

**TO DETERMINE THE INFLUENCE OF ECONOMIC ENVIRONMENT  
FACTORS ON THE PROFITABILITY OF CARGO HANDLING  
COMPANIES BASED AT JOMO KENYATTA INTERNATIONAL AIRPORT  
NAIROBI CARGO CENTRE.**

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**D53/CTY/PT/20823/2010**

**A research project submitted to the School of Business in partial fulfilment of the  
requirement of Master's in Business Administration of Kenyatta University**

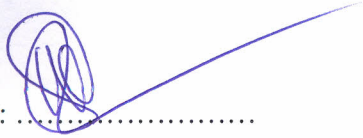
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**Declaration**

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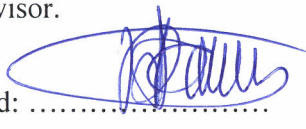
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## **Dedication**

I want to dedicate the project to my family and fellow students who were steadfast in encouraging me in my studies.

## **Acknowledgement**

This work would not have been possible without support of some individuals and institutions that deserve recognition for their part played. First is to acknowledge the role played by my supervisor, for his unwavering support and guidance as I carried out this research. I also acknowledge support from my fellow students for encouragement and support in this work. I also acknowledge The Almighty God, for the amazing grace and wisdom to complete this work.

## ABSTRACT

Business environment connotes external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise. The prevalent economic environment determines the profitability of firms. This paper examines how economic environment influences profitability of cargo handling companies based at Jomo Kenyatta International Airport Nairobi Cargo Centre. This research employed a descriptive survey design to study the research problem. Data was collected from employees in top level and middle level management working in cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre. The target population for this study was from the 15 cargo handling companies in Jomo Kenyatta International Airport, Nairobi Cargo Centre. Sample of responding staff was drawn from 103 top and middle level managers from the staff working in these companies. A sample of 31 employees in middle and top level management was drawn using stratified random sampling. For this study, both primary data and secondary data were collected. A questionnaire was used to collect primary data. For the secondary data, the data will be collected from newspapers, published books, journals and magazines as well as other sources such as the companies' annual reports. To determine validity of the research instrument, a pre-test was conducted. Self-administered questionnaire were used in this study to collect quantitative data. Completed questionnaires were edited for completeness and consistency after data collection. Data was then analysed using statistical tools (SPSS V.17.0 and Excel) and presented using tables and graphs for further analysis and to facilitate comparison. The Likert scale was used to analyse the mean score and standard deviation. The study also used multivariate regression model to determine the relative importance of each of the four variables with respect to achieving profitability in the cargo handling companies in Jomo Kenyatta International Airport, Nairobi Cargo Centre. The study found out that foreign exchange rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent and that the purpose of forex is to assist international trade and investment, unchecked speculative movement of currencies by large financial institutions impedes the markets from correcting global current account imbalances, exchange rate volatility effects firm's growth rate of profits and to not cover any foreign exchange exposures leaves the company equally vulnerable to adverse movements in the exchange rate. The study found out that taxation affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent. The study concludes that foreign exchange rate affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent and that principal source and interest rate spread, market forces and level of interest are related to interest rate. The study further concludes that monetary and fiscal policy affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent. The study recommends that the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre should manage foreign exchange risks by adjusting prices to reflect change in import pricing resulting from currency fluctuation. The study further recommends that the management should look at the monetary and fiscal policy as they affect aggregate demand and the level of

economic activity; the pattern of resource allocation and the distribution of income at the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre. The study further recommends that the management should come up with very rigid strategies that ensure conservatism and ease of administration to more complex strategies which attempt to maximize results by taking on additional risk. The study further recommends that managers should lay strategic emphasis on the application of tax shelter instruments such as debt, depreciation, research and development, corporate arms giving, and so on.

# TABLE OF CONTENTS

<b>Declaration.....</b>	<b>ii</b>
<b>Dedication .....</b>	<b>iii</b>
<b>Acknowledgement .....</b>	<b>iv</b>
<b>ABSTRACT .....</b>	<b>v</b>
<b>LIST OF TABLES.....</b>	<b>x</b>
<b>LIST OF FIGURES.....</b>	<b>xi</b>
<b>Definition of Terms .....</b>	<b>xii</b>
<b>CHAPTER ONE.....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.1.1 Concept of Competitive Advantage.....	3
1.1.2 Cargo Handling Companies.....	4
1.2 Problem Statement .....	6
1.3 Objective of the Study .....	7
1.3.1 Specific Objectives .....	7
1.4 Research Questions .....	8
1.5 Significance of the Study.....	8
1.6 Delimitations and Scope of the Study .....	9
1.7 Assumptions of the Study.....	9
<b>CHAPTER TWO.....</b>	<b>11</b>
<b>LITERATURE REVIEW .....</b>	<b>11</b>
2.1 Introduction.....	11
2.2 Conceptual Review .....	11
2.2.1 Mission .....	11
2.2.2 Situational Analysis .....	12
2.2.3 Choice of strategy .....	14
2.2.4 Strategy Implementation and control.....	15
2.2.5 Monitoring and Evaluation.....	16
2.3 Theoretical Review .....	18
2.3.1 Porter's Generic Strategy .....	18
2.3.1 Competitive Advantage Theory.....	18

2.3.3 Neo-Institutional Theory .....	19
2.3.4 Pest Analysis.....	20
2.4.1 Foreign Exchange rate.....	22
2.4.2 Interest rate .....	23
2.4.3 Monetary and Fiscal Policy .....	25
2.4.4 Inflation .....	26
2.4.5 Taxation.....	28
2.5 Conceptual Framework .....	30
<b>CHAPTER THREE.....</b>	<b>31</b>
<b>RESEARCH METHODOLOGY.....</b>	<b>31</b>
3.1 Introduction.....	31
3.2 Research Design.....	31
3.3 Target Population and Resulting Sample Size.....	31
3.4 Sample Design and Procedure .....	32
3.5 Data Collection .....	33
3.5.1 Type and Sources of Data .....	33
3.5.2 Data Collection Instrument.....	33
3.5.3 Pre-testing.....	33
3.5.4 Data Collection Procedure.....	34
3.6 Data Analysis and Presentation .....	34
3.7 Limitations of the Study .....	35
3.8 Ethical Issues .....	35
<b>CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATIONS</b> .....	<b>36</b>
4.1 Introduction.....	36
4.2 Response Rate .....	36
4.3 Demographic Information of the Bank Managers .....	36
4.4 Influence of Economic Environment on the Profitability of the Company.....	37
4.5 Level of agreement with statements related to foreign exchange rate. ....	38
4.6 Interest rate .....	39
4.7 Level of agreement with statement related to interest rate. ....	40
4.8 Monetary and fiscal policy .....	41

4.9 Level of agreement with statement related to monetary policy.....	42
4.10 Taxation.....	43
4.11 Level of agreement with statement related to taxation.....	44
<b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>46</b>
<b>5.1 Introduction.....</b>	<b>46</b>
<b>5.2 Summary of Findings.....</b>	<b>46</b>
5.3 Conclusions.....	47
<b>5.4 Recommendations .....</b>	<b>47</b>
5.5 Limitations of the Study .....	48
5.6 Suggestions for Further Research .....	49
<b>Appendices.....</b>	<b>55</b>
Appendix I: Questionnaire .....	56

## LIST OF TABLES

Table 3.1: Study Population and Sample Size .....	32
Table 4.2 statements related to foreign exchange rate. ....	38
Table 4.3 statement related to interest rate. ....	40
Table 4.4 statement related to monetary policy .....	42
Table 4.5 statement related to taxation.....	44

## LIST OF FIGURES

figure 4.1 Foreign Exchange rate .....	37
figure 4.2 Interest rate.....	39
figure 4.3 Monetary and fiscal policy .....	41
figure 4.4 Taxation .....	43

## Definition of Terms

**Air Cargo:** Any property (freight, mail, or express) carried or to be carried in an aircraft, other than the carry-on, checked or excess baggage, or property carried, which is incidental to the carriage of passengers (e.g., in-flight meals) or cargo (e.g., empty containers) (Boeing Freighter Reference Guide, 2003). In this thesis, the term 'air cargo' refers to the transportation of goods by air (at least partially) on a commercial basis.

**Air Freight:** This is a term often used interchangeable with 'air cargo'. However, the term air freight generally refers to larger / heavy consignments while the term air cargo also covers mail and express.

**Economic environment:** economic factors which have their effect on the working of the business

**Forwarders:** Providers of services to shippers and importers which originally involved receiving a consignment of freight from a shipper, arranging its routing, transportation handling and documentation to either the final receiver or to a foreign airport (DfT, 2000).

**Macro-economic factors:** is a branch of economics dealing with the performance, structure, behaviour, and decision-making of the whole economy. This includes a national, regional, or global economy.

**Profitability:** refers to the state or condition of yielding a financial profit or gain. It is often measured by price to earnings ratio.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Today's modern society demands an advanced transportation system to overcome distances, preferably in a fast, safe, comfortable and reliable way (European Commission, 2003). According to Olivier (2011), understanding the environment within which the business has to operate is very important for running a business unit successfully at any place. Economic environment has five main components; economic Conditions, economic System, economic policies, international economic environment and economic legislations.

The economic environment factors influence almost every aspect of business, be it its nature, its location, the prices of products, the distribution system, or the personnel policies (Manfred, 2006). Hence it is important to learn about the various components of the business environment, which consists of the economic aspect, the socio-cultural aspects, the political framework, the legal aspects and the technological aspects.

A number of driving forces can be identified that impact developments in air cargo (Clancy & Hoppin, 1998; ATAG, 2000). In the centre of this is world and regional GDP growth. The most important constraints for growth are according to Clancy & Hoppin (1998): economic recession, trade barriers, regulation, modal competition, rising oil prices and a continuing split between falling yields and rising costs.

In their daily operation, air cargo operators are being faced with major events beyond their control ('external shocks'), such as the Asian Economic Crisis of the late '90s, the wars in Iraq and Afghanistan and the terrorist attacks of 9-11 have hit the air transport industry hard in the recent past. As well the oil price fluctuations mainly due to the mid-east crisis have formed a significant threat to their growth (Clancy and Hoppin, 1998).

The global business environment plays an important role in the development of air cargo as the state of the air cargo industry is a reflection of trade balances (Grin,

1998). Markets become increasingly demand driven meaning an increasing market power for end-customers in logistics needs. Air cargo industry watchers believe air cargo to be a subset of world trade that is linked to economic growth (Clancy & Hoppin, 2002). These authors argue that air cargo is highly cyclical. Developments in world trade have consequences for logistics needs of manufacturers and trading companies, which in turn impacts the demand for air cargo services.

It would be desirable for companies active in the air cargo industry to take business decisions freely based on commercial considerations. However, market potential cannot be fully exploited as long as the air transport part of the air cargo industry is regulated in rather every aspect (Taneja, 2004). Supply and demand for air cargo services are subject to regulation which affects the efficiency and competitiveness of the industry (Smith, 1974) as well as airline network structures, management strategies and airline productivities (Oum and Yu, 1998).

A milestone in air transport jurisdiction is the US Airline Deregulation Act that became law in 1978 and followed the air cargo deregulation of 1977. This meant a dismantling of a comprehensive system of government control on commercial air transport in the United States (Kahn, 2005) with the aim to lower average fares and to improve the services offering.

Regulation is justified by governments in an attempt to balance economic and social priorities (Butler, Keller, 1998) and to protect the health and safety of its citizens and to charge taxes (Herrmann, Trefzger, Crux, 1998). Deregulation and liberalization efforts have a common goal to create a certain kind of market equilibrium of what is perceived perfect competition.

Governments' support notwithstanding, efforts to change air transport policies, airline markets in general are still far from contestable (Kleymann, Seristö, 2004). On many individual routes, oligopolies or duopolies can be observed. To conclude, the regulatory air transport environment only applies to asset based companies that use aircraft as their primary production method. Intermediaries such as forwarders remain

unaffected by this kind of legislation and are allowed to operate on a global scale where-ever they want.

### **1.1.1 Concept of Competitive Advantage**

According to Dess, Lumpkin and Marilyn (2005), a competitive advantage exists when a firm has a product or service that is perceived by its target market customers as better than that of its competitors. Competitive advantage represents a firm's success in continually seizing competitive opportunities for enhancing performance, defending itself against rivals' competitive moves, as well as erecting barriers to the erosion of its prevailing competitive advantage (Piccoli and Ives, 2005).

The term "competitive advantage" has traditionally been described in terms of the attributes and resources of an organisation that allow it to outperform others in the same industry or product market (Kay, 2004). In most cases competitive advantage will be looked at with its sustainability and thus becomes sustainable competitive advantage. The term "sustainable" considers the protection such attributes and resources have to offer over some usually undefined period of time into the future for the organisation to maintain its competitiveness.

In the business context the term, "sustainable" can assume a number of meanings depending on the frame of reference through which it is viewed. It can be interpreted to mean endurable, defensible, bearable, tolerable, liveable, supportable, passable, acceptable, justifiable, negotiable and penetrable. For example, if the organisation is to protect its existing value added against its competitors then the term "sustainable" associates itself with "endurable" and "defensible".

Most discussions of sustainable competitive advantage focus on defensive strategies based on existing resource strengths. For example, Grant (1995) considers the sustainability of the competitive advantage along the dimensions of durability, mobility and replicability. Durability determines how long the competitive advantage can be sustained and is considered in terms of the ability of competitors to imitate through gaining access to the resources on which the competitive advantage is built.

Sustainable competitive advantage can further be considered in terms of mobility, referring to the extent to which resources can be transferred between competitors together with replicability which describes the ease with which resources can be copied by competitors. An example, where durability, mobility and replicability are particularly pertinent, relates to many retailers who derive their competitive advantage through identifying, acquiring and maintaining well-located outlets in addition to the value added stemming from their services and offerings (Grant, 1995).

While the importance of defensive strategies in protecting and exploiting existing resource strengths cannot be underestimated, securing the long term future of an organisation must consider how to derive unique areas of value added in the future. For this purpose sustainability has to assume a different meaning which points itself towards penetrability, for example, in terms of new breakthroughs (Chaharbaghi and Nugent, 2006).

The speed at which the uniqueness of the resources of an organisation becomes accessible dictates the speed at which the competitive advantage of an organisation diminishes. In fast-moving competitive environments, sustaining competitive advantage involves creating safe-havens from cut-throat competition by continuously creating gaps through unique resources that cannot be easily bridged by the competitors (Chaharbaghi and Nugent, 2006).

### **1.1.2 Cargo Handling Companies**

Cargo handling companies also called forwarding agencies, act as intermediary in the air cargo chain buying air cargo space from airlines as a wholesaler and offering this space with additional services as a retailer to shippers. Forwarders partly make their business by consolidating individual shipments into bulk consignments and offer these consignments to airlines. The principle of consolidation has accelerated the importance of forwarders in the air cargo industry. Shippers have three main reasons to do business with forwarders for their transportation needs, namely cost, organization and know-how (Fennes, 1997).

As forwarders have a so-called multi-product services portfolio, offering much more services than cargo space alone, their market has a heterogeneous character. Forwarders act as an 'architect' in international transport for shippers. Their added value is reflected by their extensive market knowledge, their ability to arrange pick-up in country of origin and delivery in country of destination, their ability to consolidate and de-consolidate shipments, their ability to deal with customs procedures and other administrative and financial tasks and increasingly, their global coverage.

Forwarders also advise their customers about the most recommendable transport solution in a particular situation, about required packaging and may intermediate in recommended transport insurances (Miedema, 1996). They negotiate on the terms of the contract of carriage and generally supervise the transportation process (Fennes, 1997).

Additionally forwarders offer value adding services to their customers in order to improve revenues and profitability, such as documents handling, picking and packing, sorting, kitting, labelling, minor product repair, warehousing, storing, inventory control, customs clearance, order processing, ground distribution (Efstathiou & Anderson, 2000) and taking care of the compliance with foreign regulations on trade and financing instruments (Fennes, 1997).

Traditionally, air cargo forwarding is a locally oriented business and as a result has small business characteristics. This is also related to the low barriers to enter the forwarding market (Jones, 2000). In the past decades, a number of so-called network forwarders have emerged. These network forwarders have often hundreds of offices around the world providing expertise in air cargo, sea cargo and road transport.

The network forwarders global presence and multi modal expertise enables them to offer shippers a one-stop-shop offering to fulfil their logistics needs. Forwarders are non-asset-based service providers with a more variable cost structure than other air cargo service providers which explains why they are less sensitive to fluctuations in supply and demand (Jones, 2000). Forwarding agencies are flexible as they can easily

tailor different transport modes and logistics services like warehouse management and value added logistics to meet customer requirements.

The past years have shown a number of consolidations in the forwarding business, however mainly caused by an increasing search for lead logistics providers by shippers and emerging technological opportunities. The objective of these consolidations is to gain economies of scope, both in a spatial and in a functional way (Bowen & Leinbach, 2004). As the most important shippers are increasingly multinational corporations seeking for one-stop-shop logistics solutions, both global coverage and the possibility to offer forwarding services on different modes of transport are important for forwarders.

## **1.2 Problem Statement**

According to Dwivedi, (2001), there is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively (Manfred, 2006). According to Olivier (2011) Economic environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business.

Economic environment helps the business in determining opportunities and threats, giving direction for growth, continuous learning, image building, meeting competition and identifying firm's strength and weakness (Shaikh, 1999). According to Todaro, (2000), business profitability and hence survival is highly dependent on the nature of economic system of the country, the structural anatomy of the economy to economic policies of the government the organisation of the capital market, the nature of factor endowment, business cycles, the socio-economic infrastructure.

A business and its forces in its micro environment operate in larger macro environment of forces that shape opportunities and pose threats to the business. This macro environment refers the major external and uncontrollable factors that influence an organization's decision making, and affect its performance and strategies. These sectors together influence the trends and structure of the economy.

There have been fluctuations in the economic parameters; economic conditions, economic system, economic policies, international economic environment and economic legislation. This has adversely affected the profitability of cargo handling companies; they have been forced to price their services with stronger currencies as opposed to the local one. Madhavji (2004) explains: *“If your business has foreign exchange exposures, currency movements will impact your bottom line. Many businesses are invoiced today in US dollars but are not required to pay for the products until they are delivered months later. In that time, the exchange rate could have dramatically taken turn for the worse, exposing the company to losses.”*

Despite the important role played by economic environment on profitability of organisation, little research has been done to study this relationship. Locally, Irungu (2010) did a study on the relationship between selected macroeconomic variables and earnings management. Further, Mutuku (2009) did an analysis of Macro-economic influences on corporate capital structure of listed companies in Kenya.

To the researcher’s best knowledge, there has been no research conducted to investigate the influence of economic environment on the profitability of cargo handling companies. Therefore, this study seeks to investigate the influence of economic environment on the profitability of cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre.

### **1.3 Objective of the Study**

The objective of this study is to investigate the influence of economic environment on the profitability of cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre.

#### **1.3.1 Specific Objectives**

The study will be guided by the following specific objectives.

- i. To investigate the effects of exchange rate on the profitability of cargo handling companies.

- ii. To determine the effects of interest rate on the profitability of cargo handling companies.
- iii. To find out the influence of monetary and fiscal policy on the profitability of cargo handling companies.
- iv. To establish the effects of inflation on the profitability of cargo handling companies.
- v. To examine the influence of taxation on the profitability of cargo handling companies.

#### **1.4 Research Questions**

The study seeks to answer the following research questions.

- i. To what extent does exchange rate influences the profitability of cargo handling companies?
- ii. What are the effects of interest rate on the profitability of cargo handling companies?
- iii. How monetary and fiscal policy does influences the profitability of cargo handling companies?
- iv. What are the effects of inflation on the profitability of cargo handling companies?
- v. To what extent does taxation rate influence the profitability of cargo handling companies?

#### **1.5 Significance of the Study**

The importance of this study is that it will help management to understand influence of economic environment on the profitability of organizations. The study will therefore identify individual economic factors that influence firm's profitability within the context of cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre. It will therefore identify unique challenges posed by prevalent economic conditions that the managers encounter in running these organisations to profitability. By investigating, the managers will gain a considerable scope to improve current conditions within these constraints. The results obtained will benefit the managers from the insight and will use this study as a benchmark to improve the operations at their firms.

The policy makers will also get an insight that will help them in the formulation of guidelines to be used in cargo handling companies to ensure profitability in Kenya. Government agencies and policy makers may use the results to formulate positive national policies on a framework that is relevant and sensitive to the economic forces that influence firms' profitability.

Further, it is hoped that this new knowledge will help researchers and practitioners alike to better understand the influence of economic environment on the firm's profitability. Such an understanding will be useful for companies' managers, IT consultants, vendors and government agencies in drawing guidelines on how to overcome economic constraint to achieve profitability to empower companies in developing countries to compete in the global business environment.

This study is also significant in that, academically it will add to the existing knowledge on economic environment and specifically on how it influences profitability, and form part of academic reference. They will expand their knowledge on economic environment and also identify areas of further study.

### **1.6 Delimitations and Scope of the Study**

This study will focus on cargo handling firms in Nairobi based at Jomo Kenyatta International Airport, Nairobi Cargo Centre where employees are the key subject. Data will be specifically collected from employees in top and middle management cadres. These are considered as major respondents of the study since they are the most conversant with the subject matter of the study. The aim will be to collect data from the respondents with a view of investigating the influence of economic environment on the profitability of cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre.

### **1.7 Assumptions of the Study**

The researcher makes the assumption that the respondents will be cooperative enough to give the required information of the study. This is despite the fact that most of them usually have tight schedules that leaves no time for the respondents to answer to the

research instruments. But with better arrangements and a timely preparation, this assumption will be possible. The researcher assumes that the cited respondents are conversant with the economic environment their firms operate in. The researcher assumes that he will get the resources intended to facilitate data collection, and that the information collected will be a representation of the whole sector for inference.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Introduction**

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are conceptual reviews, theoretical orientation, empirical review and the conceptual framework.

#### **2.2 Conceptual Review**

##### **2.2.1 Mission**

Past literature indicates that creating and using a mission statement can foster a shared value system, a focus on common objectives, teamwork, behavioural guidelines, and emotional commitment to the company. According to Bart, Bontis and Taggar, (2001), most top executives would agree that these are positive attributes for an organization to hold. The literature also suggests that a proper process must be used to develop a useful mission statement rather than one that simply decorates an office wall. The perspective taken here is that the optimum process will differ from firm to firm, although some basic concepts should always be kept in mind. Specifically, top management must be committed to the process and the values, and organization members must be involved to produce a mission that will evoke positive emotional response (Basu, 1999).

According to Hamel and Prahalad, (1989), like any tool, a mission statement can be misused and thus appear outdated, inefficient, or even foolish. But in the hands of executives who understand its use it can unify an organization and establish internal clarity of purpose and direction. The usefulness of visions and missions is found in the development and implementation processes, not the final product. Managers who understand this will look for benefits of mission statements that indirectly affect the bottom line, rather than focusing on the tangible value of a mission. For example, organizational unity and clarity of purpose and direction are two very attractive characteristics whose tangible effects are difficult to assess, but most managers would agree that both would positively influence firm performance. Managers should not ask

what their mission statement is doing for them, but what they can do to properly use this very valuable strategic tool.

Internal clarity of purpose and direction should not be confused with competitive strategy. Concepts such as strategic intent (Hamel and Prahalad, 1989) and corporate purpose (Basu, 1999) can establish unity in what the firm desires to accomplish in the competitive arena. The mission statement should be developed and implemented with the strategic intent in mind to create internal unity that moves the organization toward competitive success.

### **2.2.2 Situational Analysis**

According to McGee *et al*, (2005), before developing any given marketing strategy it is important to conduct some form of analysis. This should form an essential part of any business or marketing plan and should be reviewed over time to ensure that it is kept current. Situation analysis is a marketing term, and involves evaluating the situation and trends in a particular company's market. In this paper, we are going to concentrate in the economic environment situation. Situation analysis is often called the "three c's", which refers to the three major elements that must be studied: that is Customers, companies and competitors. The number of "c's" is sometimes extended to four, five, or even six, with "Collaboration", "Company", and "Competitive advantage".

Grant, (1995) said that situation Analysis allows a company to understand their own internal and external situation, the customer, the market environment, and the firm's own capabilities. A SWOT Analysis is a type of situation analysis that examines the Strengths and Weaknesses of a company (it's internal environment) as well as Opportunities and Threats in the market (in the external environment). Therefore, we will analyse the internal economic environment of a company as well as the external economic environment to determine the Strengths, Weaknesses, Opportunities and Threats in the market that affects companies under our focus.

The "5 C Analysis" tends to be the most useful and common approach to conducting a Situation Analysis. This approach is built off the "3 C Analysis", however is more extensive and provides more background and understanding to the situation. In this approach a firm will examine the: company: This includes the product line, product image, production technology, as well as company culture and goals; collaborators: Those who help the company develop, produce, or distribute the product and customers.

The ideal target segment (researching demographics, geographic location, and psychographics), consumer trends and the characteristics of purchases they make, consumer motivation, as well as market size and growth; competitors: Both actual and/or potential, direct and/or indirect. This includes looking into their strengths and weaknesses, market share, products, and product or market positioning; climate/Context: Research in regards to the current or future political, economic, social/cultural, technological environments that will ultimately influence the success or failure of the product (PEST Analysis). A thorough historical context can also be useful.

The final written format of the situation analysis is ultimately broken down into different sections regarding each of the different "Cs" and a thorough examination of each of them. It may also include information on the use and cost of different methods of advertising that the company desires to use for the launch of the product.

A situation analysis helps a company determine whether the rewards of a product outweigh the risks, depending on if they are entering it in a new market, developing a brand/product line extension, or creating a completely new product. Ultimately, the purpose of the situation analysis is to identify and define the product position, as well as analyze the environment in which it will be placed in, and will attempt to help the company determine if the product will survive and thrive, if drastic changes must be made for it to be successful, or if any more advancement on the product should be stopped. According to McGee *et al*, (2005), the elements worth considering include:

*Product Situation:* this break into parts such as the core product and any secondary or supporting services or products that also make up what you sell. It is important to observe this in terms of its different parts in order to be able to relate this back to core client needs.

*Competitive situation:* this involves an analysis of the business main competitors – who are they what are they up to – how do they compare – feature/ benefit analysis. What are their competitive advantages?

*Distribution Situation:* review your distribution Situation – how are you getting your product to market? Do you need to go through distributors or other intermediaries?

*Environmental factors:* refers to what external and internal environmental factors are that need to be taken into account. This can include economic or sociological factors that impact on your performance (McGee *et al*, 2005).

*Opportunity and issue analysis:* this requires conduction a SWOT analysis (Strengths, Weaknesses, Opportunity and Threats). This describes current opportunities that are available in the market, the main threats that business is facing and may face in the future, the strengths that the business can rely on and any weaknesses that may affect the business performance (Lorange, 2005).

### **2.2.3 Choice of strategy**

Robson, (1994) insisted on “Thinking out the box” indicating that it can mean thinking spatially and visualizing strategy as a topology of choices. Building on its matrix predecessors, the topology configures strategic choices into four directions: internal, horizontal, vertical, and migrational, as illustrated in Figure 6. The challenge of the topology is to take the 2D figure and envisage it as a multi-dimensional, spatial depiction of strategic choices.

Internal strategies reside within a complex intra-organizational territory, and encompass strategies of productivity-led differentiation service differentiation,

product differentiation, and time. Horizontal strategies are explained by Thomas & Palfrey (1996) as expansionary strategies and include choices on the number of outlets, internationalization, mergers and acquisitions of retailers, and joint ventures.

Vertical strategies take the firm in the direction of its suppliers, and incorporate strategies of acquisition of suppliers or distributors, and improved buyer-supplier relations. Migrational strategies are extra-territorial, and involve a radical change of direction. Migrational strategies include decisions on outlet size category, outlet location type, and the diversification of outlet type (Thomas and Palfrey, 1996).

According to Alexander (1985), the choice of strategic direction is not an irreversible decision. The topology depicts the strategies available to a firm at any particular moment in time. At each decision point, the firm reassesses its options and chooses which direction will best take it to its objective of establishing and maintaining competitive advantage. The firm must prioritize its strategic options, since some choices conflict. Internal strategies provide the logical focus for strategic analysis, since all strategic decisions place demands on the internal organization and processes of the firm (Mintzberg, 1994).

Many strategies coexist within each strategic direction. The following description discusses a number of the possible strategies and explains how they fit together into the topology. Recognizing the synergistic interactions within and between strategic directions is an important part of the analysis.

#### **2.2.4 Strategy Implementation and control**

It remains the case that over in the two decades since Alexander (1985) bemoaned the lip service paid to research into strategy implementation, there continues to be an imbalance between the apparent importance of formulation and implementation (Al Ghamdi, 1998). Yet the main weaknesses of strategic management practice are generally associated with the implementation stage – indeed, Mintzberg (1994) asserts that more than half of the strategies devised by organisations are never actually implemented.

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Despite the clear importance of strategy implementation and the apparent problems associated with its execution, it has, been substantially neglected by academics (Alexander, 1985). Moreover, the literature available appears to approach the subject matter from a wide range of different disciplines and cognitive domains. For instance, the diversity of viewpoints is recognised by Noble (1999) distinguish five schools of thought, while Neely et al. (1994) identify such disparate standpoints as organisational behaviourists, organisational culturalists and business/corporate strategists.

Although there are some implementation issues and elements about which there is an emerging consensus – such as the importance of communication, problems in identifying relevant performance indicators, the significant part played by middle-level managers, and the role of strategic control systems (Alexander, 1985).

It has been observed that literature has focused on different aspects of strategy implementation and offers “*partial problem-solving solutions*” as a result, “*general rules are elusive*” (Reed and Buckley, 1988, p. 68) still seems to be relevant. Thus it is suggested that there is a lack of agreed theoretical frameworks such that the current state-of-play resembles a somewhat incoherent knowledge base, with some consensus (as above) but many important gaps remaining to be filled-in.

### **2.2.5 Monitoring and Evaluation**

As Miller, (1988) puts it, although the term “monitoring and evaluation” tends to get run together as if it is only one thing, monitoring and evaluation are, in fact, two distinct sets of organisational activities, related but not identical. Monitoring is the systematic collection and analysis of information as a project progresses. It is aimed at improving the efficiency and effectiveness of a project or organisation.

Monitoring is also based on targets set and activities planned during the planning phases of work (Thomas and Palfrey, 1996). It helps to keep the work on track, and can let management know when things are going wrong. If done properly, it is an invaluable tool for good management, and it provides a useful base for evaluation. It

enables you to determine whether the resources you have available are sufficient and are being well used, whether the capacity you have is sufficient and appropriate, and whether you are doing what you planned to do (Robson, 1994).

Evaluation is the comparison of actual project impacts against the agreed strategic plans. It looks at what you set out to do, at what you have accomplished, and how you accomplished it. It can be formative (taking place during the life of a project or organisation, with the intention of improving the strategy or way of functioning of the project or organisation). It can also be summative (drawing learnings from a completed project or an organisation that is no longer functioning (Alcock and Craig, 1997).

According to Carter et al., (1992), the monitoring and evaluation exercise aims at assisting these technical assistance projects in achieving their objectives, by providing management information on the projects' implementation, so that structured management decisions can be taken, if and when needed. The "monitoring and evaluation" function (M&E) can be seen as a project management tool that helps in seeing whether each TA project is being developed as per its design. Monitoring and evaluation's objective is to enable focused project management decisions in order to allow adjustments to be made with minimal disruption and ensure that projects remain on course and reach their objectives.

Despite the increased emphasis that has been placed on efficiency, effectiveness and evaluation, there has been little satisfactory research or practice on mechanisms for monitoring and evaluation in service areas. Much of the government supported innovation in service evaluation has tended to concentrate on the identification and measurement of performance indicators (Jowett and Rothwell, 1988). These generally provide only limited and internal criteria for assessing achievement. Where they are set by service providers themselves they can be self-satisfying - or self-defeating. They can also lead to a range of "perverse incentives" if service providers then seek to adjust their activities to meet fixed performance targets rather than general social needs (Smith, 1995).

## **2.3 Theoretical Review**

### **2.3.1 Porter's Generic Strategy**

Porter's (1998) generic strategies of low cost, differentiation, focus and combination strategies are generally accepted as a strategic typology for organizations. Generic strategies can be successfully linked to organizational performance through the use of key strategic practices. Porter's, (Porter, 1985) view that low cost and differentiation are discrete ends of a continuum that may never be associated with one another has sparked much conceptual debate and empirical research.

Scholars have since developed a theory to counter Porter's view, suggesting that low cost and differentiation may actually be independent dimensions that should be vigorously pursued simultaneously. Empirical research using the management information system database by Miller and Dess (1993) suggests that the generic strategy framework could be improved by viewing cost, differentiation and focus as three dimensions of strategic positioning rather than as three distinct strategies. Thus, the research in strategic management following from Porter (Porter 1998) does not provide unequivocal support for Porter's original formulation.

### **2.3.1 Competitive Advantage Theory**

Competitive advantage is based on the theory that seeks to address some of the criticisms of comparative advantage. Michael Porter proposed the theory in 1985. Competitive advantage theory suggests that states and businesses should pursue policies that create high-quality goods to sell at high prices in the market. Porter emphasizes productivity growth as the focus of national strategies.

Competitive advantage rests on the notion that cheap labour is ubiquitous and natural resources are not necessary for a good economy. The other theory, comparative advantage, can lead countries to specialize in exporting primary goods and raw materials that trap countries in low-wage economies due to terms of trade. Competitive advantage attempts to correct for this issue by stressing maximizing scale economies in goods and services that garner premium prices (Stutz and Warf 2009).

The term competitive advantage is the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Porter 1980). The study of such advantage has attracted profound research interest due to contemporary issues regarding superior performance levels of firms in the present competitive market conditions. *“A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential player”* (Clulow *et al.*, 2003, p.70).

Successfully implemented strategies will lift a firm to superior performance by facilitating the firm with competitive advantage to outperform current or potential players (Passemar and Calantone, 2000). To gain competitive advantage a business strategy of a firm manipulates the various resources over which it has direct control and these resources have the ability to generate competitive advantage (Rijamampianina, 2003). Superior performance outcomes and superiority in production resources reflects competitive advantage (Lau, 2002).

### **2.3.3 Neo-Institutional Theory**

Neo-institutional theory explains heterogeneity and differentiation (Oliver, 1996). Differentiation supports and sustains competitive advantage, but conformity to institutional pressures provides legitimacy, resources, and competitive advantage. Through institutional embeddedness and interconnection, the creation of competitive advantages can be explained because institutional embeddedness has an impact on organizational behaviour, causing it to seek an economic and social fit.

In contexts where institutional and competitive pressures exert strong influences, the strategic decisions of managers result both in conformity to institutional pressures, which leads to isomorphism and legitimacy, and in differentiation, which, following the resource-based view of the firm, can increase the possibility of creating a competitive advantage through heterogeneity in resources and capabilities.

Differentiation will create benefits and dominant positions that will last until competitors imitate a firm's key resources, and will be restored through the creation of

new opportunities that result in a new competitive advantage and new entry barriers (Ogbonna and Harris, 2003).

The new lines of institutional thinking answer this question and establish a point of connection with the resources-based view. Differentiation tends to reduce rivalry, increasing the possibility of building competitive advantages, whereas conformity improves the social support of stakeholders and therefore the legitimacy of the firm. Differentiation reduces competitiveness and the fight for scarce resources, thereby improving performance; but on the other hand, conformity makes all organizations similar and, therefore, the competitive pressures are stronger.

#### **2.3.4 Pest Analysis**

The external context of strategic decisions is very broad-ranging. It can include governments, competitors, technological and social change and the dynamics of buyer and supplier markets. One way for managers to analyze their exposure to the set of potential contextual factors is through the application of a PEST analysis (McGee et al., 2005). PEST analysis stands for "Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management (McGee, Thomas and Wilson, 2005).

Some analysts added Legal and rearranged the mnemonic to SLEPT; inserting Environmental factors expanded it to PESTEL or PESTLE. The model has recently been further extended to STEEPLE and STEEPLED, adding Ethics and demographic factors. It is a part of the external analysis when conducting a strategic analysis or doing market research, and gives an overview of the different macro environmental factors that the company has to take into consideration. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations (Lorange, 2005).

According to McGee *et al.*, (2005), political factors are how and to what degree a government intervenes in the economy. Specifically, political factors include areas

such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or be provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation (Hawawini, 2005). According to Lorange, (2005), Economic factors include economic growth, interest rates, exchange rates and the inflation rate. These factors have major impacts on how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy

Hawawini, 2005, describes social factors to include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. He adds that trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labor).

Companies may change various management strategies to adapt to social trends (such as recruiting older workers). Technological factors have been describe by McGee *et al*, (2005) to include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

The model's factors will vary in importance to a given company based on its industry and the goods it produces. For example, consumer and business to business companies tend to be more affected by the social factors, while a global defense contractor would tend to be more affected by political factors. Additionally, factors

that are more likely to change in the future or more relevant to a given company will carry greater importance (Grey, 2001).

## **2.4 Empirical review**

### **2.4.1 Foreign Exchange rate**

The purpose of the foreign exchange market 'Forex' is to assist international trade and investment. The foreign exchange market allows businesses to convert one currency to another foreign currency. Some experts, however, believe that the unchecked speculative movement of currencies by large financial institutions such as hedge funds impedes the markets from correcting global current account imbalances. This carry trade may also lead to loss of competitiveness in some countries.

The effect of foreign exchange rate on the profitability of a firm has been an item of research for the last two decades. Among the researchers, Murphy (1999) did an investigation on the effects of permanent and transitory components of the exchange rate on firms' profitability under imperfect information. His study showed that the variances of these components of the exchange rate process will have indeterminate effects on the firm's growth rate of profits, but will have predictable effects on its volatility.

According to Summers and Summers (1996), an increase in the variance of the permanent (transitory) component in the exchange rate process leads to greater (lesser) variability in the growth rate of the firm's profits, thus establishing that the source of exchange rate volatility matters in analysing its effects. Taylor, Mark and Allen, Helen (2002) also indicated that an appreciating exchange rate generates an exchange rate loss, while a depreciating exchange rate generates an exchange rate profit. Murphy (1999) also states that the foreign exchange market is unique because of trading volume results in market liquidity and low margins of relative profit compared with other markets of fixed income

To hedge every exposure means removing any chance that the market may move beneficially for the company, whilst its competitors may still enjoy the benefits of

these price movements, in doing so the cash flows are at risk as competitors may lower selling prices and hence the profit margin is reduced because of diminished revenues as a direct result of hedging (Madura 1995). To not cover any foreign exchange exposures leaves the company equally vulnerable to adverse movements in the exchange rate that could result in cost blowouts, and since cost increases are equally as harmful to margins as revenue decreases they also have explosive potential to undermine the profitability of the whole company.

The approach that appeals to people who believe in the management of the variables that affect the profitability of business is called "*Foreign Exchange Management*" (Dowd, 1998). This approach means making decisions and means taking control of a large risk area that affects a corporation. It can take any number of forms from very rigid strategies that ensure conservatism and ease of administration to more complex strategies which attempt to maximize results by taking on additional risk.

In assessing the effect of foreign exchange on profitability of companies, it is important to check the foreign exchange risk management. Some companies manage foreign exchange risks by adjusting prices; this is practiced by Ghanaian firms who adjust prices to reflect change in import pricing resulting from currency fluctuation (Abor, 2005). The practice has some challenges due to the frequent appreciations of foreign currencies against the LC resulting to difficulty in retaining customers because of high prices of imported inputs. Ghanaian Firms also exhibit low levels of hedging techniques. This therefore affects the profitability of these companies.

#### **2.4.2 Interest rate**

Interest is the "rent" paid to borrow money. The lender receives a compensation for foregoing other uses of their funds, including (for example) deferring their own consumption. The original amount lent is called the "principal," and the percentage of the principal which is paid/payable over a period of time is the "interest rate." (Thygersa, 1995). According to Saunders, (1999), an interest rate is a price, and like any other price, it relates to a transaction or the transfer of a good or service between a buyer and a seller. This special type of transaction is a loan or credit transaction,

involving a supplier of surplus funds, i.e., a lender or saver, and a demander of surplus funds, i.e., a borrower.

Interest rate spread is a measure of profitability between the cost of short term borrowing and the return on long term lending. These costs are normally transferred to borrowers who might, with time, be in a position of not repaying the loan. World Bank policy research working paper on Non-performing Loans in Sub-Saharan Africa revealed that bad loans are caused by adverse economic shocks coupled with high cost of capital and low interest margins (Fofack, 2005).

As with any other price in the market economy, interest rates are determined by the forces of supply and demand, in this case, the supply of and demand for credit (Ngugi and Kabubo, 1998). The general level of interest rates is determined by the interaction of the supply and demand for credit.

When supply and demand interact, they determine a price (the equilibrium price) that tends to be relatively stable. If the supply of credit from lenders rises relative to the demand from borrowers, the price (interest rate) will tend to fall as lenders compete to find use for their funds. If the demand rises relative to the supply, the interest rate will tend to rise as borrowers compete for increasingly scarce funds. According to Pandley I.M, (1997), the principal source of the demand for credit is from our desire for current spending and investment opportunities.

In a low interest rate regime, corporates are able to increase profitability by reducing their interest expenses. However in a rising interest rate regime since interest expenses rise, profitability is hit. As per Thygersa K.J, (1995) findings calculating the inherent value of a company by the cash flow discounting model yields a two-fold impact. Firstly, there is a reduction in the cash flows due to lower profitability, secondly, there is a higher discounting rate due to higher interest rate regime. This leads to a relatively lower intrinsic value of the company.

When the interest rate increases, it does not have an immediate impact on the companies—it becomes more expensive for them to borrow money from the banks (Rose P.S and James K, 1995). Further, Businesses are also indirectly affected by an increase in the interest rate as a result of the actions of individual consumers. They, too, borrow money from banks to run and expand their operations. When the banks make borrowing more expensive, companies might not borrow as much and will pay a higher rate of interest on their loans. Less business spending can slow down the growth of a company, resulting in decreases in profit. Securities of firms making continuous losses, usually suffer from price decline (Kisaka.S, 1999).

### **2.4.3 Monetary and Fiscal Policy**

According to Monetary Policy, (2006), monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment. It is referred to as either being expansionary or contractionary, where an expansionary policy increases the total supply of money in the economy more rapidly than usual, and contractionary policy expands the money supply more slowly than usual or even shrinks it (Monetary and Exchange Rate Policies, 2010).

Expansionary policy is traditionally used to try to combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding. Contractionary policy is intended to slow inflation in hopes of avoiding the resulting distortions and deterioration of asset values. With slow inflation organisations investments are bound to increase and as thus with increased investments, organisation are will realise returns to investments (Friedman, 2001)

According to Sullivan & Sheffrin (2003), policy is the use of government expenditure and revenue collection (taxation) to influence the economy. Fiscal policy can attempt to stabilize the economy by controlling interest rates and spending. The two main instruments of fiscal policy are government expenditure and taxation. Changes in the level and composition of taxation and government spending can impact the following

variables in the economy: Aggregate demand and the level of economic activity; the pattern of resource allocation; the distribution of income.

#### **2.4.4 Inflation**

The effect of inflation on investment occurs directly and indirectly. Inflation increases transactions and information costs, which directly inhibits economic development. For example, when inflation makes nominal values uncertain, investment planning becomes difficult. Individuals may be reluctant to enter into contracts when inflation cannot be predicted making relative prices uncertain.

The reluctance to enter into contracts over time will inhibit investment which will affect firm's profitability and thus economic growth. In this case inflation will inhibit investment and could result in financial recession (Hellerstein, 1997). In an inflationary environment intermediaries will be less eager to provide long-term financing for capital formation and growth. Both lenders and borrowers will also be less willing to enter long-term contracts. High inflation is often associated with financial repression as governments take actions to protect certain sectors of the economy. For example, interest rate ceilings are common in high inflation environments such controls lead to inefficient allocations of capital that inhibit economic growth (Morley, 1971).

Sustained inflation is damaging to long-run growth and the financial system in general. Increases in inflation lead to lower real returns not just on money, but on all other assets too. These low returns interfere with the functioning of financial markets and the allocation of investment. Lower real returns have the effect of severely damaging the credit market. As a result, higher inflation contracts the supply of credit available to fund capital investment damaging the economy (Blume, 1978).

According to Morley (1971), inflation affects investment in several ways, mostly inhibiting economic growth and firm's profitability. The source of inflation is money and the supply of it. Investors need to be able to expect returns in order for them to make financial decisions. If people cannot trust money, then they are less likely to

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engage in business relationships. This results in lower investment, production and less socially positive interactions.

An increase in the general level of prices implies a decrease in the purchasing power of the currency. That is, when the general level of prices rises, each monetary unit buys fewer goods and services. The effect of inflation is not distributed evenly, and as a consequence there are hidden costs to some and benefits to others from this decrease in purchasing power.

It is evident that with inflation lenders or depositors who are paid a fixed rate of interest on loans or deposits will lose purchasing power from their interest earnings, while their borrowers benefit. Individuals or institutions with cash assets will experience a decline in the purchasing power of their holdings. Increases in payments to workers and pensioners often lag behind inflation, especially for those with fixed payments.

High or unpredictable inflation rates are regarded as harmful to an overall economy. They add inefficiencies in the market, and make it difficult for companies to budget or plan long-term. Inflation can act as a drag on productivity as companies are forced to shift resources away from products and services in order to focus on profit and losses from currency inflation. Uncertainty about the future purchasing power of money discourages investment and saving. And inflation can impose hidden tax increases, as inflated earnings push taxpayers into higher income tax rates.

With high inflation, purchasing power is redistributed from those on fixed incomes such as pensioners towards those with variable incomes whose earnings may better keep pace with the inflation. This redistribution of purchasing power will also occur between international trading partners. Where fixed exchange rates are imposed, rising inflation in one economy will cause its exports to become more expensive and affect the balance of trade. There can also be negative impacts to trade from an increased instability in currency exchange prices caused by unpredictable inflation.

### 2.4.5 Taxation

A tax is an involuntary fee - or, more precisely, "unrequited payment" - paid by individuals or businesses to a government (central or local). Taxes may be paid in cash or kind (although payments in kind may not always be allowed or classified as taxes in all systems). The means of taxation, and the uses to which the funds raised through taxation should be put, are a matter of hot dispute between political parties and economic theorists, so discussions of taxation are frequently tendentious.

Taxing is imposing a financial charge or other levy upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law, (McCluskey et al. 2005). Taxes are also imposed by many sub national entities. Taxes consist of direct tax or indirect tax, and may be paid in money or as its labour equivalent (often but not always unpaid).

Tax may be defined as a "*pecuniary burden laid upon individuals or property owners to support the government a payment exacted by legislative authority.*" A tax "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government whether under the name of toll, tribute, tallage, gabel, impost, duty, custom, excise, subsidy, aid, supply, or other name, (McCluskey et al. 2005).

Tax constitutes a potentially important consideration in firms' financing decisions. For example, in Nigeria, capital gains on common stock have been tax-free since 1998<sup>1</sup>, but the marginal personal tax rate built into the pricing of dividend is about 19.38%<sup>2</sup>. As a result of this, the cost of capital of an all equity financed firm that does not pay dividend will be less than that of a similar firm that pays dividend.

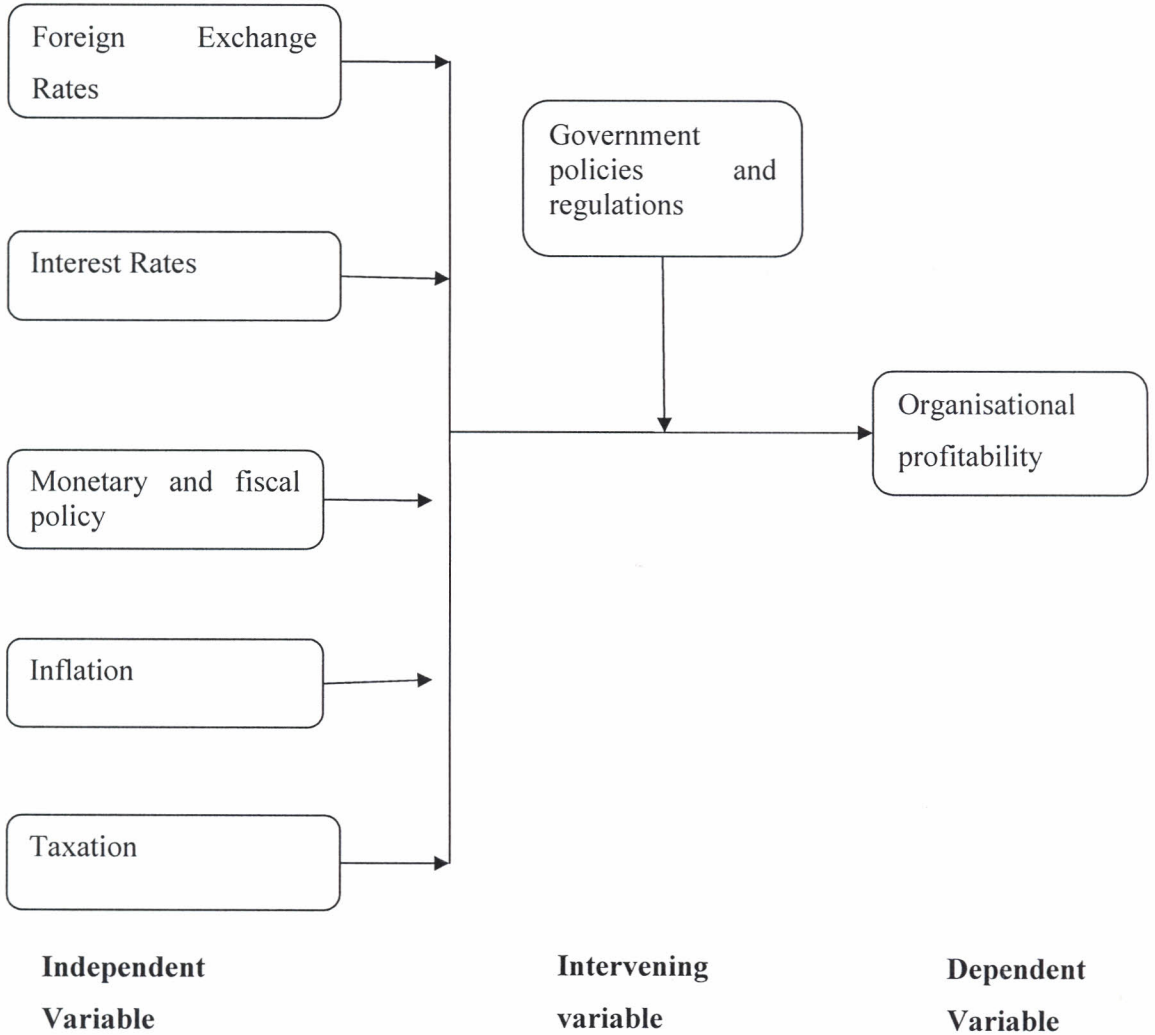
The use of tax incentives in developing countries has been very popular and very controversial for decades. Although such incentives undoubtedly affect investment decisions in some circumstances, it is not at all clear that the overall benefits outweigh the costs. Two fundamental premises underpin the case for tax incentive programs in Kenya: first, that additional investment is needed to foster more rapid economic

growth; and second, that tax breaks can be effective in stimulating investment. Both propositions may seem self-evident, yet they are subject to important qualifications that are highly pertinent to understanding the effectiveness and impact of investment tax incentives in a company.

The influence of tax on corporate profitability remains very encompassing. Tax affects the level and combination of financing sources a firm can explore. It is also a major determinant of a firm's choice of investment projects and destinations (Palomba, 2002). Dividend policies, which constitute one of the strategic functions of financial management, are determined by the rate at which dividend income and capital gains are taxed.

According to Graham (2001), tax affects capital structure decisions, including the choice of debt, equity, leasing, and other financing instruments play a role in corporate risk management; and affect the form and timing of compensation and pension policies of a firm. Due to its diminishing impact on corporate earnings, tax payment is of very important concerns to managers. In addition to finding out how to minimize the impact of tax payment on firm value profitability, corporate managers also concern themselves with the fiscal objectives of governments in countries where they operate. This explains why value maximizing managers normally lay strategic emphasis on the application of tax shelter instruments such as debt, depreciation, research and development, corporate arms giving, and so on.

## 2.5 Conceptual Framework



Source (Author, 2012)

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### **3.1 Introduction**

This chapter presents the procedures and techniques that will be used in the collection, processing and analysis of data. To meet this objective, it will thus look at research design, target population, data collection instruments, data collection procedures and finally data analysis.

#### **3.2 Research Design**

According to Noum, (2007), research design is the scheme, outline or plan that is used to generate answers to research problems. This research problem will be studied using a descriptive survey design. The method is chosen since it is more precise and accurate since it involves description of events in a carefully planned way (Babbie, 2004). Furthermore, Berg and Gall (1996) note that descriptive research produced statistical information about aspects of a study that interest policy makers. Descriptive studies will be used not only for the purpose of description but also for the determination of relationships between variables at the time of study.

#### **3.3 Target Population and Resulting Sample Size**

Cooper and Schindler, (2003) defines a population as the group that the research focuses on. Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined or set of people, services, elements, and events, group of things or households that are being investigated. Data will be collected from top level and middle level management in cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre. The target population for this study will be from the 15 cargo handling companies in Jomo Kenyatta International Airport, Nairobi Cargo Centre. The population considered for this study is shown in table 3.1 below.

**Table 3.1: Study Population and Sample Size**

Sections	Top level mgt.	Middle level mgt.	Total Sample
Africair Management and Logistics	2	7	9
African Floral International	2	4	6
Air Kenya Aviation Ltd	3	6	9
Airfrance/KLM cargo	2	4	6
Aviation Cargo Support Ltd.	2	4	6
British Airways world Cargo	3	5	8
BTY Logistics	2	5	7
Chesaka International	2	4	6
Kenomar International Ltd	2	4	6
Kenya Airways Cargo	3	6	9
Martinair Cargo	2	4	6
Morgan Air Cargo Ltd	2	4	6
Saudi Arabian Airline - Cargo	3	4	7
Swift Freight International (K)Ltd	2	4	6
<b>Total</b>	<b>34</b>	<b>69</b>	<b>103</b>

Source: Researcher (2012)

### 3.4 Sample Design and Procedure

Naoum (2007) defines a sample size as finite part of a statistical population whose properties are studied to gain information about the whole. Further, according to Cooper & Schindler, (2003), sampling involves selecting a given number of subjects from a defined population represent the population.

The major criterion used when deciding on the sample size is the extent to which the sample's size is representative of the population. Since the population of the study was small, the study will be conducted through a census approach targeting 103

employees in top level, middle level and low level management in the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre. According to Dennis (1989), when the sample is small it is important to take the whole population to determine the needs of an organization.

### **3.5 Data Collection**

#### **3.5.1 Type and Sources of Data**

In this study both primary data and secondary data will be collected. Primary data will be collected using questionnaires. For the secondary data, the data will be collected from newspapers, published books, journals and magazines as well as other sources such as the companies' annual reports.

#### **3.5.2 Data Collection Instrument**

In collection of primary data a semi-structured questionnaire will be used. The researcher will ensure that the questionnaire is kept short and structured with mostly multiple-choice selections in a likert scale to ensure uniformity in response and to encourage participation. The questionnaires are preferred in this study because respondents of the study are literate and quite able to answer questions asked adequately.

According to Mugenda and Mugenda (2003), questionnaires are commonly used to obtain important information about a population under study. The questionnaire will be carefully designed and tested with a few members of the population for further improvements. This will be done in order to enhance its validity and accuracy of data to be collected for the study.

#### **3.5.3 Pre-testing**

Pre-testing or pilot study will be carried out to ensure that the questions are relevant, clearly understandable and make sense before the research tools are finally administered to participants. The pre-testing aims at determining the reliability of the research tools including the wording, structure and sequence of the questions. The pilot study will involve 5 respondents from other companies.

The respondents will be conveniently selected since statistical conditions are not necessary in the pilot study (Cooper and Schindler, 2003). Pilot study is aimed at refining the questionnaire so that respondents in the major study will have no problem in answering the questions. This will help to improve the content validity and reliability of the data that will be collected. However, results obtained in the pilot study will not be included in the final data analysis.

#### **3.5.4 Data Collection Procedure**

Self-administered questionnaire will be used in this study to collect quantitative data. The researcher will assure the respondents that information collected will be for research purpose only and the responses from the respondents will be treated anonymously. The researcher will obtain an introductory letter from the University to collect data from the companies then personally deliver the questionnaires to the respondents and has them filled in and then collect later: the drop and pick later method.

#### **3.6 Data Analysis and Presentation**

Completed questionnaires will be edited for completeness and consistency after data collection. Data clean up, analysis and explanation will then follow the editing. In data clean up editing, coding, and tabulation in order to detect any anomalies in the responses and assign specific numerical values to the responses for further analysis is done. The data will then be analysed using descriptive statistics.

The descriptive statistical tools (SPSS V.17.0 and Excel) will help the researcher to describe the data. The Likert scale will be used to analyse the mean score and standard deviation. The study findings will be presented using tables and graphs for further analysis and to facilitate comparison. This will generate quantitative reports through tabulations, percentages, and measure of central tendency.

The study will also use multivariate regression model to determine the relative importance of each of the four variables with respect to achieving profitability in the

cargo handling companies in Jomo Kenyatta International Airport, Nairobi Cargo Centre. Regression is able to estimate the coefficients of the linear equation, involving one or more independent variables, which best predicted the value of the dependent variable. Regression method will thus be used due to its ability to test the nature of influence of independent variables on a dependent variable. With that consideration, linear regression analysis will be used as the approach to analyse the data. The regression model will be as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

**Where:**

Y = Profitability

$\beta_0$  = Constant Term

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  = Beta coefficients

$X_1$ = Exchange rate;  $X_2$ = Interest rate;  $X_3$ = Monetary and fiscal policy;  $X_4$ = Inflation;  $X_5$  = Taxation and  $\varepsilon$  = Error term

### **3.7 Limitations of the Study**

The study will be limited to the analysis of factors influence of economic environment on the profitability of cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre. The researcher anticipates a hard time in getting respondents to get respond to the questions as the respondents are busy. To overcome this set back, the researcher will make prior arrangements with employees to agree on a time when they can be met to fill the questionnaires.

### **3.8 Ethical Issues**

The study collects sensitivity information and therefore, the researcher holds an ethical obligation to hold this information with utmost correctness. The respondents will be assured of confidentiality of information given to make them at ease to respond to the questionnaire.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

#### 4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the influence of economic environment factors on the profitability of cargo handling companies based at Jomo Kenyatta International Airport Nairobi Cargo Centre. The chapter also provides the major findings and results of the study.

#### 4.2 Response Rate

The researcher targeted a sample size of 103 respondents from which 90 filled in and returned the questionnaires making a response rate of 87.3%. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

#### 4.3 Demographic Information of the respondents

The study sought to establish the background information of the top level, middle level and low level management in the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre including their gender, age, highest level of education and years of service/working period.

The findings show the gender of the top level, middle level and low level management in the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre. From the findings, the study established that the majority of the respondents were male as shown by 55.3% while females were 44.7% of the respondents. This shows that there are more male than females in the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre.

On the age of the managers, the study found that the majority of the management in the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre were between 36 – 45years (37.8%), 24.4% were aged between 26 –

35years, those aged above 46 years and 18-24 years were represented by a 20% and 17.8% respectively. This shows that majority of the management staff are middle aged.

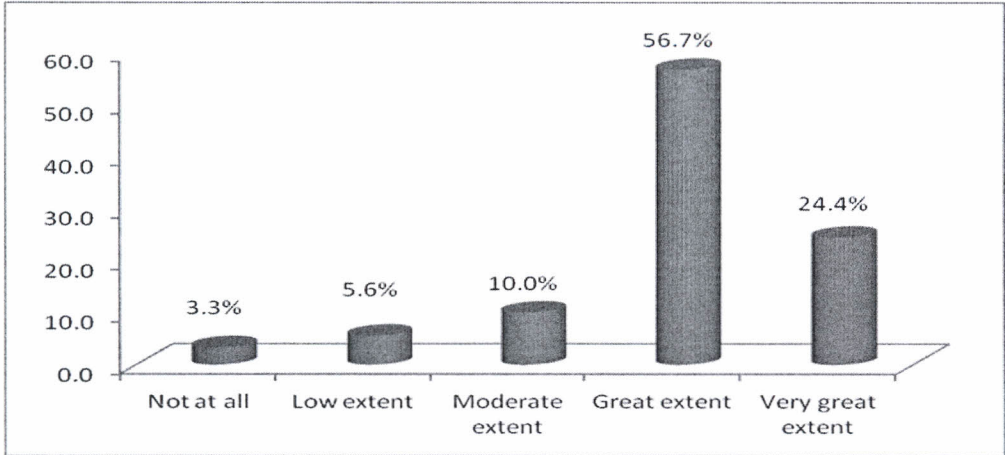
The study also sought to establish the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre managers' highest level of education. According to the findings, most of managers had a degree as shown by 46.7% of the respondents, 25.8% had a postgraduate degree while a measly 11.1% of the managers had a diploma/certificate.

On the years of service/working period in the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre, the findings show that 46.7% of the managers had worked for between 10 and 15 years, 35.6% had worked for between 15 and 20 years while 13.3% of the managers had worked in the cargo handling companies for more than 20 years.

#### 4.4 Influence of Economic Environment on the Profitability of the Company

figure 4.1 Foreign Exchange rate

The study sought to establish the extent to which foreign exchange rate affected the profitability of the company. Figure 4.1 shows the findings of the study.



From the findings, majority of the respondents (56.7%) indicated that foreign exchange rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent while

24.4% agreed that the exchange rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent. This implies that foreign exchange rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent. This agrees with Summers and Summers (1996) who observed that an increase in the variance of the permanent (transitory) component in the exchange rate process leads to greater (lesser) variability in the growth rate of the firm's profits, thus establishing that the source of exchange rate volatility matters in analysing its effects.

#### 4.5 Level of agreement with statements related to foreign exchange rate.

Table 4.2 shows the findings of the study.

**Table 4.2 statements related to foreign exchange rate.**

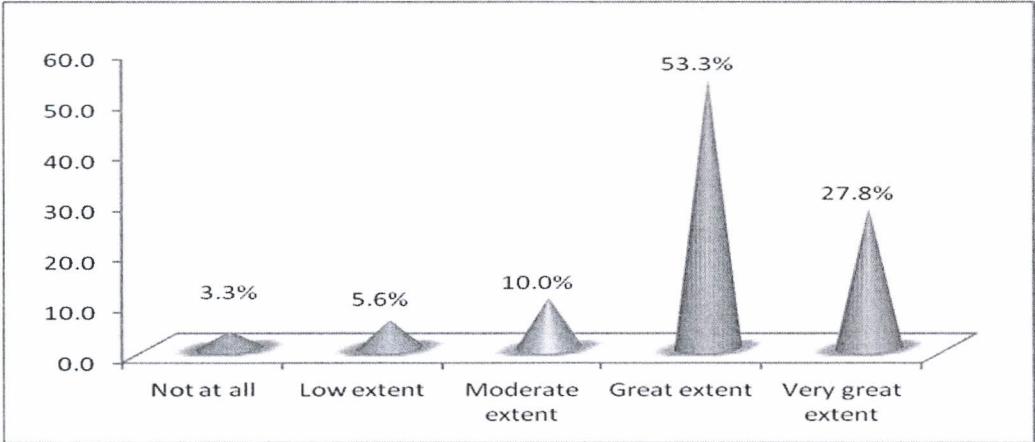
Statement	Mean	Std. Deviation
The purpose of forex is to assist international trade and investment	4.3053	0.42801
Unchecked speculative movement of currencies by large financial institutions impedes the markets from correcting global current account imbalances	3.7421	0.99394
Exchange rate volatility effects firm's growth rate of profits	3.5895	0.68821
To not cover any foreign exchange exposures leaves the company equally vulnerable to adverse movements in the exchange rate	3.3158	0.69311
Some companies manage foreign exchange risks by adjusting prices to reflect change in import pricing resulting from currency fluctuation	3.1842	.80956

From the findings, majority of the respondents agreed with the statement that the purpose of forex is to assist international trade and investment to a great extent as shown by the mean score of 4.3053. Most of the managers at the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre agreed to a moderate extent with the statements that unchecked speculative movement of currencies by large financial institutions impedes the markets from correcting global current account imbalances, exchange rate volatility effects firm's growth rate of profits and to not cover any foreign exchange exposures leaves the company equally vulnerable to adverse movements in the exchange rate as shown by the mean scores of 3.742, 3.5895 and 3.3158 respectively. This is consistent with (Dowd, 1998) who observed that making decisions and means taking control of a large risk area that affects a corporation. It can take any number of forms from very rigid strategies that ensure conservatism and ease of administration to more complex strategies which attempt to maximize results by taking on additional risk.

#### 4.6 Interest rate

The study sought to establish the extent to which Interest rate affected the profitability of the company. Figure 4.2 shows the findings of the study.

figure 4.2 Interest rate



From the findings, majority of the respondents (53.3%) indicated that foreign exchange rate affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent while 27.8%

agreed that interest rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent while 10% indicated that interest rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a moderate extent. This implies that interest rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent. This is consistent with Fofack, (2005) who observed that Businesses are also indirectly affected by an increase in the interest rate as a result of the actions of individual consumers. They, too, borrow money from banks to run and expand their operations. When the banks make borrowing more expensive, companies might not borrow as much and will pay a higher rate of interest on their loans. Less business spending can slow down the growth of a company, resulting in decreases in profit. Securities of firms making continuous losses, usually suffer from price decline.

**4.7 Level of agreement with statement related to interest rate.**

**Table 4.3 shows the findings of the study.**

**Table 4.3 statement related to interest rate.**

<b>Statement</b>	<b>Mean</b>	<b>Std. Deviation</b>
Interest rate spread	4.4053	0.98483
Market forces	3.9737	0.80861
Level of interest	3.5316	0.61798
Principal source	4.5043	0.83746

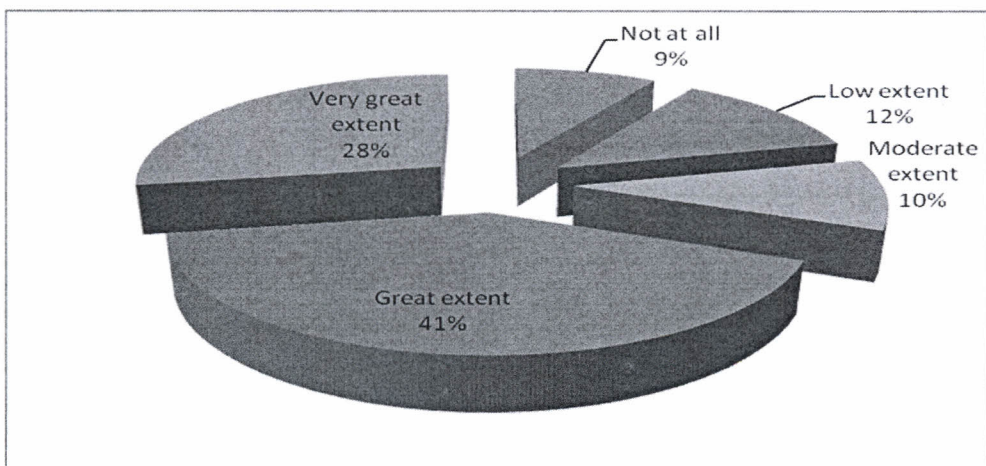
From the findings, majority of the respondents agreed that principal source and interest rate spread are statement related to interest rate to a great extent as shown by the mean scores of 4.5043 and 4.4053 respectively while market forces and level of

interest are statement related to interest rate to a moderate extent as shown by the mean scores of 3.9737 and 3.5316 respectively. This is consistent with Pandley I.M, (1997) who observed that supply and demand interact, and they determine a price (the equilibrium price) that tends to be relatively stable. If the supply of credit from lenders rises relative to the demand from borrowers, the price (interest rate) will tend to fall as lenders compete to find use for their funds. If the demand rises relative to the supply, the interest rate will tend to rise as borrowers compete for increasingly scarce funds. The principal source of the demand for credit is from our desire for current spending and investment opportunities.

#### 4.8 Monetary and fiscal policy

The study sought to establish the extent to which monetary and fiscal policy affected the profitability of the company. Figure 4.3 shows the findings of the study.

**figure 4.3 Monetary and fiscal policy**



From the findings, majority of the respondents (41%) indicated that monetary and fiscal policy affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent while 28% agreed that monetary and fiscal policy affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent while 10% indicated that monetary and fiscal policy affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a moderate extent. This implies that monetary and

fiscal policy affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent. This concurs with Monetary Policy, (2006) which indicates that monetary policy is the process by which the monetary authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability. The official goals usually include relatively stable prices and low unemployment. It is referred to as either being expansionary or contractionary, where an expansionary policy increases the total supply of money in the economy more rapidly than usual, and contractionary policy expands the money supply more slowly than usual or even shrinks it.

#### 4.9 Level of agreement with statement related to monetary policy.

Table 4.4 shows the findings of the study.

**Table 4.4 statement related to monetary policy**

	<b>Mean</b>	<b>Std. Deviation</b>
Monetary policies are purposed to promoting economic growth and stability	4.5632	0.82803
Monetary policies combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding	4.5053	0.51101
Fiscal policy attempts to stabilize the economy by controlling interest rates and spending	4.4737	0.80250
Monetary and fiscal policy affects aggregate demand and the level of economic activity; the pattern of resource allocation; the distribution of income.	4.1053	0.85757

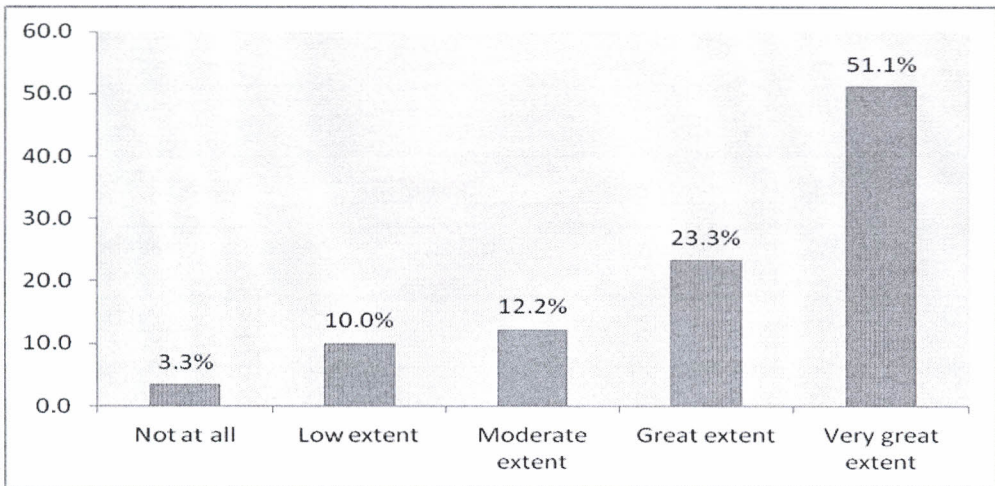
From the findings, majority of the respondents strongly agreed with the statements that monetary policies are purposed to promoting economic growth and stability,

monetary policies combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding and fiscal policy attempts to stabilize the economy by controlling interest rates and spending as the statement related to monetary policy as shown by the mean scores of 4.5632, 4.5053 and 4.4737 respectively. This concurs with Sullivan & Sheffrin (2003) who said that, policy is the use of government expenditure and revenue collection (taxation) to influence the economy. Fiscal policy can attempt to stabilize the economy by controlling interest rates and spending. The two main instruments of fiscal policy are government expenditure and taxation. Changes in the level and composition of taxation and government spending can impact the following variables in the economy: Aggregate demand and the level of economic activity; the pattern of resource allocation; the distribution of income.

#### 4.10 Taxation

The study sought to establish the extent to which taxation affected the profitability of the company. Figure 4.4 shows the findings of the study.

**figure 4.4 Taxation**



From the findings, majority of the respondents (51.1%) indicated that taxation affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent while 23.3% agreed that taxation affected the profitability of the cargo handling companies based at JK to a great extent while 12.2% indicated that taxation affected the profitability of the

cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a moderate extent. This implies that taxation affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent. This agrees with McCluskey et al. (2005) who observed that Taxing is imposing a financial charge or other levy upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state such that failure to pay is punishable by law. Taxes are also imposed by many sub national entities. Taxes consist of direct tax or indirect tax, and may be paid in money or as its labour equivalent (often but not always unpaid).

**4.11 Level of agreement with statement related to taxation.**

Table 4.11 shows the findings of the study.

**Table 4.5 statement related to taxation**

	<b>Mean</b>	<b>Std. Deviation</b>
Direct tax	4.2105	0.84335
Indirect tax	4.0263	0.80250
Custom duty	3.3919	0.95860
Tax holidays	2.9211	0.84801
Tax holidays	2.1737	0.94402

From the findings, majority of the respondents agreed to a great extent that direct tax and indirect tax as the statement related to taxation as shown by the mean scores of 4.2105 and 4.0263 respectively. This concur with Graham (2001) who observed that tax affects capital structure decisions, including the choice of debt, equity, leasing, and other financing instruments play a role in corporate risk management; and affect the form and timing of compensation and pension policies of a firm. Due to its diminishing impact on corporate earnings, tax payment is of very important concerns

to managers. In addition to finding out how to minimize the impact of tax payment on firm value profitability, corporate managers also concern themselves with the fiscal objectives of governments in countries where they operate. This explains why value maximizing managers normally lay strategic emphasis on the application of tax shelter instruments such as debt, depreciation, research and development, corporate arms giving, and so on.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study.

#### **5.2 Summary of Findings**

The study found out that foreign exchange rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent and that the purpose of forex is to assist international trade and investment, unchecked speculative movement of currencies by large financial institutions impedes the markets from correcting global current account imbalances, exchange rate volatility effects firm's growth rate of profits and to not cover any foreign exchange exposures leaves the company equally vulnerable to adverse movements in the exchange rate.

The study also found out that foreign exchange rate affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent and that principal source and interest rate spread, market forces and level of interest are related to interest rate. The study further found out that monetary and fiscal policy affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent.

Further, the study found out that monetary policies are purposed to promoting economic growth and stability, monetary policies combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding and fiscal policy attempts to stabilize the economy by controlling interest rates and spending. The study found out that taxation affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent.

### **5.3 Conclusions**

The study concludes that foreign exchange rate affected the profitability of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent and that the purpose of forex is to assist international trade and investment, unchecked speculative movement of currencies by large financial institutions impedes the markets from correcting global current account imbalances, exchange rate volatility effects firm's growth rate of profits and to not cover any foreign exchange exposures leaves the company equally vulnerable to adverse movements in the exchange rate.

The study also concludes that foreign exchange rate affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent and that principal source and interest rate spread, market forces and level of interest are related to interest rate. The study further concludes that monetary and fiscal policy affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a great extent.

Further, the study concludes that monetary policies are purposed to promoting economic growth and stability, monetary policies combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding and fiscal policy attempts to stabilize the economy by controlling interest rates and spending. The study concludes that taxation affected interest rate of the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre to a very great extent.

### **5.4 Recommendations**

From the study findings and conclusions, the study recommends that the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre should manage foreign exchange risks by adjusting prices to reflect change in import pricing resulting from currency fluctuation. The study further recommends that the management should look at the monetary and fiscal policy as they affect aggregate demand and the level of economic activity; the pattern of resource allocation and the

distribution of income at the cargo handling companies based at Jomo Kenyatta International Airport, Nairobi Cargo Centre.

The study further recommends that the management should come up with very rigid strategies that ensure conservatism and ease of administration to more complex strategies which attempt to maximize results by taking on additional risk. The study further recommends that managers should lay strategic emphasis on the application of tax shelter instruments such as debt, depreciation, research and development, corporate arms giving, and so on.

### **5.5 Limitations of the Study**

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or responses or if otherwise the response given would have been totally different from what the researcher expected.

The main limitations of this study were;

Some respondents refused to fill in the questionnaires. This reduced the probability of reaching a more conclusive study. Fear and victimization by respondents is also likely to limit the study some employees may be unwilling to divulge information for fear of victimization by their superiors and slow pace of respondents also limited the study. Further, most of the respondents were busy throughout and had to continuously be reminded and even persuaded to provide the required information. However, conclusions were made with this response rate.

The small size of the sample could have limited confidence in the results and this might limit generalizations to other situations.

Time- Due to official duties time was a major concern.

### **5.6 Suggestions for Further Research**

Further research is necessary as the findings were based on a relatively small sample that may have influenced the nature of results that were obtained. There is need to expand on the sample size and carry out similar research in other regions. The analysis that was used is not sufficient to draw conclusions on a phenomenon, and to provide adequate information that can be used for policy development. Further research to determine the influence of economic environment factors on the profitability of cargo handling companies based at Jomo Kenyatta International Airport Nairobi Cargo Centre need to be carried out.

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## Appendices

### Appendix I: Questionnaire

#### SECTION A: BACKGROUND INFORMATION

You are requested to fill out your personal information in the spaces below. Please tick only one response.

1) Please indicate the name of the cargo company you work for

---

2) Gender

Male:  Female:

3) What is your age?

18-25

26-35

36-45

46 and above

4) Highest Level of education

Primary Level

'O' Level

Certificate/Diploma

Degree

Postgraduate

5) How long have you worked in this organization?

a. Less than 5 years

b. Between 5 and 10 years

c. Between 10 and 15 years

d. Between 15 and 20 years

e. More than 20 years

**SECTION B: INFLUENCE OF ECONOMIC ENVIRONMENT ON THE PROFITABILITY THE COMPANY**

**Foreign Exchange rate**

6) To what extent do foreign exchange rate affect the profitability of your company?

- Not at all [ ]
- Low extent [ ]
- Moderate extent [ ]
- Great extent [ ]
- Very great extent [ ]

7) State you level of agreement with the following statement related to foreign exchange rate. where 1= strongly disagree and 5= strongly disagree

	1	2	3	4	5
The purpose of forex is to assist international trade and investment					
Unchecked speculative movement of currencies by large financial institutions impedes the markets from correcting global current account imbalances					
Exchange rate volatility effects firm's growth rate of profits					
To not cover any foreign exchange exposures leaves the company equally vulnerable to adverse movements in the exchange rate					
Some companies manage foreign exchange risks by adjusting prices to reflect change in import pricing resulting from currency fluctuation					

**Interest rate**

8) To what extent does interest rate affect the profitability of your company?

- Not at all [ ]
- Low extent [ ]
- Moderate extent [ ]
- Great extent [ ]

Very great extent [ ]

9) What is the extent to which the following facets of interest rate affect the profitability of your company?

	Not at all	Low extent	Moderate extent	Great extent	Very great extent
Interest rate spread					
Market forces					
Level of interest					
Principal source					

### Monetary and fiscal policy

10) To what extent does monetary and fiscal policy affect the profitability of your company?

Not at all [ ]

Low extent [ ]

Moderate extent [ ]

Great extent [ ]

Very great extent [ ]

11) State your level of agreement with the following statement related to monetary and fiscal policy. where 1= strongly disagree and 5= strongly agree

	1	2	3	4	5
Monetary policies are purposed to promoting economic growth and stability					
Monetary policies combat unemployment in a recession by lowering interest rates in the hope that easy credit will entice businesses into expanding					
Fiscal policy attempts to stabilize the economy by controlling interest rates and spending					
Monetary and fiscal policy affects aggregate demand and the level of economic activity; the pattern of resource allocation; the distribution of income.					

## Inflation

12) To what extent do inflation the profitability of your company?

- Not at all [ ]
- Low extent [ ]
- Moderate extent [ ]
- Great extent [ ]
- Very great extent [ ]

13) State you level of agreement with the following statement related to inflation.

Where 1= strongly disagree and 5= strongly disagree

	1	2	3	4	5
With slow inflation organisations investments are bound to increase and as thus with increased investments, organisation are will realise returns to investments					
Inflation increases transactions and information costs, which directly inhibits economic development					
Uncertainty about the future purchasing power of money discourages investment and saving					
Inflation inhibit investment which will affect firms profitability and thus economic growth					
Increases in inflation lead to lower real returns on all other assets.					

## Taxation

14) To what extent does taxation affect the profitability of your company?

- Not at all [ ]
- Low extent [ ]
- Moderate extent [ ]
- Great extent [ ]
- Very great extent [ ]

15) What is the extent to which the following facets of taxation affect the profitability of your company?

	<b>Not at all</b>	<b>Low extent</b>	<b>Moderate extent</b>	<b>Great extent</b>	<b>Very great extent</b>
Direct tax					
Indirect tax					
Custom duty					
Tax holidays					
Investment tax incentives					

**Thank you for participating**

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