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Effects of Strategic Management Determinants on Firm Performance in the Shipping Industry in Kenya

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CHAPTER ONE
INTRODUCTION

1.1 Background

Strategic management analyzes the major initiatives taken by a company's top management on behalf of owners, involving resources and performance in external environments. It entails specifying the organization's mission, vision and objectives, developing policies and plans, often in terms of projects and programs, which are designed to achieve these objectives, and then allocating resources to implement the policies and plans, projects and programs, (Johnson & Scholes, 2010). A balanced scorecard is often used to evaluate the overall performance of the business and its progress towards objectives (Kaplan & Norton, 2008).

Maritime industry was the first global industry long before the term globalization came into vogue in other industries. The nature of the industry meant that the assets were always “floating” across the globe (Rai, 2012). To provide effective service to this industry one had to be close to the customer as well as to the shipping firms and the employees on board, (Pierre & Wolff, 2013). The business relationship between the owner and the manager was based on mutual trust.

Maritime networks are among the oldest forms of spatial interaction. Port hierarchies and the spatial pattern of maritime linkages can be considered as illustrations of wider ongoing processes, such as the regionalization and globalization of trade patterns and business cycles, thus revealing a certain political economy of the world (Dablanc & Rodrigue, 2013). Following decades of adaptation and diffusion since the emergence of containerization, the global maritime container shipping network has become a reality (Fremont, 2007). The technological revolution of containerization has gradually produced new forms of relationships among countries, regions, and port cities, backed by a continuous pressure on transport costs (Limao & Venables, 2001) and an increasing power of shipping alliances and large carriers (Sys, 2009). Investigating such changes would complement the lack of evidence about the spatial patterns of commodity chains (Leslie & Reimer, 2011), because ports compete not as individual places that handle ships but as crucial links within global supply chains.

Kumar, (2009) argued that the main shipping routes and ports are well described. The structure and evolution of the global maritime network itself has not been fully documented. Guimera *et.al,* (2005) observed that Despite the local dereliction of port-city linkages in recent decades, maritime transport remains absolutely necessary for globalization. Its crucial weight in world trade volumes (90%) makes it a useful looking glass for analyzing the global economy and its geographic architecture (Fremont, 2007). The shipping cost for consumer goods represents a very small fraction of the final price of the product. Mwega & Ndungu (2009) indicated that the shipping industry as a whole is very closely dependant on the trade movements that if there are any variations in the volumes, its direct impact can be seen on the bottom line of many shipping companies.

Yip, (2013) said that Merchant shipping is one of the most heavily regulated industries and was amongst the first to adopt widely implemented international safety standards. Regulations concerning shipping are developed at the global level. Because shipping is inherently international, it is vital that shipping is subject to uniform regulations on matters such as construction standards, navigational rules and standards of crew competence. The alternative would be a plethora of conflicting national regulations resulting in commercial distortion and administrative confusion which would compromise the efficiency of world trade. The shipping industry is principally regulated by the International Maritime Organization (IMO), which is the London based United Nations agency responsible for the safety of life at sea and the protection of the marine environment. The International Labour Organisation (ILO) is also responsible for the development of labour standards applicable to seafarers worldwide (Rodrigue & Notteboom, 2012).

IMO has adopted a comprehensive framework of detailed technical regulations, in the form of international diplomatic conventions which govern the safety of ships and protection of the marine environment. National governments, which form the membership of IMO, are required to implement and enforce these international rules,

and ensure that the ships which are registered under their national flags comply. The level of ratification and enforcement of IMO Conventions is generally very high in comparison with international rules adopted for shore based industries.The principal responsibility for enforcing IMO regulations concerning ship safety and environmental protection rests with the flag states (Slack & Comtois, 2013). Flag states enforce IMO requirements through inspections of ships conducted by a network of international surveyors (Pierre & Wolff 2013)

1.2 Statement of the problem

Large companies mainly focus on becoming efficient and flexible in their methods of doing business in order to handle uncertainty in the business environment. Ihiga (2004) said that organizations need different strategies in order to achieve strategic fit. Corporations have increasingly turned to global markets to trade (Hill & Jain, 2010). Empirical research has shown that globalization of supply chains has forced companies to look for better and more inter-linked systems between the corporation's core competencies, multiple competitor's strategies and the implementation processes and capabilities to coordinate the flow of materials into and out of the company as opposed to the fragmented systems, which have characterized many organizations (Aosa, 2012). Companies and distribution channels today compete more on the basis of time and quality. Globalization and changing customer needs, changes in technology among other issues on a global scale are realities in business corporations today (Oster, 1994). With such a combination a company creates a competitive edge within the system that cannot be copied by the competitor in the market place.

Yabs, (2010) also argued that the global orientation and increased performance-based competition, combined with rapidly changing technology and economic conditions enhance competitive advantage of the business and improve corporate performance. Smith *et.al*. (1993) indicated that Strategic management practices aims at achieving an enterprise's mission and objectives by reconciling its resources with opportunities and threats in the business environment.

The shipping industry is a perfect example of how globalization has forced many companies to restructure fundamentally in the recent past, calling for new strategies and business models. Traditionally; a successful shipping business was linked to the amount of tonnage it owned. Academicians, managers and corporate leaders have done little to explain the key determinants to the performance of the maritime industry and this is the gap the researcher intends to fill. Therefore, the purpose of this study was to carry out a detailed investigation into the factors that influence the performance of the shipping companies in Kenya.

1.3 Objectives

1.3.1 General objective

The general objective is to assess the effect of strategic management determinants that affect performance of firms in the maritime industry in Kenya.

1.3.2 Specific objectives

1. To examine the effect of differentiation strategy on firm performance in the shipping industry in Kenya.
2. To explore how global business strategy affects firm performance in shipping industry in Kenya.
3. To explain how corporate leadership practices affect firm performance in shipping industry in Kenya.

1.4 Research questions

The researcher Endeavored to answer the following questions

1. What effect do differentiation strategies have on firm performance of the shipping industry in Kenya?
2. How does global business strategy affect the performance of firms in the shipping industry in Kenya?
3. How do corporate leadership practices affect the performance of firms in the shipping industry in Kenya?

1.5 Hypothesis

The hypothesis to be tested in this study will include the following:

$H_0$1: Differentiation strategies do not affect firm performance in the shipping industry in Kenya.

$H_0$2: Global business strategies do not affect firm performance in the shipping industry in Kenya.

$H_0$3: Corporate leadership practices do not affect firm performance in the shipping industry in Kenya

1.6 Importance and justification of the study

This section explains why this study is important and the value it will add to the existing body of knowledge.

1.6.1 Justification of the study

Over 90% of world trade is carried by the international shipping industry (Pierre & Wolff, 2013). Without shipping industry, the import and export of goods on the scale necessary for the modern world would not be possible. Seaborne trade continues to expand, bringing benefits for consumers across the world through low and

decreasing freight costs. Based on the increasing global trends in the maritime industry, it is important that scholars explain the underlying factors that affect the performance of the shipping industry. This study therefore provides the necessary information to all players in the industry that will make them more effective as they compete in the international business arena.

1.6.2 Importance

The study will make significant contribution to the theory and practice of firm performance. The scholars will have some research literature or many of them would realize some gaps for further research. It will also shape shipping policies because policy makers will get information that would be relevant to them especially since the information will come from the stakeholders who directly impact on the economy. The management of maritime institutions will benefit from the material because they will get information regarding factors that are influencing the performance of their businesses. Since research will provide empirical evidence, the data will be factual and relevant to them. Management of such organizations also benefits immensely on their management

A clear performance framework and the general understanding of the shipping industry will be made. This is because the study is directly addressing the scholarly needs of the present generation that are operating in a very volatile business environment. Shipping companies differ in sizes but the range is there in terms of policies and regulations. All of them despite the size are governed by the same seaport and globalization is significantly affecting the performance of such firms.

The scholars will be the first beneficiaries of this project. Instructors in business management, public relations, strategic management, and corporate strategies will employ knowledge of strategic determinants of firm performance in the learning as well. To the organizations, the study will offer recommendations that may be vital in formulating and implementing organizational policies related to strategic management and corporate performance . This study will be a significant endeavor in promoting ways of ensuring the public are satisfied by the services provided by organizations. The study contains recommendations that are vital in streamlining performance departments in organizations to ensure maximum productivity.

1.7 Scope of the study

The research was biased on the main strategic management factors that affect the performance of the shipping industry. The research was also biased towards shipping companies that are operating within the country. The companies that were studied are those regulated by Kenya maritime authority and IMO. Since shipping is global, both local and multinational firms were also studied. This study did not involve other companies involved in maritime activities like fishing and other sea trade other than shipping.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter focused on the empirical and theoretical literature relevant to the problem being investigated. The chapter indicates what has been done by other researchers including the methodologies used and this enables the researcher to identify gaps clearly.

2.2 Theoretical framework

This section focused on the work of other scholars and specifically theoretical and empirical literature. The main theories are balanced scorecard approach, resource based view of management and strategic consistency. Empirical literature is based on the study of 100 firms done in the US comparing corporate governance and firm performance.

2.2.1 Balanced scorecard theory

Kaplan & Norton, (2001) introduced the balanced scorecard as a more realistic performance. The balanced scorecard defines strategy's cause and effect relationships and provides a framework to organizing strategic objectives into the financial perspective in line with the vision and mission. Internal business processes are the path to achieving strong business growth. Miles & snow, (1978) link success in performance of organization to types of adaptive strategies that management chooses to engage in each of these types; analyzers, defenders, prospectors and reactors have its own competitive strategy for responding to the environment and each has a particular configuration of technology, structure and processes that is consistent with its strategy.

Pearce & Robinson, (2007) highlight three economic goals which define a company's performance guided by strategic direction. These goals are survival in the market, growth and profitability. A firm's growth is tied in explicitly survival growth and its profitability. Survival means a long term strategy to remain in business and inability to do mean the company is not capable of satisfying stakeholder claims. Growth in the number of markets served in the variety of products offered, in the technologies that are used to provide goods or services frequently leads to improvements in a firm's competitive ability.

Shipping being characterized as a highly competitive industry makes the use of performance indicators extremely important. According to Panayides, (2012) the reasons for the increased emphasis on the strategy-performance relationship in shipping includes intense competition, the need to attain competitiveness, maximize shareholder wealth, and the requirement to address stakeholder. Consequently it is very important to closely monitor of the performance implications of the adopted competitive strategies (Panayides, 2012). The boards of directors will make the decision and the senior managers will determine the performance management and information systems (Burgelman, 2008). Thus they must initiate the need and development of performance indicators in order to evaluate and get feedback of their performance, compare it against goals, and benchmark it against competitors.

2.2.2 Strategic consistency theory

Spero (2008), argued that strategic consistency enhances firm performance. This means that organization's commitment to implement its chosen plan of action is important. Most strategies are long-term in nature, but their implementation generally involves sequences of short-term actions. Dieleman, (2012), concludes that successful implementation of such plans often involves short-term sacrifices. If short-term actions are chosen expediently, then there is a strong possibility that the stated goal will not be achieved. In economics, this is known as myopic behavior (Armstrong & Greene, 2007).

Individual competitive actions do not enhance a firm's survival probabilities without being consistent both with the firm's own history and with the rate and the nature of change in the environment. Galbraith & Schendel (1983) found that firms in the consumer goods industry followed a 'continuity' strategy which was manifested in an incremental change policy and a low-risk attitude toward investments. For Boddewyn (2012), consistency has meant a balance in resource allocation in diversified firms. Consistency enables balance between strategic choices across business and functional levels of strategy (Johnson, et.al, 2012).

Considering a firm operating in a relatively stable ('no-change') environment, an optimal level of strategic consistency is expected to be high: i.e. the organization tends to preserve its state of rest or uniform action. In this situation, strategic consistency refers to year-to-year comparability in the repertoire and amount of competitive actions that an organization undertakes when conducting its competitive stance. A high level of strategic consistency can signal the existence of a strong competitive strategy (Porter, 2008), or simply structural inertia (Hannan & Freeman, 1984).

2.2.3 Resource based management theory

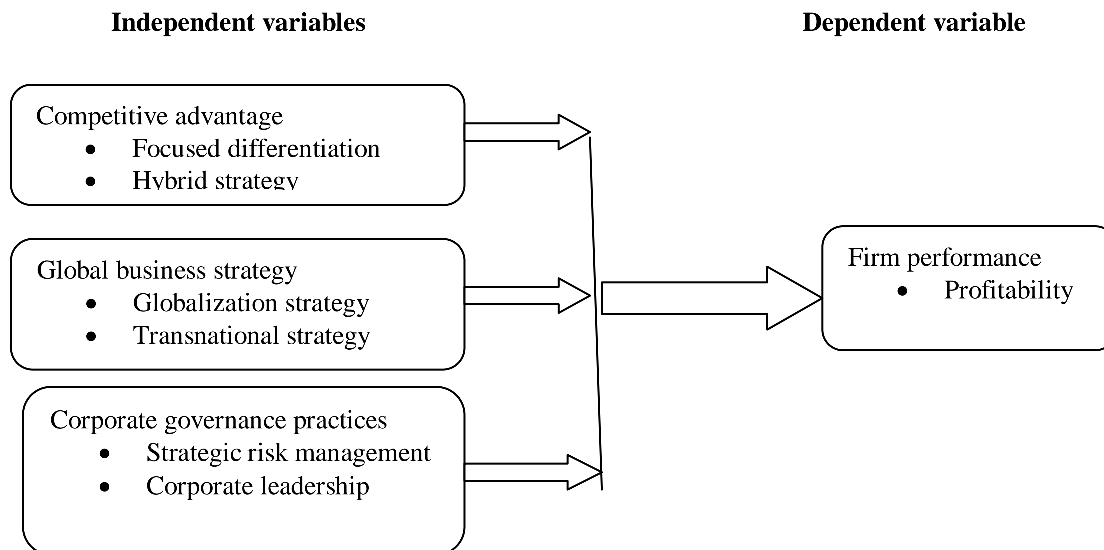
Resource Based View (RBV) holds that firms can earn sustainable supra-normal returns if and only if they have superior intangible resources that are protected by some form of isolating mechanism preventing their diffusion throughout industry (Miller, 2003). Rumelt, (2006), argued that the fundamental principle of the RBV is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Barney, 2000). Essentially, these valuable resources become a source of sustained competitive advantage when they are neither perfectly imitable nor substitutable without great effort (Hoopes, 2003). In a nutshell therefore, to achieve these sustainable above average returns, the firm's bundle of resources must be valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991).

The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage. (Peteraf & Barney, 2003). First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage.

2.3 Conceptual framework

This section looks at the strategic management factors that impact on the firm performance. This study states that the firm performance is a function of competitive strategies, global business strategy and corporate governance practices. The researcher established how each of these independent variables affects firm performance. The dependent variable in the study is firm performance.

Figure 2.1 below is a diagrammatic representation of the strategic determinants of firm performance in the maritime industry in Kenya.



2.4 Review of strategic management determinants of firm performance

The main determinants in this study are competitive strategies, corporate governance and global business strategy.

2.4.1 Competitive advantage.

Doh, (2011), said that Competitive strategy is a company's unique skills and resources working to implement strategies that competitors cannot implement effectively. Understanding your competitive advantage is critical. It is the reason you are in business. It is what you do best that draws customers to buy your product/service instead of your competitor's. Hamel, & Prahalad, (1994) said that extremely successful companies deliberately make choices to be unique and different in activities that they are really good at and they focus all of their energy in these areas. It is not enough just to have an advantage over your competitors. For your business to be great, it needs to weather competitive and environmental storms. You have to be able to combat today's fierce market forces and uncertainty. In other words, your competitive advantage needs to be sustainable and able to endure the test of time for your company to be great because most advantages can be duplicated within a period of time (Wit & Meyer, 2008).

Porter, (2002), states that it is incredibly arrogant for a company to believe that it can deliver the same sort of product/service that its rivals do and actually do better for very long. It is extremely dangerous to bet on the incompetence of your competitors. First, assess what your company does best by looking at what you are good at and what you are not good at. Turn it into a competitive advantage by focusing your energy on these activities. Lastly, make it something that will endure by continually developing and working at it (Wit & Meyer, 2008). A firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus.

Porter (2008), highlights that in cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average. Porter, (2008) further explains that in a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price. The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in Differentiation focus a firm seeks differentiation in its target segment (Doh, 2011).

Creation of a differentiation competitive advantage, a company must produce unique products which will be rewarded by premium prices or higher market shares or both. There are several ways to differentiate, including quality, design, credibility, efficiency, innovation, customer service and good reputation. In order to achieve a

differentiation advantage, a company must optimize its: Product features and performance, by improving among others the quality of inputs and design, Complementary services like delivery and repair, Marketing activities, Technology embodied in design and manufacture, Design of processes, Experience and skills of employees and Location.

2.4.2 Global business strategy

Global business strategies are closely related to the business developing strategies adopted by businesses to meet their short and long term objectives (Doh, 2011). The short term goals of the business would be related to improving the day-to-day operations of the company while the long term objectives are generally targeted towards increment of the profits, sales and earnings of the company in the long run ensuring growth and stability of the business and dominance over the national or regional market (Hill & Jain, 2010).

This is essentially the point where a global business strategy differs from a national business development strategy as different other factors such as product standardization and adaptation come in. The factors of product differentiation and diversification are relevant in the case of both national and global business strategy in the wake of rising competition in both the national and international market (Barney, 1991). Global business strategies have emerged as a result of globalization and internationalization of established domestic companies which is purported to increase the value of the company in question. Blaxill, *et. al,* (2011), Increasing pressure of globalization and the rising global competition have prompted managers and academicians to rethink the formulation of global business strategy. A global business strategy rests on two pillars of standardization and adaptation (Nag, *et al* 2007).

Standardization of production by firms who engage in global business entails producing the same product for the national as well as the international markets with only minor changes in attributes. This is mainly explained by the fact that basic human needs are the same in all countries across the world (Levitt, (2012). The concept of standardization first emerged in the 1960's and then again resurfaced in the 1980's and it has been adopted very effectively by many Japanese and European firms which have experienced higher levels of product and process innovations which in turn have acted as source of comparative advantage for these companies in the international market. The arguments in favor of the global business strategy of standardization are as follows: It benefits in the economies of scale accruing to the company with it being able to produce in large quantities using more or less the same techniques of production. Toyne & Martinez, (2004), Also, it preserves the image of the home country which houses the global corporation since it helps in minimizing the costs of alteration, design or modification, handling and stocking the product, speeding up delivery systems. It also helps in saving the managerial time and effort to take decisions regarding the manufacture of different products. It also helps in faster accumulation of the learning experience as fallout of the learning-by-doing approach (Lamb, *et.al* 1984).

Scholes, (2008), states that at the opposite end of the spectrum, advocates of the strategy of market orientation using the techniques of adaptation or local adaptation argue that while basic human needs may be similar everywhere, standardization may not be the word as differences in cultural and other environmental factors significantly influence the buying pattern of people in different countries. Boddewyn, (2012 argues that Global Business strategies are a field of study effectively addressed by the interdisciplinary issues and concentrates on maximizing the firm performance. It depends on choosing a global strategy that is apt for the set of circumstances facing each business. Choosing an international strategy, be it standardization or adaptation is contingent upon the ability of the firm to suit its marketing strategy and the external environment. Karamperidis, *et.al*, (2013), argues that conceptual contingency framework is often theorized between the critical variables of the business such as high sales revenue, capacity utilization and specific relationships between these variables and their effective implementation can lead to high levels of performance. One of the key features affecting global business strategies is the effect of the WTO (World Trade Organization) rules on trade in goods and services, Foreign Direct Investment and Intellectual Property Rights. These affect crucial business interests and negotiations and agreements between developed countries have an impact on the current burning issues such as environmental protection and climate change, global security and international migration (Smith & Robert, 2011).

2.4.3 Corporate leadership practices

Moore, (2009), observes that Corporate leadership is the totality of the institutional and organizational mechanisms, and the corresponding decision-making, intervention and control rights, which serve to resolve conflicts of interest between the various groups which have a stake in a firm and which, either in isolation or in their interaction, determine how important decisions are taken in a firm, and ultimately also determine which decisions are taken. Healey, (2003), notes that the quality of decisions being taken by directors does not rely solely on their aptitudes in adopting the right course of action, but also to which extent these resolutions is congruent to the long term goals of shareholders. This concerns the relationship between stakeholders in a company. It is the way a company is managed taking into consideration interests of all stakeholders. Stakeholders includes: shareholders, employees, customers, consumers and other corporations having relationships with the firm. It indicates whether the company is meeting the requirements of every stakeholder. Different stakeholders have different demands from the company. (Chamisa, et.al., 2011).

Babu, (2012) said that Corporate governance is the set of practices that best provides for the effective, open, and visible management of an organization. The comprehensive study of corporate governance is an acknowledged necessity for good performance in business (Horwitz, 1992). Corporate governance involves detailed understanding of communication, policy and procedure, and performance management. Bratton, (2009) argues that corporate governance includes codes of conduct and ethics, leadership, human resources management, and corporate compliance. Corporate governance deals with Corporations and decision making structures. One of its main purposes is to ensure the efficient confluence of otherwise competing interests that are affected by companies' activities (Doh, 2011). The debate about the relationship between shareholders' interests (those of investors and owners of the issued shares of the Corporation) and other stakeholders' or other constituents interests (those related to a varied number of constituents such as employees, citizens of the Community where the Corporation interacts, etc) is as old as Corporations.

Corporate leaders are responsible for resources allocation. Organizations require adequate resources to achieve desired performance. Strategic Resource allocation begins with an appreciation of the need for various resources. Scholes, *et.al* (2002) Once the manager has identified the organizational goals then he/she can work backwards to identify the resources that will be required to achieve the goal. Proper management and optimal use of resources is key for an organization to realize its business strategy. With intelligent resource management, an organization can develop and retain a world-class workforce. Strategic resource allocation guarantees the process of using a company's resources in the most efficient way possible. These include tangible resources such as goods and equipment, financial resources, and labor resources such as employees. Soft resources include: Knowledge, Information, Technology, Skills, Work methods, Structure and support systems, Policy support, Networks and linkages and Time (Mckinsey, 2012)

Resource allocation, a ubiquitous process in organizations, represents a curious dilemma for strategic leaders. This is especially true for conglomerate organizations interacting with numerous task environments representing multiple and differing industry sectors. The resource allocation process in a conglomerate organization is critical to the enterprise's ability to undergo strategic adaptation to realign the corporate mission and strategic goals during environmental shifts (Johnson, *et.al,* 2012). The resource allocation process is influenced by the antecedent events of environment shifts and strategic leadership assessment. As the organization recognizes environmental shifts like; technology advances, interest-rate changes, and competitor moves, the organization's dominant coalition is faced with the need to assess how to allocate resources to maintain or enhance organizational competitiveness given the dynamic nature of most task environments, the open-system orientation results in exogenous influences changing past resource allocation patterns. Competitor moves and technology advances typically influence an inherently imitative, strategic adaptation that results in the emulation of best industry practices (Scholes, *et.al*, 2002)

Although first mover firms receive the most attention for their entrepreneurial prowess, firms are compelled to respond to the actions of other firms. Often the response is mere imitation of the first mover, but significant entrepreneurial activity also occurs when firms incorporate lessons learned in what may be termed innovative imitation, (Johnson *et.al,* 2002). Thus, firms operationalize their strategic thinking by allocating resources among productive internal activities. Often a firm's mission statement and strategic planning documents suggest one emphasis for the firm, but resource allocation indicates the firm's real priorities and true intentions. Resource allocation cannot give misleading signals. Firms realize strategic adaptation proactively or by default. Strategic adaptation occurs by default through the accumulation of successive allocation decisions, unless a firm's leadership intentionally defines a strategic vision (Blaxill, et.al, 2011).

Also, corporate leaders conduct strategic risk management. Ndaa (2012), claimed that Strategic risks are the uncertainties and untapped opportunities embedded in a strategic intent and how well they are executed. As such, they are key matters for the board and impinge on the whole business, rather than just an isolated unit. Strategic risk management is an organisation's response to these uncertainties and opportunities. It involves a clear understanding of corporate strategy, the risks in adopting it and the risks in executing it. These risks may be triggered from inside or outside your organisation. Once they are understood, you can develop effective, integrated, strategic risk mitigation. Far from holding back the business, strategic risk management is about augmenting strategic management and getting the full value from your strategy. In a typical instance, a conventional approach to setting and executing strategy might look at sales growth and service delivery. Rarely does it monitor the risks of a shortfall in demand. Effective strategic risk management is built around a clear understanding of how much risk your business is prepared to take to deliver its objectives, and a timely and reliable evaluation of how much risk it is actually taking (Ndaa, 2012).

2.4.4 Measurement of firm performance

Firm performance measurement is important and there are numerous ways measuring firm performance. Measurement plays a crucial role in translating business strategy into results (Lingle & Schiemann, 1996). Strategy and performance measurements need to be intertwined, and as such are likely to be unique for each company. Companies should measure how parts of their value chain actually fit together for an overarching advantage instead of relying on process-by-process metrics (Porter, 2002). Profitability will be used to analyze the performance of the management.

The literature carries mixed results concerning the association between strategic management and firm performance. Drobetz *et a*l. (2004), reported a positive relationship between the quality of strategies and their measures of profitability, growth and corporate performance. For instance, Selvaggi & Upton, (2008) claimed that good strategies enhance firm's performance in United Kingdom. Similarly, Black, (2001) reported the same conclusions in the case of Russian firms. In contrast, other studies reported no significant positive relationship between operating performance and corporate management. For instance, Bauer *et al.* (2004) argued that initially an insignificant relationship was reported which afterwards turned to a significantly and statistically negative relationship. A similar outcome was also observed by Beiner *et al.* (2004). Moreover, other studies (Park & Shin, 2004 and Prevost *et al.* 2002) did not found any evidence of any relationship between the two variables.

2.5 Critique of the existing literature relevant to the study

Bernard, (1938) based on his own experience as a business executive, described the process of strategic management as informal, intuitive, non-routinized and involving primarily oral, two way communications. Bernard says "The process is the sensing of the organization as a whole and the total situation relevant to it and transcends the capacity of merely intellectual methods, and the techniques of discriminating the factors of the situation (Yabs, 2008). Ndaa (2013) found that senior managers typically deal with unpredictable situations so they strategize in *ad* hoc, flexible, dynamic, and implicit ways. Kotter, (1982) studied the daily activities of 15 executives and concluded that they spent most of their time developing and working a network of relationships that provided general insights and specific details for strategic decisions. They tended to use mental road maps rather than systematic planning techniques. This is not given a thought in the porter's five forces model. Isenberg's (2004) study of senior managers found that their decisions were highly intuitive. Executives often sensed what they were going to do before they could explain why. He claimed in 1986 that one of the reasons for this is the complexity of strategic decisions and the resultant information uncertainty.

Zuboff, (1987) claimed that information technology was widening the divide between senior managers (who typically make strategic decisions) and operational level managers (who typically make routine decisions). She alleged that prior to the widespread use of computer systems, managers, even at the most senior level, engaged in both strategic decisions and routine administration, but as computers facilitated routine processes, these activities were moved further down the hierarchy, leaving senior management free for strategic decision making. Hamel, (2000) coined the term strategic convergence to explain the limited scope of the strategies being used by rivals in greatly differing circumstances as explained by porter. He lamented that successful strategies are imitated by firms that do not understand that for a strategy for the specifics of each situation.

The choice of the important indicators has impact on the operation and the direction of the organization. Prior to choosing transport performance indicators, the identification of clear objectives, matching the strategy and acceptance of those involved is required. (Išoraitea, 2010) Profitability as a measure is not capable of discriminating excellence (Panayides, 2003). Performance measurement is multi-dimensional. The best value performance indicators can be used for five dimension performance are: (Isoraitea, 2010), Strategic objectives, Costs and efficiency, Service delivery outcomes, Quality and Fair access.

2.6 Research gaps

In his studies, Yabs, (2008) presented strategic management practices as a set of systematic, planning techniques that help managers in making strategic decisions in the businesses. This portrays strategic management as a field that does not allow flexibility in a dynamic environment. Woodhouse & Collins, (1984), concept of strategic lie came about as a result of managers deviating from the initial plans during implementation of a strategy. None of these studies has been replicated in the maritime sector and this is a clear gap the researcher intends to study.

Also, Guimera *et. al.* (2005); Fremont, (2007) and Leslie & Reimer, (2011) did extensive studies on maritime. They have however not done much on corporate governance practices, globalization and competitive strategies as factors that affect performance of maritime industry. Bell, (1985) did a lot of studies on how technology affects business performance but none of a similar study is recorded in the maritime sector.

2.7 Summary

The theoretical review shows that there are numerous scholars who have done previous studies on the factors that affect the performance of corporations. Theoretical review revealed by Kaplan & Norton (2008), balanced scorecard theory of analyzing firm performance, adaptive strategies, clear strategic direction and strategic consistency is shown by various scholars as being key to measurement of firm performance. Other theories reviewed are the strategic consistency theory and resource based management theory. The empirical literature reviewed the porter's forces model, global business strategy and all other determinants. The determinants that have been discussed in this chapter are management of competitive advantage, global business strategy and corporate leadership practices with specific reference to strategic risk management and resources allocation. A critic of the literature has also been done. Different views of woodhouse & Collins (1984); Zuboff (1997); Hamel (2000) & Kotter (2008) have been considered.

CHAPTER THREE
METHODOLOGY

3.1 Introduction

This chapter provides the research methodology that was used in this study. It consists of research design, target population, research instruments, data collection procedures and data analysis techniques.

3.2 Research design

It is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in procedure. It is the conceptual structure within which research is conducted; it constitutes the blueprint for collection, measurement and analysis of data and includes the outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data.

The researcher used mixed research design including descriptive and explolaroty research with advanced statistical analysis, (Kothari, 2010). Also, he justifies conducting of survey census for an exploratory study since it provides more accurate picture. Mugenda & mugenda (2003), indicates that survey research can be a report study that requires the collection of quantifiable information from the sample.

3.3 Target population

Kothari, (2010), claimed that a target population is classified as all the members of a given group to which the investigation is related, whereas the accessible population is looked at in terms of those elements in the target population within the reach of the study. This study used descriptive research with a total population of involving 97 shipping companies and agencies with a population of 1750. The target population under this study is the executive management staff of the shipping lines, KPA and KMA which makes a total target population of 1750 persons drawn from the shipping lines and regulatory bodies. These shipping lines are operating in many parts of eastern and central Africa but the researcher will concentrate on those that have their head offices in Kenya

3.4 Sampling frame

Sampling frame provides a list of elements within the population that will be sampled for the study. It also shows additional auxiliary information about the units under study. A complete list of the companies is attached as per Kenya maritime authority. The selection criteria were based on companies that have been in operations for more than five years from the date of incorporation. Also, the researcher sampled from shipping agencies and shipping lines. For purposes of this study, the researcher used a purposive sampling to get the top management staff that would provide the required information. The researcher then selected companies that deal with shipping business directly in order to get reliable information for the study. The researcher targeted all the 6 shipping lines as per KMA data bank and the 51 shipping agencies operating in the country. The researcher will also target the 19 cargo consolidators firms operating in the industry in Kenya.

The researcher targeted three executive heads of the companies that met the criteria. In addition, three respondents at Kenya maritime authority interviewed and one of them was from the oversight and monitoring unit.

Table 3.1 Sampling frame

Category of Sector	Population	companies Incorporated 2008 And beyond
Shipping lines	6	4
Shipping agencies	51	38
Cargo consolidators	19	14
Total	**76**	

3.5 Sample size and sampling technique

Gehauri & Gronhang, (2002) outlined the procedure for drawing a sample and for purposes of this study; the researcher took the full population of all the 6 shipping lines companies. This was guided by the fact that the research utilized purposive sampling in order to get reliable data. The researcher further sampled randomly from the full list of those shipping agencies and cargo consolidators that were incorporated in the year 2008 and beyond. The researcher made a random sample of 35 companies from the out of the 52 companies that were incorporated in the year 2008 and beyond. The sample size was representative of the entire population in the industry. The researcher issued 5 questionnaires in each organization to enhance validity of the data obtained. Further three additional questionnaires will be issued at Kenya ports authority, Kenya ship agents association and Kenya Shippers Council Secretariat. Also three questionnaires will be issued at Kenya maritime authority and one of the respondents will be from the monitoring and control unit.

Table 3.2: The sample size

Category of industry	Population	Sample Size	Questionnaire
Shipping lines	6	6	30
Cargo consolidators	38	25	125
Shipping agencies	14	10	50
KMA	12	3	9
Kenya shippers council secretariat	5	4	3
Kenya ports authority	7 Divisions	3	3
Kenya ship agents association	3	3	3
Total	**85**	**54**	**223**

3.6 Data collection instruments

Creswell (2002) defines data collection as a means by which information is obtained from the selected subjects of an inquiry. The instruments that will be used in data collection will be from both primary and secondary sources. Questionnaires and Interview schedule will be used to collect primary data.

3.6.1 Primary sources

The main instruments used interviews and questionnaires. Interview schedule is a form of an interview in which one on one interaction is emphasized. The interview scheduled was relatively structured, with specified questions that were asked. The questions were relatively open ended, well structured, simple self explanatory question asked to the employees when appropriate throughout the interview session. The interviewer pursued in-depth information around the topic. They were particularly useful in getting history of companies and general operations of shipping companies and the business environment. For more insightful data collection, the researcher also issued questionnaires. These are the pre-specified list of questions which may require a range of responses from alternatives given to opinion statements. Interview guides were prepared as well to ensure that the 3 executives at the monitoring units provide as much information regarding the industry as possible. Open ended questions administered.

3.6.2 Secondary sources

The researcher utilized any secondary information that is available in the organization to ensure that relevant information is gathered accordingly. Various means used to gather secondary information. Company websites, company house journals, published material among others were utilized.

3.7 Data collection procedures

The study will rely largely on primary data though secondary information may be sort. Therefore, the collection method that will be used in this research is structured questionnaire. Questionnaire is a set of questions that is given to individuals to fill. The researcher will formulate both structured and non structured questions. The researcher will largely make use of research assistants to collect data using the questionnaires but will also do data collection in a few selected companies from the sample.

3.8 Pilot test

Cooper & Schindler (2010) indicated that pilot test is conducted to detect weaknesses in the design and research instruments and also to provide proxy data for selection of a probability sample. The pilot study that conducted focused on trying to establish whether the instruments provide the required data. During the piloting, few areas identified which that the researcher sought information. The criteria that the researcher used to select the areas for piloting was random sampling and a total of 10 respondents were interviewed. Questionnaire administration involved pre contact with the respondent and conducting personal interviews. In order to ensure content validity, preliminary questionnaire will be pretested on a pilot set of respondent managers for comprehension, logic and relevance.

Reliability is the consistency of a set of measurement items while validity indicates that the instrument is testing what it should test. Reliability is the consistency of your measurement or the degree to which an instrument measures the same way each time it is administered under the same set of conditions. A measure is considered reliable if a person's score on the same test given twice is similar. It doesn't imply validity. The researcher used cronbach alpha to measure internal consistency of the research instruments. As advised by Sekran (2003), coefficients which are less than 0.6 are considered poor, coefficients greater than 0.6 but less than 0.8 are considered acceptable and those coefficients greater than 0.8 are considered good. The recommended value of 0.7 was used as a cut off reliabities. The alpha measures internal consistencies by establishing if certain items measure the same construct. Table 3.3 below shows that firm performance had the highest reliability of $\alpha = 0.829$. the other items had the scores as shown in the table.

Table 3.3: Reliability of coefficients

Scale	Cronbach's alpha	Number of items
Performance measurement	0.829	10
Focused differentiation strategy	0.757	10
Hybrid differentiation strategy	0.721	4
Globalization strategy	0.711	9
Transnational strategy	0.739	9
Strategic risk management	0.689	13
Corporate leadership	0.634	10

The average Cronbach Alpha reliability coefficient was 0.726 which is acceptable. This indicates that the research instruments used were generally a reliable measure.

3.9 Data analysis and presentation

The collected data was first edited, classified according to the research study objectives coded into relevant labels for easy analysis and thereafter the interpretation. A further presentation of the findings was done in form of graphs and charts for better understanding. The analysis was both qualitatively and quantitatively.

3.9.1 Qualitative analysis

To facilitate the qualitative data content analysis technique was used. Warne *et.al* (2012) argued that content analysis is used for making replicable and valid inferences from data according to their context. Content analysis can be used to establish the presence of certain words, concepts, themes, characters or sentences within text sets of texts. The interview guide was also analyzed through content analysis techniques for qualitative information. This data was further analyzed using comparison in support from the quantitative data.

3.9.2 Quantitative analysis

The researcher first calculated the respondent's response rate based on the questionnaires using descriptive statistics. Multiple linear Regression and Analysis of variance was used to determine the type of relationship that exists between the dependent and independent variables through the students. SPSS statistical software version 20.0 will be used to do the analysis (Warne, *et.al*, 2012). Internal consistency of data obtained will be determined from scores obtained will be done and scores obtained in one item is correlated with scores obtained from items in the instrument. Woodridge, (2011), provides models which are used for testing hypothesis. To test the hypothesis in this study, the researcher regressed each dependent variable against the dependent variable using the multiple linear regression model given as:

$Y= \beta_o+\beta_1X_1+ \beta_2X_2 + \beta_3X_3 + \varepsilon$

Where:

Y = Dependent variable (firm performance)

β_o = Constant factor or intercept which is the value of the dependent variable when all the independent variables are equal to zero

β_1X_1 = Regression coefficient of competitive advantage strategies of firm X

β_2X_2 = Regression coefficient of corporate leadership practices of firm X

β_3X_3 = Regression coefficient of global business strategies of firm X

ε = Stochastic term e that will take care of random error

The interview guide will be analyzed through content analysis techniques for qualitative information especially on testing the intervening variable. Presentation of results, findings and interpretations will be done in form of tables, graphs, pie charts, percentages among others.

Profitability was regressed against six variables that affect firm performance.

3.9.3 Variable definition and measurements

This study used Likert's type scale for it to assess the degree of influence of strategic management determinants on firm performance. An aggressive measure of strategic determinants of firm performance, competitive advantage strategies, corporate leadership practices and global business strategy will be obtained. The mean score measures from various sets of constructs will also be obtained and operationalizing these variables will be computed by use of SPSS version 20.0 using various statistical tools. The Likert's assessment scales will be the five point interval scale on the questionnaire. Patton, (2002) posits that Likerts scale is easy to use in respondent centered and stimulus centered responses.

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