DETERMINANTS OF FINANCIAL PERFORMANCE OF PUBLIC TRANSPORT BUSINESSES IN KENYA: CASE OF KIAMBU COUNTY

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DECLARATION

This Research Project is my original work and has not been presented in any other University.

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This Research Project has been submitted with my approval as University Supervisor.

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To my brother Simon thank you for agreeing to help me in data collection I appreciate you for giving me your time.

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DEDICATION

To my family, my son and husband, thank you for bearing with me during the period of doing this project.

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ABSTRACT

This report evaluates the determinants of financial performance of public transport business in Kenya, a case of Kiambu County. The report mainly focuses on matatus. The objective of this report is to evaluate the determinants of financial performance in public transport business in Kenya a case of Kiambu County. The study was conducted on selected owners of matatu businesses through questionnaires. Population of the study was Matatus plying the Kiambu Nairobi route. According to the Ministry of Infrastructure, there are seven registered Societies on Kiambu-Nairobi route with a total of 116 members. The targeted population therefore comprised of 116 investors in public transport business. The study used simple random sampling to select a sample of 56 investors from the population. Data was collected by use of questionnaires. The data collected was analyzed through use of SPSS software and the resulted interpreted. Regression analysis was used to establish the influence of SACCOs, Operatives culture and Government influence on financial performance at 0.05 level of significance. The findings presented also show that taking all other independent variables at zero, a unit increase in Influence of SACCOs lead to a 0.891 increase determining financial performance of public transport business in Kiambu County; a unit increase in operatives culture would lead to a 0.813 increase in determining financial performance of public transport business in Kiambu County; and a unit increase in government influence would lead to a 0.857 increase in determining financial performance of public transport business in Kiambu County. At 0.05% level of significance and 95% level of confidence, Influence of SACCOs had a 0.0209 level of significance; operatives culture showed a 0.0217 level of significance; investment deduction showed a 0.0224 level of significance while government influence showed a 0.0236 level of significance. Most matatu businesses are owner/self managed and that matatu businesses perform better when they are self/owner managed. Research findings conclude a relationship between both overall and operating strategies and the nature and level of regulatory compliance. The study also found that TLB taxes are deemed to be high as implemented on matatu businesses while county government taxes, levies, parking fees and other charges were seen to be fair by the matatu businesses. According to the findings on training and seminars, it was found that there is very little training as organized by the Saccos and that the little that is being done does not have an impact n the financial performance on the matatu businesses which is of importance for the sustenance of the businesses. It also found that compliance was selective, with operators following regulations deemed to be reasonable and possible. The findings conclude that compliance may be enhanced by promoting cooperation between Matatu owners and government in streamlining regulations and ensuring fair and consistent enforcement, as well as by recognizing that Matatus are legitimate transport businesses rendering a public service.

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LIST OF ABBREVIATIONS

CEO- Chief Executive Officer

HFCs- Housing finance companies

NIM- Net Interest Margin

NSE- Nairobi Securities Exchange

ROA- Return on Asset

ROE- Return on Equity

Saccos - Savings and Credit Co-operative Society

TLB- Transport Licensing Board

WACC- Weighted Average Cost of Capital

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Public transport includes all modes of transport available to the public, irrespective of ownership (White, 2002). Public transportation comprises all transport systems in which the passengers do not travel by private means. It plays an important role in achieving sustainability and efficient mobility. However, there are many reasons why people do not use public transport to its full potential. The classical factors in this context are time and money (Wardman and Waters, 2001). Public transport systems play an important role in providing transportation mobility to a significant portion of the community, while at the same time combating traffic congestion, reducing carbon emissions, and promoting compact, sustainable urban communities. Public transport systems play an increasingly important role in the way people move around from one place to the other.

Organization performance has been defined as the result of activity, and the appropriate measure selected to assess corporate performance (Hunger and Wheelan, 1997). It is considered to depend on the type of organization to be evaluated, and the objectives to be achieved through that evaluation. Performance of an organization refers to the outcome of activities of individuals and units of the organization. This can be measured in different ways depending with the purpose for which the information is required. One of the most basic tenets of modern financial theory is that managers should act in a manner consistent with maximizing the value of owners' equity (Brinson, Singer and Beebower, 1995).

The financial performance of companies changes over time as profits fluctuate from one year to another and from one company to another. Some companies obtain increases in profit while others record decreases and some even losses. These changes are determined by various factors. Performance factors can be structured in: factors of efficiency, that refer to economic, social and organizational efficiency; internal environmental factors that refer to ownership, management, company size, complexity, technical endowment, location, human potential, informational and intellectual capital, financial position, organizational culture; and external environmental factors: economical, technological, political, demographical, cultural, scientific, organizational, legal, social, educational, environmental and others (Sima, 2009). The purpose of this study is to evaluate determinants of financial performance in Kenya and Kiambu county is the case in chosen for the study.

1.1.1 Financial Performance

Financial performance is a subjective measure of how well an organization can use assets from its primary mode of business and generate revenues (Greenwood and Jovanovic, 1990). Financial performance is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation (Jayawardhera and Foley, 2000).

To measure the profitability, there are variety of ratios used of which Return on Asset(ROA), Return on Equity(ROE) and Net Interest Margin(NIM) are the major ones (Murthy and Sree, 2003). ROA is a major ratio that indicates the profitability of a business entity. It is a ratio of Income to its total asset (Khrawish, 2011). It measures the ability of an organization’s management to generate income by utilizing company assets at their disposal. The Net Interest Margin (NIM) is a measure of the difference between the interest income generated by banks and the amount of interest paid out to their lenders, relative to the amount of their assets. It is usually expressed as a percentage of what the financial institution earns on loans in a specific time period and other assets minus the interest paid on borrowed funds divided by the average amount of the assets on which it earned income in the same period (the average earning assets). The ROE is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholders equity invested. The ROE is what the shareholders look in return for their risked investment.

1.1.2 Determinants of Financial Performance

Determinants of financial performance can be broadly categorized into two groups: qualitative and quantitative factors. Qualitative factors include: organizational culture, staff competence, ethical standards/ ethics, motivation, capital structure among others. Quantitave factors include, capital employed, availability of funds, absorption capacity, market demand of services or products.

Organizational culture is one of the key factors that influence company performance. Its importance has intensified over time in the background of the ever increasing competition between participants in the industrial sectors. It is relevant to note that the formation of an organizational culture is inevitable because this is often influenced by the personality of employees. Culture influences behavior and attitude at work place and thus determining productivity. Management interventions are necessary to continuously influence attitude and behaviors of staff through cultural change initiatives. This can be done by implementing behavioral regulations, fair and proper procedures regarding discipline and various social activities for employees.

Innovation activities refer to the creation, adaptation and adoption of new products, services, processes, and their improvement (Iancu, 2006). Innovation is one of the key factors influencing the performance of modern companies, especially in the context of the fierce competition at microeconomic level, but it is also a priority direction for development at macroeconomic level, national and international.

1.1.3 Relationship between Financial Performance and its Determinants

The primary objective of transportation is to carry people and goods from an origin to a destination within the shortest time and at the lowest cost possible. The principle aim of the business and investors in the transport business is to run the business sustainably. Sustainability requires business to run both effectively and efficiently and generate sufficient profit to enhance their wealth. The revenue in terms of transportation charges should be enough to cover their fixed and variable costs thus generating at least optimal profit.

Income levels of people and the state of economic development of a country have a direct impact on the performance of public transport commonly used by the citizens. It can thus be argued that, the income levels of households in developing countries have a strong bearing on the quality of utilized public transportation hence their profitability (Kanyama et al, 2005).

1.1.4 Matatu Business in Kenya

Existing public transport in most parts of Kenya is predominantly road based. The transport systems comprises of conventional buses and matatus (mini and micro buses). Railway services are insignificantly felt in the provision of public transportation in the country. Regarding transportation within Nairobi city, matatus dominate the services. . Like in any other cities, taxis, and other three wheeled taxis (tuk tuk) are also operated in the city (JICA, 2006). The transport sector in Kenya comprises a road network with 150,000 km of roads and 350,000 vehicles most of which are Matatus. Matatus are the informal paratransit industry in Kenya that provide service to millions of people a day and are essentially the backbone of the transportation system in Kenya. The term 'matatu' was coined from a Kikuyu phrase; mangotore matatu' meaning thirty cents which was the standard flat fare charged by the matatu's (Kimani et al, 2004). The evolution of the Matatu, from a quick and easy response to unmet travel demand, to the dominant mode of transport in Kenya, began in the late 1950s. After Kenya's independence in 1963, Africans migrated to Nairobi seeking employment opportunities. Recognizing the opportunity for financial gains while providing a much-needed service, mini-bus pirate taxis, which were largely owned by middle-income people, began offering a transport service from rural areas and from informal settlements around the city.

Due to high demand, the number of Matatus, increased. They continued to operate illegally in the city until 1973 when then President Jomo Kenyatta issued a decree officially recognizing Matatus as a legal mode of public transport (Mutongi, 2006). The main idea was to increase and make the mobility of people more efficient and create more jobs in the informal sector (Kimani et al, 2004). There was also the populist notion that Kenyatta believed that Matatus were useful to the common man and that the owners (who were often the drivers as well) were examples of hard-working African entrepreneurs dedicated to contributing to the development of Kenya. Matatus revealed indigenous economic entrepreneurship at its best (Mutongi, 2006).

The Matatu industry has played a central role in mobility, politics and economics, solidifying its role and importance in Kenya's cultural fabric. As Kenya became dependent upon Matatus to transport people to and from various destinations located in the metropolitan areas, their numbers increased from 400 in 1973 (Lee-Smith, 1989) to an estimated 15,000 Matatus in the Nairobi Metropolitan Area today. By facilitating a broader policy dialogue involving key stakeholders in the industry and the inclusion of the matatu industry in the reform process, rather than the exclusion of the industry so often seen in the past, this paper argues that matatus can play an important role in the creation of a more comprehensive transit system that would service not only Nairobi, but its satellite cities as well.

1.2 Research Problem

Financial performance is important in measuring the efficiency with which the managers employed in an organization are utilizing the resources of the organization for the benefit of the shareholders. Income levels of people and the state of economic development of a country have a direct impact on the performance of public transport commonly used by the citizens. Matatu industry has played a central role in mobility, politics and economics, solidifying its role and importance in Kenya's cultural fabric. Matatus are the informal paratransit industry in Kenya that provide service to millions of people a day and are essentially the backbone of the transportation system in Kenya.

Several studies have been conducted on financial performance and their determinants. Capon, Farley and Hoenig (1990) studied determinants of financial performance: a meta-analaysis. In their findings, market share is positively correlated with financial performance, size of the firm appeared unrelated to financial performance, and capital performance intensity was positively related to financial performance. Manoj (2010) studied determinants of successful financial performance of housing finance companies (HFCs) in India and strategies for competitiveness: a multivariate discriminant analysis. Manoj (2010) established that enhanced financial performance has become a vital pre-requisite for survival and growth of HFCs.

Saliha and Abdessatar (2011) studied the determinants of financial performance: an empirical test using the simultaneous equations method. They focused on the link between performance, form of control and debt. Mong'are (1994) studied financial performance of public enterprises and privately owned firms compared in Kenya. Mong'are established that privately owned enterprises performed much better compared to publicly owned firms. Kathanje (2000) did an evaluation of financial performance of the Kenyan Banking Sector. In the findings Kathanje established that the banking sector then posted consistently growing performance. Koros (2001) did an evaluation of the financial performance of non banking institutions that converted into commercial banks in Kenya. Weche (2004) studied pre and post financial performance of firms privatized through the NSE where it was established that privatized firms performed better after privatization than before. Mwathi (2009) studied relationship between commercial banks financial performance and their ownership structure. Mwathi established that ownership structure affected the performance of commercial banks. From the above analysis, it is clear that studies need to be done to establish the determinants of the financial performance of various other business sectors in Kenya.

This study seeks to fill the research gap by answering one research question: What are the determinants of financial performance of public transport business in Kenya, case of Kiambu County?

1.3 Research Objective

To evaluate the determinants of financial performance in public transport business in Kenya, Case of Kiambu County.

1.4 Value of the Study

The study was significant to several stakeholders: For the policy makers in Government, the findings of this study informed their policy formulation and implementation on public transport service vehicles. Through the findings of this study, the policy makers are able to understand the dynamics affecting public transport business in Kenya and how they can be dealt with. This facilitates development of necessary policies in streamline the operations of public service business in Kenya.

The findings of this study are also important to the business managers and shareholders/owners of public service vehicles. Through the findings of this study, the owners and managers of public service vehicles are able to expand their knowledge on determinants of their financial performance and the manner in which it affects their business. This informs the formulation of necessary management policies and operational practices that can influence the overall performance of the Matatu transport businesses in Kenya.

The findings of this study also act as a source of reference for future scholars besides suggesting areas for further research where future scholars and researchers can research on. Through the findings of this study, future researchers and academicians find a source to refer to in as far as Matatu businesses are concerned besides suggesting areas for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents literature as presented by other researchers and scholars. The literature deals with the determinant of factors affecting financial performance of public transport business in Kenya. The specific areas covered by this chapter include theoretical framework, empirical review and chapter summary.

2.2 Theoretical Framework

2.2.1 Agency Theory

Agency theory argues that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns (Pratt and Zeckhauser, 1985). In agency theory terms, the owners are principals and the managers are agents and there is an agency loss which is the extent to which returns to the residual claimants, the owners, and fall below what they would be if the principals, the owners, exercised direct control of the corporation (Jensen and Meckling, 1976). Agency theory specifies mechanisms which reduce agency loss (Eisenhardt, 1989). These include incentive schemes for managers which reward them financially for maximizing shareholder interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning financial interests of executives with those of shareholders (Jensen and Meckling 1976).

This theory is appropriate because in the public transport business, the owners are not always the ones involved in the day-to-day operations of the vehicles but instead hire other people to run their businesses. As a result, the people contracted by owners play a key role in determining how much a vehicle owner earns in any given day. In order to improve their earnings, owners have to properly manage their relationships with the individuals contracted to run their public transport fleets. For example, some schemes tie executive compensation and levels of benefits to shareholders returns and have part of executive compensation deferred to the future to reward long-run value maximization of the corporation and deter short-run executive action which harms corporate value.

An implication of agency theory is that where Chief Executive Officer (CEO) duality is retained, shareholder interests could be protected by aligning the interests of the CEO and the shareholders by a suitable incentive scheme for the CEO, i.e. by a system of long-term compensation additional to basic salary. Where CEOs hold the dual role of Chair, the presence of long-term compensation will align their interests with shareholders and forestall the loss in shareholder benefit which otherwise will result from the dual role. Any superiority in shareholder returns observed among dual CEO chairs over independent chairs would be explained away by agency theory as being due to the spurious effects of financial incentives. By contrast, stewardship theory would hold that any observed superiority in shareholder returns from CEO duality was not a spurious effect of greater financial incentives among CEO-chairs than among independent chairs. Thus, agency theory yields two hypotheses regarding CEO governance:

2.2.2 Stewardship Theory

To the degree that an executive feels their future fortunes are bound to their current corporate employers through an expectation of future employment or pension rights, then the individual executive may perceive their interest as aligned with that of the corporation and its owners, even in the absence of any shareholding by that executive (Barney 1990). These theoretical considerations argue a view of managerial motivation alternative to agency theory and which may be termed stewardship theory (Donaldson 1990a, 1990b). The executive manager, under this theory, far from being an opportunistic shirker, essentially wants to do a good job, to be a good steward of the corporate assets. Thus, stewardship theory holds that there is no inherent, general problem of executive motivation.

Given the absence of an inner motivational problem among executives, there is the question of how far executives can achieve the good corporate performance to which they aspire. Thus, stewardship theory holds that performance variations arise from whether the structural situation in which the executive is located facilitates effective action by the executive. The issue becomes whether or not the organisation structure helps the executive to formulate and implement plans for high corporate performance (Donaldson, 1985). Structures will be facilitative of this goal to the extent that they provide clear, consistent role expectations and authorize and empower senior management. By contrast to the agency theory, stewardship theory yields two opposite hypotheses regarding CEO governance: CEO duality leads to higher return to shareholders and the positive effects of CEO duality are not due to the spurious effects of long-term compensation. Stewardship theory of management and agency theory have both focused on the leadership philosophies adopted by the owner's of an organization. It grew out of the seminal work by Donaldson and Davis (1989, 1991) and was developed as a model where senior executives act as stewards for the organization and in the best interests of the principals. The model of man in stewardship theory is based upon the assumption that the manager will make decisions in the best interest of the organization, putting collectivist options above self-servicing options. This type of person is motivated by doing what's right for the organization, because she believes that she will ultimately benefit when the organization thrives. The steward manager maximizes the performance of the organization, working under the premise that both the steward and the principal benefit from a strong organization (Mallin, 2010).

2.3 Determinants of Financial Performance

2.3.1 Capital structure

Capital structure is an important factor by which a company can increase its performance at its optimum level if the firm uses it in effective and efficient way. The idea of the modern theory is taken from the theory of Modigliani and Miller in 1958, which was assumed under the perfect capital markets (Berger and Patti, 2002). Capital structure, otherwise referred to as, financial structure, is the means by which an organization is financed. It is the mix of debt and equity capital maintained by a firm. The extant literature is awash with theories on capital structure since the seminal work of Modigliani and Miller (1958). How an organization is financed is of paramount importance to both the managers of firms and providers of funds. This is because if a wrong mix of finance is employed, the performance and survival of the business enterprise may be seriously affected. The point of departure for all modern researches on firm's capital structure is the Modigliani and Miller (1958) proposition which states that in a world of perfect capital market and no taxes, a firm's financial structure will not influence its cost of capital. Consequently, the proposition submitted that firms in a given risk class would have the same applicable discount rate, differing based on "scale factor" only and would be unaffected by financial gearing (Weston and Copeland, 1998). However, Brigham and Gapenski (1996) argue that an optimal capital structure can be attained if there exists a tax sheltering benefits provided an increase in debt level is equal to the bankruptcy costs. They suggest that managers of the firm should be able to identify when the optimal capital structure is attained and try to maintain it at that level. This is the point at which the financing costs and the cost of capital (WACC) are minimized, thereby increasing firm value and performance.

The agency theory initially put forward by Berle and Means (1932) also contributes to the capital structure decision. According to the theory, agency conflicts arise from the possible divergence of interests between shareholders (principals) and managers (agents) of firms. The primary duty of managers is to manage the firm in such a way that it generates returns to shareholders thereby increasing the profit figures and cash flows (Elliot and Elliot, 2002). However, Jensen and Meckling (1976) and Jensen and Ruback (1983) argue that managers do not always run the firm to maximize returns to shareholders. As a result of this, managers may adopt non-profitable investments, even though the outcome is likely to be losses for shareholders. They tend to use the free cash flow available to fulfill their personal interest instead of investing in positive Net Present Value projects that would benefit the shareholders. Jensen (1986) argues that the agency cost is likely to exacerbate in the presence of free cash flow in the firm.

In order to mitigate this agency conflict, Pinegar andWilbricht (1989) argue that capital structure can be used through increasing the debt level and without causing any radical increase in agency costs. This will force the managers to invest in profitable ventures that will be of benefit to the shareholders. If they decide to invest in non-profitable projects and they are unable to pay the interest due to debt holders, the debt holders can force the firm to liquidation and managers will lose their decision rights or possibly their employment.

Empirical supports for the relationship between capital structure and firm performance from the agency perspective are many and in support of negative relationship. Zeitun and Tian (2007), using 167 Jordanian companies over fifteen year period (1989-2003), found that a firm's capital structure has a significant negative impact on the firm's performance indicators, in both the accounting and market measures. Majumdar and Chhibber (1997) and Rao, M-Yahyaee and Syed (2007) also confirm negative relationship between financial leverage and performance. Their results further suggest that liquidity, age and capital intensity have significant influences on financial performance.

2.3.2 Organizational culture

Organizational culture is a performance determinant that has been intensely studied in the recent period. Organizational culture is an intangible factor of social and psychological nature, which leads employees to behave and act in a certain way. It arises along with the growth of company personnel because of each employee's personality and if not controlled can have a negative influence on performance. The technical side of organizational culture consists of a set of rules, procedures, decisions and recommendations. Through these techniques, company's management attempts to induce a positive attitude and behavior for company employees. Once a certain culture is implemented among personnel, it has a strong effect on new employees. It is therefore very important for it be a positive and constructive one. The components of organizational culture are very difficult to quantify.

Denison and Mishra (1995), in their study, identified four dimensions of organizational culture: employee involvement, consistency, adaptability and mission, measures that, according to the results of their study, are positively correlated with various indicators of company performance. Another author (Sorensen, 2001) reveals that a strong positive organizational culture increases company performance only in periods of economic stability and its influence is negligible during high volatility periods. Baer and Frese (2003), after developing several empirical studies, have found that a constructive organizational climate that positively affects performance should also encourage initiatives and sustain innovative employees by adopting and implementing their innovations. A company should also provide a psychological safety to employees in the sense that they should not suffer negative consequences if their innovations don't have the desired effect. A recent article (Skerlavaj*et al.* 2007) shows the positive influence of another element of organizational culture: employee attitude towards learning and training programs. Quoted researchers argue that this has a direct effect on company's non-financial performance and an indirect effect on financial performance.

2.3.3 Innovation

Organizational innovation is a broad concept that includes strategies, structural and behavioural dimensions. It includes competitive strategy like role of innovation, costs, people among others; structural characteristics of the organization such as hierarchy, functional lines, and organizational boundaries; work processes including the use of different production inputs, the flow of work, job design, work allocation, and use of suppliers and subcontractors; Human resource management practices including hiring and firing; and industrial relation practices involving the strategies and institutional structures affecting the labour -management relationship.

Innovation is one of the key factors influencing the performance of modern companies, intensively studied and promoted presently, in the context of the fierce competition at microeconomic level, but it is also a priority direction for development at macroeconomic level, national and international. Innovation is usually a distinct activity within a company. But there are companies that do not have such compartments in their organizational structure. An innovation decision is first necessary to initiate this kind of activity. For example smaller companies cannot afford to invest in innovation due to the high cost of this activity compared to the funds they have at their disposal. The size of investment in innovation, in absolute amount, is usually proportional to the size of the company and inversely proportional to its sales if we consider the relative weight in turnover of research and development expenditure.

Innovativeness is one of the fundamental instruments of growth strategies to enter new markets, to increase the existing market share and to provide the company with a competitive edge. Motivated by the increasing competition in global markets, companies have started to grasp the importance of innovation, since swiftly changing technologies and severe global competition rapidly erode the value added of existing products and services. Thus, innovations constitute an indispensable component of the corporate strategies for several reasons such as to apply more productive manufacturing processes, to perform better in the market, to seek positive reputation in customers' perception and as a result to gain sustainable competitive advantage. Particularly over the last two decades, innovativeness has turned into an attractive area of study for those researchers who tried to define, categorize and investigate its performance impacts, especially due to its practical relevance. Innovations provide firms a strategic orientation to overcome the problems they encounter while striving to achieve sustainable competitive advantage (Drucker, 1985).

2.3.4 Ownership Structure

One of the most important characteristics of the modern corporation is the separation of ownership and control. Modern corporations are typically run by professional executives who own only a small fraction of the shares. Early theorists such as Williamson (1964) propose that non-owner managers prefer their own interests over that of the shareholders. Consequently, non-owner managed firms become less efficient than owner-managed firms. The more recent literature re-examines this issue and prediction. It points out the existence of mechanisms that moderate the prospects of non-optimal and selfish behavior by the manager. Fama (1980), for example, argues that the availability and competition in the managerial labor markets reduce the prospects that managers would act irresponsibly. In addition, the presence of outside directors on the board constrains management behavior. Others, like Murphy (1985), suggest that executive compensation packages help align management interests with those of the shareholders by generating a link between management pay and firm performance.

Demsetz and Lehn (1985) and Himmelberg et al (1999) found that ownership and performance are endogenously determined by firm specific factors and key variables in the firm's contracting environment. In a seminal study, Morck et al. (1988) proposed a non-linear relationship between insider ownership and firm performance. By examining Future 500 firms for the year 1980 and using piecewise linear regression, they find a positive relationship between Tobin's Q and ownership structure for the 0 per cent to 5 per cent board ownership range, a negative relationship in the 5 per cent to 25 per cent range and a positive relationship for board ownership exceeding 25 per cent. They provide the following interpretation of this non-monotonic relationship; at low and high levels of ownership concentration, the incentive effect of ownership may dominate and lead to positive relation. At middle levels of ownership concentration, managers may feel entrenched in the sense of not being as concerned about losing their positions due to a takeover. However, their results are not robust to the use of accounting-based performance measures.

Hence, non-owner manager firms are not less efficient than owner-managed firms. Most interestingly; Demsetz and Lehn (1985) conclude that the structure of ownership varies in ways that are consistent with value maximization. The empirical evidence on the issue is mixed (Short, 1994). Part of the diverse results can be attributed to the difference across the studies in the criteria for differentiation between owner and non-owner manager controlled firms. These criteria, typically based on percentage ownership by large block holders, are less innocuous and more problematic than initially believed because, as demonstrated by Morck, Shleifer and Vishny (1988) and McConnell and Servaes (1990), the relation between percentage ownership and firm performance is nonlinear. Further, percent ownership appears insufficient for describing the control structure. Two firms with identical overall percentage ownership by large block holders are likely to have different control organizations, depending on the identity of the large block holders.

2.3.5 Traffic Rules and Taxes

Traffic rules enforcement has been defined (OECD, 1974) as the area of activity aimed at controlling road user behavior by preventative, persuasive and punitive measures in order to effect the safe and efficient movement of traffic. The importance of traffic law enforcement, as a means of modifying road user behaviour, has been clearly demonstrated by estimates derived in Norway (Ingebrigtsen, 1988; Assum & Ingebrigtsen, 1990) indicating that the elimination of traffic law violations could result in a 20% to 25% reduction in the number of road injury accidents. Evans (1991) has suggested that the accident reduction potential of traffic law enforcement may even be much higher at a level closer to 40%.

The actual process of traffic: law enforcement has been described by Rothengatter (1990) as consisting of three specific step-wise components. The first is that of legislation which specifies the laws and regulations governing the safe use of the traffic system by road users. The second step is traffic policing to ensure that road users comply with the specified legislation. The final step is that of legal sanctions imposed on the road user when a breach of the legislation has been committed. All three of these step-wise components play an essential role in determining the impact and effectiveness of a traffic law enforcement system. However, it is the activities associated with the actual policing of traffic laws that are regarded as the central element of an enforcement system. Such activities form the link between the other components of the system, providing the means of regulating compliance with the specified legislation and identifying those road users whose behaviour requires some form of disciplinary action.

The activities associated with traffic policing are also the most visible and interactive aspects of a traffic enforcement system and can often form the basis of public opinion regarding enforcement. The influence that such activities can have on shaping public perception is considered to be an important element in the process of moderating road user behaviour and further highlights the central role of traffic policing within a traffic enforcement system. Traffic policing encompasses the area of enforcement activity aimed at moderating road user behaviour by policing the laws and regulations that govern the use of the road network.

The primary aim of traffic policing, as stated by Searles (1985), is to create, promote and maintain a safe road environment by ensuring that road users adhere to the traffic laws. This definition identifies safety as being the primary objective of traffic policing, however, research undertaken by a number of police organisations (Axup, 1990; Southgate & Mirrlees-Black, 1991).

The fourteen- seater "Matatus" are individually owned and managed. However, some owners are members of Savings and Credit Cooperative Societies (SACCOs) where they save and borrow money and access transport routes commonly controlled by the SACCOs (Graeff, 2009). Matatus have grown over the years since independence. They began as an illegal transport entity. In 1973 a presidential decree allowed Matatus to carry fare paying passengers without obtaining a Transport Licensing Board (TLB) licence. Since then Matatu mode of public transport has grown over the years with the goal of catering to the mobility demands of millions of Kenyans (Chitere, 2006). The travel demands of both the low income and the middle income are met through this means of transport. According to the draft Sectional Paper on Integrated National Transport Policy (2010), 60% of the residents in Nairobi meet their daily travel needs by walking while 35% travel by public transport (mostly Matatus and buses) and only 5% use private cars. Other scholars have shown that approximately 49 % of the commuters in Nairobi make their daily trips to destinations by the use of non-motorized transport, i.e. walking and use of bicycles (Salon and Gulyani, 2008). Putting aside the difference in statistics of NMT users, we see that a significant proportion of Nairobi residents rely on non-motorized transport for their trips despite the growth in Matatu numbers over the years.

2.4 Empirical Review

Several studies have been conducted on determinants of financial performance of organizations. For instance, Mutugi (2012) studied the determinants of financial performance of life assurance companies in Kenya. The objective of the study was to establish the determinants of the financial performance of life assurance companies in Kenya. The variables of the study comprised the capital structure, organization culture, innovation and ownership structure of the long term insurance companies. The study established that capital structure affected the performance of life insurance companies because it affects the financial costs and burdens of a company. Organization culture affected organization performance because it affected the way employees conducted themselves. The study concluded that capital structure, innovation and ownership structure are determinants of financial performance.

Ngatia, Fumihiko and Toshiyuki (2010) examined the structure of users' satisfaction on urban public transport service in developing country using the case of Nairobi. The study investigated public transport service attributes that influenced overall passengers' satisfaction and ultimately enhancing public transportation ridership in developing countries. The study developed Structural Equation Model (SEM) to elucidate the interrelationship between the observed variables and unobserved variables and their impact to the overall commuters' satisfaction. Unobserved attributes such as Service Quality (SQ), Safety (S) and Travel Cost (TC) were estimated. Level of satisfaction was found to be significantly influenced by Service Quality (SQ), Safety (S), Travel Cost (TC) and the perception on the systems' performance.

Dziekan (2008) studied ease-of-use in public transportation – a user perspective on information and orientation aspects. Ease-of-Use was determined by the degree to which travelers spend affective and cognitive effort on a journey by public transportation. Low affective effort means feeling comfortable, experiencing pleasure and convenience accompanied by feeling secure and perceiving less stress. Low cognitive effort is defined by the system being easy to learn, providing high quality information and reliable services. Ease-of-Use is when it simply fits with people's imagination of travelling. The effort that has to be spent matches the effort people are willing to spend for their journey.

Cinquina (2008) did a study on the Sustainable public urban transport systems using the case of Curitiba. The presence of an urban plan is determinant in achieving the sustainability of the public transport system. Having a team with a good vision of what it is going to be in the future and implementing a well thought plan is fundamental, as well as the economical viability – the system should be self-sustaining. It is important to rely on local institutions, because they know better the problems of their city and the public transportation needed. Also, they should have a strong autarchic character, so to not totally depend on the political party that rules the city at a given time.

Saliha and Abdessatar (2011) studied the determinants of financial performance using an empirical test, the simultaneous equations method. Their findings affirm the presence of a significant interaction between performance, debt and shape control. In addition, this comparative study on the listed and unlisted companies shows that listed companies are characterized by growth and profitability than those of unlisted companies. The structure of ownership of unlisted companies is highly concentrated and subjected to the effect of debt financing. Indeed, the poor performance of unlisted companies is due to the closed nature of its capital and high leverage which increases the risk of bankruptcy.

Gordon (2012) studied intermodal passenger flows on London's public transport network. Urban public transport providers have historically planned and managed network and services with limited knowledge of their customers' travel patterns. Unlike airlines or interurban rail providers, who typically issue tickets specifying distinct origins, destinations and transfer points often in designated vehicles and seats, the nature of urban transport operations has necessitated fare payment schemes which yield only aggregate ridership data, at resolutions no finer than that of the station gate or bus fare box.

Manoj (2010) studied determinants of successful financial performance of housing finance companies in India and strategies for competitiveness using multivariate discriminate analysis. In this study, Finance Companies (HFCs) represented one of the major institutional groups in the formal system for housing finance in India. HFCs which constituted the largest institutional group in formal housing finance system in India till FY 2002 were overtaken by Commercial Banks (CBs) in FY 2003. Consequently, since FY 2003 HFCs had been in the second position only with nearly 28 percent market share, while CBs occupy the first position with over 70 percent share, and a very small share of the market (nearly 0.5 percent, for the last few years) goes to the third group viz. co-operative sector institutions. In the emerging scenario, because of the insistence of 'Base Rate' by the Reserve Bank of India (RBI) with effect from July 2010, commercial banks had to charge higher rates while lending to HFCs. Hence, HFCs, particularly smaller ones will have to face growing cost pressures on their financing in the future. He concludes that, enhanced financial performance has become a vital pre-requisite for survival and growth of HFCs.

Mccormick, Mitullah, Chitere, Orero and Ommeh (2012) reviewed para-transit operations and regulation in Nairobi matatu business strategies and the regulatory regime. They established that matatu owners adopted business strategies that they hope will ensure them a continuing place in the market and a reasonable reward for their efforts. Matatus operate within a regulatory regime that has the potential to promote or to thwart their strategic objectives. Using case studies of fifteen matatu businesses operating on selected routes in Nairobi, this study examined the relationship between matatus' business strategies and the existing regulatory regime. Research findings suggested a relationship between both overall and operating strategies and the nature and level of regulatory compliance. It also found that compliance was selective, with operators following regulations deemed to be reasonable and possible. The findings suggest that compliance may be enhanced by promoting cooperation between matatu owners and government in streamlining regulations and ensuring fair and consistent enforcement, as well as by recognizing that matatus are legitimate transport businesses rendering a public service.

Kyalo (2012) did an analysis of factors affecting performance of Matatu enterprises' sector by using a case of selected routes in Nairobi. The study concluded that the weaknesses in the Matatu sub-sector can be reduced by improving the management skills of owners, lowering costs of operations, research, law enforcement and improving the road transport infrastructure by the government. Young people need to be encouraged to form partnerships to enable them purchase higher capacity PSVs which are more profitable to operate. Matatu business has a chance of rapid growth if there is law and order and if it is well supported by government and financial institutions that can give loans at low interest rates.

Cox (2003) examined performance indicators in urban transport planning. Throughout the world, increasing traffic congestion threatens economic growth. In many high-income world urban areas, urban transport planning is based upon various principles that may be generally characterized as seeking to encourage public transport use, walking and cycling as an alternative to the automobile. Success, then, it could be said should be measured by the extent to which public transport, walking and cycling market shares increase, while automobile market shares decline.

Eboli and Mazzulla (2012) examined performance indicators for an objective measure of public transport service quality. The measurement of transit performance represents a very useful tool for ensuring continuous increase of the quality of the delivered transit services, and for allocating resources among competing transit agencies. Transit service quality can be evaluated by subjective measures based on passengers’ perceptions, and objective measures represented by disaggregate performance measures expressed as numerical values, which must be compared with fixed standards or past performances.

The research work dealt with service quality evaluation based on objective measures; specifically, an extensive overview and an interpretative review of the objective indicators until investigated by researchers are proposed. The final aim of the work was to give a review as comprehensive as possible of the objective indicators, and to provide some suggestions for the selection of the most appropriate indicators for evaluating a transit service aspect.

Bolella (2011) studied public perception of public transportation and its built environment in the new haven – Springfield Corridor. This research found that people place a significant value on the quality of public spaces created by transit, captured here through the use of digitally rendered built environments that depict several features of good public spaces: wide sidewalks, greenery, reduced building setbacks, etc, combining different levels to define four distinct groupings of public spaces. It also discovers that an individual’s willingness to pay for public spaces varies based on geography of their community.

Niyonsenga (2012) studied public transport supply for Kigali, Rwanda. Public transport is supplied to provide mobility to people who do not have access to private, or provide an alternative option to private car mobility. Public transport is increasingly adopted for many purposes, such as providing mass mobility, managing traffic congestion, mitigating air pollution, reducing energy consumption and creating development opportunities. The results indicated that, the prevailing public transport in Kigali could serve up to 65% of the potential demand, regardless of the distance required to reach the bus stop. 37% of the demand was adequately served, in case both spatial and temporary aspects of service were considered. This low service performance was due to the deficiencies of public transport route network and the service capacity constraints.

2.5 Summary of the Literature Review

Literature review looked at the studies as conducted by other scholars in as far as organizational performance is concerned. Specifically, the chapter reviewed two theories on which the study is grounded. These theories included agency and stewardship theories. Like other businesses, public transport investors hire other people to conduct the business on their behalf which may bring about agency conflicts as each member in the relationship seek to maximize their returns. From the empirical review, the study established that several scholars had reviewed the concepts of financial performance and the matatu industry. For example, Mutugi (2012) studied the determinants of financial performance of life assurance companies in Kenya. Ngatia, Fumihiko and Toshiyuki (2010) examined the structure of users' satisfaction on urban public transport service in developing country using the case of Nairobi. Dziekan (2008) studied ease-of-use in public transportation – a user perspective on information and orientation aspects. Cinquina (2008) did a study on the Sustainable public urban transport systems using the case of Curitiba. Mccormick, Mitullah, Chitere, Orero and Ommeh(2012) reviewed paratransit operations and regulation in Nairobi matatu business strategies and the regulatory regime. Kyalo (2012) did an analysis of factors affecting performance of matatu enterprises' sector by using a case of selected routes in Nairobi. There is no known study that has specifically studied the factors affecting financial performance of public transport business in Kenya. This study therefore filled this research gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter sets out the process and the various phases that were systematically followed in completing the study. The chapter covers; research design, target population, data collection and data analysis.

3.2 Research Design

The research adopted descriptive research design. According to Mugenda and Mugenda (2003), descriptive research design is a systematic, empirical inquiring into which the researcher does not have a direct control of independent variable as their manifestation has already occurred or because they inherently cannot be manipulated. The studies are concerned with what, where and how of a phenomenon hence more placed to build a profile on that phenomenon Descriptive research design is more appropriate because the study seeks to build a profile about the factors affecting financial performance of public transport business in Kiambu.

3.3 Population of the Study

Population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. The population of this study was matatus plying the Kiambu Nairobi route. According to the Ministry of Infrastructure, there were seven registered Societies on Kiambu- Nairobi route with a total of 116 members. The population of this study was therefore 116 investors in public transport business. This are considered adequate in facilitating the generalization of findings to the whole population.

3.4 Sample design

Gay (1981) defined sampling frame as the list or directorate from where units of observation are selected. To ensure a representative sample is selected, the study used simple random sampling. The study targeted a sample of 58 matatu operators representing 50% of the population. This are considered adequate in facilitating the generalization of findings to the whole population.

3.5 Data Collection

The study used primary data. The data was collected by the help of a self administered questionnaire as a research tool.

3.6 Data Analysis

The study used Statistical Package for Social Sciences Version 19.0 to aid in data analysis. The paired t-test, a non-parametric test of differences developed by Sir Williams Gosset (Mugenda & Mugenda, 1999) was used in this study as a test of significance. The analysis was at 0.05 level of significance.

In order to determine the determinants of financial performance of public transport business in Kiambu County, the researcher conducted a multiple regression analysis using the following regression model.

$$Y = Bo + B_1X_1 + B_2X_2 + B_3X_3 + \boldsymbol{\varepsilon}$$

Where Y = Financial Performance of public transport business (Profitability)

X_1 = Influence of SACCOs and style of management

X_2 = Operatives culture

$X_{3=}$ Government taxes and levies

ε = Error term

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on to investigate the determinants of financial performance of public transport business in Kenya case of Kiambu County. The data was gathered exclusively from the questionnaire as the research instrument. The questionnaire was designed in line with the objective of the study.

4.1.1 Response Rate

The study targeted a sample of 58 matatu operators representing 50% of the population 116 in collecting data with regard to the determinants of financial performance of public transport business in Kenya case of Kiambu County. The 58 were randomly selected as a representative sample. Out of the sampled 58, 47 responded while 11 failed to respond. This represents 81% of the sample and 40.5% of the population. This response rate was made a reality after the researcher made personal visits to remind the respondent to fill-in and return the questionnaires. The response is shown in table 4.1 below.

Table 4:1: Response Rate

	Frequency	**Percentage**
Responded	47	41%
Not responded	69	59%
Total	**116**	**100%**

4.2 General Information

4.2.1 Respondents Level of Education

The study found that the majority of respondents 51% reported that they had primary school level of education, followed by 32% of the respondents who had secondary school level of education; 13% of the respondents had college level of education, while 4% of the respondents had university level of education. This is summarized in table 4.2 below.

Table 4.2 Level of Education

	Frequency	Percent
Primary School	24	51
Secondary School	15	32
College	6	13
University	2	4
Total	**47**	**100**

4.2.2 Years in Matatu Business

The respondents were also requested to indicate the number of years that they had been in Matatu business. According to the study, the majority of the respondents, 40%, reported that they had been in Matatu business for above 5 but not more than 10, 32% of the respondents had over 10years in Matatu business, 15% of the respondents had between 3 and 5 years, while only13% of the respondents said that they had below 3years in Matatu business. This is shown in the table 4.3 below

Table 4.3 Years in Matatu Business

	Frequency	Percent
Below 3	6	13
Between 3 and 5	7	15
Above 5 but not more than 10	19	40
Over 10	15	32
Total	47	100

4.2.3 Number of Matatu Owned by the Respondents

The study requested the respondents to indicate the number of Matatu vehicles they own. According to the study results, the majority of the respondent's 32% indicated that they own 1 Matatu, 26% indicated they own 2 Matatu's 13% of the respondents indicated they own 3 matatus, while 11% said they own between 6 and 10,this is depicted in the table 4.4 below.

Table 4.4 Number of Matatu Owned by the Respondents

No. of Matatu vehicles owned	Frequency	Percent (%)
1	15	32
2	12	26
3	6	13
4	3	6
5	2	4
Between 6 and 10	5	11
Above 10	4	9
Total	**47**	**100**

4.3 Influence of Management Style and Sacco's

4.3.1 Management of Matatu business

The researcher also requested the respondents to indicate how they manage their Matatu business. The study found out that, 96% the majority of the respondents business is managed through self/owner while 4% said they Matatu business is managed by a hired manager. This is indicated on table 4.5 below.

Table 4.5 Management of Matatu Business

Management Style	Frequency	Percent (%)
Self/owner	45	96
Manager/hired	2	4
Total	**47**	**100**

4.3.2 Daily Collections

The study also sought to investigate from the respondent's experience, when daily collections are maximized, from the study; the majority91% indicated daily collections are maximized as a result of self-managed management style, while 9% indicated as a result of hired manager management style. This is indicated on table 4.6 below.

Table 4.6 Daily Collections

Management Style	**Frequency**	**Percent (%)**
Self-Managed	43	91
Hired Manager	4	9
Total	47	100

4.3.3 Effect of Joining a Sacco and Management of Matatu Business

The respondents were asked to give the extent, to which the joining of a Sacco has affected management of Matatu business. From the study, 55 % of the respondents indicated that joining of a Sacco has affected management of Matatu business to a moderate extent, 26% indicated to a low extent, 9% of them indicated to a very high and high extent respectively, while 2% indicated a very low extent. Table 4.7 below summarizes these results.

Table 4.7: Extent to which Joining of a Sacco has Affected Management of Matatu Business

Extent	**Frequency**	**Percent**
Very High	4	9
High	4	9
moderate	26	55
Low	12	26
Very low	1	2
No	0	0
Total	**47**	**100**

4.3.4 Areas of the Business Affected After Joining a Sacco

The respondents were requested to identify areas of the business that have been affected after joining a Sacco. According to the study results, 53% of the respondents indicated that by joining Sacco daily collections have reduced, 55% of the respondents indicated that cost of maintenance has increased after joining the Sacco, 100% of the respondents indicated that after joining the sacco accidents reduced, while 77% of the respondents indicated that fines increased, while 83% of the respondents indicated that efficiency has increased. As depicted in table 4.8 below.

Table 4.8: Areas of the Business Affected After Joining a Sacco

		Frequency	Percentage
Daily collections	Increased	22	47
	Reduced	25	53
	Total	**47**	**100**
Cost of maintenance	Increased	26	55
	Reduced	21	45
	Total	**47**	**100**
Accidents	Increased	0	**0**
	Reduced	47	**100**
	Total	**47**	**100**
Fines	Increased	36	77
	Reduced	11	23
	Total	**47**	**100**
Efficiency	Increased	39	83
	Reduced	8	17
	Total	**47**	**100**

4.3.5 Degree of Increase in Daily Collections/Earnings after Joining the Sacco

The study sought to find out the degree of increase in daily collections/earnings after joining the SACCO. From the study results, a significant 60% of the respondent indicated that increase in daily collections/earnings after joining the SACCO has been to a zero degree, 26% of the respondents indicated to a moderate degree, 9% of the respondents indicated to a decreased and high degree in each case, while 6% indicated to a low degree. Table 4.9 below shows the results.

Table 4.9: Degree of Increase in Daily Collections/Earnings after Joining the Sacco

Degree	Frequency	Percent
High	4	9
Moderate	12	26
Low	3	6
Zero	28	60
Decrease	0	0
Total	**47**	**100**

4.3.6 Daily Net Earnings per Vehicle before Joining the Sacco and after Joining

The study sought to find out the respondents daily net earnings per vehicle before joining the SACCO and after joining. The study shows that after joining the Sacco, 18 (38%) of the respondents experienced decreases in daily net earnings ranging from of up to 60% decrease, while 29 (62%) of the respondents experience increases in daily net earnings of up to 26%. Table 4.10 summarizes the findings.

Table 4.10: Daily Net Earnings per Vehicle before Joining the Sacco and after Joining

		Frequency	Percent
Before Joining Sacco (Kshs.)	3,000 to 5,000	31	66
After Joining Sacco (Kshs.)	2000 to 3000	16	34
Total		**47**	**100**

4.3.7 Ways That Affect Business Because of Joining the Sacco

The study sought to find out other ways (positive or negative) that affect the business because of the SACCO Joining. The respondents indicated:

- Improved discipline,
- High expenditure,
- Mechanical maintenance reduction,
- Availability of loans,

- Improved understanding and,
- Increased daily collections.

4.4 Influence of Government Taxes and Levies

4.4.1 Tax Regime or Taxes and Rates as Levied or Imposed

The study sought to find out how the respondents would rate the tax regime or taxes and rates as levied or imposed. According to the findings, 55.3% of the respondents indicated that Transport Licensing Board (TLB) levies are high this gives a mean score of 1.1967 and 53.2% indicated that County government taxes are also high with a mean score of 2.5738. Further, 48.9% indicated that County government parking and other charges have been fair with a mean score of 2.9016. Table 4.11 summarizes the findings.

Table 4.11Tax Regime or Taxes and Rates as Levied or Imposed

	Mean	Std Dev.
Transport Licensing Board (TLB)	1.1967	1.44706
County Government Taxes	2.5738	1.55412
County Government parking and other charges	2.9016	1.56743

4.4.2 Impact of the Taxes and Levies on the Financial Performance of Business

The study requested the respondents to indicate the impact of the taxes and levies on the financial performance of business. Majority of the respondents indicated that TLB affect financial performance of business to a great extent which gives a mean score of 2.3607, County Government Taxes affect financial performance of business to a moderate extent which gives a mean score of 2.5902, while County Government parking and other charges affect financial performance of business to a moderate extent which gives a mean score of 2.6393. The results are summarized in table 4.12 below.

Table 4.12: The Impact of the Taxes and Levies on the Financial Performance of Business

Taxes and levies	Mean	Std Dev.
TLB	2.3607	1.43797
County Government Taxes	2.5902	5.60177
County Government parking and other charges	2.6393	1.51279

4.4.3 Payment to Government or County Employees In Order to get fair and Quick Services

The study sought to find out whether the respondents have ever had to make an informal payment (not officially accounted for or receipted) to government or county employees in order to get fair and quick services, the majority of the respondents, 87%, said yes, while other 13% said that they have never. Table 4.13 summarizes the findings.

Table 4.13: Payment to Government or County Employees in Order to get fair and Quick Services

	Frequency	Percent
Yes	41	87
No	6	13
Total	**47**	**100**

4.4.4 Extent of Effect on Informal Payments and the Financial Performance of Business

The study sought to find out the extent to which the informal payments affect the financial performance of business. From the study findings, 26% indicated that informal payments affect the financial performance of business to a very high extent, 43% indicated to a high extent, 15% said to a moderate extent, 4% indicated to a low extent while 13% indicated to a very low extent. These results are summarized in table 4.14 below.

Table 4.14: Extent of Effect on Informal Payments and the Financial Performance of Business

Extent	Frequency	Percent (%)
Very high extent	12	26
High extent	20	43
moderate extent	7	15
Low extent	2	4
Very low extent	6	13
Total	**47**	**100**

4.5 Influence of Matatu operatives Culture on Financial Performance

4.5.1 Business Sacco and Set of Rules

The researcher also sought to find out whether the business Sacco has a set of rules that members and other operatives have to adhere to. According to the findings, 98% of the respondents said yes, while 2% said no. Table 4.15 below summarizes these findings.

Table 4.15 Business Sacco and Set of Rules

	Frequency	Percent (%)
Yes	46	98
No	1	2
Total	**47**	**100**

4.5.2 Extent of Importance of Rules in Enhancing Revenue/Earnings from the Business

The study sought to establish the extent to which the rules have been helpful in enhancing revenue/earnings from business. According to the findings, 74% of the respondents indicated no increase in revenue, 17% indicated low increase, and 9% indicated high increase, while none indicated reduced revenue and heavy reduction respectively. These findings are summarized in table 4.16 below.

Table 4.16: Extent of Influence of Rules in Enhancing Revenue/Earnings from the Business

Revenue	Frequency	Percent (%)
High increase	4	9
Low Increase	8	17
No Increase	35	74
Reduced	0	0
Heavy Reduction	0	0
Total	47	100

4.5.3 Core Values Followed or Observed by Members in the Course of Duty

The study sought to find out whether the Sacco has any core values that members have to follow or observe in the course of duty, the majority of the respondents 94% indicated that there are core values set to respect passengers and other road users, 70% indicated there are core values set for dedication to duty, 68% said there are core values set for law abidance, while74% indicated that core values are set for cleanliness. Table 4.17 summarizes these findings.

Table 4.17: Core Values Followed or Observed by Members in the Course of Duty

		Frequency	Percent (%)
Respect to passengers and other road users	Yes	44	94
	No	3	6
Total		**47**	**100**
Dedication to duty	Yes	33	70
	No	14	30
Total		**47**	**77**
Law abidance	Yes	32	68
	No	15	32
Total		**47**	**100**
Cleanliness	Yes	35	74
	No	12	26
Total		**47**	**100**

4.5.4 Influence of Set Core Values on Business Profits

The study sought to establish the extent each of the variables influence on profits from the business. From the study, majority of the respondents indicated, respect to passengers and other road users as shown by a mean score of 2.8689, dedication to duty as shown by a mean score of 2.9180, information on business organizations is fairly accessible as shown by a mean score of 3.0492, law abidance as shown by a mean score of 3.1311 and cleanliness as shown by a mean score of 3.3115 influence profits to a normal extent. The findings are summarized in table 4.18 below.

Table 4.18: Influence of Set Core Values on Business Profits

Value	Mean	Std deviation (%)
Respect to passengers and other road users	2.8689	1.56499
Dedication to duty	2.9180	1.56446
Law abidance	3.1311	1.47733
Cleanliness	3.3115	1.40588

4.5.5 Training Seminars Intended To Enhance Learning by the Matatu Owners and Operatives

The study established whether the Sacco organizes training seminars intended to enhance learning by the Matatu owners and operatives. From the findings, the majority of the respondents 94% said no seminars organized while 6% said that there were seminars organized. These results are summarized in table 4.19 below.

Table 4.19: Training Seminars Intended To Enhance Learning by the Matatu Owners and Operatives

	Frequency	Percent (%)
Yes	3	6
No	44	94
Total	**47**	**100**

4.5.6 The Extent Learning has improved the Financial Performance of the Matatus

The study sought to establish the extent to which learning has improved the financial performance of the matatus. According to the study findings of the 3 respondents who indicated that there were seminars organized, all of them indicated that there was no change in revenue as a result of the trainings. The findings are indicated on table 4.20 below.

Table 4.20: Extent Learning Has Improved the Financial Performance of the Matatus

	Frequency	Percent (%)
Heavily increased the revenue	25	53
Slightly increased the revenue	10	21
No change to the revenue	5	11
Slightly reduced the revenue	4	9
Largely reduced the revenue	3	6
Total	**47**	**100**

General

How to enhance performance of Matatu business

The respondents were requested to indicate what they would like done to enable enhance performance of Matatu business. According to the finding the respondents indicated:

- Government should reduce taxes levied on them
- Efforts to reduced corruption should be taken to the grass roots to town councils, traffic police.
- Government should recognize the matatu industry and their contribution to the economy, and reduce rules and regulations that tend to have a negative effect on their growth and sustainability.

- The respondents also indicated that trainings should be done, by initiative of the government or the Saccos, with the intention of improving performance and management of their businesses.

4.6: Regression

In this study, multiple regression analysis was conducted to test relationship among variables (independent). The research used statistical package for social sciences (SPSS V 19.0) to code, enter and compute the measurements of the multiple regressions.

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Financial Performance of public transport business) that is explained by all the independent variables (Influence of SACCOs, Operatives culture, Government taxes and levies).

$$Y = Bo + B_1X_1 + B_2X_2 + B_3X_3 + \boldsymbol{\varepsilon}$$

Where Y = Financial Performance of public transport business (Profitability)

X_1 = Influence of SACCOs

X_2 = Operatives culture

$X_{3=}$ Government influence

ε = Error term

4.6.1 Model Summary

Table 4.21: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.893	0. 7974	0.744	0.4645

The four independent variables that were studied, this explain only 79.7% of the determinants of financial performance of public transport business in Kiambu County as represented by the R^2. This therefore means that other factors not studied in this research contribute 20.1% of the determinants of financial performance of public transport business in Kiambu County. Therefore, further research should be conducted to investigate the other factors (20.1%) that determine financial performance of public transport business in Kiambu County.

4.6.2 ANOVA Results

Table 4.22: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.453	3	1.267	7.623	.0214
Residual	9.313	98	2.327		
Total	**3.565**	**101**			

The significance value is 0.0214 which is less than 0.05 thus the model is statistically significant in predicting how Influence of SACCOs, Operatives culture and Government taxes and levies determine financial performance of public transport business in Kiambu County. The F critical at 0.05 level of significance was 3.23. Since F calculated is greater than the F critical (value = 7.623), this shows that the overall model was significant.

4.6.3 Coefficient of Determination

Table 4.23: Coefficient of Determination

		Unstandardized		Standardized		
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	1.142	1.335		1.615	0.359
	Influence of SACCOs	0.891	0.223	0.167	4.423	.0209
	Operatives culture	0.813	0.241	0.076	3.752	.0217
	Government influence	0.857	0.233	0.186	3.867	.0224

Multiple regression analysis was conducted as to determine the relationship between determinants of financial performance of public transport business in Kiambu County and the three variables. As per the SPSS generated table above, the equation

($Y= Bo+ B_1X_1+ B_2X_2+ B_3X_3 + \boldsymbol{\varepsilon}$) becomes: $Y= 1.\ 142 + 0.891X_1+ 0.813X_3 0.857X_2$

The regression equation above established that taking all factors into account (Influence of SACCOs, Operatives culture and Government influence) constant at zero, determines financial performance at 1.142. The findings presented also shows that taking all other independent variables at zero, a unit increase in Influence of SACCOs lead to a 0.891 in determining financial performance of public transport business in Kiambu County; a unit increase in operatives culture would lead to a 0.813 891 in determining financial performance of public transport business in Kiambu County; and a unit increase in government influence would lead to a 0.857 increase in determining financial performance of public transport business in Kiambu County. At 0.05% level of significance and 95% level of confidence, Influence of SACCOs had a 0.0209 level of significance; operatives culture showed a 0.0217 level of significance; investment deduction showed a 0.0224 level of significance while government influence showed a 0.0236 level of significance.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter provides the summary of the findings, discussion on the findings of the research, and also it gives the conclusions and recommendations on determinants of financial performance of public transport business in Kenya case of Kiambu County. It also gives an overview of areas for future research.

5.2 Summary of the Findings

5.2.1 Influence of Management Style and Sacco's

The study found that the majority of the respondents businesses are self managed, the respondents also indicated that daily collections are maximized when they manage their own business. The study also found out that majority of the respondents indicated that joining of a Sacco has affected management of Matatu business to a moderate extent and to a low extent.

The study further found out that the joining of a Sacco has led to increase in efficiency, increased cost of maintenance and running, reduced accidents and decrease in daily collections (earnings).The degree of increase in daily collections/earnings after joining the SACCO has been between moderate and zero degree. The study found that after joining the Saccos, majority (55%) of the respondents experienced decreases in daily net earnings of up to 60% decrease, while minority (45%) of the respondents experience increases in daily net earnings of up to 26%.

5.2.2 Influence of Enforcement of Traffic Rules, Taxes and Levies

The study further found out that the respondents felt that taxes and levies enforced by Transport Licensing Board (TLB) are high with a mean score of 1.1967 while County government taxes are high as shown by a mean score of 2.5738. The study reveals that TLB affect financial performance of business to a great extent, this was shown by a mean score of 2.3607, County Government Taxes affect financial performance of business to a moderate extent as was shown by a mean score of 2.5902, while County Government parking and other charges affect financial performance of business to a moderate extent as shown by a mean score of 2.6393.The study also found out that the respondents make an informal payment (not officially accounted for or receipted) to government or county employees in order to get fair and quick services, the majority of the respondents 57% said yes. These informal payments affect the financial performance of business to a very high extent.

5.2.3 Influence of Matatu operatives Culture on Financial Performance

Additionally, the study found out that matatu Saccos have a set of rules that members and other operatives have to adhere to, according to majority of the respondents, the rules do not cause increase in revenue/earnings from the business while the minority rated the effect of the rules as leading to a low to high increase. The study found out that there are core values that members have to follow or observe in the course of duty, these include core values set to respect passengers and other road users, core values set for cleanliness and core values set for law abidance, respect to passengers and other road users influence on profits from the business as shown by a mean score of 2.8689, dedication to duty influence on profits from the business as shown by a mean score of 2.9180, information on business organizations is fairly accessible as shown by a mean score of 3.0492, law abidance also influence on profits from the business as shown by a mean score of 3.1311 and cleanliness as shown by a mean score of 3.3115

The study further found out that few of the Saccos organizes training seminars intended to enhance learning by the Matatu owners and operatives. According to the findings, The training seminars have had no effect on the financial performance of the matatu businesses.

5.3 Discussions

The study found that: majority of matatu businesses are self/owner-managed. This style of management leads to better financial performance than hiring a manager.

Majority of the respondents said that joining of a Sacco has affected management of Matatu business to a very low extent and to no extent. After joining a Sacco several factors are affected, which include; increase in efficiency, cost of maintenance and running, reduced accidents and minimum increase in daily collections (earnings). The degree of increase in daily collections/earnings after joining the SACCO has been to a zero degree, moderate degree and to a high degree.

Taxes and levies by TLB and county government are high according to the findings, while county government parking fees and other charges are deemed fair. Tlb affects the financial performance of matatu businesses to a great extent , county government taxes/levies and parking fees and other charges affect the financial performance to a moderate extent. The respondents further agree they have had to make an informal payment (not officially accounted for or receipted) to government or county employees in order to get fair and quick services.

Saccos have a set of rules to be followed by matatu operatives which have had a moderate effect on the financial performance on the businesses. According to (Sorensen, 2001) a strong positive organizational culture increases company performance only in periods of economic stability and its influence is negligible during high volatility periods. Sacco training seminars are intended to enhance learning by the Matatu owners and operatives**.** A study done by (Skerlavaj*et al.* 2007) shows the positive influence of another element of organizational culture: employee attitude towards learning and training programs. Quoted researchers argue that this has a direct effect on company's non-financial performance and an indirect effect on financial performance. Kyalo (2012) studied that the weaknesses in the Matatu sub-sector can be reduced by improving the management skills of owners, lowering costs of operations, research, law enforcement and improving the road transport infrastructure by the government. Young people need to be encouraged to form partnerships to enable them purchase higher capacity PSVs which are more profitable to operate. Matatu business has a chance of rapid growth if there is law and order and if it is well supported by government and financial institutions that can give loans at low interest rates.

5.4 Conclusions

According to the findings, most matatu businesses are owner/self managed and that matatu businesses perform better when they are self/owner managed. Research findings conclude a relationship between both overall and operating strategies and the nature and level of regulatory compliance. The study also found that TLB taxes are deemed to be high as implemented on matatu businesses while county government taxes, levies, parking fees and other charges were seen to be fair by the matatu businesses.

According to the findings on training and seminars be Saccos, it was found that there is very little training as organized by the Saccos and that the little that is being done does not have an impact on the financial performance on the matatu businesses which is of importance for the sustenance of the businesses.

It also found that compliance was selective, with operators following regulations deemed to be reasonable and possible. The findings conclude that compliance may be enhanced by promoting cooperation between Matatu owners and government in streamlining regulations and ensuring fair and consistent enforcement, as well as by recognizing that Matatus are legitimate transport businesses rendering a public service.

5.5 Recommendations

The study recommends that in order to improve their earnings, owners have to properly manage their relationships with the individuals contracted to run their public transport fleets. Saccos need to come up with strategies that will lead to better management of saccos to allow for set of rules that can have positive effect on the matatu businesses and also training seminars for the matatu operatives so as to improve the overall performance of the matatu businesses. Taxes and levies imposed/effected by TLB need to be aligned to the effect they have on the performance of the matatu businesses as they are high.

Training seminars need to be organized for matatu operatives. The seminars should cover areas that have significant effect on the operations and financial performance of matatu businesses.

5.6 Suggestions for Further Research

- The study was only carried out on the matatus on Kiambu- Nairobi route, thus the same study should be carried out in other matatu routes in other counties to find out if the same results would be obtained.
- It also recommends that a study in the same line should be carried out to determine the other variables that determine financial performance of public transport business in Kenya. These may include, capital adequacy, constitution of the vehicles (serviceability and age), passenger capacity etc. for further research..

5.7 Limitations of the study

- **Financial constraints**

  Due to cost involved mainly with the process of data collection, limited number of sources and a small size of sample area were determined in advance.
- **Time constraint**

  I had to juggle both work and carrying out the research. This made it difficult to meet deadlines.
- **Reliability of information** given on the earnings of the matatus interviewed could not be verified since the owners do not keep good financial records on their businesses hence I had to fully rely on the little data they had and also on the owners opinion.
- Self-reported data- I had to take what the respondents said in the questionnaires at face value. However, this may contain several potential sources of bias.
  1. Selective memory (remembering or not remembering experiences or events that occurred at some point in the past).
  2. Telescoping- (recalling events that occurred at one time as if they occurred at another time).

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