

**ANALYSIS OF FACTORS THAT INFLUENCE
PERFORMANCE OF RIFT VALLEY RAILWAYS IN KENYA**

BY

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION**

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OCTOBER, 2013

DECLARATION

This research project is my original work and has not been submitted for examination to any university..

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ACKNOWLEDGEMENTS

First, all thanks go to the Almighty who has given me the strength to go through this journey. I am deeply indebted to my supervisor, Dr. John K. Yabs for the guidance given throughout the project. Am also sincerely grateful to Mr. Victor X. Ndambuki for playing a critical role in the valuable suggestions and input into this work. My gratitude to all my MBA lecturers for the important role they played in imparting the knowledge to me during the programme.

Gratitude goes to my former colleagues at work and especially Mrs. Dorothy Muluka for the support, encouragement and constant reminder to “finish this journey”.

Lastly I would also like to thank the managers at Rift Valley Railways for the co-operation in responding to the interview guide.

DEDICATION

I dedicate this research project to my parents, the late Joseph T. Nyalwal and Lydia A. Nyalwal, to my family and especially my two children, Michelle and Clive whom I want to follow in my steps. Thank you for bearing with me during this process.

ABSTRACT

This research was designed as a case study on Rift Valley Railways in Kenya. The objective of this study was to determine the factors influencing performance of Rift Valley Railways Ltd. In order to meet this objective pertinent primary data was collected through administration of an in-depth interview guide to 11 senior and middle level managers at RVR. The collected data was then analyzed through the use content analysis technique. The study identified and documented specific factors that need to be addressed such as the competitor, pricing, volume haulage threshold in tonnages, financing, technology, staff motivation and remuneration, government support in terms of finance and legislative support among others. The study explored the history of the railway from inception in late 1890's and traced its journey to the reason that culminated to the divestiture by the Government through Concession model. The Concession model is a form of divestiture where the government partners with the private sector, especially at an international level with experience in the rail industry. The government retains ownership of rolling stock and permanent way but leases to a private investor or consortium for period of 25years. The researcher was able to identify several factors that played a big role in the poor performance in the transport company. This largely revolved around the shortage or lack of investment in critical aspects of the business which eventually had domino effect in other activities such as service delivery and human resource. The respondents pointed out the main threat as the road and thus have to integrate technology and focus their activities to be customer oriented in order to counter the loss of cargo to the former. The researcher also noted the lack of clear guidelines in terms of formulating the rates (pricing) and what volumes are critical in a monthly or yearly to sustain the business. This is a pointer that there may or may not exist a policy guideline that is cascaded to the middle management who formed the bulk of the respondents. The support of the Government was also noted to be of critical importance. Railway is a monopoly that requires government supervision as it's a critical sector in the economy that can determine the price of essential goods. It is therefore in the interest of the Government to ensure that the sector is supported fully. It has been concluded that the company needs to re-examine its human compensation policies. Literature emphasizes that there is a relationship between compensation and commitment. Adequacy of compensation will lead to an increased desire to protect company assets and reduce loss of revenue. Employees are also less likely to seek more lucrative engagements. Generally speaking the management has to re-examine its planning policies and factor in customer focus. The top management has been blamed for failing to give guidance on strategic direction. The company as a result still operates like a government department where the client can be held at ransom for lack of alternatives. For a long time, it was established that RVR remained without any serious competitor in relation to bulk long haulage. The current sources of competition namely road trucks have made it very difficult for RVR to enjoy the near monopoly status it used to some years ago.

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LIST OF ABBREVIATIONS

ATW	Automated Train Warrant
BR	British Rail
EU	European Union
GM	General Motors
GE	General Electric
IR	Indian Railways
IB	International Business
JNR	Japan National Railway
KRC	Kenya Railways Corporations
LG	Life is Good
MI	Miles
MNE	Multinational Enterprise
MTPA	Million Tonnes Per Annum
NRZ	National Railways of Zimbabwe
RVR	Rift Valley Railways

TAZARA	Tanzania Zambia Railway
TNCs	Transnational Corporations
TKM	Tonne Kilometer
TRL	Tanzania Railway Limited
URC	Uganda Railways Corporations
US	United States
OBC	ON Board Computer
OPRAF	Office of Passenger Rail Franchising
LAPSSET	Lamu Port Southern Sudan- Ethiopia Transport Corridor

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

A multinational enterprise (MNE) is a company that has a worldwide approach to market and production or one with operations in more than a country (Sarathy and Terpstra, 1999). An MNE is often called multinational corporation (MNC) or transnational company (TNC). Well known MNCs include McDonald's, General Motors, LG, Shell. Most of the largest corporations operate in multiple national markets. Areas of study within this topic include differences in legal systems, political systems, economic policy, language, accounting standards, labor standards, environmental standards, local culture, corporate culture, foreign exchange market, tariffs, import and export regulations, trade agreements, climate, education and many more topics. Each of these factors requires significant changes in how individual business units operate from one country to the next (Behrman, 1990).

The railway in East Africa was run by the company East African Railways & Harbors jointly for the countries of Uganda, Tanzania and Kenya after World War I. Since the dissolution of the EAR&H Corporation in 1977 the national company Kenya Railways Corporation runs the former Uganda Railway and its branches in Kenya. The most important line in the country runs between the port of Mombasa and Nairobi, where sleeping car accommodation is offered for tourists. In 2006, the Rift Valley Railways Consortium led by a South African company took operating control of the Kenya and Uganda railways as part of a contract lasting at least 25 years. RVR runs passenger trains

within Kenya only, primarily from Nairobi to Mombasa. Freight services are the bulk of RVR's operations(Privatization and Public Private Partnership, PWC 2007).

1.1.1 Concept of international Business

International business comprises all commercial transactions (private and governmental, sales, investments, logistics and transportation) that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons. It refers to all those business activities which involve cross border transactions of goods, services, resources between two or more nations. Transaction of economic resources include capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc. (Jean, 2005)Thus, international business is the process of focusing on the resources of the globe and objectives of the organizations on global business opportunities and threats. Evolution of International Business, that is business across the borders of the countries, had been carried on since times immemorial. But, the business had been limited to the international trade until the recent past. The post-World War I period witnessed an unexpected expansion of national companies into international or multinational companies. The post 1990s period has given greater fillip to international business (Boddewyn, 1998).

In fact, the term international business was not in existence before two decades. The term international business has emerged from the term international marketing, which in turn,

emerged from the term 'export marketing (Boddewyn, 1998)'. Originally, the producers used to export their products to the nearby countries and gradually extended the exports to far-off countries. Gradually, the companies extended the operations beyond trade. For example, India used to export raw cotton, raw jute and iron ore during the early 1900s. The massive industrialization in the country enabled the export of jute products, cotton garments and steel during 1960s. India, during 1980s could create markets for its products, in addition to mere exporting. The export marketing efforts include creation of demand for Indian products like textiles, electronics, leather products, tea, coffee etc., arranging for appropriate distribution channels, attractive package, product development, pricing etc. This process is true not only with India, but also with almost all developed and developing economies(Caves, 2001).

International trade is expanded into international marketing and international marketing is expanded into international business. Nature of International Business in the 1990s and the new millennium clearly indicate rapid internationalization and globalization. The entire globe is passing at a dramatic pace through the transition period. Today, the international trader is in a position to analyze and interpret the global social, technical, economic, political and natural environmental factors more clearly. Conducting and managing international business operations is a crucial venture due to variations in political, social, cultural and economic factors, from one country to another country. For example, most of the African consumers prefer less costly products due to their poor economic conditions whereas the German consumers prefer high quality and high priced products due to their higher ability to buy. Therefore, the international businessman

should produce and export less costly products to most of the African countries and vice versa to most of the European and North American countries. High priced and high quality Palmolive soaps are marketed in European countries and the economy priced Palmolive soaps are exported and marketed in developing Countries like Ethiopia, Pakistan, Kenya, India, Cambodia among others (Caves, 2001).

International business houses need accurate information to make an appropriate decision. Europe was the most opportunistic market for leather goods and particularly for shoes. Bata based on the accurate data could make appropriate decision to enter various European countries. International business houses need not only accurate but timely information. CocaCola could enter the European market based on the timely information, whereas Pepsi entered later(Kotler,2000). Another example is the timely entrance of Indian software companies into the US market compared to those of other countries. Indian software companies also made timely decision in the case of Europe. Business laws and policies and regulations were formulated by the Indian Government, for example, on how to enter into joint venture with the domestic company in Malaysia. Important among them include the host Country's Monetary System whereby Countries regulate the price level, flow of money, production levels etc. through their monetary systems. In addition, they regulate foreign exchange rates also through the monetary system. The tools of monetary system include bank rate, cash reserve ratio, statutory liquidity ratio etc. Governments also regulate remittance of the profit of international business houses to other countries. International companies should obey these regulations. The Indian Government introduced full convertibility on current account; in

fact, many Governments introduced full convertibility on current account as a part of economic liberalization (Grosse, 2001).

1.1.2 Performance of International Firms

The assessment of the scope for Rift Valley Railways to improve on its cost efficiency is central to our work, since it enables us to establish efficient levels of track access charges when we periodically review railways outputs as part of a balanced package. The use of international benchmarking is necessary as RVR is a national network monopoly, and hence there are no straightforward direct domestic comparators we can compare it to. The EU Directive 91/440 is a European Union legislation that sets out a framework and requirements for railways in the EU to allow open access operations on railway lines by companies other than those that own the rail infrastructure. The legislation was further extended by further directives to include cross border transit of freight (Bacharach, 1999).

The UK state railway (British Rail or BR) was privatized from 1993. BR's infrastructure was spun off into a company, Railtrack, first publicly owned, and then it was privatised. BR's operational units, being 25 territorial groupings of passenger services under the three original sectors of Network SouthEast, Regional Railways and InterCity, were franchised attempting to maximise their value to the Treasury (Harris & Godward, 1997). In 2000, the main regulatory body, OPRAF, became the Strategic Rail Authority, who were to additionally take a strategic overview previously nonexistent in the privatised structure (Harris, 1997).

Railways were first introduced to India in 1853 from Bombay to Thane. In 1951 the systems were nationalised as one unit, the Indian Railways (IR), becoming one of the largest networks in the world. IR operates both long distance and suburban rail systems on a multi-gauge network of broad, metre and narrow gauges. It also owns locomotive and coach production facilities at several places in India and are assigned codes identifying their gauge, kind of power and type of operation. Its operations cover twenty four states and three union territories and also provide limited international services to Nepal, Bangladesh and Pakistan. Indian Railways is the world's ninth largest commercial or utility employer, by number of employees, with over 1.4 million employees. As for rolling stock, IR holds over 239,281 Freight Wagons, 59,713 Passenger Coaches and 9,549 Locomotives (43 steam, 5,197 diesel and 4,309 electric locomotives). The trains have a 5 digit numbering system as the Indian Railways runs about 10,000 trains daily. As of 31 March 2013, 23,541 km (14,628 mi) (36%) of the total 65,000 km (40,000 mi) km route length was electrified. Indian Railways is an Indian state-owned enterprise, owned and operated by the Government of India through the Ministry of Railways. It is one of the world's largest railway networks comprising 115,000 km (71,000 mi) of track over a route of 65,000 km (40,000 mi) and 7,500 stations. As of December 2012, it transported over 25 million passengers daily (over 9 billion on an annual basis).

Japan has taken a different approach to other European countries in this study. The geography, with large mountainous areas and much of the population concentrated on the

south coast of the main island, Honshu, creates high density passenger flows along a main coastal corridor. Together with the highly urbanised nature of Japanese cities, this creates an incredibly dense demand pattern meaning Japan's railways carry more people than any European system. There has also been, as in Switzerland, a strong tradition of rail service provision by other companies, and again these private railways contain a number owned by the public sector, though many more are under 100% private ownership. These have generally been seen as more efficient than the state owned monopoly of JNR (Mizutani, 1999). In response to JNR's growing debt (the same precursor to reform as in Germany), and in order to inject some of the innovation and efficiency perceived as characteristics of the private railways, it was privatised from 1987 (Railtrack, 2001).

1.1.3 Transport Sector in Kenya

Transport in Kenya refers to the transportation structure in Kenya. Road, rail, air transport and the oil pipeline are all significant in Kenya, while water transport plays a minor role. The country has an extensive network of paved and unpaved roads. Its railway system links the nation's ports and major cities and connects Kenya with neighboring Uganda.

According to the Kenya Roads Board, Kenya has 160,886 kilometres (99,970 mi) of roads with all but 11,189 kilometres (6,953 mi) unpaved. (Kenya Roads Board, 2011). The main competitor to the rail, the road carries over 90% of the cargo with hundreds of independent truck companies that operate under the Kenya Transport Association Ltd

There are 15 airports with paved runways. Jomo Kenyatta International Airport in Nairobi, is Kenya's largest airport and serves the most destinations. Some international flights go to Moi International Airport in Mombasa. Kisumu Airport was upgraded to an international airport in 2011 and a second phase of expansion is under way. (Kenya Roads Board, 2011). Kenya Airways is widely considered as one of the leading Sub-Saharan operators; as of January 2013, the carrier is ranked fourth among the top ten ones that operate in Africa by seat capacity, behind South African Airways, Ethiopian Airlines and EgyptAir (Centre for Aviation, 2013). The cargo handling company, African Cargo Handling Limited, is a wholly owned subsidiary of Kenya Airways; partly owned companies are Kenya Airfreight Handling Limited, dedicated to the cargo handling of perishable goods and Tanzanian carrier Precision Air. A new low-cost subsidiary named Jambo Jet was created in 2013 (Air Transport World, 2013).

Mombasa has the only commercial port that reaches international standards. Mombasa's commercial port is called Kilindini Harbour and is run by the Kenya Ports Authority, it lies on the Indian Ocean. There are plans to build another international port in Lamu to the north east of Mombasa. There is an inland port at Kisumu which serves Lake Victoria. Water transport is the least used mode of transportation in Kenya, limited to the coastal and lake regions. RVR operates ferry services there to link Ugandan and Tanzanian locations with Kisumu, Kenya's third largest town and a once bustling port. The ferry supplements interstate rail and road traffic. (Kenya Roads Board, 2011).

Kenya Pipeline Company (KPC) is a state corporation that has the responsibility of transporting, storing and delivering petroleum products to the consumers of Kenya by its

pipeline system and oil depot network. Kenya Pipeline Company operates a pipeline system for transportation of refined petroleum products from Mombasa to Nairobi and western Kenya towns of Nakuru, Kisumu and Eldoret. Working closely with the National Oil Corporation of Kenya, KPC operates 5 storage and distribution depots for conventional petroleum products, located in Eldoret, Kisumu, Mombasa, Nairobi and Nakuru. Depots are fed by domestic-manufactured product from the Kenya Petroleum Refinery near Nairobi and imported, refined petroleum product from the Kipevu Oil Storage Facility near Mombasa. The company operates two aviation fuel depots at Jomo Kenyatta Airport, Nairobi, and Moi International Airport, Mombasa

1.1.4 Rift Valley Railways Ltd

The history of Railways in East Africa can be traced to the beginning of 1900 when the British government (then the colonial masters in Kenya and Uganda) desired to establish a railway line linking the landlocked country of Uganda with the Indian Ocean coast. After independence, Kenya and Uganda, together with Tanzania, formed a customs union known as the East African Community through a Treaty. Under the terms of the Treaty, common services were put under the administration of the Community. The Railway system in the three countries came under a body known as the East African Railways and Harbors. Kenya Railways Corporation was legalized by the Act of parliament Cap. 397 of the laws of Kenya in 1977 after the breakup of the East Africa Community in August 1976 due to financial and political problems. The operations of Kenya Railways became formalized by the enactment of legislation in January 1978, which established the Kenya

Railways Corporation owned by the government but to run as an autonomous commercial enterprise (KR Development Plan, 1978- 1983).

An important aspect of government policy in Kenya from the 1980s to date has been the large-scale privatization of certain public sector corporations. The privatization Programme was designed to achieve the government's stated objective to reduce the size and importance of the public sector in the economy, reduce attendant losses brought about by waste and inefficiency while limiting government's role to the provision of a good regulatory, environment. The social benefits include increased efficiency to users and a reduction in the public sector borrowing from the Treasury (KR Development Plan, 1978- 1983).

However the social costs of privatization include a threat to public interest and creation of private monopolies, among others. This is because industries such as railways are natural monopolies. It can thus be argued that these kinds of industries should remain subject to some government control even when privatized". This is the case in what is known as Concessioning. Concession of Kenya Railways is a new concept in Kenya although it has been done in other parts of the world. The government settled on granting of rights to the Concessionaire (Rift Valley Railways (Kenya) Limited to operate and maintain the conceded Assets and provide the services for a period of twenty five years for Freight Service and five years for Passenger Service, while retaining ownership of the Assets and monitoring the performance. After the expiry of the contract everything reverts to the

Kenya Government or a new contract is signed (Privatization and Public Private Partnership, PWC 2007).

Rift Valley Railways Corporation operates approximately 2,735km of track in Kenya and 306km in Uganda. The mainline runs from Mombasa to Malaba/Tororo to Kampala, while the branch lines diverting from mainline to Kisumu, Taveta, Magadi, Nanyuki,/Nyahururu, Kisumu-Butere, and Leseru- Kitale in Kenya and Tororo-Gulu-Pakwach and Kampala- Kasese branch-lines in Uganda. RVR will remit US\$ 40 million annually to the Government as annual fee. The Rift Valley Railways Ltd is expected to invest US\$ 280million to rehabilitate existing assets and US\$42 million investment in new rolling stock and operating equipment over the concession term. US \$80m out of US \$322m total investment is anticipated within the first five years (Privatization and Public Private Partnership, PWC 2007).

1.2 Research Problem

The survival of the railways system so far has largely been due to significant financial support from the State, with relatively little effort given to rationalizing its assets or human resources. In the context of this bias for operations over investments raises questions about the sustainability of the current model. Rail has a pivotal role in delivering a competitive and environmentally-friendly transport system, growing the economy, enhancing personal mobility and supporting social cohesion. The rail system has not adapted new technology, enabling further modal shift and maintaining its position as the mode of choice. The personnel costs and operating costs have increased several

times over the past decade thus minimizing the usage of the railway transport. Another problem is to ensure that the key operators in railway industry attain financial sustainability, with minimum reliance on Government subsidies to cover operating costs. Railway regulation is facing many challenges similar to those faced in other network industries. However, more than in other sectors, including those which also feature the presence of natural monopolies, railway regulation must address specific characteristics of the rail sector. Those include among others very long lifecycles of assets, low interoperability, high levels of investments and the existence of substitute products/services leading to strong intermodal competition. Railways have failed to address this challenge which would limit the Government's capacity to allocate much-needed funds to productive investment and to the country's overall economic development (Privatization and Public Private Partnership, PWC 2007).

A study by Transcom International limited (2009) on the factors that have caused the decline in the railway industry indicated that after many years, the railway sector and the associated rail marine services have the potential to play an important role in the future development of the East African Community development, particularly for long distance freight and bulk transport but also for urban transport in major cities and for medium distance intercity passenger transport.

Ochieng (2012) studied the competitive strategies adopted by Jetlink Express Ltd in the Eastern African Region, Rono (2012) looked into the strategic responses by Kenya Airways to the effects of Globalisation, while Ng'ang'a(2012) studied the strategic

responses by Kenya Airways to the challenges in the global business arena. In the US, a study by Laurits R. Christensen Associates Inc. (2009) looked into the Competition in the US Freight Railroad Industry and Analysis of Proposals that might enhance competition. This researcher is not aware of any scholarly work that has been undertaken on the factors that influence performance within RVR. The novel concept of Concession, the first in East Africa is expected to generate positive response from Government, customers and stakeholders in the industry that will ensure increase in the efficiency of the rail service ultimately lowering the cost of transport and goods. The research problem will therefore lead us to answer the following research question: what factors influence performance of Rift Valley Railways?

1.3 Research Objective

The objective of this study was to determine the factors influencing performance of Rift Valley Railways Ltd.

1.4 Value of the Study

This study will be of value to the policy makers who are the government through the relevant Ministries and regulators. The Ministries of Finance and Transport who oversaw the privatization of the railway will gain valuable insights on the challenges which will enable them make sound policies through the Regulator, KRC. The study will benefit other stakeholders - such as the Shipping lines, Clearing & Forwarding firms and Revenue Authorities in Kenya who play a role in the transport sector. The results from this study will provide them with intervention option that is sustainable, amenable to

other economic activities. This study will also be used as a base for further investigation by other researchers on related topics. Railroads have always been important to regional development.

Practically the study will be of great benefit to other industries in the supply chain as it will ensure that the companies are able to make informed decisions as to whether to adopt the modern business systems. It will also help them know how to address some of the challenges that will be identified as affecting the railway system. The study will be of great benefit to RVR as it will ensure that it is able to make informed decisions on the adoption of new technologies in the company. It will also help them know how to address some of the challenges that will be identified as affecting the railway company. The government will also get insights as to the main challenges that company is facing in their operations. This will be important as it will ensure that the government will be able to put in place strategies that will help curb challenges that are thought to be affecting the quality of service.

Theoretically the study will be of great impact to both managers and employees in the company since it will improve the skills of the managers in managing the operations and also know different techniques in running the operations of the organization. In addition it will also help the employees in improving their performance in the company since these employees can catch up fast in adopting the modern technology in the rail industry. Moreover it will benefit the Government by implementing policies which will promote the development of the rail; facilitate public-private partnerships to mobilise resources in

order to support the company initiatives; promote the development of an integrated program to support the railway sector and provide affordable infrastructure to facilitate dissemination of services; promote the development of content to address the railway sector.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter consists of review of related literature and the identification of knowledge gaps. The chapter covers the various theoretical foundations of International Business on which theories this study is anchored onto. It also explores literature on efficiency and performance in the railway sector.

2.2 Theoretical Foundation

International business has existed as a distinct field of study for the past three decades, but it does not have a widely accepted explanatory theory on which to base its uniqueness as a discipline. David Ricardo's theory of comparative advantage, Raymond Vernon's product life cycle, John Dunning's eclectic theory and all others are essentially explanations of business between domestic firms or regions, as well as international firms (David, 1999). The study of export activities, foreign direct investment, technology transfer and the management of transnational corporations (TNCs) was recognized as an appropriate and valuable goal of academic research only in the past three decades (Behrman, 1998).

2.2.1 Theory of Comparative Advantage

The idea of comparative advantage has been first mentioned in Adam Smith (1776). If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage. But David Ricardo (1817) investigated in detail

advantages and alternative or relative opportunity. In view of growing outsourcing and global procuring, it is necessary to extend the theory to the case with traded intermediate goods. Until now, this is the unique general theory which accounts for traded input goods (Shiozawa's 2007). This theory is closely related to the theory of international product life cycle.

According to Vernon (1960) international product life cycle theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle. Eventually a country's export becomes its import. Vernon (1960) has argued that, for many manufactured goods, comparative advantage may shift over time from one country to another. This is because these goods go through a product life cycle.

2.2.2 The Eclectic Theory

The Eclectic theory (John H. Dunning 1980) is also known as the OLI-Model or OLI-Framework. It is a further development of the theory of internalization and published. This theory states that transactions are made within an institution if the transaction costs on the free market are higher than the internal costs. This process is called internalization. Dunning(1980), added 3 more factors to the theory: Ownership advantages (trademark, production technique, entrepreneurial skills, returns to scale), Location advantages (existence of raw materials, low wages, special taxes or tariffs), Internalization advantages (advantages by own production rather than producing through a partnership arrangement such as licensing or a joint venture) The idea behind the Eclectic Paradigm

is to merge several isolated theories of international economics in one approach. Three basic forms of international activities of companies can be distinguished: Export, FDI and Licensing. The so-called OLI-factors are three categories of advantages (Gray, 2003). This study will be anchored on the eclectic theory which incorporates all the three approaches.

2.3 International Business and Performance

The explanation of international trade and investment under conditions of free trade and stable or fixed exchange rates does not constitute an international theory, because the same considerations explain intra-national trade and investment. To extend the theory of specialization and the division of labour into an international explanation of foreign trade is to make "comparative advantage" a special case, when it is, in fact, the general case—explaining the benefit of all specialization and exchange, both domestic and international. "Comparative advantage" is not a special theory of international activities; it explains the benefits of the division of labour for any individual, firm, region or nation (Etzioni, 1998)

Research in international business shows a clear dichotomy between focus on activities that cross open national boundaries (as modified by different physical or cultural environments) and activities aimed at penetrating or surmounting barriers imposed by Governments. It is only the latter that require a theory different from those explaining domestic business activities. Numerous theories of business explain decision-making by firms (for example, internalization theory), and those apply equally to international business. But they do not constitute a specific theory of international business. And much

of the conceptual base that is used in international business analysis, as reflected, for instance, in the Journal of International Business Studies, is not uniquely international; it applies also to business anywhere capitalist markets exist.

2.4 Factors influencing Railway Operations worldwide

According to Aliber, (1990) on the question of operating standards and specifications, the decision by several of the regional institutions to support a shift to the more cost efficient international standard rail gauge of 1435 mm for all new construction, is clearly the correct long term vision. However, it is a question of timing, affordability and bankability, and results of economic cost benefit analyses. For new projects which can be operationally ring fenced, such as new high speed passenger commuter services, or dedicated bulk freight lines, the adoption of standard gauge seems logical (Nathan Associates, 2011).

2.4.1 Costing and Performance

In trying to find the appropriate solutions for the revival of the railways, it is useful to understand the basic cost structure of railway versus road. For road services, fixed costs make up about 40 percent of operating costs, with most of the variable costs being fuel. The fixed costs for railway operations generally vary between 60 percent and 80 percent, mostly depending on the freight volumes and related asset utilisation. Highly efficient heavy haul railway have a lower percentage fixed cost. This is why it is important for rail to achieve a very high level of infrastructure and equipment utilisation. For example, on the Coal line in South Africa, the freight volume is about 60mtpa, train turnaround time

about two days over a distance of 540 km, tariff about US\$ 0.015 per tkm and the operation is very profitable. In contrast, on TRL in Tanzania the volume is 0.5mtpa, the train turnaround time is 17 days or more over a distance of 1200km (should be seven days), the tariff is US\$ 0.065 per tkm, and the operation is severely loss making. A typical railway freight tariff for an efficient general freight service would be about US\$ 0.04 per tkm, which would be less than the road tariff for a full return haul (Rugman, 1991).

2.4.2 Operating Speed

There has been a strong push for new standard gauge railway systems for, among other reasons, the need to increase the operating speed from the current about 30 km/hr to a speed of 120 km/hr. (and to improve reliability and safety), at a staggering cost of USD4 billion. The current transit time on RVR from Mombasa to Kampala is about 10 days, sometimes much higher. The actual train travelling time at 20 km/hr average speed, is 2.5 days. This means that the train is effectively standing still for 7.5 days, due to scheduling, breakdowns, derailments. If a 2.5 day guaranteed transit time is offered to customers, with a competitive tariff, then RVR would capture virtually all the road traffic. The first priority for the railways is therefore to make operations safe for a given speed restriction, say 20 or 30 km/hr, and to avoid the breakdown of equipment. Properly maintained equipment hardly ever suffers breakdowns – the main problem is deferred maintenance, and the equipment is therefore used until it breaks down (Nathan Associates Inc. 2011).

2.4.3 Equipment Selection and Costs

The locomotives operating on the 1435mm gauge, are generally between 2,000 hp and 3,000 hp, weighing 90 ton to 120 ton, with 15 ton to 20 ton axle loads. The locomotives are almost all American or Canadian GE or GM units, which cost of the order of US\$ 3 million new. Remanufactured units can be purchased for about half the new price. (Riversdale Mining in Mozambique has recently placed an order for 11 new/remanufactured +2,000 hp locomotives, of the GM/GE ‘African workhorse’ type from the USA, for US\$ 2.1 million each). New locomotives have been supplied from China for about US\$1mill, but there have been some quality problems – GE has now established a manufacturing plant in China (Nathan Associates Inc. 2011).

2.4.4 Threshold Traffic Volumes

A very preliminary analysis has indicated that existing systems require minimum freight volumes of about more than 2 mtpa for Kenya. For new railways, the minimum traffic volumes should be more than 10 mtpa, and more than 20 mtpa for high speed heavy haul lines (CPCS Transcom 2009).

2.4.5 Indicative Capital Costs for Track

The main reasons for choosing the narrow gauge of either 1,000mm or 1,067mm (3ft 6 inches), and the use of light rail for the original railway construction during the colonial period, was lower cost associated with relatively low traffic volumes. A narrow gauge can negotiate sharper curves than the standard gauge, and this was very important in difficult and mountainous topography. However, narrow gauge and sharp curves also

mean slower operating speeds and greater wear on locomotive wheels and rails, and hence the need for more frequent maintenance, and reduced reliability/safety. They involve the replacement of locomotive and wagon wheels and the replacement of rails on curves. The upgrading of track from the original colonial specifications, to allow faster speeds and increased capacity, will most often involve installing heavier rails on concrete sleepers (instead of wood or steel), realignment of areas with sharp curves (which often leads to lengthening of the line), strengthening of bridges to carry heavier axle loads, and to lengthen passing loops to permit longer trains – also additional passing loops to allow for more frequent trains (Infrastructure Engineering News, 2011).

2.4.6 Availability and Cost of Financing

Because of the relatively low volumes of freight carried the income generated is not enough to cover the cost of track and equipment maintenance – additional funding from the conceding authority will be necessary (central government in most cases). Therefore, it is unlikely that the concessionaires will be willing or able to fund major upgrades of track infrastructure, unless it is part of the initial funding package. The initial planned investment from government to pay for rectifying deferred maintenance and upgrades have often been based on the loan repayments being serviced by the concession payments, which in many cases have not materialized, and hence the funding has been held back. If the concessionaire cannot see how his investment will be returned, irrespective of what the agreement says, he will also stop funding (Nathan Associates Inc. 2011).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methodology that was used to carry out the research. It covered the study area, research design, and data collection instruments and data analysis techniques.

3.2 Research Design

The research design that was adopted for this study was a case study. The design enabled the researcher to easily understand the problem from the selected respondents and used the findings for purposes of generalization.

3.3 Data Collection

An Interview guide was used as the main research tool in the study. After pre-testing, the instrument was administered by the researcher to the respondents directly. The interview guide was administered to 12 managers but only 11 responses were recorded. This was deemed to be adequate.

3.4 Data Analysis

The data collected was systematically organized and then analyzed using content analysis. This determines the usefulness, credibility and consistency. Content analysis involves explanation of status of some phenomena or contents of documentary materials or contents of verbal materials that can be spoken or printed (Kothari 1990)

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter will contain content analyses of the data collected by the use an interview guide. A sample of twelve (12) respondents had been selected according to departments.

Out of the total of twelve (12) interview guides administered, only eleven (11) had coherent and comprehensive results and thus these were the only interview guides used for data analysis. These were deemed adequate since this was a case study.

4.2 Data Analysis

Table 1: List of Respondents by Department

Department	No.	Percentage
Business & Commercial	5	45.5%
Operations	3	27.3%
Passenger Service	1	9.1%
Engineering	1	9.1%
Human Resource	1	9.1%
TOTAL	11	100%

Source (Author, 2013)

Out of the eleven (11) respondents interviewed 45.5% of them were from the business and commercial department. This as per the operations of RVR is the department that

handles marketing, business development, determination of freight rates (could be referred to as the rate charged to clients), among other issues that appertain to business generation.

The operations, made up of 27.3% of the total respondents, handles the planning, control and running of freight trains. This involves the determination of paths (timetabling), monitoring and controlling from point to point to ensure that the train follows the predetermined path. The passenger service department (9.1%) can be seen as a sub-department of operations since a lot of its functions are under the control of the operations department.

The engineering department encompasses both the civil and mechanical engineering departments. It is noted that these were not heavily represented in the sampled interviewees (9.1%) each. This could be attributed to the fact that their functions are limited and regarded as service departments to the business and operations departments.

4.2.1 Tabulation by level of Management

Table 2: Level of management

Level	No.	Percentage
Top Management	1	9.1%
Middle level Management	8	72.7%
Supervisory	2	18.2%
Others	NONE	0%
TOTAL	11	100%

Source (Author, 2013)

According to table 1 above, 72% of the respondents interviewed reported that they fall under the middle level management. This could explain by the structure of RVR which requires that the top management be lean and the middle level management is bloated since it conjoins the operational staff and the strategic levels (i.e. the top management.

At the supervisory level about 18.2% formed the sample selected. This number is quite small given the span of control they have to take charge of.

4.2.2 Factors affecting the performance of RVR

It was established that the factors impacting on the performance of RVR included remuneration, lack of planning, attitudes and culture and inadequacy of investment (finances).

Poor remuneration of employees means that RVR cannot retain the best performers especially in the professional cadres. This is because they will always be snapped up by employers who can provide better remuneration.

Lack of customer focus, means that the management has never really seriously factored in the central role played by the customer in any organization. There has been a lackadaisical approach towards customer satisfaction in that clients are not taken with any degree of seriousness. Product innovation to meet emerging customer needs is truly inexistent.

Lack of investment has meant lack of security (leading to vandalism), low speeds due to poorly maintained and outdated permanent way, rolling stock and motive power, poor remuneration which would encourage thefts and under performance.

4.2.3 Sources of competition

The main competitors of RVR were unanimously selected as roads transport. Probably this is because road transport is a lot more flexible and can reach further into the interior than railway transport. Upon further probing, it was revealed that the road is the preferred mode due to its flexibility in terms of time.

4.2.4 Determination of freight rates by RVR.

Like in any other business outfit, RVR takes into account the costs incurred in the business transaction. A profit margin is therefore loaded onto the cost to determine the overall price.

It was noted that discount rates based on bulk offers are also extended and at times these also impact on the overall price.

Competition or market rates are also taken into consideration when setting freight rates. Since earlier on 4.2.3, the main source of competition was identified as road transport in the determination of prices; this is as well taken into account.

4.2.5 Measures taken to ensure performance

The respondents established that for RVR to realize improved performance and increased profits the following would have to be considered:

4.2.5.1 Customer focus

RVR, it was revealed would have to be a lot more customers focused and oriented and drop the “we-are-a government department attitude”. Every activity should be client driven.

4.2.5.2 Investment

The company would have to inject a lot more by way of investments into the permanent way, rolling stock and motive power. This will not only increase speed but also reduce accidents while improving efficiency. Most of the respondents noted that the government was on the right path by initiating the process of establishing a standard gauge railway (wide gauge) line.

4.2.5.3 Improved Human Resource Policy

Another factor that was greatly mentioned was a re-organization of the human resource policies. The management would have to think of restructuring, re-organization and re-engineering, motivation of staff in terms of better pay and performance based pay would also have to be considered.

4.2.6 Setting of monthly traffic volumes

Clearly according to the responses, targets in RVR are based on available assets. In this case, this would refer to wagons, locomotive and the availability of the path. Even then an eye will be cast to establish the level of business the clients have requested for. That would mean, the higher the business offered by clients the higher the targets would be set.

4.2.7 Targets in Tonnage

The respondents, however, were not clearly able to state (quantify) the targets with some indicating the volume in tonnage ranges between 120,000 to 150,000 tonnes per month (1.44m to 1.8m tonnes per annum). Others indicated a range of between 83,000 to 166,000 tonnes per month (1m to 2m tonnes per annum). This could be attributed to poor communication internally to conveying targets to all.

4.2.8 Areas requiring financing in RVR

The following were isolated as the areas that require investment:

4.2.8.1 Training

It was suggested training that cuts across the departments should be carried out. Those in operations e.g. commercial and business officers should be trained so that they can generate more revenue. Those operating the locomotives should upgrade their training with new technology.

4.2.8.2 Permanent Way

There was a general suggestion that RVR invests heavily in the permanent way. All the respondents' acknowledged that deferred and irregular maintenance on the track has led to the many accidents and hence affected the business.

4.2.8.3 Rolling stock and motive power

There was also a suggestion to the effect that RVR invests more in the provision of rolling stock (wagons) and locomotives. The current rolling stock is not adequate in terms

of numbers and category of wagons to cater for special types of goods such as conventional/bagged, bulk, containers, fuel oil and vegetable oils.

Clearly, there appears to be that the need for RVR to invest in assets generally i.e. both human and non-human.

4.2.9 Challenges faced in ensuring RVR performs as expected

Once the again, it was argued that RVR's remuneration policies are seriously wanting. The employees as a result feel short-changed when they compare themselves to their peers in other competing industries. It remains a challenge because just like any other investment as noted earlier, it requires financing. This may be one of the biggest problems be-deviling RVR.

Poor infrastructure in terms of permanent way and the rolling stock was also highlighted as a challenge. Some respondents argued that the existing permanent way and rolling stock was past it shelf life.

Vandalism of the permanent way was mentioned as a challenge. All respondents who mentioned this challenge indicated that industries dealing in scrap metals had become prominent and thus motivated vandals to raid railway lines.

Generally there was agreement that RVR had failed to keep in step with changing times in terms of investing in the motivation of staff, investment in assets and keeping up with the competition.

4.2.10 Responsiveness to technological changes

The respondents agreed that RVR is not being responsive to changing technologies. This is the reason more of the respondents argued that RVR's technology was obsolete. Indeed it was critically noted that nearly all operations of RVR were using technology that was obsolete right from ticketing to the locomotives and to the permanent way.

4.2.11 Modern technologies adopted by RVR

Response was nearly unanimous that even though RVR has lagged behind in terms of technology, it had nonetheless invested in some modern technology lately, namely: ATW (Automated Train Warrant), OBC (On Board Computers mounted in locomotives), and other tracking systems etc.

4.2.12 Adequacy of Revenues

According to responses provided, it is clear that RVR does not generate adequate revenues to cover its business. Indeed all respondents agreed that the business generated cannot make RVR break even. Since it was noted that the company's fiercest source of competition happens to be the road transport system, it can be assumed that some of the business that would have gone to the rail ends up in the hands of the road transporters. Better still, there is the problem of inefficiency i.e. time resources are not fully utilized not forgetting that in the company, there exists massive revenue leakage points that need to be sealed.

4.2.13 Factors deemed to influence the performance of RVR

It was identified that train accidents leads to massive blockage times. The time between the occurrence of the accident and the clearance the scene to resumption of operations is inordinately high. As such, this leads to lost business and unsatisfied clients. To the client these may mean late arrivals in passenger services or late deliveries for goods. The frequency of these accidents has also tended to dent the image of RVR and this seen as a reflection of the use archaic technology.

Infrastructure was once again noted as a key determinant of performance of RVR. There is a notable direct link between infrastructure and technology. There is a dual relationship between the two.

Competition is brought out as yet another determinant of performance. This was earlier on mentioned as emanating from the road transport but at this point upon further prodding, it was noted that RVR still experiences competition from air transport and the pipeline. It will be found that those towns and cities that enjoy air transport facilities are the same ones enjoying railway transport services which means direct competition here on both cargo and passenger business.

Motivation and low morale is yet another factor that has been previously mentioned. Respondents argued that employees result to sabotage mechanisms as methods of making up for lost compensation. This was established to be achieved by way of downing their tools, chronic absenteeism, simply being around but doing very little pilfering from company among other things.

4.2.14 Desired support from the Government

In terms of support, the government needs to come up with both legislative and financial support mechanisms. These were both seen as necessary to support RVR in its attempts to become and remain operationally viable. The government, it was reported should pump in a lot more by way of finances to boost investment in both rolling stock and permanent way and also enable better remuneration thus motivating staff.

Legislative support was seen as necessary since it would incentivize the private investors to invest in railway business thus opening up this method of transport. Laws and legislations would also protect the investments against vandalism, unfair competition from the road (currently, the rail pays fuel levy through its purchase of diesel for use in locomotives thus handing the road an undue advantage especially in pricing)

4.2.15 Adequacy of Government support

The respondents concurred that government support has not been adequate in so far as RVR has been concerned. They noted that most railway operations all over the world have never been profitable and more often than not governments have had to step in and assist in financial resources and necessary legislation. The government was said to be unwilling (could be due to lack of resources) to support RVR and was said to be encouraging it to stand alone. By Concessioneering the railway operations the government was viewed to be encouraging the involvement of private enterprise in its activities to um in a sense of efficiency and profit motivation.

4.2.16 Performance of RVR since takeover by the consortium

Since RVR was taken over by the consortium, it was said to be worse off than when it was when operated by Kenya Railways Corporation. This is a confounding conclusion since it was believed that the takeover would result in increased performance (in terms of haulage and efficiency and indeed all other fronts). Its haulage was particularly noted to have dropped drastically probably by over 21%. A number of questions were posed by the respondents: is it that the capacities of manufacturing facilities has dropped, is it that the number of passengers have gone down or is it that they are turning to the competitors?

4.2.17 Capability of the new management to improve performance of RVR

The respondents were quite confident that the new management had the ability to turn round the fortunes of RVR. The current management represents the interests of both local and foreign shareholders. When the consortium was created, there was a lot friction between the old management and the new one and the relationship was one of suspicion.

In terms of skills it is not in doubt that the management is able to improve the performance of RVR but the potential is dimmed by lack of finances, poorly motivated staff, fierce competition and poor infrastructure.

Therefore provided with proper support in terms of finances and legislation, the new management was said to appear capable of improving performance.

4.2.18 Imperatives for RVR to improve performance

It was proposed that for RVR to radically improve the performance there would be need to provide a total solution to consumers and not just transport. Transport was viewed as the basic need but there are other attendant needs and at times it is not even a question of transport but one secure, timely, comfortable(for passenger), predictable, reliable and safe manner.

The government was also required to think of ensuring that the management is competent enough to create that element of fit between strategy and plan. The contractual agreements of the Concession must also be seen to be getting enforced.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter summarizes the findings in chapter four. Only those findings found to be relevant to the research problem will be included. The author also derived conclusions that attempt to create a link between the literature and findings and find or establish any zones of agreement or disagreement between the two. Recommendations on what RVR needs to do to get back on track have also been made.

5.2 Summary

On competition, the study established that the main source of competition was road transport. Other sources of competition were merely mentioned such as airlines, pipelines and sea transport. It was revealed that the reason for preference of road transport probably lied in the fact that road transport is more versatile and therefore affords the client a lot more flexibility. This fact or of flexibility is necessary if the client is to get, say, their cargo to their destination without having to incur costs associated with offloading and loading again on the way.

The challenges that RVR management faces were described as: Lack of financing, lack of focused management, Low morale of the staff and the attitudes of the clients. Lack of financing was described as an impediment in that it makes difficult for the management to replace outdated permanent way and rolling stock. The permanent way is contributive in rolling two main ways:

It determines the speed at which the train can travel

There is a correlation between the state of the permanent way and accidents.

Furthering the argument on accidents, the respondent argued that in most cases accidents occurred as a result of negligence or direct sabotage on the part of the employees due to poor work morale.

Corruption was also mentioned as a challenge on the performance of RVR. It is noted that there is a correlation between poor work moral (especially due to poor pay) and corruption. Employees, it came out become corrupt to compensate themselves for input not compensated. This will also directly contribute to failure to attain revenue targets because of the revenue leakages as a result of corrupt practices.

Lack of financing has also meant that RVR cannot invest in security that is holistic i.e. security for its people (Human passengers and client's cargo). This gives rise to vandalism of equipment within yards and the main line.

The marketing and business development function has not been helped by inadequacy of resources. This function has suffered greatly because there aren't enough resources to attract and retain the best practices in the marketing domain. It has been therefore difficult to change the perceptions of clients on the ability of RVR to deliver and finally the possibility of its ever being turned around to a viable institution. Probably this is a reason why clients have been turning to alternative methods of transport.

On the state of performance of RVR at this time relative to its performance before the concessioning, the respondents were very clear that tonnage (haulage) has decreased. It was stated that the haulage had dropped by a huge margin. Again, this outcome (finding) could be explained by the fact that there is rampant corruption which could lead to transported cargo that has not been declared not forgetting the attitudes of employees on the reliability of RVR.

5.3 Conclusion

By reason of the foregoing summary, the following conclusions can be arrived at:-

Whichever way it is looked at competition remains a key challenge to any business. For a long time, it was established that RVR remained without any serious competitor in relation to bulk long haulage. The current sources of competition namely road trucks have made it very difficult for RVR to enjoy the near monopoly status it used to some years ago.

The business of RVR in terms of tonnage has been said to have gone down. Literature has it that in order for any business to remain relevant and responsive to client's need it has to invest in technology. Technology has been defined by Woodworth (1981) as a combination of those processes that enable the production of a product or provision of a service. The rolling stock of RVR is so outdated that it cannot handle the specific needs of some of their clients.

It has been concluded that the company needs to re-examine its human compensation policies. Literature emphasizes that there is a relationship between compensation and commitment. Adequacy of compensation will lead to an increased desire to protect company assets and reduce loss of revenue. Employees are also less likely to seek more lucrative engagements.

Generally speaking the management has to re-examine its planning policies and factor in customer focus. The top management has been blamed for failing to give guidance on strategic direction. The company as a result still operates like a government department where the client can be held at ransom for lack of alternatives.

5.4 Recommendations

From the summary and conclusion above, it can be recommended as follows:-

RVR must get its act together in so far as financing is concerned. The management ought to establish powerful links with the main sources and providers of funds such as the government, shareholders, lending institutions such as the world bank and the IMF of interest here would be the examining the possibility of bringing on board strategic partners who can be of financial and non-financial benefit to the company. Still on financing the company should seal all leakage points for revenue collection maximization.

One of the factors noted earlier on was lack of the ability on the part of the management to work as a team. A recommendation is therefore made that the entire management team be seen to be pulling in the same direction with duty of purpose.

The employees should be trained on customer service and excellence in service delivery. This will change their attitudes towards clients and ultimately the view that their clients have on their overall services delivery capability.

Finally, the government should re-think the concessioning strategy; was it properly thought out, diligently executed, were the partners properly identified and if so properly selected?

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APPENDIX I: LETTER OF INTRODUCTION



**UNIVERSITY OF NAIROBI
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Nairobi, Kenya

DATE... 4/10/2013

TO WHOM IT MAY CONCERN

The bearer of this letter LOUIS NYALWAL


Registration No..... DG/P/7635/2002

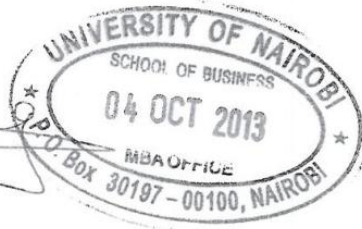
is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


**PATRICK NYABUTO
MBA ADMINISTRATOR
SCHOOL OF BUSINESS**



APPENDIX II: INTERVIEW GUIDE

1. In what department do you represent the company?

2. What level of management do you work in the company?

Top management

Middle level management

Supervisory

Others

3. In your own opinion what are the factors affecting Performance at Rift valley Railways?

4. Who do you consider as the main competitors of RVR?

5. How does Rift valley Railways create its freight rates in order to remain competitive?

6. What are the measures taken by Rift valley Railways to ensure that the company performs well and realizes more profits?

7. How does Rift Valley Railways set its monthly Traffic Volumes to ensure targets are met?

8. What volumes in tonnages per month/per annum are required to meet this threshold?

9. What areas require financing in Rift valley Railways so as to ensure improvement in operations?
10. What are the challenges faced in ensuring the company performs well as required?
11. As an employee in Rift valley Railways do you think Rift valley Railways is adopting modern technology in running its operations?
12. What modern technologies have so far been introduced in improving the operations?
13. Is the business generated by Rift valley railways enough to cover its business?
14. List the Factors that influence Railway performance in the company and how they can be managed?
15. What kind of government support in your opinion do you consider important?
(Finance or legislative)
16. Is the government giving enough support to the company in the running of its operations?
17. Since the takeover by the consortium, has Rift Valley Railways performance in terms of volumes hauled improved, dropped or it has remained the same?
18. In your opinion, do you consider the new management capable of improving the performance of the rail operations?

19. Lastly in your own words state what can be done to ensure that Rift valley railways improves in its performance

THANK YOU FOR YOUR TIME AND CO-OPERATION