THE ROLE OF CONTAINER FREIGHT STATIONS IN DECONGESTING THE PORT OF MOMBASA IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

SEPTEMBER 2012

DECLARATION

I, the undersigned, hereby declare that this Research Project is my own original work and has not been presented for examination to any other university.

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ACKNOWLEDGEMENTS

First, I would like to thank my supervisor, Dr. John Yabs and moderator Dr. Jackson Maalu for making this a meaningful learning process. Their guidance and encouragement throughout the process of formulating my ideas was invaluable. Their ability to view things pragmatically was critical and priceless to the success of this study.

Secondly, I would like to thank the following individuals, without whom this research would not have been successful:

- All the respondents who took the time to complete all questionnaires.
- All my colleagues for their support and encouragement during the study.

DEDICATION

To Tash, Tara and Janet

ABSTRACT

For the last ten years or so capacity constraints at the port of Mombasa have been a major hurdle in port operations as cargo imports especially cars and containers have always surpassed yard holding capacity against a backdrop of poor cargo off-take to the hinterland.This situation has led to cargo congestion which KPA attributes to lack of space among other reasons, a situation that is not acceptable since the port is a critical nerve centre for commerce in the East African region.

The purpose of this study was to determine the role of Container Freight Stations in decongesting the port of Mombasa in Kenya. The study was a descriptive survey design and the population of interest was all the 17 CFSs registered in Kenya. A structured questionnaire was used to collect the information and the respondents were CEOs, General Managers and Operation Managers of the respective CFSs. The Model used for the purpose of the analysis was Porter's Diamond Analysis model.

The findings pointed out that although CFSs are playing a great role in decongesting the port of Mombasa certain challenges among them, a weak regulatory framework and delays in transfers are hindering the efficiencies of the port. Further the, port requires substantial reforms and upgrading to reach international standards and to meet the demands of a growing and increasingly integrated East African community. It is hoped that the results from this research will assist KPA to understand how they can improve on their performance as a result of the yard improvement hence better efficiency and benefits to the maritime sector as a whole.

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List of Abbreviations

CAMIS Cargo Management Information System

CFS Container Freight Station

COMESA Common Markets for Eastern and Southern Africa

DRC Democratic Republic of Congo

EACCMA East Africa Community Customs Management Act

EDI Electronic Data Interchange

GOK Government of Kenya

ICD Inland Container Depot

ICT Information and Communication Technology

IMO International Maritime Organization

KAM Kenya Association of Manufacturers

KMA Kenya Maritime Authority

KPA Kenya Ports Authority

KRA Kenya Revenue Authority

KSC Kenya Shippers Council

KWATOS Kilindini Waterfront Operating System

LCL Less Container Load

NEMA National Environmental Management Authority

PPP Public Private Partnership

RORO Roll on Roll off

RRI Rapid Results Initiative

RVR Rift Valley Railways

SLA Service Level Agreement

SME Small Medium Enterprise

TEU Twenty Foot Equivalent

UN/CEFACT United National Centre for Electronic and Trade Facilitation

VDS Vessel Delay Surcharge

WTO World Trade Organization

CHAPTER ONE - INTRODUCTION

1.1 Background of the Study

Modern economic trends are revealing that International Trade is helping the growth of developing Nation's economies through the adoption of open market policies and technologies and decline in the concepts of trade protection; Usman, (2008). The importance of international trade as a catalyst for economic growth and national development is well recognized with India and China, at present being the best possible examples of this global trade that has become one of the major contributors to the reduction of poverty and accounting for a portion of these country's Gross National Product (GNP). Maritime transport is essential to the world trade. Over 80 per cent of the volume of world merchandise trade is carried by sea, and an even higher percentage of developing country's trade is carried in ships (UNCTAD, 2008a).

Mombasa port is the gateway to Kenya's international trade and it offers a wide variety of shipping services that cover important destinations worldwide including Western Europe, Asia, the Americas, the Far East and the rest of Africa. Amiwero,(2005). The port is faced with operational and traffic challenges. In response, several privately run containers depots referred to as CFS or dry ports have been developed in the recent years. According to the KPA Annual Review and Bulletin of statistics (2010), the containerized imports discharged at the port of Mombasa went up from 229,465 in 2006 to 345,314 TEUS in year 2010. The number of motor vehicles discharged in same period went up from 65,348 in 2006 to 95,604 in 2010 necessitating the high demand for storage and handling space outside the port area.

The objective of dry ports concept is to relieve the congestion at the seaports and its adjacent areas and to some extent aid the continuous movement of container traffic beyond the seaports. The dry ports have assisted the Mombasa seaport to reduce congestion and increase seaport throughput and productivity. It is acknowledged that the dry port concept has provided more efficient logistics at the Mombasa seaport terminal, reduced waiting times for truckers at the terminal and eased congestion and thereby better transit time. The development of bonded warehouses and ICDs in ports located in the six geopolitical zones of the country is part of the current port reform agenda of the government. Here, a port constitutes the lifeline of and/or gateway to a port's maritime based economy. It could be noted that, the collapse of such a port system would mean the collapse of the entire economy. The Kenyan port's system has been in dire need of reforms. The problems and complications of the 2001 congestion saw the ports at an operational standstill, calling for urgent attention with regard to resolving the problems caused by government policy inconsistencies. Government in a bid to find a lasting solution to the problems inaugurated a decongestion committee, which was headed by Alhaji Aliko Dangote, with the mandate to resolve the problems. Esim, (1996)

1.1.1 International Business

International business refers to all those business activities which involve cross border transactions of goods, services and resources between two or more nations. Transaction of economic resources include capital, skills and people, for international production of physical goods and services such as finance, banking, insurance and construction; Usman, (2008). In order to develop themselves in the global economy, firms have to expand their businesses abroad to compete in the international arena.

The process of internationalization can be described as; the process of increasing involvement in international operations and it involves the adaption of firms operations like strategy, structure and resources to perfectly fit the international environments. Further, the degree of internationalization can be measured as foreign sales relative to total sales. (Welch and Luostarinen,1988**).**The goal of internationalization process is to have pronounced global presence in an attempt to keep abreast with their competitors, to generate improved profitability and be known as a multinational. Several theories have been postulated over the years to maintain and enhance the essence of the process of internationalization. Melin (1992) describes the internationalization process as a gradual development taking place in distinct stages. The process can be clearly identified under two major schools; the Uppsala models (U-models) and the Innovation-Related Internationalization Models (I-models) conceptualized by Cavusgil (1980). Both models emphasizes on firm's involvement in foreign market segments.

The traditional internationalization process is described by the Uppsala Model (UM) and is the most cited internationalization model (Palgrave Macmillan, 2012). UM describes how firms gradually intensify their activities in foreign markets, based on cultural closeness and knowledge accumulation (Johanson & Vahlne, 1977). Despite its wide acceptance UM has been criticized by several scholars, mostly on its sequential process-based view and its emphasis on the liability of foreignness (Johanson & Vahlne, 1990; Barkema, Bell & Pennings, 1996; Moen & Servais, 2002; Forsgren & Hagström, 2007). Johanson & Vahlne (1977) also finds that firms internationalize into geographically close foreign markets because of psychic distance which refers to differences in culture, language and political environment between home and host country markets.

Nowadays it can be seen that there are flows of goods, services, capital, technologies and people

increasingly permeating the world trade (European Commission, 2002) particularly in developing countries, which are referred as l*ow-income and middle-income economies* (The World Bank, 2007), over the last twenty five years the FDI inflows have increased remarkably (Busse & Hefeker, 2007) from USD 4 billion in 1980 to USD 379 billion in 2006 (UNCTAD, World Investment Report 2007). The increase in FDI inflows into developing countries reflects the wide-ranging privatization of state-owned assets in a number of countries in Latin America and Eastern Europe and the sale of banking and corporate assets in several Asian economies following the Asian crises (Working Group of the Capital Markets Consultative Group, 2003).

Internationalization requires comprehensive planning. Several, often conflicting forces both internal and external determine a company's most effective form of participation in a foreign market. (Cavusgil,1990). Small markets favour entry modes with low break-even sales volume such as exporting, licensing or contractual agreements while large markets with high sales potential justify entry modes with high break-even sales volume, such as subsidiaries or joint ventures. Environmental factors such as the economic, political and socio-cultural character of the target market will also affect the choice of entry mode. If the cultural values of the country is very different from the home non-equity entry modes favors, which limits the company's commitment (Cavusgil, 1990). According to Cavusgil,(1990) changes in internal factors are the principal forces shaping a company's international evolution, but the choice of entry mode is directly influenced by the external factors. A company will increasingly choose entry modes that provide greater control over the foreign marketing operations. It is therefore vital that the company continually monitors

the external factors in the target country and prepares to revise its entry mode in order to sustain or strengthen its market position (Root, 1987).

Foreign entry strategies that a firm can use to enter into a foreign market include, exporting, *independent agents, licensing and franchising agreements, joint ventures and Foreign Direct Investment. According to Moosa, (2002) FDI is the process whereby residents of one country acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country. It involves the transfer of financial capital, technology and other skills such as managerial, marketing and accounting.* Jensen,(2003) states that FDI is one of the mostly used ways of internationalization which plays an important role as an engine of employment, technological development, productivity enhancement, economic intensification, and more importantly, as an instrument of technology transfer especially from developed to developing countries.

Frankel and Romer (1999) stated that FDI is often seen as one of the important catalysts for economic growth in the developing countries and it acts as an important vehicle for developed countries to transfer technology to developing countries. Nunnenkamp,(2001) asserts that FDI encourages investment of domestic firms in order to compare with foreign investors and improve human capital, as well as institutions in the host countries. It also offers access to internationally available technologies and management know-how and may render it easier to penetrate world markets.

Moosa et al (2002) declared that there are four common ways that firms use to develop foreign markets for their products: export, licensing, foreign distribution and foreign production. Firms will therefore be motivated to engage in FDI depending on whether they are resource seekers, market seekers or efficiency seekers.

This could be done through a different variety of modes such as greenfield, acquisition or joint venture. (Birkenshaw & Hood 1996). Nunnenkamp (2001) grouped important factors of the

determinants of FDI into developing countries into three categories: relating to resource seeking, market-seeking and efficiency-seeking. Resource-seeking FDI is motivated by the availability of natural resource in host countries while efficiency-seeking FDI is motivated by creating new resources of competitiveness for firms and strengthening existing ones. Market-seeking FDI on the other hand is fairly difficult to assess.

Root, (1987) stated that manufacturing strategies with direct investment involves ownership by an international company of other production units in the target country so as to gain new business, defend existing business, move with an established customer, save costs and avoid government restrictions. International Joint Ventures provide complementary competitive advantages for the new joint venture company and a good alternative when there are restrictions by governments that foreigners cannot own companies by themselves. (Root, 1987). Having local partners also decreases the foreign status of the firm and may provide some protection against discrimination or expropriation, should condition change (Hitt,1996). Because of the complex legal issues frequently raised by international joint venture agreements, it is very important, before entering into any such agreements, to seek legal advice from qualified counsel experienced in this aspect of international trade (Hitt, 1996). Qualified foreign counsel can be very helpful in obtaining government approvals and providing ongoing advice regarding the host country's patent, trademark, copyright, tax, labour, commercial, antitrust, and exchange control laws. (Hitt, 1996). Problems that are common between two partners usually include, profit reporting, dividend policy, capital expansion, the pricing of inputs sourced from either parent, or executive compensation. (Root, 1987). A criticism of joint ventures by international companies

is the loss of management control but it is important for managers to understand that even if they are a minority partner in a joint venture agreement it does not necessarily mean lack of control since they can achieve a solid level of control. (Root, 1987)

1.1.2 Efficient Port Operations

According to De Castro (1996), ports in developing countries represent a key asset for economic development. They need to operate efficiently and be properly structured in order to support an increase in trade and GDP by linking countries to global markets. Most international trade continues to be transported by sea and ports are crucial nodes in the international trade chain. Goods come into ports for further exportation by road, rail or transshipment traffic. The goods are generally preceded by detailed information and bookings both for storage and shipping. How efficient a port is depends on a number of variables. Infrastructure is necessary to carry out the port activities, such as pilotage, towing and cargo handling and hence has a positive effect on port efficiency. The number of days it takes for the goods to pass through the port is one way. Inefficiency in port management is an important bottleneck that can slow down a trade transaction. In India, port equipment in reported to remain idle about 20 per cent of the time. Changing from one mode of transport to another can also be a time consuming undertaking. In Abidjan, Ivory Coast, the transit time between the container terminal and the port gate could be as long as 20 days, depending on the handling agent [de Castro (1996) in (OECD, 2009)].

Modern port operations require an efficient operation of the port facilities. These include calling for the directing of the activities of a wide number of parties, from equipment suppliers to workforce and ship owners to logistics service providers (Narasimhan & Palekar, 2002). It is

therefore critical to have a high throughput of ships at the port and this requires that the time spent on each ship is as small as possible. Like any other operation, there are many things which could go wrong in the activity flow of port operations. According to Beyeler, Conrad, Corbet, O'Reilly and Picklesimer (2004), potential disruptions to port operations exist in a number of areas such as telecommunications, electric power supply, labour and port security. An efficient port raises the productivity of prime factors of production (labour and capital) and profitability of the producing units, thereby permitting higher levels of output, income and employment (Park and De, 2004). They further state that port managers are often under great pressure to improve the performance of their ports. According to Park and De (2004), to improve performance a constant evaluation of operations or processes related to providing, marketing and selling of services to users is required.

In a fast changing world, it is crucial to monitor the performance of the port (measuring the level of efficiency and competitiveness). Park & De (2004). Port efficiency can therefore be measured in terms of productivity, profitability and marketability. Elements such as time, service quality and reliability of entire transport chain in the port community form the core measure of port efficiency. Efficiency in the ports is achieved by employment of technology and equipment which are capable of effectively doing the job at hand. The ports have to be equipped with the most modern cranes and straddle carriers to be able to cater for the needs of customers (Ports, 2005). The use of equipment like the super Post Panamax Liebherr and IMPSA cranes, improve productivity and boost efficiency in the port terminals. Ports and Shipping (2004) reports that the demand on stacking space and ship turnaround time at the port terminals have been increasing, and the right equipments to improve stacking and create more efficient operations are forever in

demand. An efficient port requires not only adequate infrastructure, superstructure and equipment, but also good communications and information technology systems, and especially a dedicated and skilled management team with a motivated and trained work force. As part of an ongoing organisational strategy, organisations need to believe in human capital investment (Alexander, 1997). Knowledge and skills, education and training of employees should be at the core of the organization's policies. Education is a very important source of a country's economic growth because it enhances the stock of human capital. Therefore, economic development and efficiency are not possible without education and investment in human capital which is highly productive (Familoni, 2004).

Mombasa port has a history spanning many centuries, including when dhows called on the north side of Mombasa Island. Ports world over have direct influence on the performance of the economies of their hinterland. Mombasa is today the premier port of call and doorway to a vast hinterland, East and Central Africa region with an estimated population of 100 million people and handling about 18.93 million tons in 2010. The economies of the above region (GNP) depends on Mombasa for their imports (80%) and exports (20%) (KPA 2011).

According to KPA report,(2008) the port has played a crucial and strategic role in the facilitation of seaborne/ hinterland trade by offering efficient and cost effective timely services by being a superb natural harbor with a first-class shelter and deep water berths for larger vessels such as bulk carriers, container ships, motor vehicle carriers and luxury cruise ships. The port also provides anchorage and storage for regular feeder services between Mombasa and Dar es Salaam, Durban, Mogadishu, Djibouti and Dubai with about 35 shipping lines calling and directs

connectivity to over 80 seaports. Container services are provided entirely by liner vessels, while other types of cargo are carried by a mixture of liner and RORO vessels.

1.1.3 Container Freight Stations

CFS is a place where containers are packed and unpacked and also, aggregation/ segregation of cargo takes place there. An ICD may have a CFS attached to it but ICDs are generally located outside a port city. (Obed and Emeghara; 2009). Couper (1986) defined CFS as a facility where parcels of cargo are grouped and packed into containers. These are inland cargo clearance depots with customs facilities and they came up with containerization where individual units of cargo are handled outside the port area. Freight depots are generally located near the port and large population centers that ensured door to door cargo service to shippers.

According to Wali (1996), CFSs are facilities set up for the purpose of container handling and storage between the sea ports and cargo centres. Some of the major activities of CFSs include

storage of laden and empty containers, stuffing of export containers, de-stuffing or stripping of

import containers as well as examination and assessment of cargo by customs authorities. The CFSs are an integral part of the logistics chain in relation to the movement of containerized cargo for exports and imports. CFSs are involved in export/import transaction both at the port of embarkation as well as at the port of disembarkation. Amiwero,(2005) in his narration explains that a CFS is a common user facility with public authority status equipped with fixed installations and offering services for handling and temporary storage of import/export laden and empty containers carried under customs control and with customs and other agencies competent to clear goods for home use, warehousing,

temporary admissions, re-export, temporary storage for onward transit and outright export. Transhipment of cargo can also take place from such stations.http://commerce.nic.in/infr_guide.html Since a CFS is an extension of the port, it ordinarily has to operate under customs control and other governmental agencies. It must have the minimum cargo handling and storage facilities. The terms ICD and CFS are often used interchangeably, as there is not much difference in their operational modalities and functioning. Mainly, CFSs are off-dock facilities located near servicing ports and which are used as means of port decongestion, as cargo and customs- related activities are moved out of the port area. CFSs largely deal with break-bulk cargo originating/ terminating in the immediate hinterland of a port and which may also deal with rail-borne traffic to and from inland locations (Afenikhe, 1996)).

According to the KPA bulletin of statistics (2010), the cargo traffic handled at the port significantly increased by about 50% for the last five years. This high rate of cargo traffic discharged at the port of Mombasa did not correspond with the slow pace of space expansion within the port hence the need to licenses and bring on board more private sector participation in cargo handling outside the port area. This led to the development of Container Freight stations popularly referred to as CFS`s outside the port area. These private facilities started in the late 90's in order to decongest the port and bring efficiency. The range of services offered complements that of the ports authority in handling and storage of both containerized cargo and motor vehicles outside the port premises. CFS popularity has been boosted by the shipping trends worldwide and a realization by both government and private sector of the great economic benefits accruing from such yards or terminals. Omondi (2012).Kombo & Tromp et al (2006) points out that besides space creation, other benefits realized from CFSs include reduction in levels of demurrage and pilferage within the port and faster customs

clearance as facility is available near the centres of production and consumption. Concentration points for long distance cargoes and its unitization, service as a transit facility, issuance of through bill of lading by shipping lines thereby resuming full liability of shipments. CFSs therefore are striving to provide seamless and cost effective solutions for whatever import needs customers may require thus making them one of the strongest links in the transportation chain.

1.2 Research Problem

UN/CEFACT defines trade facilitation as; the simplification, standardization and harmonization of procedures and associated *information flows required to move goods from seller to buyer and to make payment. It relates to a wide range of areas and activities such as* government regulations and controls, business efficiency, transportation, information and communication technologies as well as payment systems. Through trade facilitation the flow of goods can be improved through facilitation of the procedures and information flows. This reduces the time and money spent in international trade. Customs play a central role in the trade chain and in order to achieve trade facilitation all agencies at the borders must be involved. Dollar et al (2004) concluded that customs clearance time is a key determinant when companies decide to invest in developing countries.

Efforts to achieve trade facilitation in a country are strengthened by alliances and partnerships with international and local stakeholders in both the public and the private sectors (PPP) and this can range from consultations to jointly financed projects in transport and infrastructure. (Global Facilitation Partnership for Transportation and Trade, 2005). Although the opportunities for international trade have improved, not all countries have been able to take advantage of these trade openings due to restricted market access in their export markets, barriers related to internal

capacity constrains and complicated border and port procedures. Trade facilitation can therefore be an effective way to address some of these constraints and contribute faster and more efficient trade transactions in these countries. (National Board of Trade, 2003)

Trade facilitation measures/ principles include; transparency, simplification of administrative and commercial formalities, use of international standards on data, documents and procedures, use of ICT to exchange information efficiently and harmonisation of applicable laws and regulations. Some of the trade facilitation reforms/ initiatives are in the form of customs unions through regional integration like COMESA, creation of an environment that allows for systematic dialogue between government and the business community and the coordination and cooperation between customs and other control agencies, with the view to achieve a 'single window'. (UNCTAD, 2009). According to UNCTAD the most effective facilitation measures concentrate on trade and transport corridors linking inland origins/destinations in landlocked countries with entry/exit seaports in coastal countries. Good examples of corridor arrangement are the Northern Corridor (Kenya) and the Walvis Bay Corridors (Namibia).

Trade facilitation challenges for developing countries include; poor infrastructure, such as roads, railways, electricity and also infrastructure for information and communication technology. Others are problems related to good governance, inadequate coordination between governmental agencies, corruption and a luck of a suitable environment that is conducive for cooperation between the public and the private sector, all of which contribute to a situation in which exporters and importers in developing countries are at a disadvantage in international trade. (National Board of Trade, 2003). According to UNCTAD, (2009) gains and benefits from trade

facilitation include less time and money wastage due to cumbersome trade procedures that create an additional cost on trade that hamper business and hold back economic development. Others are reduced unnecessary and excessive data and documentation requirements, better transparency in customs, faster clearance times, better coordination and the presence of modern techniques. The development dimension of trade facilitation is central. Many developing countries are in need of a good trading environment for their SME's and an efficient collection of customs revenue. In the effort of tackling these issues, trade facilitation emerges as a fundamental tool. (National Board of Trade, (2003). According to OECD (2006), the purpose of having international standards and instruments on trade facilitation is to ensure that procedures of international trade work towards the same general direction, with compatible tools and globally accepted measures. A number of international organizations have developed international standards and recommendation on trade facilitation. They include WTO, IMO and the UN/CEFACT.

Ports are one example of where private sector involvement has been prominent in reforms initiatives. Since the 1990s governments has started inviting the private sector to contribute to port development with capital and operational experience. CFS is emerging as a major sub-sector in the shipping industry, as shrewd investors steadily move in to cash in on this logistic solution. Though the concept is relatively new in Kenya, those venturing into it say that such terminals have a bright future considering the recent trend of port authorities commercializing cargo handling services.(KPA, 2009). The opportunities for international trade have increased through globalization and in trade barriers. Trade facilitation is hence becoming an increasingly important tool for development, allowing countries to trade goods on time with low transaction

costs. With coordinated support from the donor community, developing countries can reap the benefits from an improved trading environment through trade facilitation.(OECD, 2006)

Although various studies have been done to determine the competitive strategies and challenges facing seaports in general, few have been done in the specific area of container freight stations in Mombasa. Khamis (2006) did strategic planning at KPA. Muriithi (2007) did a study of empty containers by logistics firms in Mombasa while Mwakanongo (2007) did survey of corporate governance practices in shipping companies operating in Kenya. Olali (2011) while studying the strategic responses of CFSs in Kenya to challenges in the business environment noted that there is little information on CFSs as no study has been carried on the CFS business concept. He recommends further in-depth case study of a single CFS or a study of one of the components of the environment, be it the remote or the operating environment. A critical look at these studies indicate that there has been a great emphasis on the challenges facing port terminals and other hinterland dry ports but none has been carried out on CFS stations operating a few kilometers within the seaports environment like the case of Mombasa port. The studies have pointed out that although most CFS facilities apply competitive strategies in order to survive in their industry sector, the challenges have not been conclusive enough to justify a generalization. An analysis of these challenges would therefore propose on the best ways to help decongest the port of Mombasa. This study seeks to make a unique contribution in filling this significant gap and it will focus on CFS facilities that offer cars, LCL and full container handling and storage services. At the end of this study, all firms that intend to venture and succeed will appreciate the challenges involved and some remedies. This study sought to answer the question; What role has CFS's played in decongesting the port of Mombasa?

1.3 Research Objective

The objective of this study was to establish how Container Freight Stations assist in decongesting the port of Mombasa.

1.4 Value of the Study

It is anticipated that the findings of this study will be useful to the following; Management of Kenya Ports Authority. The information will assist the management understand the causes of congestion and its possible solutions, its effects on the efficiency of port operations and hence the ships turn-round at the port of Mombasa. The findings will also help the authority to identify areas of improvement, challenges experienced and ways to manage future occurances. The government as regulator will benefit in creating the relevant enabling environment for these facilities to operate successfully and thus enhance revenue collection.

The results would also be of interest to the maritime sector as a whole especially the shipping companies. Researchers and other scholars who might have an interest in developing the findings further or taking other related fields of interest will use the findings of this study as a source of reference in future. The study will also contribute knowledge in the field of port management and add to its growing literature. For private corporations, the findings of the study will give some deeper insight to the proprietors in the private sector in regards to appropriate management of CFSs and provide useful starting points in formulating policy framework. It will also assist managers of the existing dry ports and potential investors to understand and appreciate the various challenges facing the industry and how they can be avoided.

CHAPTER TWO - LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature related to the study. It will cover the concepts of efficient port operations in international business and how they assist in decongestion of ports.

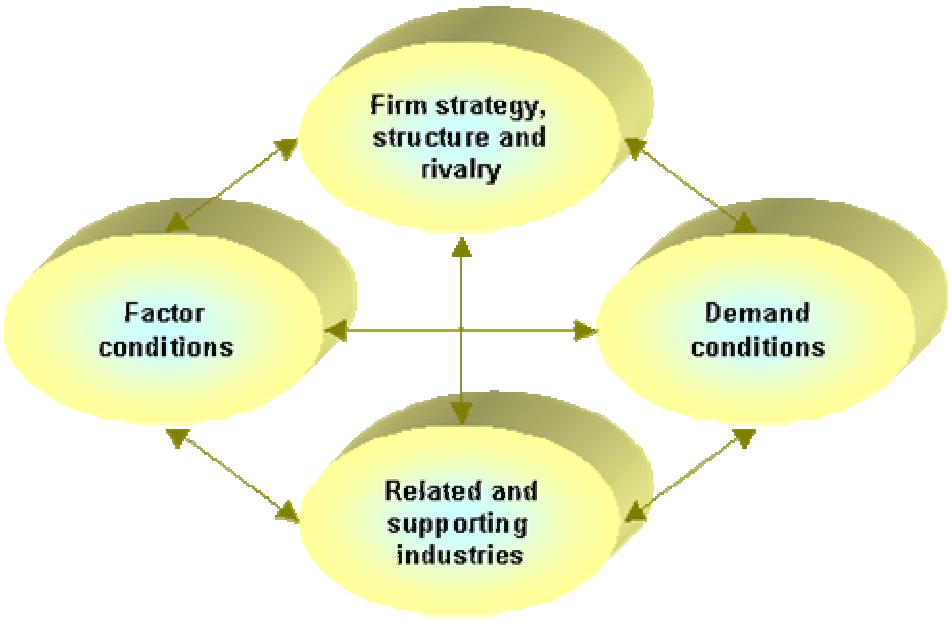
2.2 Internationalization Concept

Porter,(1990) contributed the Diamond model on competitiveness, which analyzes national (industry) competitiveness through four major dimensions: factor conditions, demand conditions, firm strategy structure and rivalry, and related and supporting industries. Porter (1990) concluded that due to various national characteristics, nations cannot succeed in all industries, and thus it is important to identify and develop their internationally competitive industries. Porter's diamond model provides an analytical framework with multi measurements for national or industry competitiveness. According to Porter (1990) nations are most likely to succeed in industry segments where the diamond factors are mostly favorable.

The free market view, which is based on economic and international trade theory (Smith/ Ricardo) reveals that international production should be distributed among countries based on the theory of comparative advantage. This theory states that countries should specialise in the production of those goods and services that it can produce most efficiently (Hill, 2003). In relation to this, Porter's determinants of national competitive advantage (Porter's Diamond) reinforces the free market view. Porter (as cited in Hill, 2003) states that four broad attributes of a nation shape the environment in which firms compete. These attributes promote or impede the creation of competitive advantage and they include: factor endowments; a nation's position in

factors of production such as skilled labour or the infrastructure necessary to compete in a given industry. Porter,(1990) terms physical resources as the abundance, quality, accessibility, and cost of the nation's land, water, mineral, or timber deposits, hydroelectric power sources, fishing grounds, and other physical traits. Infrastructure: availability and quality of infrastructure, including communication system, transportation system, payment or funds transfer and health care. Demand conditions; the nature of home demand for the industry's product or service; Porter (1990) discussed home demand through three general attributes: the nature of buyer needs, the size and growth rate of home demand, and the transferability of domestic demand into foreign markets. Relating and supporting industries; the presence or absence of supplier industries and related industries that are internationally competitive; and Firm strategy, structure and rivalry; the conditions governing how companies are created, organised and managed and the nature of domestic rivalry.

Figure 1: Porter's Diamond Model



Source: Porter (1998, p. 127).

Examining this, it can be deduced that with over 80 per cent of world trade being channeled through ports, efficient and effective port operations management is a critical requirement to maintain strong customer relations and port reputation. Being part of the extended port infrastructure, CFSs are therefore assisting in facilitating international trade by decongesting the ports and thus increasing their efficiency.

The Internationalization process is manifested in a number of different ways. It can be seen in the establishment of foreign subsidiaries, in international joint ventures, in licensing agreements, in international advertising campaigns, in international trade, exhibitions and a multitude of other events and traditions (Leonidou & Katsikeas,1996). In studies concerning the internationalisation of the firm, development is often seen as a process, in which the enterprise goes through phases of development that successively leads to increased market knowledge and knowledge of different establishment possibilities, this process is called the internationalisation process (Dombos and Ekman,1998). The explanations of the internationalisation process of the firm have been made from micro and macroeconomic point of view. Dunning's approach called the "Eclectic approach" state that the company will do a FDI if the firm possesses firm-specific advantages vis-a-vis firms of other nationalities in serving particular markets. The internationalization process of small and medium-sized enterprises (SMEs) is currently discussed because of changing conditions in the business environment such as the liberalization of world trade, the increasingly globalized economy and technological progress (Gabrielsson & Kirpalani, 2012).

The state of container congestion at the container terminal and its negative impact on overall performance made the Kenya Ports Authority to partner with CFSs in a bid to move containers to these facilities and ease pressure off the container terminal. In May 2007, a stakeholders meeting held to discuss on CFS procedures came up with certain proposals to guide shipping lines, customs and the port authority in regard to movement of containers to the CFSs. Initially Shipping lines were to manifest at least 30% of Mombasa bound cargo to the KPA/ CFS on an equal basis among the two CFSs but subsequently this was to be determined by the holding capacity of each CFS. All documentation and payment charges were to be paid as per the current regulations; Fengler (2012).

According to Gulati (1995), a strategic alliance is a purposive relationship between two or more independent firms that involves the exchange, sharing, or co-development of resources or capabilities to achieve mutually relevant benefits (1995) while Ireland et, al (2002) describe strategic alliances as cooperative arrangements between two or more firms to improve their competitive position and performance by sharing resources. Similarly, Wittmann, et al. (2009), look at strategic alliances as collaborative efforts between two or more firms in which the firms pool their resources in an effort to achieve mutually compatible goals that they could not achieve easily alone (2009) which is the same definition used by Lambe et al. (2002). Despite the numerous definitions, one can view similarities between them in terms of having two or more parties who are cooperating with each other, looking to share their resources so as to mutually improve their performance either through learning and knowledge sharing, or through creating opportunities to build competiveness.

In order for strategic alliances to take place there should exist a certain level of cooperation between alliance partners. Gnyawali, et al (2006) defined cooperation as a relationship in which individuals, groups and organizations interact through the sharing of complementary capabilities and resources, or leveraging these for the purpose of mutual benefit. When partners in a strategic alliance create a relationship based on cooperation, it leads to a case where different resources are combined to create a new set of resources that can be difficult to imitate (Fink and Kessler, 2009). The bundling of different resources through cooperative relationships can therefore lead to firms acquiring and maintaining competitiveness through their new and unique resources. This is supported by Dyer et al, (1998) who state that firms that are able to accumulate resources and capabilities that are rare, valuable, non-substitutable, and difficult to imitate will achieve a competitive advantage. Furthermore, Faems et al,(2010) state that working together with other organizations might encourage the transfer of codified and tacit knowledge, resulting in the creation of resources that would otherwise be difficult to mobilize and develop. Cooperation gives rise to several gains for the firm which include the division of cost of new product development between the firms that are working together, shortened lead times as well as contribution of core competences by the various partners involved (Bengtsson and Kock, 2000).

Strategic alliances therefore contain different forms of cooperation which should be beneficial to both parties in the alliance as it leads to acquisition of new knowledge and/or resources that help to develop a company's competitiveness. The CFS module has been used in many ports worldwide to address the problem of port congestion especially by India, South Africa and Nigeria where all the imported cargo is transferred directly to privately operated inland container depots known as container freight stations (CFSs) upon discharge from the vessel; Ifezue,(1996).

2.3 Causes of Congestion

While it is evident that the recent introduction of port reforms has led to some improvement in port operations, a number of bottlenecks continue to exist. One such bottleneck is the operational inefficiencies of the CFSs which were introduced as a mechanism to address congestion. Unless this situation is addressed appropriately, the region will continue losing the competitive edge it requires and subsequently continue recording sluggish growth rates in the coming years; Kenya Shippers Council, (2011). An early review article of studies on delays in offloading empty containers by KPA et al (2010) revealed that the operations of empty container depots were contributing greatly to the congestion around the port area and this directly affected port productivity. Causes of congestion was due to lack of packing space for trucks, rapid concentration of empty depots and truck parking yards in the area without proper planning, lack of adequate facilities eg narrow roads, arbitrary licensing of empty depots/ truck parking yards and clamping of trucks by the Municipal Council.

A recent survey on congestion at the port of Mombasa by KSC and KAM et al (2012) ; "KSC and KAM's demand for action" reckon that the perennial congestion problem emanates from multiple sources which compound each other. KPAs system of nominating CFSs urgently needs revision as some of the CFSs nominated by KPA have no space, are ill equipped, have poor service levels and lack customer care standards. Despite its goal of 21 lifts per hour, KPA still records a dismal 5-6 lifts per hour mainly due to inefficient labour practices and inadequate equipment. Though more equipment was procured in 2011 and berths increased, delays in discharge are still experienced leading to the conclusion that the congestion originates from inefficiencies internal to the Port. These are well known and articulated regularly. Off take of

cargo from the port is delayed by various factors all within the control of agencies operating within the port and around it and can be summarised under; inadequate number of personnel, inadequate RVR capacity, inadequate equipment of KPA to load cargo, constant failure and collapse of the two electronic cargo clearing systems used by KRA (Simba System) and KPA (Kwatos), KPA (2009). Kavore, (2011) narrated that importers continue to face high charges due to the length of time it takes for cargo nominated to CFSs to be released. KPA and KRA need to urgently employ and implement a risk management system that provides for selective screening of high-risk cargo, while expediting the clearance of low risk cargo. The international convention of simplifying and harmonizing of customs procedures popularly known as the Revised Kyoto Convention Standard 3.32, provides special customs clearance procedures for authorised traders who meet criteria specified by customs; Fengler, (2012).

According to Kenya Shippers Council, (2011), *Policy paper on CFS operations* Issue no. 3, (2011) some cargo remains not cleared due to disputes with government agencies and they must thus institute prompt dispute resolutions to enable importers and the concerned parties resolve disputes as quickly as possible. Report further notes that Productivity at the port still remains low due to the frequent labour threats and go slows. Recent studies by Ndegwa G. et al (2012) confirmed that the Rapid Result Initiative (RRI) program launched by the Ministry of Transport in January 2012 could decongest the port by increasing the daily off-take of cargo from 1200 to 1800 TEUs by enforcing the service level agreements (SLAs) between KPA and operators of CFSs, removing all the 5,803 documented TEUs, 5928 undocumented TEUs and 1200 rail bound cargo from the port through various means among others. Khamis, et al (2012) in his report on port productivity since the launch of the RRI initiative indicated that the major cause of cargo

congestion at the port was due to poor delivery of cargo from the port occasioned by a scarcity of trucks to pick up cargo from the port. Other causes were the increase of container traffic by 16% compared to a similar period in January 2011. The volume of transit cargo has risen from 33% to 38% over the past year due to imports to South Sudan.

Musyoka, et al (2012) pointed out that a number of factors/ challenges prevented customs from effectively playing a major role in decongesting the port. Such challenges included problem in receiving long stay cargo from KPA to a suitable place for auctioning since the customs warehouses are full, problem of auctioning undocumented cargo as customs is not mandated to auction containers which it is not aware of the contents and the fact that KRA does not have the mandate to give a blanket waiver of duties**.** Other challenges were the SIMBA system which has no provision for allowing partial release of bulk containers, NEMAs stringent requirements for destruction of overstayed cargo, lack of funds by KRA for destruction of the overstayed containers, problems in dealing with shipping lines and empty containers returned from the auction plus the cargo that is offered for auction is usually not taken up by successful bidders.

Kabuga, et al (2012) noted that although numerous attempts by GOK and the management of KPA to improve efficiency and prevent frequent congestion at the port have not been very successful, the recent government Rapid Result Initiative (RRI) measures can succeed by having a single government agent to man the cargo entry/exit gates at the port, identify the government agent responsible for security and safety of cargo while in the port, remove the activities of all the other government agents away from the gates with the responsible agent to man the gates and issue gate pass. Kisembe, et al (2012) provided the findings of an independent recent

investigation undertaken by KSC to ascertain the causes of long stay containers and congestion at the port. Congestion due to poor berth productivity occasioned by the low levels of gang productivity at conventional berths, poor planning and scheduling of ship berthing, failure of the number and capacity of equipment to grow in tandem with regional economic growth and growth in throughput.

2.4 The Role of CFSs in addressing Congestion

Ihenacho,(2005) in his narration reports that the key role of ICDs & CFSs is that they complement the facilities at the port by providing handling, storage, customs examination, etc., thus ensuring that all the containers entering the terminal are ready for export. As far as imports are concerned, the containers can be moved to a CFS or an ICD, thereby decongesting the terminal and ensuring that it handles the maximum throughput. Lessons across the globe have revealed that prudent management of CFSs in relation to port operations can result in numerous economic benefits. First, the direct movement of cargo from the port to the freight stations means such cargo is not subjected to customs procedures at the gate of the port thus saving on time. Currently, customs procedures account for more than 80% of the cargo dwell time. CFSs can cut this dwell time by half thus saving on the costs that accompany delays.

Themaritime (2012) indicated that by moving customs' services away from the port premises, incidences of port congestion have been significantly reduced and clearance time significantly improved. Before the introduction of CFSs, more than 70% of cargo was cleared outside of the 7-day free period. This figure has sharply declined as 45% of cargo is now cleared outside the free day's period. There is a reduced level of demurrage and pilferage as CFSs are well secured

and have invested in advanced security measures to ensure the safety of cargo. CFSs play an important role in decongesting the port. In addition to value added services that a CFS provides, its primary role is that of facilitating clearance of the cargo for export out of a country or import in to a country as well as consolidation and segregation of cargo. This allows the Port to focus on Container handling and faster vessel turnaround, leading to improved throughput; Kenya ports authority: *Master plan 2004-2029.*

2.5 Challenges facing CFSs

Seaports around the world face many modern operational challenges and to ensure the highest level of service, ports require intensive port operational planning and set procedures. Legislative and corporate regulation, port security, and logistics are only a few of the challenges that must be addressed on a daily basis. Economy Watch (2010).

According to Kenya Ports Authority (2010), challenges facing the port of Mombasa include; lack of advanced technology, politics, safety and piracy issues among others but the biggest of them all is port congestion which is a big hindrance to the port's efficiency and has impacted the international trade negatively. The Port is operating at full capacity but not very efficient, with the resulting costs rippling through the economy, affecting manufacturing and other import-dependent activities.

Economy Watch (2010) states that the port requires substantial reforms and upgrading to reach international standards and to meet the demands of a growing and increasingly integrated East African community. Currently, the productivity of the container terminal – averaging 15-17 moves an hour remains very low, compared with other ports with similar equipment. It continues to struggle as traffic passing through it increases yearly. Throughput is in the region of 19 million tons and is expected to increase by 10% every year, necessitating the doubling of the

port's capacity in the next five years or so. For the country to become a major manufacturing destination therefore, improving efficiency at the port is critical.

Kenya Shippers Council, et al (2011), Policy paper on CFS operations notes that the *weak regulatory framework governing the operations of CFSs is not sufficient to ensure quality and* standards of service. While KPA is responsible for implementing contractual agreements with CFSs, industry players have observed that the provisions of these contracts have not been adhered to by both parties. This includes the failed take-off of service level agreements (SLAs) that KPA is due to sign with CFSs. On the other hand, KRA has licensed CFSs based on gazetted conditions required to set up a CFS but has been unable to continuously monitor the already licensed stations to ensure continued conformity to the stipulated requirements. The Kenya Maritime Authority, which was mandated to regulate the operations of maritime service providers (CFSs included) by the Merchant Shipping Act (MSA 2009) currently, lacks the necessary enforcement mechanisms as the regulations of this Act have not been gazetted. The challenges facing CFSs can therefore be summed up as under; *KPA penalty-based tariff structure, operation costs, delays in transfer, delays in submission of ship manifest and manifest numbers to the port and customs authorities and longer truck turnaround times due to lengthy documentation procedures.*

Kenya Shippers Council, (2012) in their report indicated that the misinterpretation of the tariff structures by customs authorities have often resulted in numerous disputes between importers and the customs authorities. However, the manner in which such disputes are handled significantly contributes to delays at CFSs. Other causes of congestion include delays in submission of documents by cargo owners. KPA, (2009).

CHAPTER THREE - RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research design that was adopted, target population under study, the sample size, data collection methods and techniques used when organizing and analyzing the data.

3.2 Research Design

This study adopted a descriptive survey design which according to Churchill (1991) is appropriate where the study seeks to describe the characteristics of certain group of companies, estimate the proportion of companies with certain characteristics and make predictions. Khan, (1993) recommended descriptive survey design for its ability to produce statistical information about aspects of CFS challenges, opportunities and its impact that interest policy makers and researchers. The design will be chosen for this study due to its ability to ensure minimization of bias and maximization of reliability of evidence collected.

3.3 Population

The target population for this study comprised all the CFS operators operating in Kenya. According to KPA Annual Bulletin of Statistics (2011) there are 17 CFS operators in Kenya and they include Mombasa Container Terminal (M.C.T.), Regional logistics, Awanad and ConsolbaseLtd among others. Owing to the small number in the population therefore, this study will opt to use a survey to cover all the CFS listed in the KPA Bulletin of statistics (2011). Mugenda and Mugenda (2003), state that, the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study.

3.4 Data Collection

The main data collection instrument was the structured questionnaire. Primary data was collected using a semi structured questionnaire containing both open and closed ended structured questions. The closed ended questions collected quantitative data while the open ended questions provided qualitative data. The questionnaire comprised of 3 sections; Section A probed the Firms background information, section B probed the role of CFSs in decongesting the port while section C probed the challenges facing operations of CFSs; see appendix II. According to Mugenda and Mugenda (2003), questionnaires are commonly used to obtain important information about a population under study. It is normally easy and convenient to address each item and developed specific themes of the study.

The respondents to this questionnaire were the 17 CFS operators. The questionnaire was administered using the drop and pick later method by trained enumerators, strategically selected and briefed on how to fill in the questionnaire. The respondents were given a time frame within which to respond to the questionnaire after which the questionnaire was collected by the researcher on the agreed time. Follow up was done via personal visits, telephone calls and e mails to facilitate responses and also enhance the response rate. Secondary data was found from reports and relevant documents of organizations such as the Ministry of Trade and Industry, KPA, KMA, the internet, journals and books.

3.5 Data Analysis

All the questionnaires and interview schedules completed were checked for completeness at two levels; one by the research assistants and then by the researcher. This was to ensure that any

anomaly that may be detected was corrected while still in the field. All the questionnaires were collected for further processing - editing and coding. The coded data was further edited to search for illegal codes, omissions, logical inconsistencies and any error found was referenced back to the original data forms (questionnaire) and the necessary corrections made. Once the data was edited for completeness and consistency, descriptive statistics was used to analyse the data. The data was presented in frequency tables and analysed through frequency counts, percentages and mean scores. A narrative summary of open ended questions was made.

CHAPTER FOUR - DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The main objective of this study was to determine the role of Container Freight Stations in decongesting the port of Mombasa. Data was collected from the 17 Container Freight Stations which represents a response rate of 100 per cent. The position of the respondents were senior officers in the firms for better data quality and they ranged from Managing Directors (1), General Managers (7) and Operation Managers (9).

4.2 The Results

The following represents the findings for the various aspects for which questions were posed to the respondents surveyed.

4.2.1 Demographic Characteristics of the Respondents.

The establishment of demographic data of respondents was guided by the following items; age of the firm, employee's working period, number of employees in the firm and ownership of the firms. The summary is presented in Table 4.1.

Table 4.1 Demographic Characteristic of the Firms

Demographic information	Categories	Frequency	Percent
Age of the Firm	Less than 5yrs	4	23.5
	6-11yrs	6	35.3
	12-17yrs	7	41.2
Employee's working period	Less than 3yrs	6	35.3
	3-6	5	29.4
	6-9	2	11.8
	More than 9yrs	4	23.5
No of employees	Less than 50	6	35.3
	51-100	7	41.2
	101-250	2	11.8
	More than 250	2	11.8
ownership of the firm	Wholly locally owned	12	70.6
	Jointly owned	5	29.4

Source: Research Data

Table 4.1 indicates that (41.2%) of the firms have operated for 12-17 years, (35.3%) fall into the 6 to 11 years age group, while only 23.5% of the firms have been in existence for less than 5 years. The research findings as reflected in Table 4.1 also show that majority of the employee's (35.3%) in the study have been working in the company for less than 3 years. Further Table 4.1 indicates that 41.2% (7/17) of the firms have an employee population of between 51 to100. The findings also indicate that CFSs are locally owned (70.6%) with a numerical value of 12.

4.2.2 Knowledge of Current Regulatory Framework

To achieve the objective of this study respondents were requested to react to set of questions, testing if, the employees were knowledgeable of the current framework and if the firms adheres to the regulatory framework. The results are summarized in Table; 4.2. and 4.3.

Table 4.2: Knowledge of the Current Regulatory Framework.

	Frequency	Percentage
Yes	13	76.5
No	4	23.5
Total	17	100.0

Source: Research Data

Table 4.2 indicates that most employees (76.5%) with a numerical value of 13 were knowledgeable of the current regulatory framework which aims at ensuring that all stakeholders comply with the set standards regarding customer service levels and cost of doing business. It is only a small percentage of 23.5% (4) that are not knowledgeable of the current regulatory framework

Table 4.3: Firms adhering to the Regulatory Framework

	Frequency	Percentage
Yes	14	82.4
No	3	17.6
Total	17	100.0

Source: Research Data

Table 4.3 shows that 82.4% (with a numerical value of 14) of the CFSs adhere to the regulatory framework. It is only 17.6% of the respondents that rejected adhering to the regulatory framework.

4.2.3 The Role of CFSs in addressing Congestion

A series of questions were attended to by the respondents in order to establish how the Container Freight Stations assist in decongesting the port of Mombasa.

Table 4.4: The extent the firm has played in increasing efficiency at the port of Mombasa

Categories	Delivery		Storage		Handling		Stripping of containers		Consolidation		Dispute handling		Customs clearance		Shipping lines	
	F	%	F	%	F	%	F	%	F	%	F	%	F	%	F	%
No extent at all	1	5.9	0	0.0	0	0.0	1	5.9	1	5.9	1	5.9	0	0.0	2	11.8
Small extent	2	11.8	3	17.6	3	17.6	4	23.5	6	35.3	4	23.5	3	17.6	3	17.6
Moderate extent	4	23.5	5	17.6	3	41.2	6	35.3	4	23.5	4	23.5	6	35.3	4	23.3
Great extent	6	35.3	6	35.3	4	23.5	6	35.3	5	29.4	7	41.2	5	29.4	3	17.6
Very great extent	4	23.5	3	29.4	7	17.6	0	0.0	1	5.9	1	5.9	3	17.6	5	29.4

Source: Research Data

Table 4.4 indicates that CFSs assists in delivery of the cargo and storage by a great extent (35.3%). CFS to a very great (17.6%) assists in handling the cargo at the port of Mombasa. Tables 4.4 also indicates that majority CFS assists the port of Mombasa at great extent (35.3%) in stripping the containers and in clearing with customs. The findings in Table 4.4 shows that CFS at a small extent (35.3%) helps the port of Mombasa in Consolidation, it also greatly assists in dispute handling (41.2%). Shipping line/ CFS relationship also equally important in increasing efficiency at the port as indicated by the moderate score of 23.3%. This implies that to a great extent CFS assist decongesting the port of Mombasa by providing value adding services by increasing space and capacity of the seaport. This in turn enhances efficiency in service delivery/

cargo movement and thus increasing the ships turn round at the port. Respondents also noted that the CFSs are approachable, less bureaucratic and have modern equipments to handle containers.

4.2.4 The Challenges facing CFSs

Despite the great extent the CFSs assist in decongesting the port of Mombasa, they face a lot of challenges as indicated Table 4.5 below.

Table 4.5: Challenges experienced at the Mombasa port

Challenges	Responses		Percent of Cases
	N	Percent	
Presence of penalties based on tariffs	13	35.1%	76.5%
Experienced transfers delays	14	37.8%	82.4%
Misinterpretation of tariffs structure by custom authority	10	27.0%	58.8%
Total	37	100.0%	217.6%

Source: Research Data

Table 4.5 shows that transfer delays (37.8%) are the major problems experienced by CFS at the port of Mombasa; this is supported by the qualitative information given by the respondents. Presence of penalties based on tariffs (35.1%) is the other big challenge that CFS face while misinterpretation of the tariff structure by customs ranks third at (27.0%) among the many challenges.

Table 4.6: Other challenges experienced at the port of Mombasa

Challenges facing CFSs	Responses		Percent of Cases
	N	Percent	
Funding problems	4	11.1%	44.4%
Competition from other CFSs	2	5.6%	22.2%
Political interference	3	8.3%	33.3%
Technological factors	3	8.3%	33.3%
Lack of legal framework to handle legal disputes with KPA	1	2.8%	11.1%
Security issues	1	2.8%	11.1%
Tariff issues	2	5.6%	22.2%
High cost of attracting more customers	2	5.6%	22.2%
frequent downtimes of KPA & KRA system	1	2.8%	11.1%
Difficulties in cooperating with the other partners	4	11.1%	44.4%
Poor quality declaration by importers thus rejection	2	5.6%	22.2%
KPA 24 hours operation	3	8.3%	33.3%
Meeting condition set by industry regulators	2	5.6%	22.2%
Meeting and maintainers government regulations	2	5.6%	22.2%
On time service provision by KPA	1	2.8%	11.1%
Delays in submission of documents by cargo owners	3	8.3%	33.3%
Total	36	100.0%	400.0%

Source: Research Data

From Table 4.6; Funding issues (11.1%) and difficulties in cooperating with other partners (11.1%) stands out among the other challenges faced by CFS in its operation at the port of Mombasa. It's closely followed by political interference (8.3%), technological factors (8.3%), KPA's 24 hours operation (8.3%) and delays in submission of documents by cargo owners

(8.3%). The respondents also indicated that CFSs at the port of Mombasa faces competition from other CFSs (5.6%). Tariff issues (5.6%), high cost of attracting more customers (5.6%), poor quality declaration by importers (5.6%), meeting condition set by industry regulators (5.6%) and meeting and maintaining government regulations (5.6%) as indicated in table 4.6 have also posed difficulties for CFS operations at the port.

At a little extent: security issues(2.8%), lack of legal framework to handle legal disputes with KPA(2.8%) and frequent downtimes of KPA & KRA system(2.8%) have also been challenges faced by CFS at the port of Mombasa. Qualitative information given by the respondents also cited the severe challenges in obtaining cooperation and support from the customs department with regard to handling of cargo and various permissions in handling of cargo. Whereas CFS operators are mandated to operate 24 hours, other agencies like KRA/ KEBS have not increased their capacity to implement this.

4.2.5 Discussion of Findings

Previous studies have shown that CFSs being extensions of the port have played a key role in decongesting of ports worldwide especially in countries like India, South Africa and Nigeria. The findings of this study corresponds with these previous results in that despite the challenges faced by the CFSs, they have to a great extent assisted in decongesting the port of Mombasa through provision of value adding services.

CHAPTER FIVE - SUMMARY, CONCLUSION & RECOMMEDATIONS

5.1 Summary of Findings

The target population of the study was the 17 Container Freight Stations in Kenya of which all responded representing a 100 per cent response rate. The main objective of the study was to determine the role of Container Freight Stations in decongesting the port of Mombasa. The findings show that most firms are locally owned and have existed for the last 12-17 years with approximately 51-100 employees. Most CFSs are also knowledgeable of the current regulatory framework and they adhere to it.

CFSs have also assisted in decongesting the port of Mombasa to a great extent through cargo delivery and storage, through stripping of the containers, customs clearing, consolidation and dispute handling. But despite the great extent the CFS have assisted in decongesting the port of Mombasa, they are faced with certain challenges which include the weak *regulatory framework governing their operations, KPA penalty-based tariff structure, operation costs,* misinterpretation of the tariff structures by customs authorities and *delays in transfers.* Other challenges facing CFSs can be summed up as under; *delays in submission of ship manifest and manifest numbers to the port and customs authorities and longer truck turnaround times due to lengthy documentation procedures.*

5.2 Conclusion

CFSs have played a great role in decongesting the port of Mombasa but they face many challenges among them, the *weak regulatory framework governing them, KPA penalty-based*

tariff structure, operation costs and delays in transfer. The port requires substantial reforms and upgrading to reach international standards and to meet the demands of a growing and increasingly integrated East African community. It needs to operate efficiently with minimal costs so as to be able to handle the ever increasing throughput that is expected to increase year after year.

5.3 Recommendations

Although Ports are one example of where private sector involvement has been prominent in reforms initiatives, with CFSs playing a great role in decongesting the port of Mombasa, more investment needs to be put in other trade facilitation measures especially the 'Single Window' partnership which remains a huge potential area for PPP with plenty of gains.

5.4 Limitations of the Study

The instrument used to collect data was the questionnaire; drop and pick later method which needed further clarification from the respondents thus time wasting. It was also difficult to get answers from some of the respondents especially the CEOs because of their tight schedules. Limited time frame for the project was also another limitation.

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APPENDIX I

APPENDIX II: QUESTIONNAIRE GUIDE

Section A

General Information

1. Your Name …….(optional)

2. Your position ……(optional)

3. Name of your company ……

4. Age of the Company *(Please tick one)*

   A. Less than 5 years

   B. 6 - 11 years

   C. 12 - 17 years

5. For how long have you worked with the firm? *(Please tick)*

   A. Less than 3 Years

   B. 3 - 6 Years

   C. 6 - 9 Years

   D. More than 9

6. How many employees are in the firm? *(Please tick one)*

   A. Less than 50

   B. 51 to 100

   C. 101 to 250

   D. More than 250

7. Please indicate the ownership of the company? *(Please tick one)*

   A. Wholly foreign owned

   B. Wholly locally owned

   C. Jointly owned

   D. Other (Specify)

   ……

   ……

Section B

Role of CFS in decongesting the port

9. To what extent has your firm played in regard to increasing efficiency at the port of Mombasa in relation to: *(Tick appropriate response)*

	Role of CFS in decongesting the port	5 (very great extent)	4(great extent)	3 (moderate extent)	2 (small extent)	1 (no extent at all)
a	delivery / transfer of containers					
b	storage					
c	handling					
d	stripping of containers					
e	consolidation					
f	dispute handling with KPA/ government agencies					
g	customs clearance					
h	shipping lines/ cfs relationship					
i	other (specify)					

10. What is the role of CFS?.....

……

11. What are the strengths of CFS in decongesting the port?.....

……

12.Do you know of the current regulatory framework? *(Please tick one)*

A. Yes B. No

13. Is your company adhering to the regulatory framework? *(Please tick one)*

A. Yes B. No

14. What is the main importance of the regulatory framework?.....

……

Section C

Challenges facing operations of CFSs

15. (i) To what extent have you experienced the following challenges in your operations at the port of Mombasa? *(Tick the appropriate response)*

	Challenges facing operations of CFSs	**5 (very great extent)**	**4 (great extent)**	**3 (moderate extent)**	**2 (little extent)**	**1(not at all)**
a	funding problems					
b	competition from other CFSs					
c	political interference					
c	technological factors					
e	lack of legal framework to handle legal disputes with KPA					
f	security issues					
g	tariff issues					
h	high cost to attract more customers					
i	frequent downtimes of KPA & KRA systems					
j	difficulties in cooperating with the other partners					
k	poor quality of declarations by importers thus rejections					
l	KPA's 24 hour operation					
m	meeting conditions set by industry regulators					
n	meeting and maintaining government regulations					
o	on-time service provision by KPA					
p	manifest submission by shipping lines					
q	delays in submission of documents by cargo owners					

(ii) Any other challenges? ……..
…….

16. Is there any improvement in service provision after the implementation of the Rapid Result Initiative (RRI) program ?

……..

……...

17. How weak are the regulatory framework? …….

……

18. Are there penalties based on tariffs? *(Please tick one)*

A. Yes

B. No

19. Have you experienced any delays in transfers? *(Please tick one)*

A. Yes

B. No

20. Under what circumstances do transfers delay? .....

……

21. Are misinterpretations of tariff structure by custom authority common? *(Please tick one)*

A. Yes

B. No

22. Are there delays in submission of documents by cargo owners? *(Please tick one)*

A. Yes

B. No

23. What are the effects of the delays ?.....

……

24. What are the unjustified costs mostly incurred? .....

……

25. What are the demands of government agencies in the process? ……

……

Thank you for finding time to fill the Questionnaire

APPENDIX III: CONTAINER FREIGHT STATIONS LICENCED IN KENYA

1. AFRICAN LINER AGENCIES
2. AWANAD
3. BOSS FREIGHT LTD KENYA
4. COMPACT FREIGHT SYSTEM
5. CONSOLBASE LTD (F.F.K)
6. I.C.D KISUMU
7. I.C.D NAIROBI
8. INTERPEL
9. FOCUS CFS
10. KENCONT
11. MAKUPA
12. MITCHELL COTTS & BP2 PORT
13. MOMBASA CONTAINER TERMINAL (M.C.T) TRANSAMI
14. PEPE
15. PORTSIDE FREIGHT TERMINAL LTD
16. REGIONAL LOGISTICS
17. SIGNON

Source: KPA Annual Review & Bulletin of Statistics (2011)