volume of the firm.	55	3.51	1.373
It is through the Firm Financial stability will improve the firm performance	55	3.96	1.201
All Shipping companies depends on their financial performance	55	4.04	1.122
The productivity of the firm improves through financial performance	55	4.58	.762
Valid N (listwise)	55		

The study sought to analyze and establish factors influencing financial performance of Shipping Companies in Mombasa County, Kenya. The responses were sought in relation to Leverage and Inflation Rate. The respondents selected these benefits according to their order of priority. Majority of the respondents affirmed that the financial performance influenced the sales volume of the firm with a mean of 3.51 and standard deviation of 1.373. On answering the question if it is through the Firm Financial stability that the firm

would improve its performance, majority of the respondents agreed with a mean of 3.96 and standard deviation of 1.201. Further respondents agreed to the statements that all Shipping companies depended on their financial performance and that the productivity of the firm improved through financial performance giving a mean of 4.04 and 4.58 and standard deviation of 1.122 and 0.762 respectively

## CONCLUSIONS

The study concluded that Leverage and inflation rate had significant positive relationship with financial performance of shipping companies in Kenya. The Leverage whether measured to just equity investors or to all capital is a key input in both corporate finance performance and valuation. It also indicated that change in leverage influenced shareholders decision making and their total liabilities. Due to the results of the present research, it seemed that controlling the inflation was an undeniable and fundamental pre-condition to benefit from the positive and important effects of financial performance development in encouraging economic growth and capital formation of shipping companies in Kenya. The policies of government and central bank in controlling inflation, reducing liquidity, and financing budget deficit had a crucial role in the success of financial market of the country to improve resource allocation and thereby economic development. Therefore, stable inflation, and all that it encompassed was necessary first step to achieve a deeper and more active financial sector with all its attached benefits.

The study also evident that firms with foreign ownership had higher firm value and firms with higher state ownership had lower firm performance.

Based on the findings, this study concluded that the influence of leverage and inflation rate affected the financial performance of shipping companies in Kenya. To this end therefore, recommendations were presented.

## RECOMMENDATIONS

Based on the above findings of study objectives the following are the key recommendations:

- It was recommended that the management of shipping companies consider putting in place the recommended steps seen as probable ways of ensuring that their financial management practices were improved for better return on assets. For instance they should enhance the process of preparation and publication of the company's financial statements, improve the company's capital structure and ensure that the companies fully utilized their debt facility according to their capabilities.
- Further, it was suggested that shipping companies be encouraged to better manage their reliance on equity capital. Management of shipping companies should also ensure that their companies were quoted on the NSE enhance their companies capital base. Lastly, it was suggested that the shipping companies strategize on best possible means of ensuring there was minimal adverse of factors influencing financial performance on the shipping companies.

### Suggestions for further research

The study was limited to Shipping Companies within Mombasa County and never considered other variables; therefore the study recommends that related study be undertaken particularly to investigate the intervening effect of variables like financial systems, economic, skills and communication processes. Such studies should involve larger samples sizes than 56 which this study used to increase result reliability for further generalization.

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