Factors Affecting Performance of Logistics Companies in Kenya: A Case of Spears Logistics Kenya Limited

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Abstract

This paper looked at factors affecting the logistics performance in spear logistics Kenya limited. Logistics is significant to economy in the two perspectives: First logistics is one of the major costs for company, which means that logistics activities would be affected by or would affect other economic activities; Secondly logistics provides the activities of the movement and flow in economic transaction, with the objective of facilitating the sales of substantial cargo and sales of some services. This study's main objective was to evaluate the factors affecting logistics performance of Spear Logistics Ltd in Mombasa County. The study investigated the effect of documentation process, government policies and cargo handling capacity on logistics performance of Spear Logistic Company as variables. The study was guided by modern theory, transaction cost theory and logistics theory. The research was carried through across-sectional descriptive design which questioned respondents on factors affecting logistics performance. The respondents of the study were employees of Spears logistics and selected port officials. The population of study consisted of 100 employees out of which a sample of 80 respondents were drawn using formula proposed by Yamane. Both primary and secondary data was collected for the study. Primary data was collected through the use of a structured questionnaire. Secondary data was derived from various sources which included the annual financial statement and journals. A pilot study was carried out to refine the instrument. The Statistical Package for Social Science (SPSS) version 23.0 was used in data analysis. The data collected was analyzed by use of frequency, percentage, means and correlation analysis. From the study findings it was established that unit increase in documentation process will lead to increase in logistics performance by 0.393. A unit increase in government policies will lead to increase in logistics performance by 0.63 and finally a unit increase in cargo handling will lead to increase in logistics performance by 0.143. All the variables were significant. The study concludes that spear logistic ltd has automated the documentation system in the port which has greatly improved logistics performance. It is further concluded that government policy and regulations affect the logistic performance of logistic firms to a large extent. The study recommends that the management of spear logistic ltd should automate all the documentation processes so as to improve the firm’s logistics performance. Finally, the study recommends that the government policy and regulations should be geared towards improving the small firms’ growth.

Key words: Logistics, Cargo, infrastructure, Congestion, Freight forwarders

1. Introduction

Spear Logistics limited was incorporated on August 2011 and came to operation on January 2012. The Company is based in Mombasa even though it has recently been extending its wings Within the East African Region and beyond. Recently the Company recorded a total of period, more than 1200teus in transit imports to Uganda, Congo, and South Sudan annually which is significant and an economy booster. The main services offered by Spear Logistics limited in include clearing, forwarding, Documentation, and Pre-inspection.

Globally, logistics management has a broad, far-reaching effect on our society to improve our living standard. A freight forwarder is a professional logistics provider. Freight forwarders are third parties and their objective is to dispatch shipments through asset-based carriers such as ships, airplanes or trucks. The ability to arrange cargo movement from one destination to another within a short period make forwarding companies competent since customers’ dependency remains constant of such forwarder. Freight forwarding companies have the expertise required to arrange all the activities related to the international shipping process (Mangan & Lewis, 2016). Shipping various products between countries and territories usually involves a multitude of carriers’ requirement and legal documents. The freight and forwarding services is specialized in handling the great amount of logistics. This intricate process requires, helping the client ship goods and securely and quickly. Companies that deal with international import and export activities typically use freight services. The freight forwarding company is a third party it does not ship the cargo itself. However, the freight forwarder acts as a professional intermediary between the client and the transportation services (Tongzon, 2009).
Major companies and corporations greatly depend on professional freight forwarders in their import and export activities. The freight forwarding company guarantees that a certain cargo reaches the proper destination upon an agreed date. Furthermore, turning to the services of a freight forwarder is practically the only way you can be certain that your products arrive at the specified destination in good condition (Schaffer & Earle, 2011). It is virtually impossible for a company to ship goods at an adequate price without a forwarder. Freight forwarding companies have established long-term relationships with carriers of all kinds and will obtain the best deals in the least amount of time. Freight forwarder faces many challenges, this has consequently led in failure of their operations, and satisfying customers need. The occurrence of problems of freight forwarders in India is because of government regulations, liner companies, non-available of trailers & trucks, bad roads, lack of straight or access routes, warehousing of goods, etc., (Brunner, 2010).

2. Statement of the Problem

Despite the effort that have been undertaken by the government of Kenya which include privatization of most of the activities involving clearing and forwarding at the port as well as adoption of the public private partnership in port operations to ensure effective delivery of service, there are still factors that hinder efficient and effective logistics of clearing and forwarding companies in Kenya (es Salaam, 2016). This factor includes the documentation process which is much bureaucratic and hence delay the process. There are also much legal requirements in the operation of clearing and forwarding company and hence increase the cost associated with the business. Finally, is the issue of the cargo maintenance and handling majority of the company do not have the required resources both human and machine labour.

The freight industry in Kenya is diverse and complex in nature and scope. It comprises more than 1,000 C/F agents, almost 14 CFSs, about 53 Shipping lines/agents and 712 registered KTA transporters only 379 are active members of KTA (Njiru, 2011). The positioning of these Firms in provision of various services in the industry as well as their growth and diversification is of interest. Several firms have diversified into different businesses within the industry including provision of courier services/ door to door delivery which was once a reserve of the Postal Corporation of Kenya and import of secondhand motor vehicles among others.

The aim of this study was to identify the factors affecting logistics performance of freight forwarders in Kenya. This included documentation process which is mainly to do with lodging international and local documents, the government policies, which are the procedures, set by the government to control freight processes, the cargo handling that is to be used as a carrier of the cargo and the port authority’s procedures and ways of operation. The above mentioned are some of the factors hindering freight forwarders logistics performance (Adams, 2006).

3. General Objective

The general objective was to identify the factors affecting logistics performance of Spears logistics Kenya limited.

3.1 Specific Objectives

The specific objectives of the study included:

i. To evaluate the effect of documentation system on logistics performance of Spears logistics Kenya limited

ii. To evaluate the effect of government policies on logistics performance of Spears logistics Kenya limited.

iii. To analyse the effect of the cargo handling capacity on logistics performance of Spears logistics Kenya limited

4. Literature Review

4.1 Theoretical Review

4.1.1 Modern Theory

This theory focused on the single electronic window system. Under the single window system, systems interact with other systems or the outside environment in order to curb the problems and difficulties in container clearance. Some of the features of the single electronic window system include: receiving data from other sources, input data converted into output data and the owner of the cargoes does not need to use the clearing and forwarding agents to clear the goods but ought to clear all the payments online then the cargoes are delivered to the owner (Barsky, 2011). The single electronic window system has help in ensuring fast and reliable information to the owner of the cargoes, government being in the position to get the taxes and revenues through the system thus increasing efficiency and effectiveness of all the activities carried out during the clearance of containers.

As a growing and leading port in East and Central Africa Kenya port authority must continue embracing the use of modern technology systems in streamlining their efficiency and supply chain in order to add value and be ahead of its competitors.
A researcher analyzed the variables and seeing how they are interacted in order to improve and eradicate the cargoes delays in the port of Mombasa (Mulimu, 2015).

### 4.1.2 Transaction Cost Theory

This theory states that organizations are economic actors using the most efficient mechanism for transactions. This theory posits that there are costs in using a market. These costs include operational costs such as search costs and inventory holding costs as well as the costs of writing and enforcing a contract. By making their own inputs the firm gains economies of scale and avoids transaction costs. The increased size of the firm will however require increased internal co-ordination. If a firm opts to outsource, it will increase its transaction costs and most likely lose its economies of scale. It would however take advantage of the economies of scale and scope of the vendor while at the same time reducing internal coordination costs (Brunner, 2010).

However, the firm that outsources will increase its external co-ordination costs. External coordination costs will increase or decrease depending on the level of asset specificity. High asset specificity arises where the firm’s products and services are customized and not easily transferable to alternative vendors (Adams, 2006).

### 4.1.3 Logistics Theory

Logistics looks at planning, organization, and control of all activities in the material flow, from raw material until final consumption and reverse flows of the manufactured product. It aims at satisfying the customer’s and other interest party’s needs and wishes to provide a good customer service, low cost, low tied-up capital and small environmental consequences (Christopher, 2016). The credibility of Logistics operation is based on how good the design of the system is.

Logistics management is that part of procurement management that plans, implements, and controls the efficient, effective forward and reverses flow and storage of goods, services, and related information between the point of origin and the point of consumption in order to meet customer’s requirements. Logistics management activities typically include inbound and outbound transportation management, fleet management, warehousing, materials handling, order fulfillment, logistics network design, inventory management, supply or demand planning, and management of third party logistics services providers.

### 4.2 Conceptual Framework

The reviewed empirical studies are conceptualized below: The framework has captured both the independent and dependent variables. The independent variables included the documentation, government policy and cargo handling. On the other hand, the dependent variable was factors affecting logistics performance of spear logistics Ltd.

**Independent Variables**

- Documentation
  - International documents
  - Cargo clearance
  - Process

- Government Policy
  - Government regulations
  - Tax and customs
  - Licenses and other government charges

- Cargo Handling Capacity
  - Handling equipment
  - Handling capacity
  - Staff capacity

**Dependent Variable**

- Logistics Performance
  - Lead time
  - Cost reduction

**Figure 1 Conceptual Framework**

### 4.3 Variables Summary
Documentary analysis involves the various forms used at the sea-port as well as the Kenya Revenue Authority forms for clearing imports and exports of goods. These documents are in various forms and pass through various departments or units/sections at the port and are used for the operation of undertaking clearance of cargo. Despite the fact that more coming up policies and the existing ones are engaged in a process of handling container operations and warehousing, the management is still involved in the control of efficiency which determines the survival of the business in a competitive market environment. Quality performance is becoming a more important factor of competition than price. Reliability, flexibility, application of rules, time spent resolving conflicts and arguments are included in the quality of service, as well as the handling capacity. Quality performance denotes the ability to solve problems. Performance measurement is the strictest sense as the process of quantifying the efficiency and effectiveness of action.

Handling systems means the mechanism used in moving materials from one point to another with less human effort (A. Reid, 2010). Material handling equipment and systems often represents major capital outlays for organization. Like the decisions related to the number, size, and location of warehouses, materials handling decisions can affect many aspects of logistics operations (Oram, 2014). Performance measures play an important role in the management of any organization and are of particular value to logistics managers (Stank & Closs, 2011). Performance measurement is seen as an avenue for logistics managers to achieve sustainable competitive advantage by providing timely, reliable indications of both performance successes and shortcomings (Hung Lau, 2011). Research in the area of logistics performance measurement supports this vital role of performance measures, and, furthermore, has concluded that success in the performance of logistics activities and capabilities is linked to improved organizational performance (Bowersox & Cooper, 2002).

4.4 Empirical Literature Review

According to es Salaam (2016) by reviewing the logistics and supply chain management literature in Malaysia followed by preliminary interviews with five organizations from different sectors, this study found out that there are four key issues and problems, namely the operational logistics, service response, lack of proper education, information flow, and policy related issues. These issues have been the hindrance for effective clearing and forwarding in Malaysia. Therefore, it is important to conduct another study in other parts of the world in order to bring new insight to the challenges facing clearing and forwarding in Kenya. This paper attempts to open up various issues surrounding this complex and fragmented industry. Critiques of the study have become known as productivity paradox because the studies have not confirmed the expectations of a positive correlation between the stated factors and Logistics firm performance. There is increased use of IT in most organizations ranging from formal, government and informal sectors of economy. Many organizations both national and international organizations are transacting have come with innovative way to ensure the documentation system, material handling process and government procedures are complied with (Stank & Closs, 2011).

5. Research Methodology

According to Kothari (2008), research design is the conceptual structure within which research is conducted, it constitutes the blueprint for the collection, measurement and analysis of data as such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. In trying to attain objective of the study and equally establishing the relationship between the variables, this study adopted a descriptive research design. Descriptive research portrays an accurate profile of a person, event, or situation. It allows researchers to collect qualitative data, which can be analyzed quantitatively using descriptive and inferential statistics, and is the best method available for collecting original data for describing a population, which is too large to observe directly (Mugenda & Mugenda, 2008).

The study targeted 100 respondents from Spears Logistics Kenya Limited and Port Officials. Spears Logistics Kenya Limited was selected as a case study because of proximity to the researcher, time availability for research and budgetary constraints.

<table>
<thead>
<tr>
<th>Department</th>
<th>Target population</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transport</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Declaration</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Operations</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Port officials</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
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This study used stratified sampling technique on its sample size, since the population of interest was found in different departments of Spears Logistics Kenya and selected port officials hence not homogenous. Employing this technique enabled the study to derive a more representative and accurate sample of the various sub populations (Cooper & Schindler, 2006). The study covered a sample of 80% of the total population. Employing this technique enabled the researcher to derive a more representative and accurate sample of the various sub populations (Kothari, 2007). The sample size was obtained using the following formula proposed by Yamane.
n = N / (1 + (e^2))

Where,
N – Population size
n – Sample size
e – Sampling margin error

Therefore,

n = 100 / (1 + 100 (0.05)^2)
n = 80

### Table 2 Sample size

<table>
<thead>
<tr>
<th>Department</th>
<th>Population size</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
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<td>8</td>
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<tr>
<td>Operations</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>Port officials</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>80</td>
</tr>
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### 6. Summary of Findings

The study established that there was a strong positive relationship between the study variables. The processed data had a significance level which shows that the data is ideal for making a conclusion on the population’s parameter as the value of significance. From the findings of the study, logistics performance a unit increase in documentation process would lead to increase in logistics performance. A unit increase in government policies would lead to increase in logistics performance and finally a unit increase in cargo handling equipment would lead to a positive increase in logistics performance.

#### 6.1 Effect of documentation process on logistics performance

From the findings it was established that spear logistic limited has fully automated the documentation system in the port. It was further agreed that containerized cargo clearance process is very fast and effective. In addition, respondents indicated to a low extent that the system used in containerized cargo clearance is efficient and effective. The respondents to a moderate extent agreed that introduction and use of single window system on containerized cargo clearance has curbed congestion problem.

#### 6.2 Effect of government policies on logistics performance

The study established that government policy and regulating affect the logistic performance of logistic firms. In addition, respondents agreed to a large extent that clearance and forwarding performance is affected by the taxes and licensing policy. Further respondents agreed to a great extent that government changes have effect to the performance of the clearing and forwarding companies. Finally, respondents agreed to great extent that custom policies affect the logistic performance of the clearing forwarding companies.

#### 6.3 Effect of cargo handling on logistics performance

The study also established that the type of cargo handling equipment in the port has helped in the reduction of congestion in Mombasa port. Also respondents agreed to a large extent that use of automated handling machines and equipment positively affect containerized cargo clearance. In addition, respondents agreed to a great extent that there is lack of adequate machines for loading and unloading containers. Finally, respondents agreed to a very great extent that there is lack of enough berths to accommodate the container ships in the port thus port extension to berth no.19 & 20

### 7. Recommendations

The study recommends fully automation of all the documentation processes of spears logistic limited to improve the firm’s logistics performance and address the issue of slow clearance of containerized cargo with Kilindini port leadership so as to improve the effectiveness of the system. The study confirmed that the single window system on containerized cargo clearance has curbed congestion problem in Kilindini port, the management of Spear logistics should take the advantage of single window system to improve the firm’s logistics performance. The study also recommended that the government policy and regulations should be geared towards improving the small firms’ growth and team up with other players in the industry to lobby for business friendly regulations and policies in order for the firms to develop. Taxes and licensing policies should be friendly to logistic firms.
Finally, management of Spear logistics should invest in the state-of-the art equipment’s to handle cargo and use automated handling machines and equipment positively affect containerized cargo clearance, the firm should embrace the same.

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