INFLUENCE OF REGULATION PRACTICES ON GROWTH OF SECOND HAND MOTOR VEHICLE DEALERS IN DAGORETTI DISTRICT, NAIROBI COUNTY, KENYA.

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ABSTRACT

This study sought to establish the influence of regulation practices ongrowth of small and medium enterprises in Kenya with a specific reference to second hand motor vehicle dealers in Dagoretti District in Nairobi County. Despite the high potential of Second hand motor vehicle dealers in contributing to Social-economic development, the sector continues to face binding constraints that limit their potential and growth. In Kenya, motor vehicle dealers have significantly been affected by high collapse ratio or change of ownership. The study variables reviewed include government policy, the clearance process, registration process and the dealers' integrity. The study adopted a descriptive research design since the researcher gathered information, summarized, presented and interpreted it for the purpose of clarification. The study focused on reviewing four variables i.e. Government policy, Clearance process, registration process, and dealers integrity. The target population for the study comprised of owners and employees of the second hand motor vehicle dealers in Dagoretti District Nairobi County giving the study a target population of 60.Simple random sampling technique were employed to select the sample of 58 respondents, which is 97% of the target population, multiple regression was used to show relationship between independent variable and dependent variable. The findings of study conclude that government policy is a key influence on growth of second hand motor vehicle dealers in Dagoretti District Nairobi County. Therefore, study recommends that the government should provide enabling policies and environment in line with vision 2030 for growth of business in second hand motor vehicle.

Key words: Entreprenuership, theories, Government policy, Clearance process, registration process, and dealers integrity.

Introduction

This study focuses on evolution of the automotive industry being determined by various innovations in fuel consumption efficiency, vehicle components, societal infrastructure, and manufacturing practices, as well as changes in markets, suppliers and business structures (Bradley, 2001). Most individuals have opted for the second hand versions, lured by lower pricing despite the high maintenance costs they expose the Kenyan economy to, and foreign exchange loss as a result of importation of spare parts which are not locally available and have high failure rate compared to the new vehicles. 84% of the Kenyan motor industry is controlled by second hand vehicles (Ndungu, 2008).

Firms frequently introduce new generations of products but also older generations continue to be traded in secondary markets. Moreover, as long as both generations satisfy the same general needs (Janischewski, Henzler & Kahlenborm, 2003). Based on the study of Chen (2004), the used car market has gone along for many years but it is still immature. There is still a certain difference in scale, price, market standard, and market operation from developed countries. A study on the collision of Philippine new and used car industry by Chiu & Shioji (2008) found that the entrance of used cars in the market shook the domestic automakers in the country. It is clear that governments can fix the automobile industry, but inconsistent national economic and regulatory policies inhibit investment and sales as well as generate potentially large fluctuations in economic performance. They are unlikely to succeed unless they appreciate exactly what the problem is in the first place. Ndungu (2008) conducted a survey of the vertical integration strategies used in the automotive industry in Kenya while Kipchirchir (2008) surveyed the Kenyan Motor Vehicle Industry of the foreign exchange risk management practices it employs.

This study seeks to establish the influence of regulation practices on growth of second hand motor vehicle industry in Kenya.
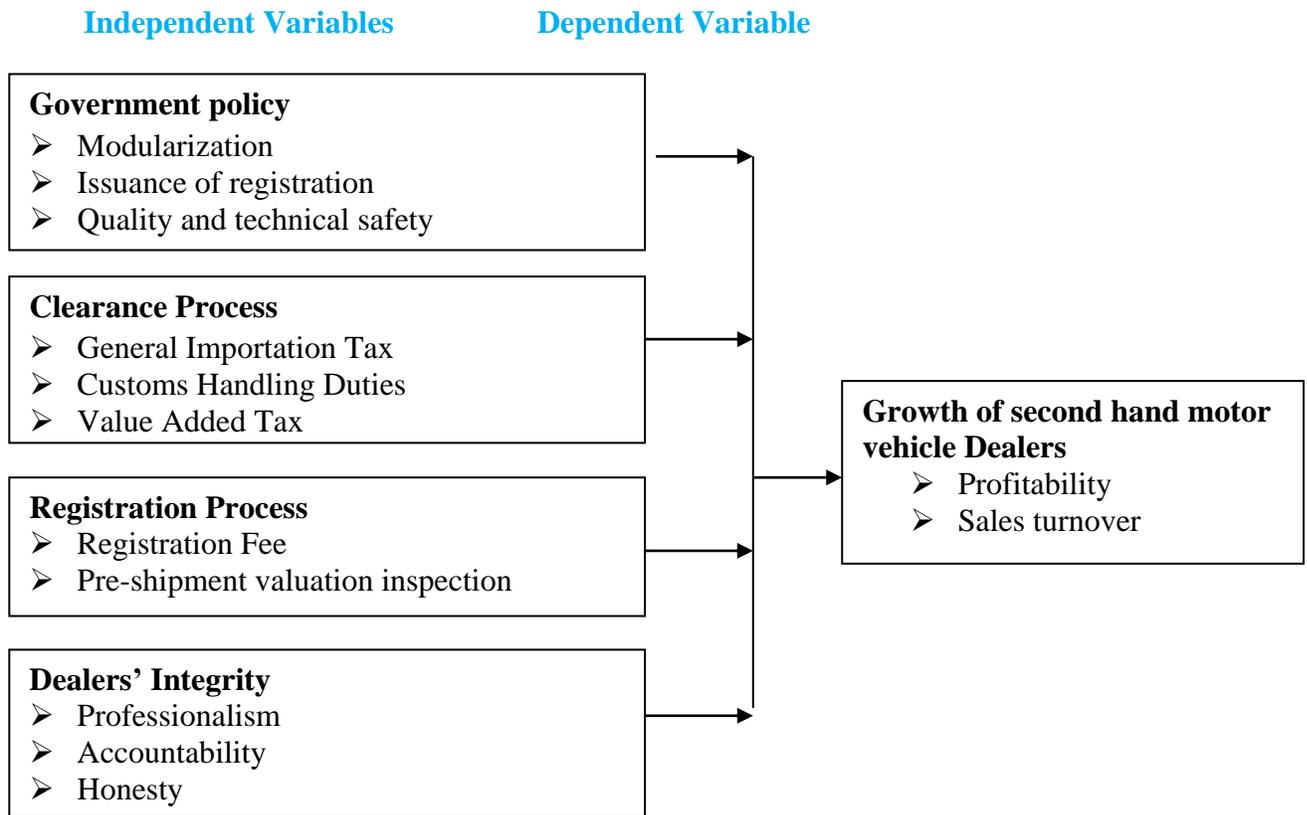
Statement of the Problem

According to the Organization for Economic Co-operation and Development, there has been stunted growth and sluggish development in the Second Hand Motor Vehicle Dealers regardless of increasing targeted government assistance streamlined to benefit firms operating in this sector (OECD, 2009). Kenya is ranked fifth in Africa in vehicle market, after South Africa, Algeria, Egypt and Morocco. Data from the Kenya National Bureau of Statistics shows 60,792 units were sold last year (KNBS, 2013). The Kenya Insurance Industry report, however shows that in Kenya, motor vehicle dealers have significantly been affected by high collapse ratio or change of ownership (Kenya Insurance Industry, 2012). This implies trend is increasing with the new entrepreneurs coming in to the market and others exiting (Kenya Auto Bazaar Association, (2012).Further statistics from World Bank (WB, 2012) show that at least 30 victims have approached the Kenyan embassy in Tokyo for assistance in recovering money they paid to phony companies for delivery of cars to Mombasa only for the alleged exporters to disappear after receiving payments. Police are investigating two officials at the Kenya Revenue Authority who have colluded with criminals to fabricate double registration for motor vehicles. The sector faces both problems and opportunities that affect their performance (Herbling, 2013).

Various local studies have been conducted by Wasonga(2008) who did a study on challenges influencing Second hand motor vehicle dealers in Kenya: the Fina Bank experience;Muua(2009) researched on the significance of training for skills required to be effective in export marketing by Small and micro enterprises exporting locally manufactured products in Kenya and finally, Mulinge (2009) did a survey on marketing practices adopted by SMEs dealing with clothing and

footwear: a case of Makueni District. There is limited information available on influence of regulation practices onthe growth of SMEs in Kenya. Therefore, this study sought to establish the influence of regulation on growth of second hand motor vehicle dealer's small medium enterprises in Dagoretti District in Nairobi county.

Conceptual Framework

Independent Variables   Dependent Variable

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┌─────────────────────────────────────┐
│ Government policy                   │
│  ➢ Modularization                   │───────┐
│  ➢ Issuance of registration         │       │
│  ➢ Quality and technical safety     │       │
└─────────────────────────────────────┘       │
                                               │
┌─────────────────────────────────────┐       │
│ Clearance Process                   │       │
│  ➢ General Importation Tax          │──────┐│
│  ➢ Customs Handling Duties          │      ││   ┌──────────────────────────────┐
│  ➢ Value Added Tax                  │      └┼──▶│ Growth of second hand motor    │
└─────────────────────────────────────┘       │  │ vehicle Dealers                │
                                               │  │  ➢ Profitability               │
┌─────────────────────────────────────┐       │  │  ➢ Sales turnover              │
│ Registration Process                │       │  └──────────────────────────────┘
│  ➢ Registration Fee                 │──────┘│
│  ➢ Pre-shipment valuation inspection│       │
└─────────────────────────────────────┘       │
                                               │
┌─────────────────────────────────────┐       │
│ Dealers' Integrity                  │       │
│  ➢ Professionalism                  │───────┘
│  ➢ Accountability                   │
│  ➢ Honesty                          │
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Government Policy

A report by Torjman (2005) reveals that there are several schools of thought on policies to help new and small firms mature. Some argue that the role of government should only be to make it easier for firms to start up, while others focus on helping those firms most likely to grow. The track record of special policies to encourage new firms has not been particularly encouraging, although reforms to regulations and practices that hinder start-ups and frustrate the operations of

new small firms are desirable. Overall empirical knowledge of the issues remains limited and governments may do well to invest more in evaluating what does, and does not, working terms of fostering an environment where new firms can grow successfully and create jobs. Sudden change in these taxation policies without the knowledge of the dealers has significantly influenced the growth of SMEs dealing with second hand cars (Torjman, 2005).

Clearance Process

In today's global environment, change rather than stability is the order of the day. Increased trade liberalization reduces country-based trade barriers, thus increasing the opportunity for cross-border entry (Ellis and Williams, 1995). If new entrants have adopted new technologies and/or developed more efficient business operations systems, the competitive intensity will increase pressure of existing industry to internationalize by weakening their competitive position. Virtually, most industries across the globe are currently experiencing increased pressures for globalization. Environmental forces of change are the forces which are increasing pressure for globalization and have led to trade liberalization and opening of the international market. These forces have also increased the rate at which companies need to alter their strategies and structures in order to survive in the market.

Vehicle Importing, Clearance Registration of Cars should be a carefully carried out procedure, with assistance and in consultations with experts and customs clearing agents (KAB, 2013). Aero marine Logistics (K) Ltd is preeminent in clearing and forwarding vehicles for Kenya's market or transits for East Africa. Motor vehicles of over 8 years old are not allowed into Kenya as per the KS 1515:2000 quality standard by the Kenya Bureau of Standards. Kenya Customs enforces this requirement. This year, we are allowing vehicles manufactured in the year 2001 and

thereafter. Because of environmental reasons, cars aged more than eight years are not allowed into the country except with special permission granted through the Kenya Bureau of Standards and the Kenya Revenue Authority (KABA, 2013).

Registration Process

Vehicle registration is the process of adding a vehicle's details to the Motor Vehicle Register. In the past the process was often lengthy and hectic and one had to bribe the officers for a faster facilitation but nowadays the procedure can take three days, or at most a week. Registration of vehicles in Kenya is done by the Kenya Revenue Authority, (KRA), which is also responsible for issuing motor vehicle number plates through its Road Transport Department (RTD). The first motor vehicle registration in Kenya was issued in 1938 and currently the country is in the third generation motor vehicle number plate series introduced in 2007 which started from KBA001A and expected to end at KBZ999Z. Though the Kenyan numbers are a sequence, there have been a few changes that have rather confused the issue. As there is no readily available reference there is some debate about the exact history, though from the recollections of various members the story can be pieced together. The initial sequence used was T and this applied to all pre-war vehicles. Post-war series used the letters H and the W immediately prior to the K series which was introduced in 1950.

Personalized number plates bearing individual names are not legal in Kenya as outlined in Section 12 of the Traffic Act. Currently the number plates are manufactured locally and motorists keep hoping that in the near future number plates will have special features that will help curb, among other things, security threats facing motorists. This fee is around KShs15,000/- for a standard car and is best thought of as the fee for getting number plates. The number plates

are made in a nearby prison and from time to time there are delays and holdups in this which can drive up storage charges. According to the Business Daily dated August 7, 2013, a report by the Kenya Auto Bazaar shows that at least 2,500 imported vehicles are stuck at the port, according to KRA. They are held up because of the poor supply of number plates from the Kamiti Maximum Security Prison where they are made. KRA revealed that it faced challenges supplying the market during the December import peak season since only the Prisons Department is allowed to make the number plates by law (BD, 2013).

For every year since the original new manufactured date on which the CRSP is based, the price gets discounted 10% up until the 8 year mark where you get a 70% discount on the price for duty calculations. It is illegal to import a car over 8 years old. For a car made this year, if the CRSP price is $10,000, then last year's car is worth $9,000 for duty calculations and the year before that $8,000 and so on, back to the car seven years ago which is worth $3,000. As the duty rate is 25%, you pay that duty on the discounted CRSP. Using the numbers above, for a brand new car, the duty component is $2,500 and for the 7.5 year old car, its $750 (KMI, 2012).

Dealers Integrity

According to the Embassy of the Republic of Kenya in Japan, the Embassy has recently been inundated by requests from many Kenyans seeking assistance to recover monies allegedly paid to unscrupulous Japanese Companies for the purchase of second hand Motor vehicles. In trying to assist the unfortunate victims, the Mission has uncovered that while Japanese car dealers generally used to be known as trust worthy and reliable this may no longer be true. Unfortunately, the used car export business in Japan has been invaded by some criminals (RoK, 2012). The global economic difficulties and cut- throat competition in the industry have translated into low profitability and an increase in illegal exports. These include the sale of stolen

vehicles, illegally rebuilt units or even re-modeled vehicles. The tendency thrives on the known reputation for excellent quality and reasonable prices associated with Japanese used motor vehicles. Kenya is clearly amongst the targeted and lucrative markets for unscrupulous internet-based motor vehicle fraudsters. This may be informed by the size of the Market, the 8-year Rule, and the demand by citizens for cheaper cars. Dishonest individuals have exploited the internet marketing & advertising model to lure un-suspecting customers from Kenya including senior government officials. Unfortunately, most victims have in the past suffered silently and this lack of publicity has served the fraudsters very well. They are assured of another opportunity to defraud one victim after another without the fear of detection (RoK, 2012).

In trying to track down the bogus used cars exporters, the Mission found some interesting trends. Firstly, these heartless vendors are hard to trace as they change their telephone numbers immediately they sense danger and will not respond to email enquiries. Since the transactions are mostly transacted via on-line via internet; the fraudsters need no office or even a sale yard. The vehicles displayed on their websites are merely Motor vehicle pictures taken from some legitimate yards or the many vehicle auctions. They then use computer graphics to display their banners over the Fake yards or the cars themselves. Wirth regard to their Bank accounts to which Kenyan victims have wired their monies, the Mission has found that such accounts are phantom accounts opened solely for purposes of fraud for a particular period of time. You cannot easily track down these master criminals because Japanese Banks can accommodate ATM withdrawals of up to 1,000,000 Yen or more than Kshs. 1,000,000). Since they use fake names and identities to open the accounts it's hardly possible for one to trace them. According to available records, hundreds of Kenyan might have fallen into this trap annually and something must be done urgently to stop the trend. The Police and related agencies have been categorical that the

Japanese law classifies the offence of defrauding a client in a business deal as a civil offence. This means that the Metropolitan Police has no powers of arrest or prosecution for such offences. Such litigation is left to hired professional lawyers (RoK, 2012).

Methodology

This research problem can best be studied through the use of a descriptive research design. Descriptive research is the investigation in which quantitative data was collected and analysed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time. Descriptive research design was chosen because it enabled the researcher to generalise the findings to a larger population. It also allows greater flexibility in terms of money and time as well as avoiding the hardship of hunting for respondents more than once to produce high response rate. These reasons justify why this study becomes descriptive research design.

Population Frame

The study population comprised of employees of the second hand motor vehicle dealers in Dagoretti District Nairobi County as this is where most dealerships are located. Data from Kenya Auto Bazaar Association records 2014 show that there are 200 motor vehicle dealers operating in Dagoretti District Nairobi County.

Sample Size

Simple random sampling method was used where the researcher sampled entrepreneur owner manager of the second hand motor vehicle dealers in Dagoretti District Nairobi County. The method spreads the sample more evenly over the population and was easier to conduct and it also gives equal chance of selection of the sample units since from the target population

(Mugenda&Mugenda 1999). The research used sampling of 30% of the target population. Which gave sample size of 60 entrepreneurs' owner manager.

Data Collection Instruments and Procedure

The main research tool to be used was structured questionnaire, which was preferred as it provides a relatively simple and straightforward approach to the study. Likert scale questions was used to obtain quantitative data and semi-structured questions used for qualitative data. The researcher used both primary and secondary data. According to Kothari, (2000), a self administered questionnaire was the only way to elicit self report on people's opinion, attitudes, beliefs and values. Primary data obtained through self-administered questionnaires with closed and open-ended questions. The closed ended questions enables the researcher to collect quantitative data while open-ended questions enables the researcher to collect qualitative data. Secondary data was collected by using of desk search techniques from published reports and other documents. Secondary data includes the banks publications, journals, and periodicals.

Data Analysis and Presentation

After data collection, data analysis was done. Qualitative and quantitative analysis was used for this study. Quantitative analysis according to Borrego et al., (2009) was for the researcher to project the findings onto larger population through an objective process. It allows the researcher to make generalizations or inferences based on the answers given. The quantitative data in this research was analyzed by descriptive statistics (ANOVA) using statistical package for social sciences (SPSS) version 21. The researcher used the data with an aim of presenting the research findings in respect to growth of small and medium enterprises in Kenya. Tables were used to summarize responses for further analysis and facilitate comparison. This generated quantitative reports through tabulations, percentages, and measure of central tendency. This was coupled with the content analysis on qualitative issues to generalize the results.

Influence of regulation practices on Growth of Second hand motor dealers SMEs are β (independent variables) and dependent variable is Y. The regression equation used was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + + \alpha$$

Where Y is the dependent variable (Growth of SMEs), β_0 is the regression coefficient, β_1, β_2, β_3 and β_4 and are the slopes of the regression equation, X_1 is the independent variable one (Government policy), X_2 is independent variable two (Clearance Process), X_3 is independent variable three (Registration Process) and X_4 is independent variable four (Dealers Integrity) while α is an error term normally distributed about a mean of 0 and for purposes of computation, the α is assumed to be 0.

Discussion and Conclusion

The finding of the study revealed that Government policies positively Influence the growth of second hand motor vehicle enterprise in Dagoretti District, Nairobi County. Results of the inferential statistics such as correlation coefficient show that government policies has a major positive significance contribution to the growth of second hand motor vehicle dealers in Kenya.

The finding of the study also that revealed that the clearance process influence the growth of second hand motor vehicle dealers in Dagoretti District in Nairobi County. Results of the inferential statistics such as correlation coefficient show clearance process has a major positive significance contribution on growth of second hand motor vehicle dealers in Dagoretti District, Nairobi County

The finding of the study further indicates that the registration process influence the growth of second hand motor vehicle dealers small medium enterprises in Dagoretti District. According to the findings of the study, registration process has a significant influence on the growth of second hand motor vehicle dealer's small medium enterprises in Dagoretti District, Nairobi County.

The study found out that the dealer's Integrity influence growth of second hand motor vehicle dealers small medium enterprises in Dagoretti District, Nairobi county. According to the findings the dealers integrity significantly affected positively the growth of second hand motor vehicle dealers small medium enterprises in Dagoretti District, Nairobi county.

The study concludes that the role of government should only be to make it easier for firms to start up. Further the study concludes that Governments may do well to invest more in evaluating what does, and does not, working terms of fostering an environment where new firms can grow successfully and create jobs.

Additionally the study concludes that Clearance of Cars should be a carefully carried out procedure, with assistance and in consultations with experts and customs clearing agents.Finally, the study concludes thatKenya is clearly amongst the targeted and lucrative markets for unscrupulous internet- based motor vehicle fraudsters.

There should be a track record of special policies to encourage new firms so as to encourage growth of second hand motor vehicle industry in Kenya secondly the study recommends improvement of new technologies should be developed for more efficient business operations systems. Clearance of Cars should also be carefully carried out with assistance and in consultations with experts and customs clearing agents.

Recommendation for further study

The study investigated the Determinant of Growth of Second Hand Motor Vehicle Dealers in DagorettiDistrict, Nairobi County. Further research should be carried out to find out the hindrances to success of Second hand motor vehicle industry in Kenya.

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