# EFFECT OF CUSTOMS IMPORT PROCEDURES ON PERFORMANCE OF USED MOTOR VEHICLE DEALERS IN MOMBASA COUNTY

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF A POSTGRADUATE DIPLOMA IN CUSTOMS ADMINISTRATION OF THE JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY**

**2019**

## DECLARATION

This project is my original work and has not been presented for a post-graduate diploma in any other academic or non- academic institution

……. ……..

Signature Date

**NABWIRE JENNIFER**

**HDB335-C016-2413/2016**

This project has been submitted for examination with my approval as the supervisor

..... .....

Signature Date

**Supervisor**

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## DEDICATION

Dedicated to the memory of my late dad Peter Okumu Mukanga, who always supported me and wanted me to be the best I can be.

**AKNOWLEDGEMENT**

My sincere gratitude goes to my supervisor Benn Mumia for advice and guidance she has provided. And to all my classmates, this far it is God. Thanks for the support and encouragement. The push and shove is much appreciated. God bless you all.

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## ACRONYMS/ABBREVIATIONS

| | |
|---|---|
| **ANOVA** | Analysis of variance |
| **GATT** | General Agreement on Tariff and Trade |
| **IDF** | Import declaration form |
| **KNBS** | Kenya bureau of statistics |
| **KRA** | Kenya Revenue Authority |
| **RKC** | Revised Kyoto convention |
| **SPSS** | Statistical Package for Social Sciences |
| **WCO** | World customs organization |
| **WTO** | World trade organization |

## DEFINITION OF TERMS

| | |
|---|---|
| **Automation of system** | Organizing structures utilizing computer-based technology for the collection, organization and processing of data then efficiently communicating the information to streamline customs processes while ensuring proper storage and retrieval of customs information (Setchi & Jordanov, 2010). |
| **Customs import inspection** | Refers to the process through which imported cargo is subjected to verification to check on the content description, quality and quantity (EACCMA, 2012) |
| **Customs import restrictions** | These are set requirements which are regulatory in nature to control imports into a customs territory (EACCMA, 2012) |
| **Performance** | Act of completing a given role measured against previously set goals of accuracy, completeness, cost, and speed (Van Dooren, Bouckaert, & Halligan, 2015). |

## ABSTRACT

Globalization has made the world to become small village more impetuously, opening the boundaries and expanding the quantity of suppliers (exporters) as well as importers. Numerous firms to acquire some rare contributions or ideas of the better quality, or inputs at a lower value, import them instead of purchasing them from domestic suppliers. Studies show that there is a close relationship between business performance and customs procedures. Kenya, importers had complained that even after introduction of container scanners, the dwell time of goods at the port had not reduced significantly due to the existing high levels of verification even after electronic scanning has been carried out. Nordås et al. Notably, 24% of the transportation time is spent at borders. This study explores the effect of customs procedures on monetary value of used vehicles handlers in Mombasa County. The research was guided by general objective to ascertain the effect of customs import procedures on monetary realization of secondhand vehicle dealers in Mombasa. The specific objectives were; to determine the effects of computerization of customs systems on performance of secondhand motor vehicle dealers in Mombasa County. To establish the Effects of Customs import restraints on performance of secondhand motor vehicle dealers in Mombasa County. To establish how the adoption of customs import inspections has affected the Performance of Used vehicle dealers in Mombasa County. The study adopted three theories Environmental dependency theory, transaction cost theory and theory of 'informality' to review the existing literature and the variables under study. The study adopted a descriptive design and a population of 110 used car dealers in Mombasa while relying on a structured questionnaire as the main data collection instrument. The research was directed by a General objective of determining the effect of customs import procedures on performance of used motor vehicle dealers in Mombasa. The researcher revealed that automation of systems, Customs restrictions on imports and customs import inspections were among variables that prejudiced the realization of second hand cars traders. From the analysis, the results indicated that modernization had a positive and strong influence on performance of used motor vehicle dealers. This was supported by the correlation coefficient of r=0.706 and linear regression coefficient of 28.5%. The researcher established that customs restrictions on imports had a negative influence on performance of used motor vehicle dealers in Mombasa County. This was supported by correlation coefficient of -0787 and a linear regression coefficient of -0.395. Customs import inspections had a strong and a negative influence on performance of used motor vehicle dealers in Mombasa County. There was also a negative relationship as indicated by the linear regression. From the findings of this study, the researcher recommends on the following; Increase of automated customs systems in order to reduce cost of operations for the used motor vehicle dealer's business hence increasing their performance. Minimize customs import restrictions to used car imports on age to as improve on sales of the used motor vehicles hence increasing performance. Reduce customs inspections on imports so as reduce delays observed in clearance of used motor vehicles.

# CHAPTER ONE
# INTRODUCTION

## 1.1 Background of the study

Significantly, globalization and modernization have grown in leaps and bounds over the years, opening the territories, which has seen the upsurge of the number of exporters, as well as importers. Many firms in order to obtain some scarce inputs or inputs of the better quality, or inputs at a lower price, import them rather than buying them from domestic suppliers. Many customs administrations are struggling to meet the continually increasing demands and priorities placed on them. During the last decade, many countries devoted substantial resources to reforming and modernizing their customs administrations, often with financial and technical support from international financial institutions and bilateral donors (Wulf and Sokol, 2005).

APEC (2003) detailed Customs procedures to facilitate legitimate international trade while effecting Customs controls including the protection of Customs revenue and society are articulated in the Revised Kyoto Convention (RKC). Hummels (2001) observed that the procedures deal with key principles of simplified and harmonized Customs procedures, such as predictability, transparency, due process, maximum use of information technology, and modern Customs techniques e.g. risk management, pre-arrival information, and post-clearance audit. The RKC was adopted in 1999 and entered into force in February 2006. As of February 2010, the RKC had a total of 66 Contracting Parties cover at least 70 percent of the value of globally traded goods

According to USAID(2009), customs clearance is defined as the set of functions undertaken by a national customs authority, which include but are not limited to processing of import, export, and transit declarations, assessment of origin, value, and classification of goods, collection and processing of duties and fees, physical inspection, examination, and release of cargo, conduct of post-clearance audits, processing of urgent consignments, administration of waivers and exemption schemes and drawback (re-exportation) schemes (McLinden, 2005).

Admittedly, Widdowson (2006), states that customs have been described for a century as one of ‘gate keeper’, with customs authorities representing a barrier through which international trade must pass, in an effort to protect the interests of the country. The essence of this role is reflected

in the traditional customs symbol, the portcullis, which is a symbolic representation of a nation's ports the gates through which international trade must pass. McLinden (2005) stated that: "Customs is the oldest of governmental institution established to generate income for government in the form of taxation. Nevertheless, the roll of customs becomes more important and more complicated due to: -Tax base become widened, the prevalence of illegal trade, and the need for balance between trade facilitation and control. All countries have in place some customs controls for revenue generation, domestic economic interests, and national security purposes. While there are similarities between countries (like the universal need for shipment documentation, including commercial invoices and Bills of Landing) there are local, specific requirements that have to be addressed. Broadly, customs clearance will be defined as the set of functions undertaken by a national customs authority, which include, but are not limited to processing of import, export, and transit declarations, assessment of origin, value, and classification of goods, collection and processing of duties and fees and Physical inspection, examination, and release of cargo." (McLinden, 2005)

According to Revised Kyoto convention (1999), Customs is defined as the government service which is responsible for the administration of Customs law and the collection of duties and taxes and which also has the responsibility for the application of other laws and regulations relating to importation, exportation, movement or storage of goods. Customs clearance in the developing world is in rapid evolution. The development in customs can be described in three stages. In the first, the customs authority concentrates on physical inspection and paperwork, in the second, the customs authority works to reduce fraud and maximize revenues, and in the third, the customs work to facilitate trade through internal checks, process management and the development of electronic data exchange. Therefore, trade facilitation is one of the focal points that customs authority concentrated on among the others (Appels and Henry, 1998).

Cosgrove-Sacks & Apostolov (2003) observe the need for clear procedures for trade facilitation which has the potential to promote competitiveness and market integration. Moreover, trade facilitation can make multilateral trade liberalization an important tool for development in a system based on predictable rules, openness and lack of discrimination. Despite the potential and successes of trade facilitation there are also challenges of implementing trade facilitation in Africa. The obstacles to trade facilitation are not only many and varied, but they are also interrelated. This

situation requires an integrated, cooperative response from the Government and the private sector. Buyonge and Kireeva (2008) highlighted some of these challenges which include the lack of a service attitude across all customs management levels, adversarial relationship between Customs and business, insufficient or inefficient supporting infrastructure, lack of a facilitation culture in other government departments, corruption and illicit trade. A holistic approach is thus needed to address trade facilitation as some of the impediments are cross-cutting and cannot be addressed by Customs alone. (Buyonge and Kireeva, 2008).

Motor vehicle dealers act as an economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Motor vehicle dealer's growth increases government income from taxation. Revenues and profits of motor vehicle dealers contribute to governments' corporate tax income. Moreover, they stimulate increased indirect taxes (such as value-added taxes). This study strives to evaluate customs import procedures and their implications on performance of motor vehicle dealers and ways of rectifying them (Magara & Were, 2014).

Bennet et al, (2002) states that the motor vehicle industry in Kenya is generally made up of all those firms that are engaged in the supply and sell of motor vehicles, parts and accessories to the final user. It also includes firms engaged in maintenance and repair of those vehicles. Up until early 1990s, Kenya used to boast a growing vehicle assembly industry that supplied the country and the East Africa region. With the liberalization of the motor industry, second hand imports flooded the market effectively killing the industrialization dream as far as vehicle assembly was concerned. (Bennet et. al, 2002). According to the Kenya bureau of statistics in the year 2011 saw a record 205,841cars registered by the Kenya revenue authority. Up to May 2012, a total of 64,598 motor vehicles were registered. This practically shows that Kenya thrives on second hand motor vehicles import from japan.

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 in 2012 (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). The sector faces both problems

and opportunities that affect their performance (Herbling, 2013). 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 (Lithaa, 2014)

### 1.2 Statement of the Problem

The Revised Kyoto Convention, known as the international blueprint for the management of Customs procedures', was primarily established by the WCO's Council to provide a balanced approach to trade facilitation and control. The Convention was developed to minimize the level of customs intervention in cargo movements and to maximize the level of trade facilitation. In other words, it was meant to enable the contracting parties to attain a modern customs administration and to greatly support the facilitation of international trade and travel (Seng 2014). Seng (2014) observes that it is noteworthy that, since 1999, the customs reform policy has aimed to shift from a control focus to a facilitative direction that focuses on customs procedures, reform and modernization programs. These programs aim to expedite customs clearance and reduce costs. Buyonge & Kireeva (2011) further state that Automated Systems in Customs provide one of the most important tools for facilitation of trade procedures. Customs automation results in increased transparency in the assessment of duties and taxes, substantial reduction in customs clearance times, and predictability, leading to direct and indirect savings for both government and traders.

Studies show that there is a close relationship between business performance and customs procedures. Buyonge & Kireeva (2011) observed that in Kenya, importers had complained that even after introduction of container scanners, the dwell time of goods at the port had not reduced significantly due to the existing high levels of verification even after electronic scanning has been carried out. Nordås et al. (2006) states that about 24% of the transportation time is spent at borders, while a more reasonable customs-clearing time should amount to 2% of the total transportation time that is pre-Schengen target. Meanwhile Djankov (2010) estimates that 75% of transportation delays were as a result of administrative barriers various customs and tax procedures, customs clearances and cargo control. If the time spent on customs is too long, firms may decide to stop importing and change their suppliers to the domestic ones

This study explores the effect of customs procedures on performance of secondhand car dealers in Mombasa County.

## 1.3 Objective of the study

### 1.3.1 General objective

The general objective of this study was to determine the effect of customs import procedures on performance of used motor vehicle dealers in Mombasa.

### 1.3.2 Specific objectives

i) To establish the effects of customs systems infrastructure on performance of secondhand motor vehicle dealers in Mombasa County.

ii) To establish the effects of customs import restrictions on performance of secondhand motor vehicle dealers in Mombasa County.

iii) To establish how the effect of customs import inspections on the Performance of used vehicle dealers in Mombasa County.

## 1.4 Research questions

i) How has automation of customs systems affected the performance of used motor vehicle dealers in Mombasa?

ii) What is the effect of customs import restrictions on performance of secondhand motor vehicle dealers in Mombasa County?

iii) How do car importers adopt/manage the challenges caused by customs inspection?

## 1.5 Significance of the Study

The study has the following importance;

The National government of Kenya as in it will help in policy formulation that will facilitate a good and suitable environment for the small and micro entrepreneur to increase business growth and standards of living.

The Kenya Revenue Authority for it acts as a guide on taxation and foster a good relationship between car importers and KRA.

The study is of importance to researchers who would get the findings useful in their further investigation in the area of study.

### 1.6 Scope of the Study

The study intended to establish the effect of customs import procedures on performance of used motor vehicle dealers in Mombasa. The study specifically examined the effect of Automation of Customs Systems, Customs restriction on imports, Customs inspection on imports on Compliance by Importers. The period under research was between 2018/2019.

### 1.7 Limitations of the study

The challenging limitation was of the dwindling resources in terms of time, money, and obtaining accurate information from the respondents. Notably, the respondents were assured that the data collected was strictly meant for academic work. Some respondents were also busy at the times they were approached to fill the questionnaire. Despite all the challenges, the researcher ensured credible and reliable findings by overcoming the research challenges through proper management of available resources.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 Introduction

This chapter discusses theories relevant to the study. Literature related to the study is also reviewed with the aim of identifying literature gaps. The literature review will also guide the relevance of the study findings.

## 2.2 Theoretical review

This covered the general theories and studies on customs including its growth and development in the world and Kenya

This covered the general theories related to the concepts on this research. For the purposes of this study, the preferred strategy to measure the effect of customs import procedures on performance of used motor vehicle dealers in Mombasa County is the transaction cost theory in facilitation of trade. The theory has measurable variables that would present a comprehensive analysis of the study and a further presentation of results. Besides, it is highly relevant to the study by supporting a robust customs procedures framework. These justify the choice of the transaction cost theory in facilitation of trade for use in this study.

### 2.2.1 Environmental dependency theory

Kesino (2012) observed that one of the most dramatic and significant world trends in the past two decades has been the rapid, sustained growth of international business. Markets have become truly global for most goods, services especially financial instruments. World product trade has expanded by more than 6% a year since 1950, which is more than 50% faster than growth of output. The most dramatic increase in globalization has occurred in financial markets.

Kesino (2012) stated that over time, trade facilitation has become more of an international concern and less of an issue of rationalizing a national Customs regime. Trade facilitation in previous generations sought to harmonize different regimes, or at least establish an element of mutual recognition between different regimes environments. It is, however, not simply the growth in trade or even the growth in related trade and transfer pricing that is fueling the need for trade facilitation.

Another important factor include increased economic integration by an explosion of regional and bilateral free 8 trade agreements that often feature complex Customs requirements (i.e. rules of origin).

Technological progress has also introduced faster and cheaper forms of transportation and transportation management techniques, such as the increased use of electronic lodgment of Customs entries. Finally, there have been significant changes in the nature of internationally traded goods, from complete or whole goods towards re-exported subassemblies and intermediate products (Wilson, 2007).

Joe et-al (2016) observed that simpler customs procedures will bring additional competition to the domestic market. This will benefit consumers directly. In addition, it will increase economies of scale in traditional sectors by boosting the size of efficient firms and reducing that of inefficient ones. Nevertheless, it is important to note that these dynamics will generate adjustment costs as inefficient firms shrink in size or are forced to close down owing to heightened competition from imports in the domestic market. The result may be higher unemployment in the short term, which may persist unless other domestic firms are able to expand and absorb the displaced labour. Addressing these negative externalities may require proactive policy approaches such as the creation of retraining opportunities for displaced workers or tax and/or investment incentives that encourage domestic and foreign firms to employ additional workers or offer training opportunities to up-skill their existing workforces. The impact of changes in procedures will also be minimal if they are announced well in advance to allow traders to make the necessary adjustments. Harmonisation enhances transparency but it is necessary to ensure enforcement is fair and consistent (Joe et al, 2016).

### 2.2.2 Transaction costs theory in facilitation of trade

Coase (1937) describes this theory as situations in which market transactions would show their relative inflexibility to re-contracting when changes in the existing relationship arise. Regularly recurring transactions and long-term transactions might be good examples. In such situations longer, incomplete contracts, which are typical for firms, provide much more flexibility for the parties in a world of uncertainty. These contracts can be left open to be flexible in case of a changing environment. On the other hand dissimilarities of transactions, the probability of changes

in the market prices for the relevant resources as well as the spatial distribution of the relevant resources and transactions highlight factors which increase the costs of using a firm. One might argue in this context that transaction costs would be minimized in a world without transactions. This could be achieved if rights and duties would initially be assigned in the "right" way.

Sen (2010) observed that Transaction costs are generally higher for international trade than for domestic transactions. Obvious differences are taxes and tariffs, but there are also higher transportation costs, as the goods have to be transported over longer distances. Another element of the costs of international transactions is the costs of dealing with the delays and the paperwork involved in customs clearance. Such government imposed transaction costs can be an important determinant of international trade. In the last decades, visible trade barriers such as tariffs and import licensing systems have been reduced, but, at the same time, there has been an increase in the use of non-tariff trade barriers such as customs regulations as a hidden trade barrier.

Joe et-al (2016) states that trade facilitation will reduce trade costs and make the supply of final and intermediate goods more predictable and less susceptible to delays. Domestic firms providing intermediate goods can participate more in regional and global value chains by increasing the reliability of their supply. These benefits will extend to firms importing intermediate inputs as they will find it easier to upgrade their production with reliable sources of better-quality (and possibly cheaper) inputs. The reduction of these inefficiencies will help firms capture more value-added and increase their participation in value chains. Trade costs are minimized if customs procedures and regulations are known beforehand and are clear and their application is consistent across ports of entry and over time.

### 2.2.3 The theory of 'informality'

The term "informal" appeared for the first time in a report of the International Labor Office (1972) and in an article by Hart (1973). The persistence of informal trade in societies that are increasingly quantified in order to render them governable goes hand in hand with the increase in control techniques and the laws which introduce them. No Customs code or legislation will specify systematically what needs to be done, in concrete terms, in order for it to be implemented on the ground. The controlling action of the Customs services in particular, and the trade or wealth regulatory agencies in general, is systematic: control means procedures to be followed, whether

the subject is a fraudster or not. The procedure itself is the control. Customs legislation remains fairly general, so that its application also involves action by administrative agencies. Informal trade thus brings us back to the concrete aspects of the law, the fact that the control technique itself—via accountancy, the container scanner, risk analysis, Customs valuation methods, and the Authorized Economic Operator—creates technical margins of legality (Thomas et al 2015). Informality is more embedded into globalization. As a consequence, research on informality has evolved from the dualistic distinction between informal and formal sectors at the national levels to the impacts of informality on global governance and markets (Meagher 2013).

## 2.3 Conceptual Framework

This study will seek to establish the effects of customs import procedures on the financial performance of second motor vehicle dealers. The independent variables in this study will be automated systems, restrictions, and inspection

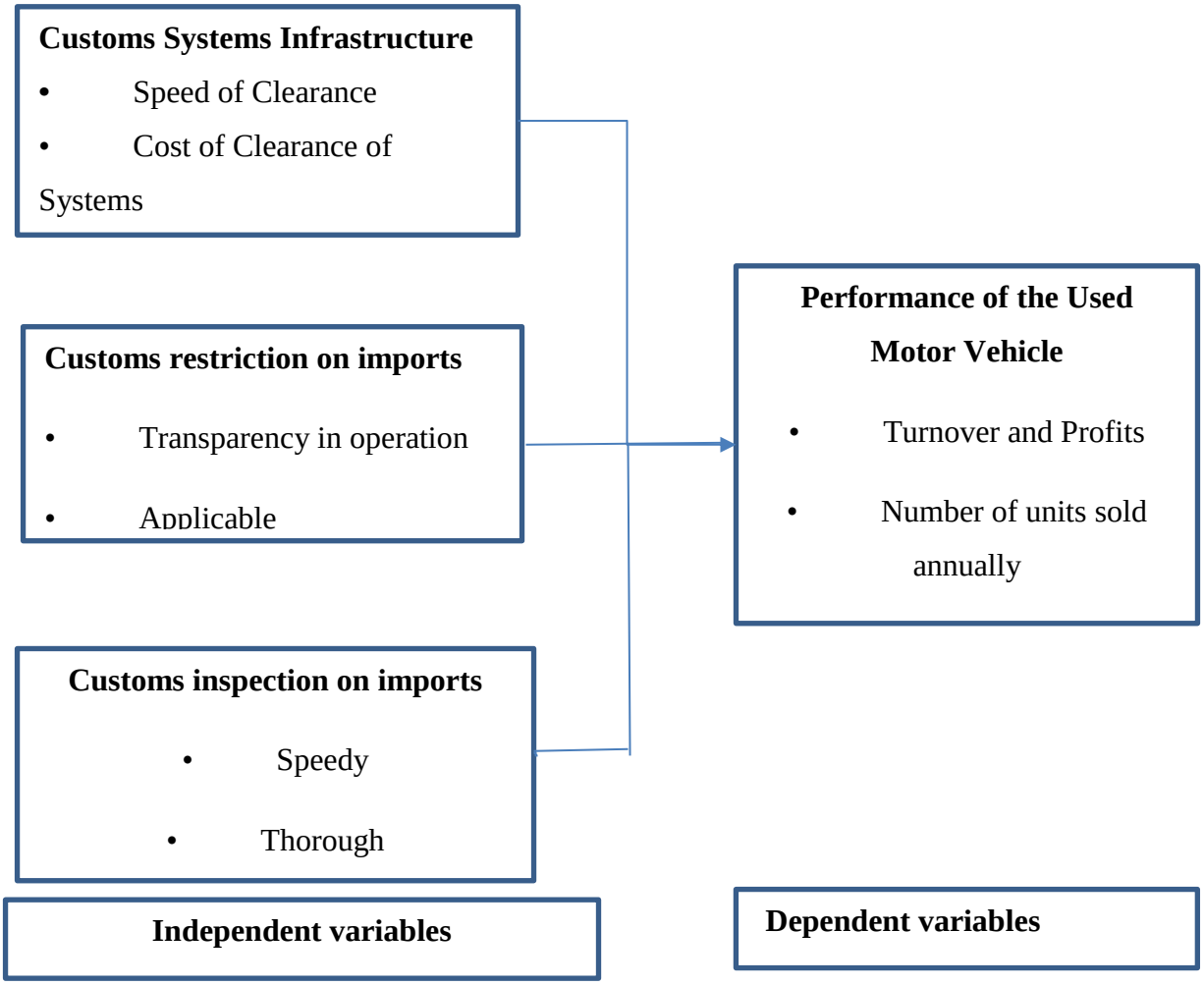


**Figure 2.1 Conceptual Framework**

**Source: Researcher (2019)**

## 2.4 Review of Variables

### 2.4.1 Customs systems Infrastructure

Automation of Systems is organizing structures utilizing computer-based technology for the collection, organization and processing of data then efficiently communicating the information to streamline customs processes while ensuring proper storage and retrieval of customs information (Setchi & Jordanov, 2010). Information technology has proved to be a success in streamlining processes and improving performance when applied by other organizations. Customs organizations all around the globe try to utilize information technology to streamline customs processes to facilitate trade and address challenges brought about by globalization. World Customs Organization (WCO) which oversees most customs organizations around the global recommended utilization of technology in the Revised Kyoto convention (RKC) as practice to simplify and harmonize customs processes and procedures (Essenbayev, 2016).

Generally, there are two definitions narrow and broad for trade facilitation in relation to customs procedures. The narrow definition relates to customs formalities and procedures, simplification, harmonization and automation of trade procedures in particular the import export and transit procedures applied by the customs and other agencies to control the cross-border movements of goods. The broad definition encompasses all the formalities and procedures related to international trade and the transportation of goods and services across boarder, including the contractual, transactional and payment issues.

However, for the purpose of this study, the narrow definition will be used. Simplification is the process of eliminating all unnecessary elements and duplications in formalities, process and procedures; harmonization is the alignment of national formalities, procedures, operations and documents with international conventions, standards and practices; and standardization is the process of developing internationally agreed formats for practices and procedures, documents and information.

Africa suffers from the highest average customs delays in the world, 12 days on average. Estonia and Lithuania require one day for customs clearance; Ethiopia averages 30 days as cited in the (Buyonge and Kireeva, 2008). Short customs clearing time release avoids the serious bottlenecks that impede trade facilitation. On the other hand, long time release indicates the customs

administration is not equipped with competitive human and technological resources and is inefficient in facilitating import and export goods. This in turn, challenges the nation to compete in the international trade.

Studies show that there is a close relationship between business performance and customs procedures. Buyonge & Kireeva (2011) observed that in Kenya, importers had complained that even after introduction of container scanners, the dwell time of goods at the port had not reduced significantly due to the existing high levels of verification even after electronic scanning has been carried out. Nordås et al. (2006) states that about 24% of the transportation time is spent at borders, while a more reasonable customs-clearing time should amount to 2% of the total transportation time that is pre-Schengen target. Meanwhile Djankov (2010) estimates that 75% of transportation delays were caused by administrative barriers various customs and tax procedures, customs clearances and cargo control. If the time spent on customs is too long, firms may decide to stop importing and change their suppliers to the domestic ones

### 2.4.2 Customs Import Restrictions

KRA (2016) has set up several steps that are used in clearing of goods at the customs: The initial stage is lodgment of entry where the clearing agent makes a declaration on form C 63 and present to customs. The receiving clerk acknowledges receipt by stamping the entry with a receiving stamp showing the date and time it's lodged. The receiving clerk verifies and ensures that the following documents are attached to the entry for processing. Original invoice. Original bill of lading. Import declaration form (IDF). Clean report of finding. IDF deposit slip. This is then followed by Pooling of Entry where the data entry clerk forwards the documents for data capture. The declaration details are entered in the computer for processing. On completion of data capture the entry is forwarded to the head of declaration (HDO) long room for allocation.

The third step is allocation of entry. All the pooled entries are received by the HDO. The HDO maintains the list of officers in the declaration section. The entries are allocated to the officers for processing. The date and time of allocation is indicated on the entry. Details of each entry allocated to the officers are maintained by the HDO for monitoring. The processing officers will check the declaration and pass the entry, reject or refer to senior officers for action. The officer will pass the entry in the computer and stamp on the relevant box marked for official user. The rejected entry is

returned to the clearing agent for corrections and amendments. The rejected entry is re-lodged for processing upon completion of the amendments by the clearing agent.

All the passed passages are gathered, recorded and dispatched to cash office. The administrative official records section pool no, name of the clearing specialist and the measure of obligation payable. This is confirmed for control reason as it were. It is the prerogatory of the cash office to dispatch collected, recorded and passed entries. Consequently, the support staff captures entry pool no, name of the clearing agent and the duty due for transparency and audit purpose.

The finance officer at customs house will receive the entries and verify the taxes payable on the entry against the payments banked. The entry is given to the cashier to validate and generate cash receipt to be used at the time the goods are being removed at the gates and central documentation office for confirmation of duty payment and authenticate that the entry was passed in the long room and that taxes have been paid .The entry is numbered, split and forwarded to Customs Clearance Audit (CCA) section. The entries are checked and sent for 100% verification.

Officers at the manifest section then compare the ship manifest with the declaration on the entry. They then check the quantity declared weight and goods description. The entry is stopped if the declaration is not in order and the agent is asked to comply before dispatch to for physical verification at the release sheds. All the documents are received at the CDO/transit sheds. The entries are checked and compared against the cash abstract. If all the details agree, the release orders are dispatched to the port authority/container Freight operator to facilitate collection of their handling charges. The entry is dispatched to the sheds where the goods are located for verification.

Verification process begins when the entry and release order is received from port or evidence of payment for the container freight station. The officer will ask for the goods to be deposited at the verification area for either 100% verification or normal verification. The officer will examine the goods and write examination account on the reverse of the entry. The goods are released to the agent/importer. Notably, the clearing agent will process the gate pass with the port Authority/transit shed operator. The goods will be loaded on the truck and moved to the gate where Border control officers captures the truck details and discharge goods to free circulation or begining of another regime.

A study conducted by Cantens (2012) Reforming Customs by measuring performance: a Cameroon case study established that increased customs restrictions in Cameroon brought about a lot of delays in customs clearance and increase in ethical issues. This brought about reduction in the performance of the organization. The study recommended that restrictions be removed and procedures to be harmonized.

### 2.4.3 Customs Import Inspection

The Customs Import inspections are done to almost all the goods being imported into the country. These inspections are conducted by relevant bodies tasked across the globe by the Kenya Bureau of Standards to inspect and issue with inspection Certificates for the goods which have passed or qualified to be consumed in Kenya. For instance, the Kenya Bureau of Standards appointed the Quality Assurance Inspection Services Inc. of Japan (QISJ) to conduct the Pre-Export Verification of Conformity of the Motor Vehicles in Accordance with the KS1515:2000 for the radioactive contamination, as well as odometer integrity. Verification also covers the mobile equipment as per set standards to Kenya and verification of spare parts.

Inspections form a critical part in the protection of the society. Imports that enter into a country either have to undergo physical or non-intrusive kind of verification. This enables officers to ascertain the kind of goods conveyed. In the motor vehicle industry, It is important for the customs to check and confirm details about the imported motor vehicle so as to limit cases of international crime. In a study conducted International association of movers (2018), it was established that inspections take a lot time and are costly to the importers when moving motor vehicles across borders.

### 2.4.4 Performance of used motor vehicle dealers in Mombasa.

Dealers of the used or Second hand Motor vehicles as commonly known in Kenya are wide spread in the major cities and towns in Kenya. Motor vehicle dealers act as an economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Motor vehicle dealer's growth increases government income from taxation. Revenues and profits of motor vehicle dealers contribute to governments' corporate tax income (Magara & Were, 2014).

The motor vehicle industry in Kenya is generally made up of all those firms that are engaged in the supply and sell of motor vehicles, parts and accessories to the final user. It also includes firms

engaged in maintenance and repair of those vehicles (Bennet 2002). The Kenyan consumers prefer to import second hand cars/ used motor vehicle units from the European countries, this is because they are cheaper compared to the new vehicles assembled in Kenya. Second hand imports flooded the market effectively killing the industrialization dream as far as vehicle assembly was concerned. (Bennet et. al, 2002). According to the Kenya bureau of statistics in the year 2011 saw a record 205,841cars registered by the Kenya revenue authority. Up to May 2012, a total of 64,598 motor vehicles were registered. This practically shows that Kenya thrives on second hand motor vehicles import from japan. A report by the Kenya Insurance Industry indicated 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).

### 2.5 Empirical Review

This covered what other studies have found in relation to the current study through investigation of the body of knowledge that has relevance to the topic of research and highlights motivations, initiatives/strategies that have been employed

Djankov, Freund, et al (2010) studied the effect of time delays on trade using data from 126 countries. They found evidence that on average, a delay of one day before a product is shipped reduces trade by at least one percent. This highlights the importance of reforms that will facilitate the increase of speed in transporting goods from factory to port. In developing countries, poor infrastructure and time-consuming customs and regulatory requirements slows down the movement of goods. Djankov et al cited that it takes, respectively, 116 days, 105 days, and 93 days to move goods from the largest city to the nearest port in Central African Republic, Iraq, and Kazakhstan, but only five days in Denmark. Similarly, data analysis by Freund and Rocha (2010) found evidence that for African countries, delay of transport of goods has the biggest 15 effect on trade performance.

Martincus et al (2013) studied another cause of delay, this time on customs transactions using the case of Uruguay. They concluded that customs delays do decrease exports, and this is most pronounced in time-sensitive products and in destinations with tough competition.

Ardagna and Lusardi (2010) concluded from an analysis of survey data of more than 470 thousand entrepreneurs who are at the early stages of running a business from developed and developing countries that regulations diminishes the benefits of business skills in running a business; and reduces the propensity of individuals with business skills to run the business. The researcher also deduced from her empirical analysis of German data that entry regulations can impede technological progress and growth.

Monteiro and Assuncao (2012) analyzed a program by the Brazilian government of simplifying business procedures and found that it led to increased formality, and this is most pronounced among medium-sized firms and home-based enterprises. Most of the literature conclude that less regulation is indeed associated with more firm creation. A few studies, however, observe that some firms created by relaxing entry regulations are not of high quality.

Tadashi(2010) observed that many RKC measures, including computerized or Electronic Data Interchange (EDI) Customs systems, Customs risk management systems, and pre-arrival information, are expected to improve Customs release times. Faster release of goods at borders is beneficial directly and indirectly for both Customs administrations and dealers. For example, it enables Customs administrations to process more transactions without delay at borders, so that they can deploy their limited resources to high-risk cargoes. It also allows traders to enhance their competitiveness in domestic and international markets thereby to enhance business opportunities. In addition, faster release of goods at borders reduce trade costs for businesses

Studies show that there is a close relationship between business performance and customs procedures. Buyonge & Kireeva (2011) observed that in Kenya, importers had complained that even after introduction of container scanners, the dwell time of goods at the port had not reduced significantly due to the existing high levels of verification even after electronic scanning has been carried out. Nordås et al. (2006) states that about 24% of the transportation time is spent at borders, while a more reasonable customs-clearing time should amount to 2% of the total transportation time that is pre-Schengen target. Meanwhile Djankov (2010) estimates that 75% of transportation delays were caused by administrative barriers various customs and tax procedures, customs

clearances and cargo control. If the time spent on customs is too long, firms may decide to stop importing and change their suppliers to the domestic ones.

Widdowson (2007) observed that the traditional role of customs as a state institution is characterized by responsibilities that include the collection of duties on internationally traded commodities, which is a common extension of the collection of other forms of taxes such as the Value Added Tax (VAT) and excise duties. However, the responsibility of the customs administration differs from one country to another. In developing countries, import duties are mainly collected as revenues for the national budget whereas in developed countries the main role of customs institutions is to protect the economy and enforce the law. Certainly, customs procedures represent an important source of barriers to economic activity, especially for SMEs.

Bugbilla & Asmoah (2016) revealed that three factors namely; obtaining permits and exemptions (45%), tariff classification (40%) goods valuation (40%), and physical examination (58%) were the most problematic confronting Ghana Customs in the clearance process, across the ports and borders which thus affected businesses directly. They thus proposed that government should take a second look at the various functions of her agents operating at the border to avoid duplication of functions;

KRA (2004) observed that modern Customs administrations have recognized that streamlining and simplifying clearance procedures is beneficial to their importers, exporters and national economies. This is so because it has a bearing on the efficiency of traders in meeting the challenges for better product quality, lower costs and faster delivery. In addition, trade-related transaction costs such as freight charges and other logistical expenses are a crucial determinant of Kenya's ability to participate competitively in a global economy. Some problems that add to the costs of trade are: Port congestion that affects turn-around time for feeder vessels and railway wagons, Complicated Customs procedures, complex and non-transparent administrative requirements, often pertaining to documentation and high costs for processing information resulting from limited automation. Accordingly, Article VIII of GATT 1994 (Fees and Formalities connected with Importation and Exportation), in particular, paragraph 1(c) recognizes the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements. This goes with putting in place efficient risk management strategies in order that facilitation doesn't impair other roles of the Customs. WTO

members consider the introduction of risk management techniques in Customs procedures as a means to expedite clearance of goods through a simplified release and clearance of goods. Expedited release of goods includes minimization of release time and reduction of documentation

### 2.6 Critique of existing literature

Studies show that there is a close relationship between business performance and customs procedures. Buyonge & Kireeva (2011) observed that in Kenya, importers had complained that even after introduction of container scanners, the dwell time of goods at the port had not reduced significantly due to the existing high levels of verification even after electronic scanning has been carried out. Nordås et al. (2006) states that about 24% of the transportation time is spent at borders, while a more reasonable customs-clearing time should amount to 2% of the total transportation time that is pre-Schengen target. Meanwhile Djankov (2010) estimates that 75% of transportation delays were caused by administrative barriers various customs and tax procedures, customs clearances and cargo control. If the time spent on customs is too long, firms may decide to stop importing and change their suppliers to the domestic ones

Seng (2014) observes that it is noteworthy that, since 1999, the customs reform policy has aimed to shift from a control focus to a facilitative direction that focuses on customs procedures, reform and modernization programs. These programs aim to expedite customs clearance and reduce costs. World Bank (2004) observed that Global Economic Prospects 2004 emphasized that 'the procedural and administrative burdens on traders are often aggravated by overlapping and duplicative informational requirements from several ministries, departments, or agencies'

Tadashi (2010) observed that many RKC measures, including computerized or Electronic Data Interchange (EDI) Customs systems, Customs risk management systems, and pre-arrival information, are expected to improve Customs release times. Faster release of goods at borders is beneficial directly and indirectly for both Customs administrations and businesses. For example, it enables Customs administrations to process more transactions without delay at borders, so that they can deploy their limited resources to high-risk cargoes. It also allows traders to enhance their competitiveness in domestic and international markets thereby to enhance business opportunities.

Even though various local studies have been conducted in Kenya to determine growth of SMEs including Wesonga (2008) Muua (2009) and Lithaa & Ngugi (2014) none has tried to analyze impact of customs procedures on growth of second hand car importers in Mombasa county

## 2.7 Research Gap

The overview of related literature on customs procedures in relationship with business performance indicates that though the topic of business performance and growth has attracted a lot of attention, there is limited academic research on the topic as regards to impact the customs policies have on second hand car importers Mombasa county. This study sought to address this gap by adding to the existing scarce literature by evaluating impact of customs procedures on second hand car importers Mombasa.

## 2.8 Summary

The review of the literature presented in this chapter provides a contextual background for the present research on business performance and customs procedures. The chapter reveals a range of important aspects of customs procedures on trade facilitation in the economic and business contexts. The review also identifies the major literature on customs regulatory control and compliance. The limitations of the existing literature in this field provide an opening for this study to identify potential alternatives to the current challenges of on second hand car importers performance.

# CHAPTER THREE
# RESEARCH METHODOLOGY

## 3.1 Introduction

The chapter deals with research design, population of the study, sampling design, data collection techniques and analysis techniques used during the study.

## 3.2 Research design

The research is cross sectional survey. It is aimed at establishing relationship between two variables i.e. the relationship between customs procedures with the performance of on second hand car importers. This design was adopted by Gachanja (2012) in his research on the effect of tax reforms and economic factors on tax revenues in Kenya and in & Kanyi (2014) in her study on the effects of Tax policy reforms on tax revenue in Kenya. The correlational model looked at the customs policy reforms measurement scale, consisting of, custom duty policy reforms, procedures policy reforms and excise duty policy reforms.

## 3.3 Population of Study

Mugenda and Mugenda (2003) refer to population as the universe. Borg and Gall (1999) define population as all the members of a real hypothetical set of people, event or object to which a researcher wishes to generalize the results of the study. It has been established that there 110 used car dealers in Mombasa as per Kenya Motor Industry Association, business directory of 2018.

## 3.4 Sampling frame

Sample frame is a total list of all subjects to be studied and from which a sample is drawn from. In this study, the sampling frame comprised of all used motor vehicle dealers located in Mombasa as provided by Kenya Motor Industry Association, business directory of 2018.

### 3.5 Sample size and sampling technique

The researcher used simple purposive random sampling and purposive sampling techniques. Simple random sampling approach will be used during the study because of its advantages like minimization of bias results. This implies that all participants in the study population had equal chance of being selected. Purposive sampling was also used to select only those respondents with importance attached to their office. This means that data was obtained from the key informants about the subject matter. A combination of these two techniques gave a wide range of response. According to Mugenda and Mugenda (2003) a sample of size of between 10% and 30% is a good representation of the target population.

The researcher will use slovin's formula to calculate the sample size of the population as shown below;

$$\mathbf{n} = \frac{N}{1 + N(e)^2}$$

**n** = sample size,

**N** is the population size,

**e** is the level of precision. 95% level of confidence will be used which gives p = 0.05 chance of deviation from the actual. The equation is therefore;

$$\mathbf{n} = \frac{110}{1 + 110\ (0.05)^2}$$

**n = 86**

Table 3:1 Sampling Size

| **Category** | **Sample Size** | **Percentage** |
|---|---|---|
| Used motor vehicle dealers | 86 | 100% |
| **Total** | 86 | **100%** |

### 3.6 Data collection Instruments

Since it involves collecting the views, perspectives or opinions of respondents regarding a particular issue or research interest, it employed the survey method using questionnaires. With both open and closed ended questions. The questionnaire consists of well-constructed open and close ended questions that will make it easier to obtain clear and precise answers from the respondents as adopted by Atawodi & Ajodi (2012) in their study on relationship between Tax Policy, Growth of SMEs in the Nigerian Economy. Closed ended questionnaires are easier to analyses while open ones give room for a greater depth of response (Mugenda and Mugenda, 2003)

### 3.7 Data collection procedure

The questionnaires were administered through personal interviews and drop and pick method. This method enabled the researcher to distribute the questionnaires and pick them later after they were filled. The respondents were assured of confidentiality and that the data was to be used for academic purposes only. Also permission was sought from the heads of the organizations before the data collection exercise. Kothari (2016) noted that questionnaires are judged as most of the time because they allow for simple collection of data with a short period and does not influence feedback provided.

### 3.8 Pilot testing

Kothari (2004) defines pilot testing as a field observation undertaken by a researcher as a preliminary survey. Then the researcher can him/herself point out the problem or he can seek the assistance of the guide or the expert in that subject to accomplish his/her task. A pilot study was conducted for 10% of the questionnaires to determine whether the potential respondents understood and could interpret it.

#### 3.8.1 Validity

A data collection tool is valid when if it gauges what it is expected to gauge Gachanja (2012). During questionnaire construction, validity of the instrument was determined by verifying the content of the questionnaire through study supervisor.

### 3.8.2 Reliability

Reliability is the extent to which a data collection tool gives the same results each time it is used. Reliability is considered to determine the consistency of an instrument to provide similar results repeatedly when measuring the same test Kothari (2004). Reliability will be tested during the piloting whereby SPSS will be analyzed to test Cronbach Alpha, a value of 0.7 in Cronbach alpha is considered to be adequate for a data collection instrument be considered reliable

### 3.9 Data Analysis

The data collected from the field will both qualitative and quantitative. The data will then be checked for consistency, completeness and usefulness; this will entail field edits, data results validation and central editing. Kothari (2004) points out that analyzing research includes coding, tabulating responses, translating the response into specific categories. Responses will be coded, Mugenda and Mugenda (2003) states that coding is the process of assigning numbers to subjects response. The study adopted Statistical Package for Social Sciences (SPSS) version 25 to analyze the collected data. Graphical Tables and charts will be used to represent data. The data will then be summarized and the results recorded in the form of tables, charts and graphs. Descriptive statistics were presented in the tables to present measures of central tendencies and measures of dispersion while inferential statistics were presented in tables, which included correlation analysis and regression analysis. The study's linear regression model to be adopted;

$$\Upsilon = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

$\Upsilon$ = performance of used motor vehicle dealers

$\beta_0$ =constant term, the y intercept which represents performance of used motor vehicle dealers when other variables are at Zero.

$X_1$= Automation of customs systems

$X_2$= customs import restrictions

$X_3$= customs import inspection

**$\beta_1$, $\beta_2$, $\beta_3$**= coefficients explaining the effects of independent variable **$X_1$**, **$X_2$,** and **$X_3$** to dependent variable **Y**.

**ε** -Error terms are factors which are outside the regression model that affect the performance of used motor vehicle dealers.

# CHAPTER FOUR
# RESEARCH FINDINGS AND DISCUSSIONS

## 4.1 Introduction

This chapter highlights research findings from data collected and analyzed in the process of research. The collected data comprised of primary and secondary data. Descriptive statistics was utilized in data analysis of the study and charts, graphs and tables were used to present the analyzed data.

## 4.2 Response rate

In the process of data collection, the researcher issued questionnaires. The returning rate of the issued questionnaires was 49 out of 86. The response rate recorded 57.0% as presented in the table below. Mugenda & Mugenda (2009), highlighted that a response rate of 50% is adequate for analysis and reporting of the target population. The results shown below indicate that the response rate was adequate to a be representative of the target population.

Table 4:1 Response rate

| | **Response rate** | **Percentage %** |
|---|---|---|
| **Respondents** | 49 | 57.0% |
| **Non-respondents** | 37 | 43.0% |
| **Total** | **86** | **100.0%** |

## 4.3 Pilot testing results

### 4.3.1 Reliability

In pilot testing, reliability and validity of the questionnaires was carried out. SPSS Cronbach's Alpha was used for reliability testing of instruments to establish if the instruments will produce same results after being subjected to more than one tests. Neuman (2014) underlined that a

cronbach's alpha of 0.7 and above highlighted high reliability in the data collection instrument. The results shown below shows that automation of customs systems had an index of 0.773, customs import restrictions had a Cronbach's alpha of 0.792, and customs import inspections had an index of 0.803 while financial performance of second hand motor vehicle dealers had 0.765. The results indicated that the data collection instrument was reliable.

Table 4:2 Pilot testing results

| **Scale** | **Cronbach's Alpha** | **Items Tested** | **Comments** |
|---|---|---|---|
| Automation of customs systems | 0.773 | 4 | Accepted |
| Customs import restrictions | 0.792 | 4 | Accepted |
| Customs import inspections | 0.803 | 4 | Accepted |
| Financial performance of Used motor vehicle dealers | 0.765 | 4 | Accepted |

### 4.3.2 Validity

The study employed KMO and Bartlett's test to check for the validity of the contents in the data collection instrument. From the analysis, The KMO sampling adequacy was 0.708. According to Neuman (2014), higher values which are closer to 1.0 shows that a factor analysis may be useful with your data. This meant that the data was useful in factor analysis. For the Bartlett's Test of Sphericity, the significance was 0.000 which was less than $p<0.05$, indicating that factor analysis may be useful with the available data.

Table 4:3 KMO and Bartlett's Test

| **KMO and Bartlett's Test** | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .708 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 52.182 |
| | Df | 3 |
| | Sig. | .000 |

### 4.4 Demographic analysis

The researcher sought to establish how demographic factors like academic qualification, work experience, position held in the respective organization by respondents and the period the firm has been in existence affected the performance of used motor vehicle dealers.

#### 4.4.1 Academic qualification

The researcher sought to establish the academic qualifications of the respondents so as know their ability to analyze and decisions. The results in table 4.3 below show that respondent educated to college 26.6%, graduate level 55.1% and postgraduate diploma level 16.3%. The findings show that the respondents have enough knowledge and have the ability to analyze and make decisions.

Table 4:4 level of education

| Educational Level | Frequency | Percentage |
|---|---|---|
| College | 14 | 28.6% |
| Graduate | 27 | 55.1% |
| Post graduate level | 8 | 16.3% |
| Total | 49 | 100.0% |

#### 4.4.2 Work experience

The research also wanted to know the experience of the respondent at their work as a used motor vehicle dealer. It was important so as establish the impact of their decisions on the job based on experience. The finding in the table below indicate most respondents 42.9% had an experience of 10 to 15 years, followed by 5-10 years who had 34.7%, 1-5 years' experience were 14.3% while those with an experience of above 15 years were 8.1%. From the results, it can be concluded that the respondents had enough experience to make decisions which have great impact on their course of work.

**Table 4:5 Experience as a clearing agent**

| Years | Frequency | Percentage |
|---|---|---|
| 1-5 years | 7 | 14.3% |
| 5 to 10 years | 17 | 34.7% |
| 10 to 15 years | 21 | 42.9% |
| Above 15 years | 4 | 8.1% |
| Total | 49 | 100.0% |

## 4.5 Descriptive Analysis

### 4.5.1 Descriptive Analysis on Automation of Customs systems

Table 4:6 Descriptive Analysis on Automation of Customs systems

| Statements | N Valid | Mean | STD dev |
|---|---|---|---|
| Automated Systems have increased speed of clearing motor vehicles | 49 | 4.021 | 0.807 |
| Automated Systems have reduced costs of clearing motor vehicles | 49 | 4.182 | 0.923 |
| Automated Systems have helped improve customer satisfaction of my clients | 49 | 3.973 | 1.045 |
| Automated Systems have helped improve financial performance of my firm | 49 | 3.969 | 0.822 |

From the above findings, the respondents were in agreement with the statement that automated Systems have increased speed of clearing motor vehicles with a mean of 4.021 and a standard deviation of 0.807. The respondents were also in agreement with the statement that Automated Systems have reduced costs of clearing motor vehicles by having a standard deviation of 0.923 to the mean of 4.182. With a standard deviation of 1.045 to a mean of 3.973 the respondents were in tandem with the statement that Automated Systems have helped improve customer satisfaction of my clients. The statement that Automated Systems have helped improve financial performance of my firm, the respondents agreed with the statement with a mean of 3.969 and a standard deviation

of 0.822. This was in agreement with Setchi & Jordanov (2010) that Information technology has proved to be a success in streamlining processes and improving performance when applied by organizations.

### 4.5.2 Descriptive Analysis on restrictions on imports

Table 4:7 Descriptive Analysis on restrictions on imports

| Statements | N Valid | Mean | STD dev |
|---|---|---|---|
| Restriction on imports in the car business is transparent and overboard | 49 | 3.803 | 0.998 |
| Restriction on imports in the car business are necessary in the industry | 49 | 3.012 | 1.009 |
| Restriction on used car imports on age have helped improve financial performance of my firm | 49 | 2.669 | 0.928 |
| Regulatory restrictions on new entrants in the used car dealership improves the profitability of the firms | 49 | 2.031 | 1.023 |

From the findings above, the respondents were in agreement with the statement that restriction on imports in the car business is transparent and overboard with a standard deviation of 0.998 and a mean of 3.803. For the statement that restriction on imports in the used car business are necessary in the industry, the respondents were neutral with the statement with a mean of 3.012 and a standard deviation of 1.009. With a mean of 2.669 and standard deviation of 0.928, the respondents were in disagreement with the statement that restriction on used car imports on age have helped improve financial performance of my firm. This was in tandem with Cantes (2012) that that increased customs restrictions in Cameroon brought about a lot of delays in customs clearance and increase in ethical issues. Lastly, the respondents were in disagreement with the statement that regulatory restrictions on new entrants in the used car dealership improves the profitability of the firms by posting a mean 2.031 with a standard deviation of 1.023.

### 4.5.3 Descriptive Analysis on Customs Import Inspections

Table 4:8 Descriptive Analysis on Customs Import Inspections

| Statements | N Valid | Mean | STD dev |
|---|---|---|---|
| Customs Import Inspections are they necessary to the used car business | 49 | 3.103 | 0.876 |
| Customs import Inspection has helped improve business environment | 49 | 2.084 | 0.964 |
| Customs import inspections have brought unfair competition thus affecting profits | 49 | 2.449 | 0.715 |
| Radiation inspections of cars imported causes delays reducing the performance of the car dealing firms | 49 | 3.622 | 1.040 |

From the results obtained above, they indicate that the respondents were neutral with a mean 3.103 and a standard deviation of 0.876 that Customs Import Inspections are they necessary to the used car business. The finding also revealed that the respondents were in disagreement with the statement that Customs import Inspection has helped improve business environment by having a mean of 2.084 and a standard deviation of 0.964. This was in agreement with International association of movers (2018), it was established that inspections though are very necessary, they take a lot time and are costly to the importers when moving motor vehicles across borders. The statement that Customs import inspections have brought unfair competition thus affecting profits, the findings shows that the respondents disagreed with the statement by a mean of 2.449 with 0.715 as the standard deviation. The statement that radiation inspections of cars imported causes delays reducing the performance of the car dealing firms, the respondents were I agreement with a mean of 3.622 and a standard deviation of 1.040.

### 4.5.4 Descriptive Analysis on financial performance of used motor vehicle dealer

Table 4:9 Descriptive Analysis on performance of used motor vehicle dealer

| Statements | N Valid | Mean | STD dev |
|---|---|---|---|
| The profitability of used motor vehicle dealers has improved and can be attributed to reduced import restrictions | 49 | 3.067 | 1.076 |
| The turnover of used motor vehicle dealing dealers have improved and can be attributed to streamlining of customs inspections at the port of entry | 49 | 2.681 | 0.764 |
| The number used motor vehicle units sold have increased leading to increased turnover of the firms due to automation of market systems | 49 | 3.947 | 0.815 |
| Operation costs have reduced leading to high profits due automation of business information systems | 49 | 3.982 | 1.041 |

From the above results, the respondents were neutral with the statement that profitability of used motor vehicle dealers has improved and can be attributed to reduced import restrictions with a mean of 3.067 and a standard deviation of 1.076. The findings also show that with a mean of 2.681 and standard deviation of 0.764, the respondents were in disagreement that the turnover of used motor vehicle dealing dealers have improved and can be attributed to streamlining of customs inspections at the port of entry. The respondents also agreed with the statement that the number used motor vehicle units sold have increased leading to increased turnover of the firms due to automation of market systems with a mean of 3.947 and a standard deviation 0.815. The respondents were also in agreement with the statement that operation costs have reduced leading to high profits due automation of business information systems by posting a mean of 3.982 and standard deviation of 1.041. This was in agreement with Setchi & Jordanov (2010) that Information technology has proved to be a success in streamlining processes and improving performance when applied by organizations.

### 4.6 Correlation analysis

The researcher employed Karl Pearson's Correlation Analysis to establish the relationship between the study variables. The relationship between the independent variables; Automation of Systems, Customs restrictions on imports and Customs imports inspections with the dependent variable financial performance of used motor vehicle dealers.

Table 4:10 Karl Pearsons' Correlation

**Correlations**

| | | Automation_ of_ Systems | Customs_ Restrictions_ on_ Imports | Customs_ imports_ Inspections | Performance_ of_ used_ motor_ vehicle_ Dealers |
|---|---|---|---|---|---|
| Automation_ of_ Systems | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | | | | |
| | N | 49 | | | |
| Customs_ Restrictions_ Imports | Pearson Correlation | .554 | 1 | | |
| | Sig. (2-tailed) | .000 | | | |
| | N | 49 | 49 | | |
| Customs_ imports_ on_ Inspections | Pearson Correlation | .612 | .672 | 1 | |
| | Sig. (2-tailed) | .000 | .000 | | |
| | N | 49 | 49 | 49 | |
| Performance_ of_ used_ motor_ vehicle_ Dealers | Pearson Correlation | .706 | -.787 | -.743 | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | |
| | N | 49 | 49 | 49 | 49 |

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation coefficient r between automation of systems and performance of used motor vehicle dealers was 0.706. The results indicated there is a strong positive correlation between the two variables. These results indicate that there is a strong and a positive correlation between automation of systems and performance of used motor vehicle dealers and that an increase in automation of systems will lead to a direct increase in performance of used motor vehicle dealers.

The results also indicated correlation coefficient of r=-0.787 between customs restrictions on imports and performance of used motor vehicle dealers. From the findings, they indicate a strong and a negative relation is in existence between the customs restrictions on imports and performance of used motor vehicle dealers. This further shows a direct relation whereby an increment in customs import restriction will result in decrease in performance of used motor vehicle dealers.

The finding shows that there exists a negative and a strong correlation between customs import inspections and performance of used motor vehicle dealers with a correlation coefficient of r=-0.743. This indicates improvement of customs imports inspection will result in reduction of performance of used motor vehicle dealers.

## 4.7 Regression analysis

### 4.7.1 Coefficient of determination ($R^2$)

The researcher adopted regression analysis to further find the relationship and the extent of the studied variables to the dependent variable. From the coefficient of determination, indicates the extent to which the interaction of the independent variables under study affects the changes of the dependent variable.

Table 4:11 Coefficient of determination

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .870 | .757 | .740 | 1.12306 |

Predictors: (Constant), Customs_ imports_ Inspections, Automation_ of_ Systems, Customs_ Restrictions_ on_ Imports

The results obtained in the table above, $R^2$ was 0.757, which indicated that the independent variables; Customs imports Inspections, Automation of Systems, Customs Restrictions on Imports were able to predict 75.7% of the dependent variable, performance of used motor vehicle dealers. The remaining 24.3% of dependent variable is covered by other variables not covered in this model.

### 4.7.2 Analysis of Variance

The Analysis of variance determines the significance of a regression model used to predict the relationship between the independent to dependent variables. The results from the table below, shows that significance as less than 0.05($p<0.05$) at confidence level of 95% and F=46.606 indicating the model as statistically significant to predict the dependent variable, and the relationship existing between the dependent and the independent variables. 95% confidence level shows the model is highly reliable in prediction of the dependent variable.

Table 4:12 ANOVA

**ANOVA[a]**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 176.346 | 3 | 58.782 | 46.606 | .000 |
| | Residual | 56.756 | 45 | 1.261 | | |
| | Total | 233.102 | 48 | | | |

Dependent Variable: _ Performance_ of_ used_ motor_ vehicle_ Dealers

Predictors: (Constant), Customs_ imports_ Inspections, Automation_ of_ Systems, Customs_ Restrictions_ on_ Imports

### 4.7.3 Coefficients

Table 4:13 Regression coefficients

**Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.665 | 1.223 | | 2.178 | .001 |
| | Automation_ of_ Systems | .289 | .092 | .300 | 3.129 | .000 |
| | Customs_ Restrictions_ on_ Imports | -.395 | .091 | -.447 | -4.361 | .000 |
| | Customs_ imports_ Inspections | -.225 | .093 | -.260 | -2.410 | .001 |

A Dependent Variable: _ Performance_ of_ used_ motor_ vehicle_ Dealers

The regression model use is as follows: $Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + Ɛ$

**$Y = 2.665 + 0.289X1 - 0.395X2 - 0.225X3 + Ɛ$**

Y (Performance of used motor vehicle Dealers) =2.665 + 0.289 Automation of Systems - 0.395 Customs Restrictions on Imports - 0.225 Customs imports Inspections + Ɛ (other variables not included in the study)

The constant which is the Y-intercept, from the results was obtained as 2.665. It is was the performance of used motor vehicle dealers, which is the independent variable when all other factors are held at constant.

The findings indicate that a unit increase in automation of systems, will result in 0.289 increase in the dependent variable, performance of used motor vehicle dealers. This means 28.9% of the dependent variable will increase when there is a unit increment in automation of systems. This was in tandem with Setchi & Jordanov (2010) that Information technology has proved to be a success in streamlining processes and improving performance when applied by organizations.

The results also show that a unit increase in customs restrictions in imports will result in -0.395 decrease in performance of used motor vehicle dealers which is the dependent variable. 39.5% reduction in performance of used motor vehicle dealers will be observed with an increase in customs restrictions of imports. This was in tandem with Cantes (2012) that that increased customs restrictions in Cameroon brought about a lot of delays in customs clearance and increase in ethical issues reducing the performance of customs organizations.

The researcher also established that a unit increase in customs import restriction, it will result in -0.225 reduction in the dependent variable performance of used motor vehicle dealers. This translates to 22.5% decrease in the dependent variable when there is a unit increase in customs import restriction.

Ɛ Error term highlights other factors that affect performance of used motor vehicle dealers but are not incorporated in the study.

# CHAPTER FIVE
# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter highlights summary of the findings, conclusions deduced from the analyzed data, recommendations that the researcher proposed, limitation faced in course of the study and areas of further study.

## 5.2 Summary of the findings

### 5.2.1 Automation of systems

The researcher found out that automation of systems had a strong and positive influence on performance of used motor vehicle dealers in Mombasa. The correlation coefficient r for automation of system and performance of used motor vehicle dealers was 0.706. this indicated a strong and a positive correlation between the two variables. Therefore, automation of systems and performance of used motor vehicle dealers were directly and strongly related. Any improvements in automation of systems will have a direct and positive improvement on performance of used motor vehicle dealers. Linear regression obtained also indicated that automation of systems influenced performance of used motor vehicle dealers by 28.9%. This meant a unit increase in automation of system will lead to 28.9% improvement on performance of used motor vehicle dealers.

### 5.2.2 Customs import restrictions

The researcher also established that restrictions on imports had a strong and a negative influence on performance of used motor vehicle dealers. From the correlation coefficient r, the results indicated a negative relationship with r=-0.787. The shows that there was indirect relation and that an increase in restrictions on imports will lead to reduction in performance of used motor vehicle dealers. The linear regression results for restrictions on imports was -0.395. This indicated that there was 39.5% negative influence on performance of used motor vehicle dealers. This meant that a unit increase in restrictions on imports resulted in 39.5% reduction in performance of used motor vehicle dealers.

### 5.2.3 Customs import inspection

The results also indicated that customs import inspections had a negative influence on performance of used motor vehicle dealers. From the correlation results, the coefficient r was -0.743. This indicated a negative relationship whereby customs import inspections are indirectly related with performance of used motor vehicle dealers. The results indicate there is a strong and negative correlation. From the linear regression, the results show -0.225 which is 22.5%. This indicates that a unit increase in customs import inspections will lead to 22.5% reduction in performance of used motor vehicle dealers.

### 5.2.4 Performance of used motor vehicle dealers

From the analysis, it was established that performance of used motor vehicle dealers was affected by automation of customs systems, customs import restrictions and customs import inspections as evidenced in the coefficient of determination with R2 being 0.757. This means the independent variables explained 75.7% of the dependent variable.

## 5.3 Conclusion of the study

The research was directed by a General objective of determining the effect of customs import procedures on performance of used motor vehicle dealers in Mombasa. The researcher revealed that automation of systems, Customs restrictions on imports and customs import inspections were among variables that influenced the performance of used motor vehicle dealers.

The first specific objective was to establish the effect of automation of customs systems on performance of used motor vehicle dealers in Mombasa County. From the analysis, the results indicated that automation had a positive and strong influence on performance of used motor vehicle dealers. This was supported by the correlation coefficient of r=0.706 and linear regression coefficient of 28.5%.

The second specific objective was to establish Effects of Customs import restrictions on performance of used motor vehicle dealers in Mombasa County. From the results, the researcher established that customs restrictions on imports had a negative influence on performance of used motor vehicle dealers in Mombasa County. This was supported by correlation coefficient of -0787 and a linear regression coefficient of -0.395.

The last specific objective was to establish effects of customs import inspections on the Performance of used vehicle dealers in Mombasa County. The researcher established that customs import inspections had a strong and a negative influence on performance of used motor vehicle dealers in Mombasa County. There was also a negative relationship as indicated by the linear regression.

### 5.4 Recommendation of the study

From the findings of this study, the researcher recommends on the following;

1. Increase of automated customs systems in order to reduce cost of operations for the used motor vehicle dealer's business hence increasing their performance.
2. Minimize customs import restrictions to used car imports on age to as improve on sales of the used motor vehicles hence increasing performance.
3. Reduce customs inspections on imports so as reduce delays observed in clearance of used motor vehicles.

### 5.5 Limitations of the study

In course of the study, the research was faced with several constraints but was able to find solutions for success of the study. Time which was required in plenty to conduct the study was limited. The researcher preferred drop and pick method for the questionnaires to fasten data collection, as a result the response rate was below 100%. Access and availability to some respondents was limited due to security concerns and business secrets but the researcher sought clearance and authorization from the persons in charge of organization in order to interview the respondents. The respondents were not open in disclosure of essential data about the operations and details of their organizations. However, assurance was given to them by the researcher that the data will only be used for academic purposes only. Constraints were also experienced in the course of the study. However, proper planning was in place to counter them by carrying out the study within Mombasa County in a limited period of time.

## 5.6 Areas of further study

The intention of the researcher was to establish the factors affecting performance of used motor vehicle dealers in Mombasa County. The study employed three variables; Customs imports Inspections, Automation of Customs Systems, and Customs Restrictions on Imports. The model attained from data analysis indicated the coefficient of determination which is the interaction of the studied Independent variables explains 75.7% of the dependent variable which is the performance of used motor vehicle dealers. The remaining 24.3% of the variation of the performance of used motor vehicle dealers is explained by other variables which have not been included in this study. The researcher therefore recommends further studies to find out the rest of 24.3% of factors which affect performance of used motor vehicle dealers and in the related field.

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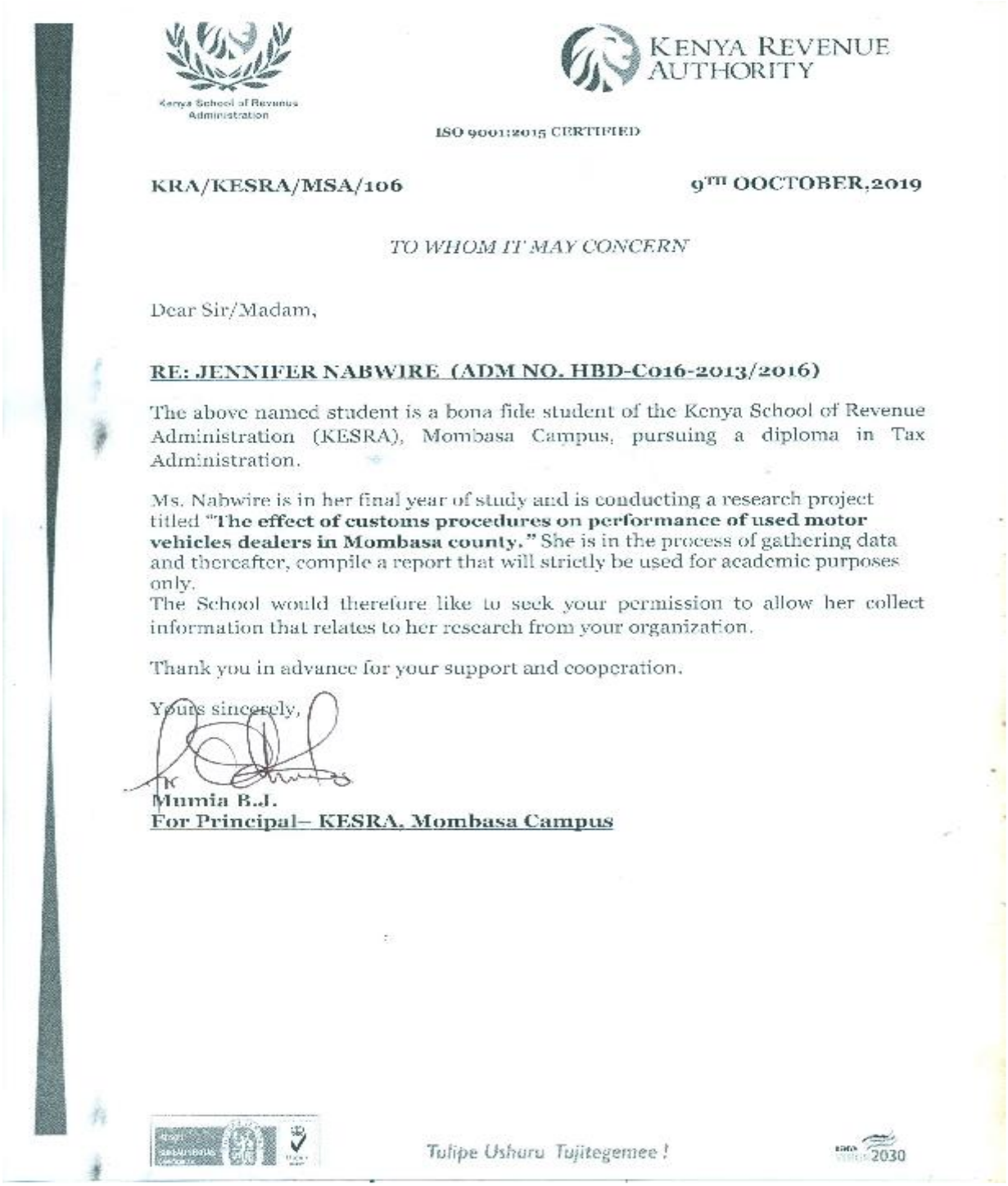
# APPENDICES

## APPENDIX I: INTRODUCTION LETTER



Kenya School of Revenue Administration

KENYA REVENUE AUTHORITY

ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/106 9TH OOCTOBER,2019

*TO WHOM IT MAY CONCERN*

Dear Sir/Madam,

**RE: JENNIFER NABWIRE (ADM NO. HBD-C016-2013/2016)**

The above named student is a bona fide student of the Kenya School of Revenue Administration (KESRA), Mombasa Campus, pursuing a diploma in Tax Administration.

Ms. Nabwire is in her final year of study and is conducting a research project titled **"The effect of customs procedures on performance of used motor vehicles dealers in Mombasa county."** She is in the process of gathering data and thereafter, compile a report that will strictly be used for academic purposes only.
The School would therefore like to seek your permission to allow her collect information that relates to her research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

**Mumia B.J.**
**For Principal– KESRA, Mombasa Campus**

*Tulipe Usharu Tujitegemee !*

2030

**APPENDIX II: QUESTIONNAIRE**

**SECTION A: DEMOGRAPHIC INFORMATION**

1. What is your level of education

College [ ] Graduate [ ]

Post graduate level [ ]

2. What is your experience in terms of years working with used motor vehicle business?

1-5 years [ ] 5 to 10 years [ ]
10 to 15 years [ ] Above 15 years [ ]

3. When was the business of used motor vehicle established?

Less than 5 years ago [ ] 5-10 years ago [ ]
11- 15 years ago [ ] 16-20 years ago [ ]
Over 20 years ago [ ]

**SECTION B: Automation of customs Systems**

Please indicate your degree of agreement or disagreement with the following statements using the following 5-point Likert scale: Strongly agree=1, Disagree=2, Neutral=3, Agree=4 and strongly agree=5. Kindly tick against your choice.

| No | **Statement** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | Automated Systems have increased speed of clearing motor vehicles | | | | | |
| 2 | Automated Systems have reduced costs of clearing motor vehicles | | | | | |
| 3 | Automated Systems have helped improve customer satisfaction of my clients | | | | | |
| 4 | Automated Systems have helped improve financial performance of my firm | | | | | |

**SECTION C: Restrictions on imports**

Please indicate your degree of agreement or disagreement with the following statements using the following 5-point Likert scale: Strongly agree=1, Disagree=2, Neutral=3, Agree=4 and strongly agree=5. Kindly tick against your choice.

| No | **Statement** | 1 | 2 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| 1 | Restriction on imports in the car business is transparent and overboard | | | | | |
| 2 | Restriction on imports in the car business are necessary in the industry | | | | | |
| 3 | Restriction on used car imports on age have helped improve financial performance of my firm | | | | | |
| 4 | Regulatory restrictions on new entrants in the used car dealership improves the profitability of the firms | | | | | |

**SECTION D: Customs Import Inspection**

Please indicate your degree of agreement or disagreement with the following statements using the following 5-point Likert scale: Strongly agree=1, Disagree=2, Neutral=3, Agree=4 and strongly agree=5. Kindly tick against your choice.

| No | **Statement** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | Customs Import Inspections are they necessary to the used car business | | | | | |
| 2 | Customs import Inspection has helped improve business environment | | | | | |
| 3 | Customs import inspections have brought unfair competition thus affecting profits | | | | | |
| 4 | Radiation inspections of cars imported causes delays reducing the performance of the car dealing firms | | | | | |

**SECTION E: Performance of used motor vehicle dealers**

Please indicate your degree of agreement or disagreement with the following statements using the following 5-point Likert scale: Strongly agree=1, Disagree=2, Neutral=3, Agree=4 and strongly agree=5.

Kindly tick against your choice.

| No | **Statement** | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1 | The profitability of used motor vehicle dealers has improved and can be attributed to reduced import restrictions | | | | | |
| 2 | The turnover of used motor vehicle dealing dealers have improved and can be attributed to streamlining of customs inspections at the port of entry | | | | | |
| 3 | The number used motor vehicle units sold have increased leading to increased turnover of the firms due to automation of market systems | | | | | |
| 4 | Operation costs have reduced leading to high profits due automation of business information systems | | | | | |

## APPENDIX III: LIST OF USED MOTORVEHICLE DEALERS IN MOMBASA

1. Mombasa Car Importers Limited
2. AZAM MOTORS LTD
3. Osaka Motors K. Ltd.
4. Auto Selection (K) Ltd
5. Al-husnain motors ltd-mombasa
6. Al-Shujah Motors Ltd
7. Crown Motors Group Limited
8. Clyde Motors Company Ltd
9. Gigi Motors Ltd
10. Malik Cars Link (K) Ltd
11. Sakai Trading Ltd
12. Joniz Wheelz Enterprises Ltd
13. Nazish Motors Ltd
14. Karen Auto Mart Ltd
15. Lian Motors Ltd
16. Panij Automobiles (K) Ltd
17. Lota Automobiles Ltd
18. Stantech Motors Ltd
19. Car Soko Limited
20. Sean Garstin Motors
21. Concorde Motors Ltd
22. Krue Inv. Co. Ltd
23. Bavaria Auto Ltd
24. Milestone Cars
25. Matuto Mwalimu Motors Ltd
26. Yaya Car Sales (K) Kenya
27. Urja Distributors
28. Banbros Ltd
29. Autoswift Ventures Ltd
30. Tymstar Motors
31. Stantech Motors Ltd
32. Comat Trading Company
33. A-Plus Motors Ltd
34. Ameen Motors
35. Tripple One Motors
36. Carland Limited
37. Planet Motors Ltd
38. MHH International Ltd
39. Thika Motor Dealers (K) Ltd
40. Shahid Sleek Auto Mart

41. Jimoh Motors and Properties
42. Toyopet Automobile (K) Ltd
43. Jan Japan (K) Limited
44. SBT Kenya
45. BE FORWARD Kenya Mombasa Office (TFL Mombasa)
46. Autocom Japan kenya Limited Nissan note
47. Toyopet Auto Mobiles K Ltd
48. Sleek Trading Limited
49. TAJ VENTURES LTD.
50. Taha Motors
51. Trent Motors Limited
52. Cars 'r' us (k) ltd
53. Autocom Japan Kenya limited
54. Aqueyu Offshore Trading Company
55. Warrior Motors
56. Autospin motors ltd-mombasa
57. Anas Motors Ltd
58. Al ginza automobiles ltd-mombasa
59. Mombasa car deals
60. Mombasa cars investment ltd
61. Delights motors limited
62. Yuasa Motors - Mombasa Branch
63. Unik Car Hire & Safaris Ltd
64. Sonic International Ltd
65. JPC trade Mombasa
66. Drive dream cars ltd
67. Ali Baba Kenya Ltd
68. Sabaki Commercial Agencies
69. Dodhia Motors Ltd
70. Planet Motors (MSA) Ltd.
71. Karicko Investment Limited
72. TransAfrica Motors Limited
73. Siflom Motors Ltd
74. Autodirect Mombasa
75. Abba's Investments Ltd
76. Kenya Grange Vehicle Industries Ltd
77. Kawai trading co.ltd
78. Fahari Cars Limited
79. Canon Motors Limited
80. Magari Land
81. Oriel Limited

82. Moiz Motors Limited
83. Nine star traders
84. Bhavin Motors Ltd
85. Maheer motors ltd
86. Khushi Motors
87. Rana Auto Selection Limited
88. Taha Motors
89. Inter Dunia Co. Limited
90. Regent Automobile Valuers and Assessors-Mombasa
91. Mombasa AUTO Bazaar
92. CarMax limited
93. Motorhub
94. Excellent group garage limited
95. Smart Autos
96. Jap imports Ltd
97. Car focus limited
98. Fortis Limited
99. Auto Assista
100. Prestige world motors
101. Maridady motors- Mombasa
102. Windsor cars dealers
103. Signature cars
104. Agba motors limited
105. Jas auto solutions Ltd
106. Sakai trading limited
107. Ultimate car masters ltd
108. Silverline motors
109. Executive super rides limited
110. Car locus limited- Mombasa