THE RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE IN THE SHIPPING INDUSTRY IN KENYA

BY

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DECLARATION

This research project report is my original work and has not been submitted to any other University for examination purpose.

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DEDICATION

I dedicate this research project to my dear wife, Salome Musyoka, my daughter Leah Mumbe, my son Gabriel Maliti and my parents, the late Kiita Muatha and Jedidah Kasingili who have encouraged me throughout my academic life.
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LIST OF ABBREVIATIONS

AIS – Accounting Information System
ARR – Accounting Rate of Return
CBA – Cost Benefit Analysis
CSM – Capital Structure Management
EBIT – Earnings before Interest and Tax
EVA – Economic Value Added
FAM – Fixed Asset Management
FRA – Financial Reporting Analysis
IASB – International Accounting Standards Board
IRR – Internal Rate of Return
IT – Information Technology
KSC – Kenya Shippers Council
NOPAT – Net Operating Profit before Interest and after Tax
NPV – Net Present Value
ROA – Return on Assets
ROCE – Return on Capital Employed
ROI – Return on Investments
SME – Small and medium-sized enterprise
WACC – Weighted Average Cost of Capital
WCM – Working Capital Management
ABSTRACT

This study was carried to achieve one key objective namely, to determine the relationship between financial management practices and financial performance of shipping companies in Kenya. A cross-sectional survey study of 36 respondents drawn from 9 out of the 21 registered shipping companies in Kenya was designed to assess the financial management practices of shipping companies operating within the country and how they affected their financial performance in an attempt to advice on best practice. Data was collected using a semi-structured questionnaire for employees in senior management positions in the financial and administrative departments within shipping companies. Data analysis and report of findings was done using descriptive statistics in the form of tables, frequencies and percentages. For analyses of the relationships between independent and dependent variables regression analysis was used. The results showed that the shipping companies had put in place various financial management practices to enable them attend to their financial management issues. The multivariate regression model used to determine the relationship between financial management practices and financial performance of shipping companies showed that the shipping companies’ overall financial performance were positively affected by the financial management practices. It is therefore 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 are improved for better return on assets.
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
Financial Management is a discipline dealing with the financial decisions corporations make, and the tools and analysis used to make the decisions. The discipline as a whole may be divided between long-term and short-term decisions and techniques. Both share the same goal of enhancing a firm’s value by ensuring that return on capital exceeds cost of capital, without taking excessive financial risks (Pandey, 2010).

According to (Gitman, 2011) financial management refers to the concepts of time, money and risk and how they are interrelated. At the individual level, financial management involves tailoring expenses according to the financial resources of the individual while from the organizational perspective the process of financial management is associated with financial planning and financial control. Modern approach of financial management basically provides a conceptual and analytical framework for financial decision making. It emphasizes on effective use of funds. According to this approach financial management can be broken down into three different decisions: Investment decisions, Financing decisions and Dividend decisions (Brealey & Myers, 2007).

Investment decisions involve investment in non-current assets known as capital budgeting as well as investment in current assets known as working capital management. Financing decisions relate to the raising of finance from various resources which will depend upon decision on type of source, period of financing, cost of financing and the returns thereby. Dividend decisions involve decisions on the distribution of profits. This requires decisions to be made on how much to distribute to the shareholders and how much should be retained (Brealey & Myers, 2007). Sound financial management practices help to improve the profitability of an organization and ensure that it has a healthy statement of financial position.
1.1.1 Financial management Practices

According to (Moore and 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.

Accounting Information System indicate an integrated framework within an entity (such as a business firm) that employs physical resources (i.e., materials, supplies, personnel, equipment, funds) to transform economic data into financial information for; conducting the firm’s operations and activities, and providing information concerning the entity to a variety of interested users. Indeed, the combination or interaction between human, technology and techniques would permit an organization to administer its knowledge effectively (Bhatt, 2001; Thomas and Kleiner, 1995).

Working capital is a part of a firm’s current assets. Depending on the source, working capital can be defined in different ways. Working capital is defined as a company’s total investment in current assets or assets that a company expects to be converted into cash within a year or less (Keown; Martin; Petty; and Scott, 2005). The investment in working capital involves carrying costs and shortage costs, so the firms have to find the tradeoff between them.

Capital structure is defined as the relative amount of debt and equity used to finance a firm. It’s the relative amount of permanent short term debt, long term debt, preferred stock and common equity used to finance a firm. In contrast, financial structure refers to the amount of total current liabilities, long term debt, preferred stock and common equity used to finance the firm. Thus, capital structure is part of financial structure, representing the permanent sources of a firm’s financing (Boateng, 2004).
Accounting information systems assist in the analysis of accounting information provided by the financial statements. Romney (2009) purport that the biggest advantage of computer-based accounting information systems is that they automate and streamline reporting. As pertains to Financial Reporting Analysis (FRA), recording and organizing the accounting information systems will not meet objectives unless reports from systems are analyzed and used for making managerial decisions (Gitman, 2011). Working Capital Management (WCM) refers to decisions relating to working capital and short term financing (Garrison, 1999). These involve managing the relationship between a firm’s short-term assets and short-term liabilities. 

Fixed (non-current) assets management (FAM) is an accounting process that seeks to track non-current assets for the purposes of financial accounting, preventive maintenance and theft deterrence (Garrison, 1999). Capital Structure Management (CSM) according to (Romney, 2009) means overseeing the capital structure of an organization. A company’s capital structure refers to the combination of its various sources of funding. Most companies are funded by a mix of debt and equity.

1.1.2 Financial Performance 

According to McMahon (1995) financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Further this term is used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

Financial performance of companies can be measured by use of accounting information or stock market values in a financial management practices context. When applying stock market values as a measure of performance, one is interested in analyzing the change in market value. Firm performance is measured over time by using the average stock market change per year. This value is usually obtained by calculating the yearly change in stock price.
When accounting information is used, accounting ratios are employed. Among the common accounting ratios used to measure profitability are: return on assets (ROA) and return on capital employed (ROCE). Return on assets is an indicator of how profitable a company is relative to its total assets. 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 (Brealey & Myers, 2007).

1.1.3 Effect of Financial Management practices on Performance

When the relationship between financial management practices and financial performance is analyzed, it should be noted that there are other factors which account for potential influences on the relationship. Although these other variables are not directly related to the relationship between financial management practices and performance, it is important to take them into account in order to isolate their effect on performance. These variables include firm size, degree of risk, capital intensity, and leverage and industry factors such as growth, firm advertising, market share, research and development. This study will hold these variables as control variables (Moore & Reichert, 1989).

The ultimate goal of financial management is to maximize the financial wealth of the business owner(s) (McMahon, 1995). This general goal can be viewed in terms of more specific objectives: profitability and liquidity. Profitability management is concerned with maintaining or increasing a business’s earnings through attention to cost control, pricing policy, sales volume, inventory management and capital expenditures.

Liquidity management ensures that the business’s obligations (wages, bills, loan repayments, tax payments etc) are paid. McMahon (1995) also viewed growth as another objective of financial management in relation to liquidity, growth and profitability. Financial management also aims to maximize the share price in the securities market and enhancing long-term value of the firm.
1.1.4 Shipping Industry in Kenya

The global economic changes over the last few years have presented the shipping industry with a paradigm shift in many facets of its conventional operations. Those liners that fail to embrace these new paradigms will be engulfed by their ineffective and inefficient traditional methods. Peder and Farrag (2010) in their global focus on Business, Sustainability and Responsibility, (BSR), predict that in the next five to seven years, market, stakeholder, customer, and regulatory pressures related to sustainability will drive significant changes in the way international shipping lines operate and do business. These will demand a bigger focus on routing to the emerging economies, rise in the costs of energy, cutting carbon emissions and adapting to climate change, maritime piracy and related costs, as well as the stakeholders increasing demand for environmental sustainability and corporate social responsibility.

Financial management practices directly contribute to the organizational performance of any company. Bhattacharya, (2006) 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. The shipping industry in Kenya is not an exception to this regard.

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.

The Kenyan shipping industry comprises of shipping liners which function as the main global carriers such as Maersk Liner, CGM CMA, among others (see full list in appendix 2). 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.

1.2 Research Problem

Sound financial management practices are crucial to the survival and well-being of many business enterprises of all types. Studies of reasons for business failure show that poor or careless financial management is the major cause of failure (Berryman & Peacock, 1991). According to financial management theory, the objective of the firm is to maximize the wealth of its shareholders. Financial management practices adopted by organizations are said to maximize the shareholders’ wealth when they contribute to the company’s performance. Under the assumption of economic rationality, sound financial management practices can be regarded as a means by which a firm uses in order to fulfill its objectives.

The shipping industry in Kenya is dominated by multi-national shipping lines whose vessels call at the port of Mombasa to discharge and load cargo. These multi-national 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.

Studies on the relationship between financial management practices and financial performance have presented mixed results. Klammer (1973) in his study of the relationship between sophisticated capital budgeting methods and financial performance in US, found out that, despite the growing adoption of sophisticated capital budgeting methods, there was no consistent significant association between financial performance and capital budgeting techniques. Moore and Reichert (1989) in their multivariate study of firm performance and use of modern analytical tools and financial techniques study in 500 firms in US, they showed that firms adopting sophisticated capital budgeting techniques had better than average firm financial performance. More specifically, firms using modern inventory management techniques and Internal Rate of Return (IRR) reported superior financial performance, unlike those firms using methods such as Payback method and Accounting Rate of Return (ARR), (Raheman and Nasr, 2007).

Wanyugu (2001) did a research on financial management practices of micro and small enterprises in Kenya a case of Kibera and found out that the management of the financial practices is an important factor in the performance of SMEs. Siba (2012) did a study on the relationship between financial risk 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. Nyongesa (2011) looked at the relationship between financial performance and financial management practices of insurance companies in Kenya. The study revealed that there was a consistent, significant positive association between financial management practices and financial performance. However, the study did not establish reasons for this correlation.
Although this study will be based on same topic, looking at the relationship between financial management practices and financial performance, it aims to examine the shipping industry in Kenya which has not been studied before. The report aims at shedding more light on the financial management practices adopted by the shipping companies and attempt to answer the following questions: What are the financial management practices adopted by shipping companies in Kenya and what relationship exists between the financial management practices and the financial performance of the shipping companies?

1.2.1 Objectives of the Study

This study was guided by the following objectives:

i. To identify the financial management practices adopted by shipping companies in Kenya

ii. To determine the relationship between financial management practices and financial performance of shipping companies in Kenya

1.2.2 Value of the Study

This study will provide an insight to finance practitioners on the financial management practices and their relationship with organizational performance. It will also provide vital information to business firms particularly in the shipping industry on how best to maximize on the usage of financial policies and practices. By gaining understanding of the most crucial financial practices applicable to their companies, organizations will have to organize themselves in a way that ensures success. With knowing such factors, organizations will be able to better prepare for any new challenges and thus operate successfully and be able to compete in the global market.

This study will act as a reference point to other researchers in the same field as it is directly linked to the current interest in sustainable financial management practices in both the private and public sector.
The study will also add to the existing body of knowledge and stimulate further research on different aspects of financial management practices that have been adopted by shipping companies as these companies operate in a very dynamic business environment.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter looked at the theoretical review, financial performance measures and empirical review.

2.2 Theoretical Review

2.2.1 Residual Equity Theory
In the residual equity theory, changes in asset valuation, income and in retained earnings and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders. The specific equities include the claims of creditors and the equities of preferred stockholders. The balance sheet equation becomes as follows: ‘Assets minus specific equities are equal to Residual equity’. The equity of common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders. According to Hendrickson (1982) the residual equity point of view is a concept somewhere between the proprietary theory and the entity theory.

The objective of the residual equity approach is to provide better financial reporting as a consequence of good financial management practices. In a going concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future financial status is dependent upon expectations of total receipts less specific contractual obligations, payments to specific equity holders and requirements for reinvestment. Since financial statements are not generally prepared on the basis of possible liquidation, the information provided regarding the residual equity should be useful in predicting possible future financial status to common stockholders.

In the balance sheet format this is stated as follows: ‘Assets minus liabilities are equal to residual equity’. The assets are assumed to be owned by the proprietor and the liabilities are the proprietor’s obligations. Revenues are increases in proprietorship and expenses are decreases. Thus the net income accrues directly to the owners, that is, it represents an
increase in the wealth of the proprietors. The proprietorship is considered to be the net value of the business to the owners. It is a wealth concept (Hendrickson, 1982).

2.2.2 The Contingency Theory

According to Pike (1986) resource-allocation efficiency is not merely a matter of adopting sophisticated, theoretically superior investment techniques and procedures but consideration must also be given to the fit between the corporate context and the design and operation of the capital budgeting system. Pike (1986) focuses on three aspects of the corporate context which are assumed to be associated with the design and operation of a firm’s capital budgeting system.

The first aspect is a firm’s organizational characteristics. Decentralization and a more administratively oriented control strategy involving a higher degree of standardization are characteristics of large companies. Smaller, less complex organizations tend to adopt interpersonal, less sophisticated control systems. Haka, Gordon & Pinches (1985) have an opposite opinion and argue that firms will experience more benefits from using sophisticated capital budgeting techniques. They base their argument on Schall & Sundem (1980) study which shows that the use of sophisticated capital budgeting techniques declines with an increase in environmental uncertainty.

The second aspect is environmental uncertainty. The more variable and unpredictable the context of operation is, the less appropriate will be the highly bureaucratic, mechanistic capital budgeting structures. Pike (1986) suggests that firms operating in highly uncertain environments are assumed to benefit from sophisticated investment methods, particularly in appraising risk. The last aspect concerns behavior characteristics. Pike identifies three characteristics, i.e. management style, degree of professionalism and the history of the organization.

An administratively-oriented capital budgeting control strategy is assumed to be consistent with analytical style of management, a high degree of professionalism and a
history of undistinguished investment outcomes. The firm’s financial status may influence the design and effort put on capital budgeting.

According to (Axelsson, Jackovicka and Kheddache, 2002) more effort will be devoted to budgeting in an adverse financial situation, since it will no longer be as simple to find an acceptable budget and there will be a need for more frequent follow up. These arguments have been applied to capital budgeting procedures by Haka, Gordon & Pinches (1985). They argue that the implementation of sophisticated capital budgeting procedures is one of many means of coping with acute resource scarcity. Another argument is that since the main value of adequate investment rules is in distinguishing profitable from unprofitable projects, highly profitable firms are expected to derive less benefit from such techniques than would less successful firms with history of marginal projects (Axelsson et al, 2002).

2.3 Financial Management Practices
For the purpose of this section, financial management practices are defined and demarcated as the practices performed by the accounting officer in the areas of fixed asset management, accounting information systems, working capital management, financial reporting analysis and capital structure management.

2.3.1 Fixed Asset Management (FAM)
For the purpose of this thesis the focus is on movable assets; the acquisition of capital assets can most certainly exert an effect on an organization’s competitive advantage over the long term. Capital equipment is characterized by large expenditure and non-recurring expenditure. Purchasing capital equipment usually requires a relatively large capital outlay, which may sometimes amount to millions and which may have particular financial implications. Buying capital equipment can therefore be regarded as an investment which is financed from long-term, rather than from working, capital.

It is important to consider not only the purchase price of capital equipment, but also the total cost of ownership (Hugo et al., 2006). Capital equipment is usually purchased at
irregular intervals. It is used up gradually in the production process, rather than as a part of the end product. Owing to the relatively long lifespan of equipment, it could take several years before it needs to be replaced and, at the time of replacement, old equipment could prove to be technologically obsolete. If the correct purchasing decision is made, capital equipment generates profits for the organization. Incorrect decisions may have disastrous consequences for the enterprise, since it will not be able to sell capital equipment over the short term. For the above reason, according to Burt, Dobler and Starling (Hugo et al., 2006), top management should consider the acquisition of capital equipment, with care.

2.3.2 Accounting Information Systems (AIS)

Orwel (2009) states that the AIS is a system of records usually computer-based, which combines accounting principles and concepts with the benefits of an information system and which is used to analyze and record business transactions for the purpose of preparing financial statements and providing accounting data to its users. AIS assists in the analysis of accounting information provided by the financial statements. Romney et al (2009) purport that the biggest advantage of computer-based accounting information systems is that they automate and streamline reporting. Reporting is a major tool for organizations to accurately see summarized, timely information used for decision-making and financial reporting.

2.3.3 Financial Reporting Analysis (FRA)

As pertains to Financial Reporting Analysis (FRA), recording and organizing the accounting information systems will not meet objectives unless reports from systems are analyzed and used for making managerial decisions. Financial statements usually provide the information required for planning and decision making. Information from financial statements can also be used as part of the evaluation, planning and decision making by making historical comparisons (Gitman, 2011).
2.3.4 Capital Structure Management (CSM)

Capital Structure Management (CSM) according to Romney (2009) means overseeing the capital structure of an organization. A company’s capital structure refers to the combination of its various sources of funding. Most companies are funded by a mix of debt and equity. When determining a company’s cost of capital, the costs of each component of the capital structure are weighted in relation to the overall total amount. This calculates the company’s weighted average cost of capital (WACC). The WACC is used to calculate the net present value (NPV) in capital budgeting for corporate projects. A lower WACC will yield a higher NPV hence achieving a lower WACC is always optimal.

2.3.5 Working Capital Management

According to (Garrison, 1999), Working Capital Management (WCM) refers to decisions relating to working capital and short term financing. These involve managing the relationship between a firm’s short-term assets and short-term liabilities. The goal of WCM is to ensure that the firm is able to continue its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and upcoming operational expenses. The context of working capital management includes cash management, receivables and payables management, and inventory management.

2.4 Financial Performance Measures

Measures of corporate performance are numerous. Traditional common measures include; Return on Investments (ROI), Return on Assets (ROA), Return on Capital Employed (ROCE), Cost Benefit Analysis (CBA) and Economic Value Added (EVA). In this study all these measures are discussed.

2.4.1 Return on Investments

This is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of different investments. To calculate ROI, the benefit (return) of
an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

\[
\text{ROI} = \frac{\text{Gain from investment} - \text{Cost of investment}}{\text{Cost of investment}}
\]

In the formula above, ‘gains from investment’ refers to the proceeds obtained from selling the investment or interest. Return on investment is a very popular measure because of its versatility and simplicity. If an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should not be undertaken.

2.4.2 Return on Assets

This is an indicator of how profitable a company is relative to its total assets. ROA 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. It is computed as follows:

\[
\text{ROA} = \frac{\text{Net income (EBIT)}}{\text{Total assets (expressed as a percentage)}}
\]

ROA tells us what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry.

2.4.3 Return on Capital Employed

ROCE indicates the efficiency and profitability of a company’s capital investment. It is one of the most important operating ratios that can be used to assess corporate profitability. It is expressed as a percentage and can be very revealing about the industry in which a company operates in, the skills of management and occasionally the general business climate. As a general rule, a firm with a high return on capital employed will probably be a very profitable business. ROCE is calculated as follows:

\[
\text{ROCE} = \frac{\text{PBIT (Net Income)}}{\text{Capital Employed}}
\]

Where \( \text{Capital Employed} = \text{Total Assets} - \text{Current Liabilities} = \text{Equity} + \text{Non Current Liabilities} \)
2.4.4 Cost Benefit Analysis

CBA is an economic decision-making approach used particularly in government and business organizations. It is used in the assessment of whether a proposed project, programme or policy is worth doing or to choose between several alternative ones. It involves comparing the total expected costs of each option against the total expected benefits to see whether the benefits outweigh the costs and by how much. In CBA, benefits and costs are expressed in money terms and are adjusted for the time value of money so that all flows of benefits and flows of project costs over time (which tend to occur at different points in time) are expressed on a common basis in terms of their present value.

2.4.5 Economic Value Added

This is a registered trademark of Stern Stewart & Company and is an estimate of a firm’s economic profit being the value created in excess of the required return of the company’s investors (i.e. shareholders and debt holders). EVA is the profit earned by the firm less the cost of financing the firm’s capital. The idea is that value is created when the return on the firm’s economic capital employed is greater than the cost of that capital. Just earning profit is not enough, a business should earn sufficient profit to cover its cost of capital and create surplus to grow. Stated simply, any profit earned over and above the cost of capital is Economic Value Added (Malik and Rakshit, 2005).

EVA is a measure of corporate surplus that should be shared by the employees, management and shareholders. It focuses on clear surplus in contradiction to the traditionally used profit available to the shareholders. EVA is used by companies as a performance indicator and also as a basis for executive compensation. Surplus should be derived by deducting cost of capital from before interest but after tax.

\[ EVA = NOPAT - (WACC \times \text{Capital Employed}) \]

Where NOPAT refers to Net Operating Profit before Interest and After Tax while WACC represents Weighted Average Cost of Capital.
2.5 Empirical Review

Klammer (1973) in his study of the relationship between sophisticated capital budgeting methods and financial performance in US, found out that, despite the growing adoption of sophisticated capital budgeting methods, there was no consistent significant association between financial performance and capital budgeting techniques. Moore and Reichert (1989) in their multivariate study of firm performance and use of modern analytical tools and financial techniques study in 500 firms in US, they showed that firms adopting sophisticated capital budgeting techniques had better than average firm financial performance.

Nguyen (2001), sought to assess the relationship between financial management practices and profitability of small and medium enterprises in Australia. He focused his attention at various financial management practices and financial characteristics and demonstrates the simultaneous impact of financial management practices and financial characteristics on SME profitability. He further examined fixed (non-current) asset management practices of a sample of 99 trading and 51 manufacturing SMEs. He found out the nearly 80 percent of SMEs always or often evaluate capital projects before making decisions of investment and review the efficiency of utilizing fixed assets after acquisitions. Some 87 percent of SMEs stated that they used payback period techniques in capital budgeting; only 27 percent used the more sophisticated discounted cash flow techniques, the Net present value (NPV), internal rate of return (IRR) and modified internal rate of return (MIRR). These findings revealed that SMEs highly regarded fixed asset management although their knowledge of management techniques was not outstanding.

In Kenya, Mundu (1997) sought to review selected financial management practices adopted by small enterprises in Kenya. The study found out that 66% of the respondents did not undertake cash budgeting, 70% of the business owners kept surplus cash with themselves and over 56% of the business owners were handling cash personally as the security to their money. Furthermore, more than 70% of the respondents sold on credit to those customers believed to be known by the business owner. Overdue accounts were followed up through reminders either by personal visits or telephone calls or both; 70%
of the businesses charged prices on the basis of full cost plus margin which may be a mentally calculated price or selling at what the competitors are charging and only 16% of them kept cost control reports. Over 80% of the businesses had prepared a business plan with the most common reason being to get financing. These results led to the conclusion that the survival of SMEs heavily depended on the good practice of formal financial management. Similar studies explained above on the topic have reported a negative relationship of the capital budgeting techniques and financial performance. The studies have indicated that, despite a growing adoption of sophisticated capital budgeting methods, there is no consistent significant association between performance and capital budgeting techniques.

2.6 Summary of Literature Review

In the literature, it has been argued that the use of financial management practices may be related to improved financial performance. Some of the studies indicated that sophisticated capital budgeting techniques mostly NPV and IRR had a positive relationship with ROA while the traditional methods showed an insignificant relationship. However, similar reported a negative relationship between the capital budgeting techniques and financial performance. This indicates that the mere adoption of various analytical tools is not sufficient to bring about superior performance and that, other factors such as marketing, product development, executive recruitment and training, labour relations etc., may have a greater impact on profitability.

Local studies on the other hand have mainly dealt with the application of the capital budgeting techniques in listed companies and also in the banking sector. Their findings indicate that discounted cash flow methods are not extensively being used to appraise investment decisions. The report in the banking sector particularly found the overwhelming application of the traditional capital budgeting techniques. Thus given these conflicting findings this study seeks to establish the effect of the financial management practices on financial performance of all the shipping companies in Kenya.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter covers the design of the study, the target population, data collection methods, measurement of variables and data analysis techniques.

3.2 Research Design
This study adopted a survey research design. A census survey of all the shipping companies in Kenya was undertaken. Such cross-sectional survey research is descriptive in nature and as defined by Glass & Hopkins (1984), descriptive research design involves gathering data that describes events and then organizes, tabulates, depicts, and describes the data collection and often uses visual aids such as graphs and charts to help the reader in understanding data distribution. The study sought to establish the relationship between financial management practices and performance of shipping companies in Kenya between the periods 2009 – 2012.

3.3 Study Population
The study population consisted of all the shipping companies in Kenya. From the KPA Handbook 2012/13 there are 21 shipping companies in Kenya.

3.4 Data Collection
The study used both primary and secondary data. Primary data was collected using a semi-structured questionnaire. The questionnaire was sub-divided into two sections. Section A for demographic information and section B for financial management practices adopted by the shipping companies. The questionnaire used both open and closed ended questions to obtain the information required. A five-point Likert scale was used in the design of the financial management practice questions. A “drop-and-pick later” method was used to administer the questionnaire to each of the shipping companies. The secondary data was obtained from the published financial statements of the shipping companies.
3.5 Data Analysis and Presentation
The data collected was edited for accuracy, consistency and completeness and arranged to enable coding and tabulation before final analysis. The data was then be analyzed to generate descriptive statistics such as percentages, means and standard deviations. The data was presented using tables, charts and cross tabulations. The following regression model is used to compute the relationship between financial management practices and financial performance of shipping companies.

Regression equation used was:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \]

Where:
- \( Y \) = Financial performance as measured by Return on Assets (ROA)
- \( X_1 \) = Unit change in Return on Assets as a result of a unit increase in Financial Reporting Analysis
- \( X_2 \) = Unit change in Return on Assets as a result of a unit increase in Non-current Asset management
- \( X_3 \) = Unit change in Return on Assets as a result of a unit increase in Capital Structure Management
- \( X_4 \) = Unit change in Return on assets as a result of a unit increase in working capital management
- \( \epsilon \) = Error term
- \( \beta_0 \) = Constant
- \( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are regression coefficients

The error is the difference between the calculated dependent variable value and the actual value.

The Statistical Package for Social Sciences (SPSS) version 18 was used to analyze the data collected. The coefficient of determination, R squared, measure was used to test the significance of the regression model in explaining the relationship between financial management practices and financial performance. R squared is a measure of goodness of
fit and shows the percentage variance in the dependent variable that is explained by the independent variable(s). The higher the R squared the better the model. The ANOVA statistics was used to present the regression model significance. An F-significance value of $p = 0.000$ was established showing that there is a probability of 0.0% of the regression model presenting a false information. The P-Value and the t-test were used to test the individual significance of the predictor variables used in the study.

3.6 Data Validity and Reliability
Data validity refers to how well the result of a research can give the right answer to the research question (Remenyi et al, 1998). To ensure validity, information from previous studies and different literatures which cover all the areas of the study were used. The theoretical framework being a reflection of these previous studies, the questionnaire was based on the theoretical framework in order to arrive at the right answer to the research problem. A pilot test was conducted to test validity of the research instruments with regard to financial management practices at the shipping companies in Kenya.

For data reliability, the researcher designed the questionnaire using an elaborate procedure of reviewing relevant literature. In order to measure internal consistency, the researcher used Cronbach’s alpha method.
CHAPTER FOUR
RESULTS, DATA ANALYSIS AND DISCUSSION

4.1 Introduction
This chapter presented an analysis of data collected from employees in senior management positions in the financial and administrative departments within shipping companies in Kenya and discusses the findings. Data analysis and report of findings was done using descriptive statistics in the form of tables, frequencies and percentages. For analyses of the relationships between independent and dependent variables regression analysis was used. The findings of the study were discussed under the following research objectives:

i. To identify the financial management practices adopted by shipping companies in Kenya

ii. To determine the relationship between financial management practices and financial performance of shipping companies in Kenya.

4.2 Demographic characteristics of the respondents
The study comprised 36 respondents drawn from 9 out of the 21 registered shipping companies. The respondents were sampled from financial, customer service, operations and administration departments. A summary of the other finding were as is presented in table 1.

Table 1. Respondents’ demographics

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership of the company:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>Foreign</td>
<td>16</td>
<td>44.4</td>
</tr>
<tr>
<td>Hybrid</td>
<td>8</td>
<td>22.2</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>100.0</td>
</tr>
<tr>
<td>How many branches does the company have in Kenya? 1 – 5</td>
<td>36</td>
<td>100.0</td>
</tr>
<tr>
<td>Length of service yrs:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 – 5</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>6 – 10</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>Over 10</td>
<td>18</td>
<td>50.0</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>100.0</td>
</tr>
<tr>
<td>What range of services does your company offer:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Containerized</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>Consolidated</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>Oil tankers</td>
<td>6</td>
<td>16.7</td>
</tr>
<tr>
<td>Agency service</td>
<td>12</td>
<td>33.3</td>
</tr>
<tr>
<td>Total</td>
<td>36</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The above results were collected from Four employees of different departments of the following shipping companies in Kenya namely, Maersk Kenya Limited, Inchcape Shipping Services, Evergreen Shipping line, CGM CMA ,Sturrock Shipping Kenya Limited, EAEL Logistics and Shipping Services, Ocean Freight Kenya Limited, Mediterranean Shipping Company and P&O Nedlloyd Kenya Limited.

The results of the analysis presented in Table 1 which contains information on the respondents’ demographics shows that 12 (33.3%) of the respondents worked in locally owned companies, 16 (44.4%) in foreign owned companies with the remaining 8 (22.2%) being from hybrid companies. All the companies had between 1 and 5 branches countrywide and a majority were said to have been in operation for over 10 years. Lastly, the companies were said to be engaged in containerized services, consolidated services, oil tanker and agency services with a majority of the respondents being drawn from companies engaged in consolidated and agency services. This means that not were a majority of the companies selected for the study found to have been in shipping industries long enough to have generated valuable information for the study but also the officers who responded to the questionnaires being senior cadre of personnel in charge of formulation, and administration of the company’s financial management systems were the best placed persons to provide an insight into the company’s financial management health status.

4.3 Financial management practices adopted by shipping companies in Kenya

The study, to begin with sought to identify the financial management practices adopted by shipping companies in Kenya. A 5-point Likert scale was used to rate the respondents’ perception of the extent of use of the various practices with 1 point being accorded to strongly disagree, 2 points to disagree, 3 points to neutral, 4 points to agree and 5 points to strongly agree. The respondents were, thus, requested to state their extent of agreement to each of the statement provided. The practices whose use was tested included financial reporting analysis, fixed assets management, capital structure management and working capital management based on mean ranking.
4.3.1  Financial reporting analysis

The first financial management practice whose use was assessed was financial reporting analysis. The findings were as is indicated in Table 2.

<table>
<thead>
<tr>
<th>Elements of FRA</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The financial statements of the company are prepared in line with the financial accounting standards</td>
<td>36</td>
<td>4.50</td>
<td>0.507</td>
</tr>
<tr>
<td>The financial statements are prepared in accordance with GAAP</td>
<td>36</td>
<td>4.00</td>
<td>0.586</td>
</tr>
<tr>
<td>The financial statements are published regularly</td>
<td>36</td>
<td>3.83</td>
<td>0.697</td>
</tr>
<tr>
<td><strong>Grand Mean</strong></td>
<td></td>
<td><strong>4.11</strong></td>
<td><strong>0.597</strong></td>
</tr>
</tbody>
</table>

From Table 2 which contains information on the respondents’ perception of use of elements of financial reporting analysis show that the use of the practice was highly prominent giving it a weighted mean of 4.11. The respondents maintained that financial statements of the company are prepared in line with the financial accounting standards (mean of 4.50), that the financial statements are prepared in accordance with GAAP (mean of 4.00) and that the financial statements are published regularly 3.83.

4.3.2  Fixed assets management

Fixed assets management use was also assessed as a financial management practice. The respondents were probed with statement seeking to determine whether the various elements fixed assets management were in use in their companies. The results were as is recorded in Table 3.
Table 3 Fixed assets management

<table>
<thead>
<tr>
<th>Elements of FAM</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company maintains a non-current assets register</td>
<td>36</td>
<td>4.17</td>
<td>0.378</td>
</tr>
<tr>
<td>The non-current assets have been tagged</td>
<td>36</td>
<td>4.33</td>
<td>0.756</td>
</tr>
<tr>
<td>Movement of non-current assets have to be authorized by senior management</td>
<td>36</td>
<td>4.83</td>
<td>0.378</td>
</tr>
<tr>
<td>Non-current assets count is carried out every year</td>
<td>36</td>
<td>4.50</td>
<td>0.507</td>
</tr>
<tr>
<td>Capital expenditure on non-current assets must be authorized by senior management</td>
<td>36</td>
<td>4.50</td>
<td>0.507</td>
</tr>
<tr>
<td>The repair and maintenance of non-current assets is carried out regularly</td>
<td>36</td>
<td>4.33</td>
<td>0.478</td>
</tr>
<tr>
<td><strong>Grand mean</strong></td>
<td></td>
<td><strong>4.44</strong></td>
<td><strong>0.501</strong></td>
</tr>
</tbody>
</table>

The results in Table 3 which contains the results of respondents’ perception of use of fixed assets management show that the fixed assets management is considered a popular financial management practice given its weighted mean of 4.44. For instance, the respondents acknowledged that their company maintains a non-current assets register (mean of 4.17) that the non-current assets have been tagged (4.33) and that movement of non-current assets has to be authorized by senior management (4.83). Further, they maintained that non-current assets count is carried out every year (4.50) that capital expenditure on non-current assets must be authorized by senior management (4.50) and that repair and maintenance of non-current assets is carried out regularly (4.33).

### 4.3.3 Capital structure management

Further, the study sought to establish manifestation of use of capital structure management as a factor of financial management practice. The findings were presented in Table 4.
Table 4 Capital structure management

<table>
<thead>
<tr>
<th>Elements of CSM</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The capital structure of the company is appropriate</td>
<td>36</td>
<td>3.83</td>
<td>0.378</td>
</tr>
<tr>
<td>The company has fully utilized the debt facility according to its capabilities</td>
<td>36</td>
<td>3.50</td>
<td>0.971</td>
</tr>
<tr>
<td>The company relies on equity capital only</td>
<td>36</td>
<td>3.50</td>
<td>0.775</td>
</tr>
<tr>
<td>The company is quoted on the NSE</td>
<td>36</td>
<td>2.17</td>
<td>0.910</td>
</tr>
<tr>
<td>The company has foreign ownership</td>
<td>36</td>
<td>3.33</td>
<td>1.394</td>
</tr>
<tr>
<td><strong>Grand mean</strong></td>
<td></td>
<td>3.27</td>
<td>0.886</td>
</tr>
</tbody>
</table>

Table 4 contains the results showing the respondents perception of use of capital structure management as a financial management practice. The results show that the extent of use of CSM is clearly defined (mean of 3.27). The respondents were in agreement that the capital structure of the company is appropriate (3.83), that the company has fully utilized the debt facility according to its capabilities (3.50), that company relies on equity capital only (3.50) and that the company has foreign ownership (3.33). However, fewer companies were found to be quoted on the NSE (2.17). This finding corroborates that of several researchers.

4.3.4 Working capital management

Finally, indicators of working capital management were probed to determine their use within the shipping companies. Table 5 presents a summary of the research findings.
### Table 5 Working capital management

<table>
<thead>
<tr>
<th>Elements of WCM</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company has a working capital management system</td>
<td>36</td>
<td>4.17</td>
<td>0.378</td>
</tr>
<tr>
<td>Maintains inventory records which are updated regularly</td>
<td>36</td>
<td>4.00</td>
<td>1.014</td>
</tr>
<tr>
<td>Receivables management system is fully automated</td>
<td>36</td>
<td>4.17</td>
<td>0.378</td>
</tr>
<tr>
<td>Optimal cash balances are maintained by the company at all times</td>
<td>36</td>
<td>4.50</td>
<td>0.507</td>
</tr>
<tr>
<td>Maintains proper records for all payables</td>
<td>36</td>
<td>5.00</td>
<td>0.000</td>
</tr>
<tr>
<td>Ensures there is sufficient cash flow to meet daily needs</td>
<td>36</td>
<td>4.67</td>
<td>0.478</td>
</tr>
<tr>
<td>Prepares cash flow forecasts to identify future surpluses and deficits</td>
<td>36</td>
<td>4.00</td>
<td>0.000</td>
</tr>
<tr>
<td><strong>Grand Mean</strong></td>
<td></td>
<td><strong>4.36</strong></td>
<td><strong>0.394</strong></td>
</tr>
</tbody>
</table>

The findings as contained in Table 5 shows that the use of elements of working capital management was clearly evident as is manifested by its overall weighted mean of 4.36. Consequently, the respondents acknowledged the existence of company working capital management system (4.17), that maintained inventory records are updated regularly (4.00), that receivable management system is fully automated (4.17) and that optimal cash balances are maintained by the company at all times (4.50). Further, they indicated that their companies maintain proper records for all payables (5.00), that they ensure that there is sufficient cash flow to meet daily needs (4.67) and that they each prepare cash flow forecasts to identify future surpluses and deficits (4.00).

#### 4.4 The relationship between financial management practices and financial performance of shipping companies in Kenya

A multivariate regression model was applied to determine the relationship between financial management practices and financial performance of shipping companies in.

Multiple linear regressions used in this model were:

R shown in Table 6 is the correlation between the observed and predicted values of dependent variable implying that the association of 0.978 between financial management
practices (financial reporting analysis, non–current asset management, capital structure management and working capital management) and financial performance was very good. R-Square is coefficient of determination and measures the proportion of the variance in the dependent variable – financial performance - that is explained by variations in the independent variables - financial reporting analysis, non–current asset management, capital structure management and working capital management. This implied that 95.1% of variance or correlation between dependent and independent variables. That is, 95.1% of variations or changes in financial performance are caused by the financial management practices adopted by the shipping companies. However, it does not reflect the extent to which any particular independent variable is associated with financial performance.

Table 6 Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.978^a</td>
<td>.957</td>
<td>.951</td>
<td>.15392</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), WCM, FAM, CSM, FRA

The ANOVA statistics shown in Table 7 was used to present the regression model significance. An F-significance value of p = 0.000 was established showing that there is a probability of 0.0% of the regression model presenting a false information. Therefore, the model is very significant.
Table 7: Analysis of Variance (ANOVA)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>16.266</td>
<td>4</td>
<td>4.066</td>
<td>171.651</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>.734</td>
<td>31</td>
<td>.024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>17.000</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), WCM, FAM, CSM, FRA
b. Dependent Variable: ROA

The regression compares the magnitude of the coefficients of the independent to determine which one had more effects on performance.

Table 8 Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Un standardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>15.595</td>
<td>.585</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FRA</td>
<td>.340</td>
<td>.048</td>
<td>.904</td>
<td>7.034</td>
</tr>
<tr>
<td>FAM</td>
<td>-.602</td>
<td>.051</td>
<td>-1.401</td>
<td>-11.733</td>
</tr>
<tr>
<td>CSM</td>
<td>-.317</td>
<td>.024</td>
<td>-1.054</td>
<td>-13.199</td>
</tr>
<tr>
<td>WCM</td>
<td>.858</td>
<td>.037</td>
<td>1.514</td>
<td>23.484</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA

From Table 8, the following regression model is established:

\[ \text{ROA} = 15.595 + 0.304X_1 - 0.602X_2 - 0.317X_3 + 0.858X_4 \quad \text{P} = 0.000 \]

Where \( X_1 = \) financial report analysis, \( X_2 = \) noncurrent asset management, \( X_3 = \) capital structure management, \( X_4 = \) working capital management and \( \beta_0 = 15.595; \beta_1 = 0.304; \beta_2 = -0.602; \beta_3 = -0.317 \) and \( \beta_4 = 0.858 \)

The regression constant shows that when the independent variables (financial report analysis, noncurrent assets management, capital structure management and working capital management) are constant at zero, financial performance value would be 15.595. This shows that without the four financial management practices, the shipping company financial performance would be dismal.
It was established that quality of financial performance would rise by 0.304 with every unit positive increase in financial report analysis provided that other factors (noncurrent assets management, capital structure management and working capital management) are constant. This statistic is significant at 95% confidence level (p = 0.000). Noncurrent assets management would however lead to decrease in quality of financial performance by factor of 0.602 with P value of 0.000 should other factors be held constant.

Additionally, holding other factors (financial report analysis, non – current assets management and working capital management) constant, a unit increase in capital structure management would lead to a 0.317 decrease in financial performance (p = 0.000). Working capital management would lead to an increase in financial performance by a factor of 0.858 significant at p = 0.000 should financial report analysis, non – current assets management and capital structure management be kept constant. This indicates that working capital management would positively influence shipping companies’ financial performance. From the findings, it is also evident that working capital management as it enables the shipping companies to be able to readily operationalize its activities has the highest influence on quality of the firms’ financial performance.

4.5 Interpretation of results
In this chapter, an attempt has been made to synthesize the information gathered from respondents drawn from various management positions of the shipping companies in Kenya. The analysis highlighted the respondents’ demographics, financial management practices used by the companies and ultimately their effect on the firm’s financial performance. The results of the analysis of data obtained from questionnaires pointed out various issues penitent to financial management in the companies. To begin with, the study established that various financial management practices are commonly used across companies in the shipping industry and which concurs with previous studies that have been undertaken before. For instance, use of elements of financial reporting analysis was established in concurrence with the findings of previous studies who asserted that information from financial statements can be used as part of the evaluation, planning and decision making by making historical comparisons.
Likewise, the use of fixed assets management practice due to its significance was also highlighted which concurs assertions of previous studies, who cautioned that top management consider the acquisition of capital equipment with care since if the correct purchasing decision are made, capital equipment generates profits for the organization. Incorrect decisions however they indicated may have disastrous consequences for the enterprise, since it would not be able to sell capital equipment over the short term. Other financial management practices pointed out as being significant for the shipping companies included capital structure management and working capital management.

With regard to the effect of financial management practices on the company’s performance that there was an overall positive effect on performance with working capital management due to its ability to enable the shipping companies to be able to readily operationalize its activities having the highest influence on quality of the firms’ financial performance. This research finding is in line with arguments advanced by previous studies, who in assessing the relationship between financial management practices and profitability of small and medium enterprises in Australia found that SMEs highly regard fixed asset management practices although their knowledge of management techniques were not outstanding and nearly 80 percent of SMEs always or often evaluated capital projects before making decisions of investment and review of the efficiency of utilizing fixed assets after acquisitions.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction
This chapter is a summary of the research findings, conclusions, recommendation and suggestion for further research. The main purpose of this study was to identify the financial management practices adopted by shipping companies in Kenya and how they affected the company’s financial performance. Data for analysis was obtained by use of questionnaires designed by the researcher for employees of selected shipping companies in senior financial and administrative departments of the companies. Information obtained was analyzed quantitatively with the aid of statistical package for social sciences (SPSS) version 17 computer software.

5.2 Summary
From the results analyzed and discussed in chapter four, the gist of the study findings contents can be summarized as follows:
The findings indicated that without the financial management practices, the shipping industry company financial performance would be dismal (15.595) if all other factors are held constant.

It was established that quality financial performance in shipping industry in Kenya would raise by 0.304 with every unit change of the three out of the four financial management practices, which is 95% confidence level(p=0.00).
Noncurrent assets management would however lead to decrease in the quality of the financial performance of shipping companies by a factor of 0.602 should the other factors be held constant meaning that this practice has negative relationship with the performance of shipping companies.

From this finding it’s evident that working capital management enables the shipping companies to be able to readily operationalize its activities as it has the highest influence on the quality of the firm’s financial performance.
5.2.1 Financial management practices
Results of data analysis shows that the shipping companies had put in place various financial management practices to enable them attend to their financial management issues. These according to a majority of the respondents were shown to include financial reporting analysis as well as non – current assets management practices. Others include capital structure management and working capital management practices with each of these financial management practices scoring highly on elements of the respondents’ perception of their use by the shipping companies.

5.2.2 Relationship between financial management practices and financial performance of shipping companies in Kenya
The multivariate regression model determined the relationship between financial management practices and financial performance of shipping companies showed that the shipping companies’ overall financial performance was positively affected by the financial management practices. The findings specifically showed that financial reporting analysis and working capital management practices each had a significant positive effect on the company’s financial performance with working capital management practice being a higher contributor to the effect.

However, non – current assets management and capital structure management as financial management practices were found to each have a significant negative influence on the shipping companies’ financial performance.

5.3 Conclusion
It can therefore be concluded that the shipping companies were found to have put in place robust financial management practices in the form of financial report analysis, non – current assets management, capital structure management and working capital management practices.

Further, it was found that financial management practices positively impacted on a shipping company’s financial performance and could be presumed to be an integral
management tool for shipping companies. They therefore should be enhanced to help improve shipping company’s financial performance. It can also be concluded that not all the financial management practices that are employed would give raise to the financial performance in all the industries regardless the nature of the business activity.

5.4 Recommendations
It is therefore 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 are 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 utilize their debt facility according to their capabilities.

Further, it is suggested that shipping companies be encouraged to better manage their reliance on equity capital. Management of shipping companies should also ensure that their companies are quoted on the NSE enhance their companies capital base. Lastly, it is suggested that the shipping companies strategize on best possible means of ensuring there is minimal adverse effects of non – current assets management and capital structure management practices on the shipping company’s financial performances.

5.5 Limitations
Shipping industry in Kenya is comprised of a number of players with varying financial management challenges. Since only a few respondents in managerial positions were involved in this study, the sample may not be a representative of all industry players in Kenya. The results of the study may also be limited by time and financial constraints.

5.6 Areas for further Research
The following areas are suggested for further study:
Further studies can be done in other industries as the data established in the shipping industry might not necessarily represent the relationship in other industries. A comparative study of financial management performance and non – financial management practices affecting financial performance of shipping companies in Kenya.
An exploratory study on the effects of non–current assets management and capital structure management practices on the shipping company’s financial performances.
REFERENCES


Olawale, F., Olumuyiwa, O., & George, H. (2010). An investigation into the Impact of Investment Appraisal Techniques on the Profitability of Manufacturing Firms in


APPENDICES

Appendix 1: Questionnaire

AN EVALUATION OF THE RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF SHIPPING COMPANIES

Please take a few minutes to complete this questionnaire. Your honest responses will be completely anonymous and will only be used for academic purposes only.

PART A: GENERAL INFORMATION OF THE COMPANY

1. Name of the Company (optional): _________________________________

2. Your position in the Company: _________________________________

3. Ownership of the company (Please tick as appropriate)
   - Local
   - Foreign
   - Hybrid of Local & Foreign

4. How many branches does the company have in Kenya?
   - 1–5
   - 6-10
   - Over 10

5. How long has the company been in operation in Kenya?
   - 0 - 5 years
   - 6 - 10 years
   - Over 10 years

6. What range of services does your company offer? (Tick as many as are applicable)
   - Bulk Shipping
   - Containerized Passenger service
   - Oil Tankers
   - Clearing
   - Consolidated Agency Service
   - Others (Please specify):___________________________________________
SECTION B: FINANCIAL MANAGEMENT PRACTICES ADOPTED BY THE COMPANY

Please tick (√) as appropriate your agreement with each of the following statements

5 – Strongly Agree, 4 - Agree, 3- Neutral, 2 – Disagree & 1 – Strongly Disagree

<table>
<thead>
<tr>
<th>Financial Reporting Analysis (FRA)</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
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</thead>
<tbody>
<tr>
<td>The financial statements of the company are prepared in line with the financial accounting standards</td>
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<tr>
<td>The financial statements are prepared in accordance with GAAP</td>
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<tr>
<td>The financial statements are published regularly</td>
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<table>
<thead>
<tr>
<th>Fixed (Non-current) Assets Management (FAM)</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
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</thead>
<tbody>
<tr>
<td>The company maintains a non-current assets register</td>
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<tr>
<td>The non-current assets have been tagged</td>
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<tr>
<td>Movement of non-current assets have to be authorized by senior management</td>
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<tr>
<td>Non-current assets count is carried out every year</td>
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<tr>
<td>Capital expenditure on non-current assets must be authorized by senior management</td>
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<tr>
<td>The repair and maintenance of non-current assets is carried out regularly</td>
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<table>
<thead>
<tr>
<th>Capital Structure Management (CSM)</th>
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</thead>
<tbody>
<tr>
<td>The capital structure of the company is appropriate</td>
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<tr>
<td>The company has fully utilized the debt facility according to its capabilities</td>
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<tr>
<td>The company relies on equity capital only</td>
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<td>The company is quoted on the NSE</td>
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<tr>
<td>The company has foreign ownership</td>
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</table>
### Working Capital Management (WCM)

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<th>Description</th>
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</thead>
<tbody>
<tr>
<td>The company has a working capital management system</td>
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<tr>
<td>Maintains inventory records which are updated regularly</td>
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<td>Receivables management system is fully automated</td>
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<tr>
<td>Optimal cash balances are maintained by the company at all times</td>
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<tr>
<td>Maintains proper records for all payables</td>
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<tr>
<td>Ensures there is sufficient cash flow to meet daily needs</td>
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<tr>
<td>Prepares cash flow forecasts to identify future surpluses and deficits</td>
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</table>

### Return on Assets (ROA)

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<th>Description</th>
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</thead>
<tbody>
<tr>
<td>The company returns are profitable relative to its assets.</td>
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<td>The use of assets by management are efficient</td>
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<td>There are adequate company assets</td>
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<td>The earnings generate by the company are adequate.</td>
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<td>The process of acquisition of assets are tied to the companies long term plan</td>
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</table>

*Thank you for your co-operation*
Appendix 2: List of Shipping Companies in Kenya

1) African Liner Agencies Ltd
2) Bat-hafBarwil Agencies Ltd
3) Delmas Kenya Ltd
4) Diamond Shipping Services Ltd
5) Green Island Shipping Services Ltd
6) Inchcape Shipping
7) Maersk Kenya Ltd
8) Motaku Shipping Agencies
9) Oceanfreight K Ktd
10) P.I.L. (K) Ltd
11) Seabulk Shipping Services Ltd
12) Seaforth Shipping Kenya Ltd
13) Spanfreight Shipping Ltd
14) Spear’s Shipping Agents (K) Ltd
15) Sturrock Shipping Kenya Ltd
16) Global Container Lines
17) Ignazio Messina & Co
18) CGM CMA
19) Mediterranean Shipping Co
20) P&O Nedlloyd east Africa Ltd
21) WEC Lines Kenya Ltd

Source: KPA Handbook 2012/13 (www.kpa.co.ke)