

// A STUDY OF MANUFACTURERS' ATTITUDES TOWARD
GOVERNMENT PRICE CONTROLS AND THEIR
ADMINISTRATION IN KENYA: THE CASE OF NAIROBI //

BY

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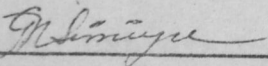
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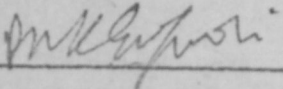
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The views presented here are my own sole responsibility and should not be taken as necessarily coinciding with the manufacturers of price controlled products or the Price Controller.

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ABSTRACT

This research project has discussed the scope of price controls and has as its main objective the study of manufacturers attitudes toward Government price controls and their administration in Kenya.

The project starts by defining price and price controls and presents the roles played by the price controls. *Price controls, as tool of economic management, may play the role of protecting the consumer, protecting the sellers of the commodity, control of inflation and control of monopoly power of some companies. Cost determination, as the paper suggests, are done on the basis of direct costing and absorption costing, although the Finance Minister may from time to time alter the costing methods. The pricing of products is done on the basis of cost-plus approach. This approach is mostly applied because of its simplicity. From the origin of price controls, price controls have been changing with the inception of Price Control Act and Price Control Department.

The findings suggest that price controls in Kenya are essential. They are essential to the extent that they protect consumers and control monopoly powers of companies. But executives were deceptive to the role of price controls in preventing inflationary spiral and manufacturer protection. *The study also indicates that price controls result in less profits, restrict output, lower quality of products and

(x)

contribute to shortages of essential products. This is because of uncooperative attitude of the Price Control Personnel. So to minimize the above constraints, more consultation between manufacturers and the Price Controller is necessary. Last and by no means least, there should be flexibility in controls and regrouping of products, reduction in the time for processing applications and the inclusion of all costs of production in the determination of costs and prices of price controlled products.

CHAPTER 1

INTRODUCTION.

Until a few years ago, very little research effort in Kenya was devoted to the study of price controls as a tool of economic control. *However, the recent implimentation of price controls have caused financial analysts, economists, and marketers to take up the issue very seriously. For instance, economists worry over its effect on the cost of living and hindrance to economic growth and development, if the price mechanism is intervened. For the financial analysts, they worry over its effect on the investment decisions while marketers have as one of their major concerns, the impact of price controls on the level of sales and profitability.*

Most studies on price controls seem to have concetrated on the legal aspects of price controls such as the operation of the Price Control Act and the general aspects of price controls. A close examination of the foregoing areas reveal that little effort, if not none at all, has been devoted to the study of manufacturers attitudes toward price controls and their administration in Kenya. In the study of this kind, manufacturers attitudes are significant to the extent that they (the manufacturers) directly come into contact with the price controller and they seem to be directly affected by the price controls operation.

Price is a very important element in the marketing mix. The other elements of the marketing mix are product,

place (distribution), and promotion. By manipulating any of these elements a marketer can influence the sales volume. In the case where price fluctuates very much, price controls serve as a means of regulating the economic activity and is when price controls become very essential. The price at which a product in a market is sold depends on the following variables, quality of the product, the level of demand, inflationary trends and the degree of competition. Essentially, therefore, this study focuses on manufacturers attitudes toward degree of competition, demand, quality of the product and inflation among others as influenced by the price controls.

1.1 STATEMENT OF THE PROBLEM:

Kenya has a long standing history of price controls going back to the colonial period. The origin of price controls date from the beginning of the ^{Second} World War in 1939 and had a basic aim of controlling prices of commodities and services, during the War period. * However, with the passage of the Price Control Act in 1962 and the formation of the Price Control Department in 1971, the number of price controlled products and services have been increased. This decision by the Minister for Finance affects manufacturers in that their profit margins may be squeezed. In this case manufacturers may have two options. They may alter their investment decisions or continue producing at the existing reduced prices. The degree to which their decisions are made is governed by their attitudes toward future states of nature, that is expansion or contraction of business cycle.

* The government, in setting price controls, aims at achieving a myriad of objectives. Among these objectives are protection of the consumer, source of government revenue for financing both social and capital projects, and at the same time control prices to an extent that the controls do not demotivate manufacturers from striving to supply the product to the final consumer, be he a manufacturer, wholesales, or retailer.

In order to manufacture a commodity it requires a combination of factors of production, capital, labour, land and entrepreneurship. The substitutability of

these factors depends on their availability and magnitude of cost of production. However, these are only some of the conditions required in hiring factors of production. Other factors which are instrumental in influencing investment decisions are social and psychological needs of manufacturers which may be reflected in their attitudes toward macro and microenvironment.

With regard to macroenvironment, one of the major environmental factors that impinges on manufacturers is the legal or political environment which substantially influences decisions made by manufacturers. In determining their selling price for the manufactured items, manufacturers ensure that they get a profit on top of their production costs so as to keep them in business. The selling price so set for some products at factory level is subject to approval by the Price Controller. If an application for price increase takes too long to be approved or ultimately rejected, manufacturers may be forced into absorbing the excess costs of production in the short-run period. The long run situation is different. In the long run they might close down the business if their variable costs are not covered or alternatively, they might opt for measures targeted at frustration of price controls.

For the price controls to be effective the Price Controller should set prices bearing in mind the resulting effects or reactions by manufacturers toward such controls. On one hand, prices should not be too high at the expense of the consumer and on the other hand, they should not be

so low that manufacturers find it difficult to keep their product lines in operation. Apart from that when manufacturers submit applications for price increase, their needed prices may be approved immediately, delayed and later on approved or totally rejected. If applications are delayed or rejected, can conflict arise; and if conflict arises, can it be resolved if the attitudes of manufacturers are known and given considerable weight in price controls ceilings? Should price controls be revised after they have completely antagonized manufacturers, retailers and consumers? Or whose interests should come first, those of consumers or manufacturers? If consumers receive an upper hand, manufacturers are likely to supply limited output which might not go along with satisfaction of market demand. This might be so because of the feeling that the price so set might be so low that they cannot supply the usual output as they are likely to make meagre profit margins. Given this situation, a three chain phenomenon will emerge: the firm contracts its investment level, which will in turn make the firm operate below attainable practical capacity, which will subsequently require less labour, hence some workers may become redundant. Attainable practical capacity may be defined as

the level at which the plant can operate if all facilities are used to the full extent. Some allowances must be made for expected delays because of changes in machine set ups, necessary maintenance time and other interruptions.¹

1.2 Statement of Objectives.

This study has as its major objective, identification of attitudes of manufacturers toward price controls and their administration in Kenya. In attempt to study the manufacturers attitudes, the study zeroes in the following as the other objectives.

- (i) The role of price controls.
- (ii) Determination of cost.
- (iii) A brief history of price controls in Kenya.
- (iv) Determination of price.
- (v) To explore effects of price controls.

1.3 Importance of the Study.

While a study of this nature is basically an academic one, it may be addressed to various parties. Among some of these parties are:

- (a) Price Controller.

Compared to all other parties, a Price Controller should be interested in the outcome of the results because she may be in a better position of understanding manufacturers, for instance why they demand price increases,

¹ Moore, Carl L. and Jaedicke, Robert K. Managerial Accounting Cincinnati: South-Western Publishing Co., 3rd Ed., 1972, p. 382.

and some possible ways of improving the controls.

(b) Manufacturers.

Most manufacturers are usually represented by a body known as Kenya Association of Manufacturers (hereafter K.A.M.) of which they are members. This body though its officials speak on behalf of the various manufacturing firms in the country, K.A.M. does not have a systematic method of collecting such data from a cross section of its members. What they have may be unrepresentative opinions of a few "vocal members", for example the Executive Director of K.A.M., while little known firms, although many in number and representative, are assumed to be non-existent.

1.4 Overview of Presentation

Chapter I Introduction

- 1.1 Statement of the Problem.
- 1.2 Statement of the objectives.
- 1.3. Importance of the Study.
- 1.4 Overview of Presentation.

Chapter II

Literature Review

- 2.1 Introduction.
- 2.2 The Concept of Price.
- 2.3 The Concept of Price Control.
- 2.4 Role of Price Controls.

- 2.5 A brief History of Price Controls in Kenya.
 - 2.5.1 Pre-independence controls.
 - 2.5.2 Post independence Controls up to 1971
 - 2.5.3. Price Controls 1971-1983.
- 2.6 Determination of Cost.
 - 2.6.1 Absorption Costing.
 - 2.6.2 Marginal Costing.
 - 2.6.3 Why manufacturers prefer Marginal Costing to absorption costing.

Chapter III

- 3.1 Determination of Price.
 - 3.1.1 Locally produced products.
 - 3.1.2 Imported goods.
- 3.2 Price Ceilings.
 - 3.2.1 Maximum Price.
 - 3.2.2 Minimum Price.
- 3.3 Some possible effects of Price Controls on:-
 - 3.3.1 Investment.
 - 3.3.2 Profitability.

Chapter IV

Research Design.

- 4.1 Data Collection Techniques.
- 4.2 Sampling Techniques.

Chapter V

Data Analysis and Presentation of the Findings.

- 5.1 Data Analysis.
- 5.2 Presentation of the findings.

Chapter VI

Limitations, Suggestions, Summary and
Conclusions.

- 6.1 Limitations of the study.
- 6.2 Suggestions for further Research.
- 6.3 Summary and Conclusions.

Chapter VII

Bibliography and Appendices.

CHAPTER II

LITERATURE REVIEW

2.1 Introduction

Literature review is divided into two chapters, chapters 2 and 3. In Chapter 2 quite a number of things in relation to price controls are reviewed and it restricts itself to the following: the role of price controls, a brief history of price controls and determination of cost.

The roles of price controls deal with why price controls are set up. From the 'why' perspective, one finds it easy to get to understand the roles of price controls. Price controls should have a purpose otherwise it would be useless to have instituted them.

The historical perspective reviewed here does not encompass a detailed coverage of the history of price controls. It however only covers an overview of price controls in Kenya from its origin to 1983.

The determination of cost comprise two methods by which cost is usually determined. These are absorption costing and variable costing. It may be quite difficult to set up price controls without a careful study of cost structures, and as such a review of cost determination is also called for.

Before reviewing the above sections on price controls, two concepts deserve mention. That is the

price concept and the price control concept.

2.2 The Concept of Price.

Price may be defined as the exchange value of a good or service. The value of an item, then, is what it can be exchanged for in the market.

In Kenya where some 'bartering' still takes place, five goats might be exchanged for one heifer, price is a measure of what one must exchange in order to obtain a particular good or service. Where we have abandoned the barter process in favour of the monetary system, price became the amount of money required to purchase an item.

All products have some degree of utility, or want-satisfying power. An individual might be willing to exchange the utility derived from a color television for a vacation. Price is a mechanism that allows the consumer to make a decision. In contemporary society, of course, prices are translated into monetary terms. The consumer, therefore evaluates the utility derived from a range of possible purchases and then allocates his or her exchange (in monetary terms) so as to maximize satisfaction.

2.3 The Concept of Price Control.

Price control is an instrument by which the government can regulate prices. Using this instrument as a tool of economic management, she can raise, reduce or retain prices at their current levels (price ceilings).

Price controls should, however be distinguished from price regulation. Price regulation is broader compared to price control. Price control is a restricted term which is taken to mean direct price regulation and involves fixing of the ex-factory prices, wholesale prices, retail prices or a combination of them. For instance if the government levies a Sales Tax on beer but does not engage itself in reaching the ex-factory, wholesale or retail price, then no longer can one qualify this mechanics as price control. Instead, it may be termed price regulation since the government does not set prices at all levels of ex-factory, wholesaling and retailing.

2.4 THE ROLE OF PRICE CONTROLS.

In Kenya, like in any other country of the third world, price controls are set up to play one or more of the roles discussed in this section. When setting up price controls, the government may have one or more objectives, the objective(s) for which price controls have been set up may initiate a chain of events, which may go along with regulating the economic activity of a country in question.

One of the roles behind price-controls is the protection of the consumers of the commodity. With regard to this role of consumer protection, the government may have a genuine interest of protecting the consumers, especially the low income earners, whose standards of living are likely to fall drastically unless prices of goods and services are prevented from falling. In this situation, the Price Controller, through price control instrument, can influence price paid for by the consumers and hence protect them. Where price controls perform well, unnecessary and unjustified price increases can be prevented. If price controls can succeed in prevention of price escalation, then consumers benefit by paying lower prices although scarcity of essential products may be prevalent.

For price controls to perform the role of consumer protection, the Price Controller ought to see to it that price markings are clear enough and the approved price

at which goods are sold should be the correct one. This contention is supported by the Kenya Price Control Act of 1972, which provides:

Every retailer who exposes for sale any price controlled goods at any place is hereby required to mark the price at which goods are offered for sale, or on a price ticket securely attached to the goods or to the container, in plain English letters and numerals...²

This section of the Act if well implemented can easily enhance consumer protection role. Where price controls are not well enforced, there is likelihood of distorted price ticketing. A study conducted by the Kenya Consumer Organization (KCO) in the City Centre of Nairobi reveals;

Only 142 shops have a clear price ticketing, 166 were not showing any at all and 129 have partial ticketing. We have passed the information with full list of the shops inspected to the Price Control for action.³

While the above study may give an indication of poor price ticketing, little is known about the duration that was taken to carry out this study and secondly it is not also known whether or not the sample of 437 shops surveyed was representative enough to warrant ultimate conclusions. In spite of this limitation, the study throws some light on

²The Price Control Act (1962), Revised 1972, Chapter 504
Nairobi: Government Printer. p..94.

³"Housewives Complain over Lack of Price Tickets in Nairobi Shops", The East African Standard, 16th June, 1971, p. 9.

the nature of enforcement of the controls.

Perhaps one would attribute this unclear ticketing to weak enforcement of price controls. This weak enforcement might be in conformity with the number of personnel in the Price Control Department. The number of personnel indicated below covers the period 1971/72 to 1976/77 as per Recurrent Expenditure Manual.⁴

TABLE 1.

THE NUMBER, LEVEL OF PERSONNEL, AND EXPENDITURE AT THE PRICE CONTROL DEPARTMENT BETWEEN 1971 AND 1977.

PERSONNEL	1971/72	1973/74	1974/75	1975/76	1976/77
PRICE CONTROLLER	1	1	1	1	1
ASSISTANT PRICE CONTROLLER	1	1	1	1	2
ASSISTANT SECRETARY	-	-	2	2	2
SENIOR PRICE CONTROL INSPECTORS	5	7	7	7	7
PRICE INSPECTORS	8	12	20	20	20
CLERICAL OFFICERS	-	2	2	2	2
SHORTHAND TYPISTS	-	1	1	1	2
COPY-TYPISTS	6	7	7	7	7
DRIVERS	5	10	10	10	10
SUBORDINATES	-	2	2	2	2
TOTAL	26	43	53	53	55
EXPENDITURE in KE.	-	35,634	60,008	65,220	80,850

ESTIMATED EXPENDITURE FOR 1977/78 WAS KE. 88,875.

⁴ Estimated Recurrent Expenditure and Price Control File,
Nairobi: Government Printer 1974/1975 to 1977/1978.

The above table indicates that expenditure rose with expansion in coverage. The more the staff, the higher was the expenditure. For instance between 1973 and 1977 the number of personnel doubled and between 1973 and 1977 expenditure also doubled. Notably, over the years 1971 to 1977 the number of Price Controllers remained the same, so is the case with the number of subordinates, for Senior Price Control Inspectors and Copy Typists. The number then stabilized after increases. The problem is whether or not the personnel could cope with the responsibility of ensuring that tickets were clearly marked. However, this relationship may be difficult to operationalize from these figures since they do not include measure of efficiency of each personnel.

Protection of the consumers may involve more products being brought under price controls list, but increasing the number of products and staff may not be enough. It may involve also fixation of a just price at which consumers can buy the essential items. Kimble, is reported to have remarked:

There is fairly widespread feeling that retail trading is a form of private enterprise which brings in excess profits and tends to increase income inequalities... whether the pressure should be brought to bear on importers and wholesalers rather than retailers, and the relative costs and effectiveness of price control of these various levels must be carefully considered. At least the matter is open to debate and no dogmatic ... view has yet emerged to close it. But since the public normally has to deal directly with the retail trader,

it is against him that public dissatisfaction is more often expressed than against the wholesaler.⁵

Indeed such dissatisfaction can prompt the government to use price controls to protect consumers. Consumer protection has to be defended on grounds that usually consumers are ignorant of cost structures, normal trade mark-ups and rates of turnover. In some countries consumers clamour for price controls simply to quell the suspicion that they are forced to pay more than their neighbours for the same quantity and quality of essential consumer products.

(2) Consumer protection is not the only reason behind price controls. As a tool of economic control, price controls also may play the role of controlling demand inflation. This role may be performed at the same time as consumer protection. Inflation may be defined as persistent rise in the general level of prices, or a persistent fall in the purchasing power of money.⁶ There are some approximate causes of demand inflation and among these causes are excessive monetary expansion, the sudden imposition of import controls (reducing supply relative to demand) and crop failure (similarly reducing supply). In this case the Price Controller is assumed to respond by imposing retail price controls in order to avoid (or mitigate) the effects on

⁵ Kimble, Hellen. Price Control in Tanzania. Nairobi: East African Publishing House, 1970, p.8.

⁶ Tony Killick. Policy Economics. A Textbook of Applied Economics on Developing Countries. London: Heinemann Educational Books Ltd., 1980. p. 158.

the distribution of real incomes that would result if prices rose enough to bring demand back into equilibrium with supply. Where trading in future involves speculation and prediction, prices are likely to increase due to inaccurate prediction, thus giving rise to interference with the price controls.

Price controls alone may not however be effective in controlling inflation. Unless price controls are combined with rationing or production is subsidized, they can have no real effect on slowing down the rate of inflation apart from their once-for-all effect of reducing the profit margins of producers, importers and merchants, except when monopoly profits are rising. If production costs and importation costs are increasing then the costs must be passed on to the consumers, unless supplies are subsidized in the case where production and importation are not to decrease. Then if price is not passed on to the consumer a black market is likely to ensue or develop.

When combined with rationing, price controls can be used to ensure that essential goods in the short supply are distributed more evenly among the population. But to be useful, cost of rationing should be weighed against its benefits.

While some schools of thought argue that price controls can control demand inflation, there are some cases where they might cause a rapid increase in prices of some commodities in the short run period. This is

likely to be true in a case of two firms, taken as an illustration. Assume that costs of firm X supplying an ingredient input to firm Y increase very rapidly above its cost of production, but manufacturer cannot soon get an increase in his needed price approved by the Price Controller, he might cut down his production and supply goods in the meantime to firm Y, with the result that firm Y's production would fall; his average production cost rises as these costs include manufacturing overhead cost, with the end result being an increase in the price of Y's firms product. This illustration though hypothetical may pave way for an increase in prices although the government objective of controlling demand inflation may still be in force. Firms which are likely to be influenced by the foregoing transfer of inputs are those that may engage in production of truck types, fabrics, cement and fertilizers. As indicated in the illustration, if price controls are imposed and price ceilings can not automatically increase with an increase in the production costs and, importers of these inputs can not import them immediately when demand arises, shortages are likely to arise.

3 Third reason or role behind price controls is the protection of sellers of the commodity. Protection of sellers is necessary in that it enables manufacturers to make some profit and as such they protect their own position. In order to be protected, the Price Controller may fix a price which is not so low that sellers are

demotivated in managing their profit ventures. An area where such protection is paramount is in agricultural sector where demand fluctuates considerably due to bad climatic conditions (hence bumper harvest) or where there is total failure in accurate forecasting of output. With regards to this seller protection, it is necessary to mention two forms of protection, namely subsidies and, raising the price at which producers sell as opposed to the prevailing world markets. This is typical of agricultural marketing through marketing boards and international agencies. It has been reported by Jarvis that:

Where the government feels that it has a duty to support a particular commodity it may interfere with the market mechanism in a number of ways with this object in view. This includes a situation where prices are increased on international market. Where prices are reduced, then the manufacturers are not protected, but can also be protected through subsidies.⁷

Protection through subsidies can enable sellers to continue supplying the product to the market.

4 Apart from protecting sellers, price controls may also perform the role of controlling monopoly powers of some firms. Monopoly powers may be reduced for the reason that if left unchecked, prices can be set high to the

⁷ Jarvis, F.R.J. Price Control: Government intervention or the free Market? London: Hutchinson's Scientific and Technical Educational Books, 1949, p. 41.

advantage of the firm other than the consumers. This case is likely to occur where one seller in the market controls either output or price. So in order to control price, the Price Controller takes decision of interfering with the market by setting price ceilings. If price controls are successful in controlling monopolies, then prices can be kept to competitive levels, thus suppressing the consequences of industrial concentration.⁸ Rice, in his study on price controls in Tanzania, supports the contention that price controls perform the role of controlling monopolies. He notes;

Price controls are most useful in preventing monopoly pricing... price ceilings have prevented factories from maximizing their profits by setting higher prices but the ceilings have not been so low that output has decreased.⁹

Rice's study indicates the significant role played by price controls in reducing monopoly pricing. This role cannot be underestimated in Kenyan setting as well.

In conclusion this section points out four roles of price controls: protection of sellers, protection of consumer, control of demand inflation and control of

⁸ Tony Killick, op. cit., p. 275.

⁹ Rice, Robert C. "The Tanzania Price Control System: Theory, Practice and some possible improvements", Papers on the Political Economy of Tanzania. Edited by Kwan S. Kim, Robert B. Mabele and Michael J. Schultheis. Dar-es-Salaam: Economic Research Bureau, University of Dar-es-Salaam, 1979, No. 76.4, April, 1976, p. 101.

monopoly. But the effectiveness of price controls in performing the above roles is limited by one or combination of the following factors, existence and relative sizes of the excess supply and excess demand; efficiency of price control administration (low degree of enforcement of regulations); costs of administration and efficiency of "rationing" or surplus disposal away from the market.

2.5 A BRIEF HISTORY OF PRICE CONTROLS IN KENYA:

This section deals with a brief historical perspective of Kenyan price controls. As a matter of convenience the history of price controls focuses on three periods: pre-independence, post independence up to 1971 and the controls which followed after 1971.

2.5.1 Pre-independence Controls.

This is the period before 1964. The origin of price controls in Kenya date from the beginning of the Second World War, 1939. Price controls were introduced basically as an instrument of controlling price during the war period. In other words they were part of the wartime regulation. Initially, when introduced in 1939, they were called Price of Goods Regulation.

During the war, quite a range of products were price controlled and were diversified in nature. Due to this diversification a variety of methods were required to make price controls instrument effective. One of the methods of control was concerned with "Price Regulated Goods". The goods in this category included pocket groceries and patent medicine which had defined quantity and quality. In addition to that they were easy to have their prices regulated. Maximum price floor was then set for importers, middlemen and consumers. At the same time, a comprehensive order was published which gave allowance for deletion and addition of more products where necessary. Notably, prices

of these commodities varied directly with changes in costs of the price regulated products.

Fixing of prices differed significantly, for the farmers differed from that of importers, so to that of middlemen and the consumers of the commodity. In connection with farmers prices of beans, millet, and meat were fixed with the prerogative of the Governor at that time. During the war the responsibility of the Price Control Office was limited to only the fixation of retail prices.

In the case of importers, documents of importation were submitted to the Mombasa Office which, with the cooperation of Customs and Department of Trade and Supplies performed costing computations. On completion of costing for the importer, mark-up margins for each commodity were set for the importer himself, middleman, and retailer as well. At that time, percentage mark-ups were determined on the basis of investigations of profits margins which prevailed before the War.

✱ The second range of products which required a different method of control were the "percentage fixed goods". These goods were hard to control because local importers could not import directly from the manufacturers. What they did was to import them from foreign exporters, thus making identification of products more difficult, and consequently making it really difficult to institute price regulations or controls on such essential products.

✱ The third range of products that required completely

different measures of price controls were the "other goods". To enforce price controls on this class of products, the Price Control Office laid down ad hoc profit margins.

* After 1945 the number of products under price controls declined gradually. This was so because some of the products had been controlled as part of wartime measure to prevent prices from hiking, and after the War decontrol was necessary since it was period for reconstruction and as such addition of products to the list of controlled items was not deemed necessary. But decontrol of products had its own drawback. That is, it created rapid escalation of products prices, thus creating discontent among the people. In spite of this problem, decontrol continued and in the early 1950's, price controls were finally lifted, leaving only a few products being controlled.

It is however important to mention a few things about price controls administration during the War and the period after the War. Price controls were strictly manned by the Ministry of Finance and Development. During this period, price controls were not all that effective because of the wide coverage of products that included maize marketing controls, which subsequently led to higher costs in administering controls. At that time any additional cost of production was pushed on to the consumer and to minimize this consumer discontent, amalgamation was undertaken and price control function was pushed to Commerce and Industry Ministry. This was not a solution in itself.

Amalgamation faced criticisms due to the feeling among the people that there was a conflict of interest in its role. A heated debate ensued because the Ministry did little to defend consumer welfare. Instead it aimed at raising government revenue and engaged only in more profitable ventures thus ignoring the less profitable ones.

In 1948, due to heated debate over amalgamation, the Cost of Living Committee was formed. This Committee was charged with the responsibility of examining the standard of living in the country. The Committee noted with concern that the existence of inflationary spiral and increased discontent among the people were strong indicators of high cost of living.¹⁰

In 1950 the Vasey Cost of Living Commission was formed. It succeeded the Committee on the Cost of Living. The Commission had as its aim the re-imposition of price controls on all essential goods which were limited in supply.¹¹ However its re-imposition was not effected. Instead the colonial government opted for consumer resistance as a means of price controls measure. Subsequently, consumer resistance tool also failed, and this failure proved the inability of colonial regime to enforce controls effectively.

The Leslie Cost of Living Committee was then formed in

¹⁰ Kenya: Annual Report, 1948, p. 21.

¹¹ Kenya: Annual Report, 1956, p. 25.

1953. Its aim was related to the other foregoing committees since it tried to find out whether cost of living could be controlled by the government. Its results reflected the impossibility of the government to do this because the government, at that time, did not control the cost of imported goods which subsequently increased prices of imported items. Consequently, imported inflation emerged.

The Defence Regulations which governed the various operations of price controls came to an end in 1956. The Defence Regulations stipulated that everything that was bought and sold was subjected to price control instrument with the exception of real estate.¹² Additionally it may be noted that the Defence Regulations came into force in 1945 when the Price of Goods Regulation was changed to Defence Regulations.

In 1956 the government used guaranteed minimum prices as a measure of controlling prices. Taking this as a measure, the government policy read thus:

...it must be appreciated that the fixation of a price at a level which the producer finds to be uneconomic will, in normal conditions, inevitably result in decreased production and an eventual shortage of that commodity. The government policy is therefore to fix producer prices at such a level as

¹² The Activities of Price Control Memorandum, 9th December, 1954.

will ensure a fair return so the producer and an adequate return to the consumer.¹³

Towards end of 1956, the only product that were controlled were the scarce ones. These products included: charcoal, cement, wheat-flour, firewood, maize and maizemeal and sugar.¹⁴ During that time, (1956) regional offices that had been set up in the early 1950's to man price controls were closed down. These included offices in Nanyuki, Kisumu, Eldoret and Mombasa. The only offices which remained operative were the Nairobi based. Unfortunately the only surviving offices in Nairobi were pledged with shortage of manpower. In 1956, cement was decontrolled and in 1961, East African Wheat Flour was also decontrolled.

Between 1956 and 1964, on some occasions, the Price Control Ordinance was put to test in Kenyan Courts of Law. This came as a result of government relaxation in enforcing controls. Taking advantage of the relaxed controls, some sellers defaulted by overcharging. To avert this situation the 1956 Ordinance which read:

Any person who commits an offence against any of the provisions of this ordinance or any order issued or of any notice given of any request or demand made thereunder",

was amended to read:

¹³ Kenya: Annual Report, 1956, op.cit., p. 3.

¹⁴ Kenya: Annual Report, Ibid., p. 51.

Any person guilty of an offence
against this ordinance shall¹⁵

Given this amendment the Price Control (Amendment) Ordinance was useful in challenging businessmen who found loopholes in the Ordinance and hence resorted to over-charging and also challenged those who could flout the Price Control Ordinance.

2.5.2 Post Independence Controls up to 1971.

This part of the historical perspective of Controls cover the period between 1964 and 1971. At the time of independence in 1964, the only products under price controls were sugar, maizemeal and maize.

During the period 1964 and 1971, two agreements governed price controls. These were, namely the First and Second Tripartite Agreements of 1964 and 1970 respectively. During the early months of 1964, the First Tripartite Agreement was signed, requiring trade unions to freeze wages for one year; private sector to increase employment by 10% and the government by 15%. In order to stop retail prices from rising and protect frozen wages from inflation, the government announced a price freeze. The First Tripartite Agreement which came into force 1964, ended in 1965 with revocation of area orders and price freeze orders. The items left on the price controls list at that time were:

¹⁵ Price Control Ordinance, Section 30. Nairobi: Government Printer.

maize and maize meal and sugar.¹⁶

In connection to price freeze and its managerial approach these aspects were revoked and criticized respectively on two accounts, namely its coverage and secondly that the price freeze was descriminatory in approach. An example of the discriminatory freeze is that of consumer price indices in Nairobi (1977) for commodities that were covered under the freeze:¹⁷

TABLE 2:

CONSUMER EXPENDITURE AS PER GROUP OF PEOPLE ON GOODS COVERED ONLY UNDER THE FREEZE.

Expenditure by the Group on the commodities covered under the freeze (in % age).

Upper Income	16.6%.
Middle Income	27.9%.
Low Income	38.8%.
Total	<u>83.3%.</u>

From Table 2, 83.3% of the income was spent on commodities under the freeze. So 16.7% expenditure was spent on commodities outside the freeze. But the freeze could have been useless in the situation of high inflationary trend. The First Tripartite Agreement had shortlived effects, and probably a number of factors might have contributed to evasion of price controls in the 1960's. These included the understaffed Price Control Department and weak enforcement machinery or mechanism. These two weaknesses

¹⁶ Revocation, Legal Note (L.N.), No. 113, 1965.

¹⁷ Consumer Price Indices. Nairobi: Government Printer, 1977.

necessitated the amendment of Price Control Act in 1969 so as to prevent businessmen from charging excess prices outside or beyond price-control range.¹⁸

The First Tripartite Agreement which failed in 1965 led to the formation of the Second Tripartite Agreement in 1970. Under the Agreement, both private and public sectors agreed to expand employment by ten percent. On the part of the employees, they agreed on twelve-month wage standsill with effect from January 1st, 1970.

2.5.3 Price Controls 1971-1983.

Between the period 1971 and 1983, there were two types of controls. These were general price controls and specific price controls. The general price controls came up with the price freeze in 1971. Among the products affected by the price freeze were motor vehicles repairing, building construction and repair, electrical repair, electronic services, importing and exporting of goods.¹⁹

In 1973, the general orders of 1971 were nullified in Makadara Court on grounds that it had not been tabled in parliament as required by the Price Control Act.²⁰ A large number of products were brought under specific controls in

¹⁸ Kenya Gazette Supplement, No. 99, Bill No. 29, Nairobi: Government Printer.

¹⁹ Legal Note, No. 302, 1971.

²⁰ Makadara Court File, No. 8217, 1973.

the late 1973 and early 1974 in order to make the administrative machinery more effective. Some products were brought under specific controls because such products featured prominently in the budget of the low income earners. Examples of these were meat, salt, and soaps. Specific controls on beer were effective from 1971 while for soft drink were in 1973. Since 1973 there have been frequent price increases. In 1976 wine was decontrolled because of fluctuations in world market prices. The year 1982 ended with increases in prices of beer and petrol, while 1983 started with increases in price of charcoal. There have been recent increases in the price of foodstuff. In March, 1983, it was announced in the dailies that prices of tooth paste had been slashed, but then in the same month, prices of meat, milk, tea and rice went up. In the case of soaps, they had been decontrolled in 1981 but after the abolition of controls, prices rose so high that it became a concern to the Price Controller and general public. Then during the early part of 1983, the prices were controlled to the 1981 levels.²¹ But this drove some types of soaps off the market until prices were again increased.

In conclusion, the historical perspective of price controls in Kenya reflect quite varying measures which were used to operationalize price controls. Measures varied depending on the demands of the economic situation that prevailed at a specific time.

²¹ Legal Note, No. 25/1983 and Kenya Gazette Supplement, No. 8; February, 1983.

2.6 COST DETERMINATION:

It is difficult, if not impossible, for the Price Controller to set price ceilings in the absence of cost structures of various firms. Where cost structures are not presented, no basis can be used to identify which costs should be omitted or are immaterial in cost determination of the price controlled items.

Before discussing methods used in cost determination, let first get the definition of costs. According to Horngren, C.T., costs are resources sacrificed or foregone to achieve a specific objective.²² Cost is considered as being measured in conventional accounting, as monetary units (shillings or pound sterling, Sh. or £) that must be paid for the goods and services.

The determination of costs in Kenya is normally done by using Legal Note No. 478/1956 as amended by Legal Note No. 264/1956. In Kenya there are basically two methods used in the determination of costs for the price controlled products. These are absorption costing and direct costing. These methods are applied according to whether or not the controls are specific controls or general controls. Specific controls are those specifically stated in the Legal Notes and applied to those products which are essential in the low income earners budget, while general controls are those

²² Horngren, C.T. Cost Accounting: A Managerial Emphasis.
New Delhi: Prentice-Hall, 1979, p. 20.

which apply to products in general and involve control orders, hence General Price Control Orders. The powers to determine the cost of products are vested in the Finance Minister. Using his powers as Minister for Finance, he can declare the methods by which costs are to be determined. The powers conferred to him are contained in the Price Control Act (Cap. 504). The Act provides:

The Minister may from time to time by order declare the method by which the cost of any goods or of any service shall be determined, and in such order declare different methods of determining such costs in respect of different classes of goods, transactions or sellers.²³

Apart from declaring the method to be used in determining costs, the Price Controller may decide whether to use either specific controls or general price controls. This is the case with the Development Plan (1979-1983). In the Development Plan it is observed that;

It is the government intention to revoke the General Price Control and to rely entirely - in so far as price control policy is concerned on two types of specific controls, one covering those commodities that represent significant proportion of the Budget Expenditure of the average wage earner or farmer, and the

²³ Price Control Act (Cap. 504) Revised (1972) Nairobi: Government Printer, Section 7, p. 9.

other covering specific products that are produced under monopolistic or highly protected conditions.²⁴

The general orders to be revoked were introduced in 1971. It appears that since the General Orders were introduced in 1971 the Kenya Development Plans have given little attention or little role to price control policy.²⁵

The costing methods dealt with in this study are concerned with general and specifically controlled products. In 1974 the products covered under specific controls were baby foods, barbed wire, charcoal, beer and stouts, tea, cement, GCI sheets, nails, soaps and detergents, fats and edible oils, toilet paper, sugar, rice, maize and maize meal, sifted maize meal, bread, meat, wines and spirits, soft drinks, wheat flour, salt, tooth paste and tooth brushes and matches.

The coverage of General Controls was more difficult to compute and classify easily. According to the price control (General Prices) order of 1976, the Legal Note, No. 153/1976 covers the following, motor vehicles, motor vehicle spare parts, fertilizer, agricultural chemicals, repairing of motor vehicles, importation of finished goods and manufacturing of goods. Essentially general controls for the above products operate by prohibiting firms and traders

²⁴ Development Plan, 1979-83. Nairobi: Government Printer (Kenya), p. 33.

²⁵ Development Plan, 1974 pp. 9-10 and Development Plan 1975, pp. 23-4: Nairobi: Government Printer.

from increasing the prices of goods sold or services rendered by them above prevailing prices without the approval of the Minister for Finance.

2.5.1 Absorption Costing.

This approach to costing is basically used for specifically controlled products. Prices of specifically controlled products are determined by considering all costs of production, both the fixed and variable costs. The fixed and variable costs are defined in terms of how total cost changes in relation to fluctuations in the volume (activity) of a chosen cost-objective. If a given cost changes in total in proportion to changes in activity, it is variable, and if it remains constant or unchanged in total for a given time period despite wide fluctuations in activity, it is fixed.²⁶ In absorption costing, fixed overhead costs are inventoried and derived from the fact that total manufacturing costs are to be absorbed by the product.

Absorption costing method takes into consideration direct material costs, direct labour costs, manufacturing overheads and administrative and selling expenses. With regard to absorption costing, allocation of costs is one of the most difficult problems in management accounting. And with the problem of allocation in mind, the Price

²⁶ Horngren, C.T. op.cit., p. 21.

Controller may argue that some of the costs should not have been apportioned at all. She may use cost structures of vocal firms or leading firms such as Unga Limited, East African Industries Limited to determine such costs. With regard to this method of costing, manufacturing overhead is applied to the product at a predetermined rate. Usually the fixed overhead cost is budgeted along with the hours of operation at a normal rate of production. The budget cost is divided by the budgeted hours to obtain a rate per hour that can be used in costing the products. Products are then assigned a normal or a standard charge for fixed overheads. In the similar way, variable overhead costs are applied to the products. Application of costs to products in this manner raises a point of a controversy and such controversy prompt the Price Controller to use General Price Control Orders so as to exclude some costs. Usually, applied costs are standard or budgeted costs as opposed to actual costing method. Since it is based on standard costing rather than actual costing, it does not reflect the actual cost of producing a particular product. In such a case a manufacturer may deliberalise the inflation of overhead costs so as to apply for a higher price increase.

2.5.2 Marginal Costing.

This approach to cost determination is often applied to general controls. In marginal costing, only the variable

costs should be assigned to the product. In other words the fixed costs should not be costed to the products but should be written-off each year as period costs. The rationale for discarding fixed costs is that before any product can be manufactured, investment in facilities and other productive factors is required. Fixed costs such as depreciation, insurance, heat and light, and salaries of plant management which were incurred each year in the manufacturing business should not be taken as product costs, rather they are annual costs incurred to have a manufacturing establishment. Moore argues:-

..... the manufacturing costs like the selling and administrative costs, are too remotely related to the product to be attached as part of the cost. Following this theory, the fixed costs of manufacturing should be expenses each year and not carried as a part of the cost of inventory product.²⁷

From the above argument, including fixed costs overstates the cost of the product and thus encourage producers to ask for higher profit margins from the Price Controller. This argument is valid where a firm was established five years ago but still includes fixed costs this year in its cost determination and applies for a price increase twice a year.

The difference in marginal costing and absorption

²⁷ Moore, L. Carl and Jaedicke Robert. Managerial Accounting. Chicago: South-Western Publishing House, 1972, p. 401.

costing is due to accounting for fixed manufacturing costs related to valuation of inventory. Assuming that fixed overhead product costing rate is left unchanged, the difference between the net income under absorption costing and variable costing may be shown by the following formula.²⁸

$$\begin{array}{lcl} \text{Difference in Income} & = & \text{Fixed Factory} \quad \text{changes in} \\ \text{between the two methods} & & \text{Overhead per} \quad \times \quad \text{Inventory} \\ & & \text{Unit} \quad \quad \quad \text{(Units)}. \end{array}$$

This formula suffers from capacity utilization problem since denominator volume may not reflect full utilization capacity. The discussed of capacity utilization is not given much treatment as it appears to be beyond the scope this study, although it is mentioned in passing.

2.5.3 Why Producers Prefer Marginal Costing (Variable) to Absorption Costing.

Variable costing method is preferred to absorption costing by management because of its applicability in the following situations:

- (i) Where the relative profitability of product lines is to be evaluated.
- (ii) Where the effect of changes in volume and prices are to be calculated.
- (iii) Where cost is to be computed.

This method ignores fixed costs because, when fixed costs are allocated to the product, analysis by product

²⁸ Yuji Ijiri, Robert K. Jaedicke and John L. Livingstone, "Effect of Inventory Costing Methods on Full and Direct Costing", Journal of Accounting Research. No. 1, Vol. 3, pp. 63-74.

lines process become more complicated. Application of variable costing benefits producers in one or more of the following ways as summarized in Bulletin, Research Series No. 23²⁹:-

1. Where cost-volume profit relationship data for profit planning purposes is readily obtained from the regular accounting statements. Hence management does not have to work two separate sets of data to relate one to the other.
2. Where the profit for a period is not affected by changes in absorption of fixed expenses resulting from building or reducing inventory. Other things remaining equal (for example selling prices, costs, sales mix) profit moves in the same direction as sales when direct costing is in use.
3. Where manufacturing costs and income statements in the direct cost form follow management's thinking more closely than does the absorption cost form for these statements. For this reason, management finds it easier to understand and use direct cost reports.

²⁹ "Direct costing", Research Series No. 23. New York: National Association of Accountants, 1953, p. 1127.

4. Where the impact of fixed costs on profits is emphasized because the total amount of such costs for the period appears in the Income Statement.
5. Where the marginal income figures facilitate relative appraisal of products, territories, classes of customers, and other segments of the business without having the results obscured by allocation of joint fixed costs.
6. Where the direct costing ties with such effective plans for cost control as standard costs and flexible budgets. Infact, the inflexible budget is an aspect of direct costing and many companies thus use direct costing methods for this purpose without recognizing them as such.
7. Where the direct cost constitute a concept of inventory cost which corresponds closely with the current out-of-pocket expenditure.

Inspite of the above outlined advantages, variable costing has several weaknesses. The first one is that it encourages a short-sighted approach to profit planning at the expense of long-run situation. Short-run period allows selling essential items below the total unit costs. By

so doing it is a short-run expediency. Secondly, it tends to give an impression that variable costs are recovered first, then fixed costs are recovered later, and that finally profits are realized as shown below.

TABLE 3:

<u>HYPOTHETICAL</u>	<u>MARGINAL</u>	<u>INCOME</u>	<u>APPROACH.</u>
Sales	xx		
Variable Cost	<u>xx</u>	Recovered First	
Contribution Margin	<u>xx</u>		
Fixed Cost	<u>xx</u>	Recovered Later	
Net Income	<u>xx</u>	Finally Realized	

As the schedule indicates, under variable costing, variable costs are recovered first, fixed costs recovered later, and finally realized is net income. But actually this is not the case. Revenue from the sale of each unit of product contains a proportion of variable cost, fixed cost and profit. No one cost has priority over another, and each product earns a share of the profit.

With regard to these two methods, the Price Controller accepts both methods depending on whether or not the product is specifically or generally controlled. Preference of one method to another depends on which products are being price controlled. For instance, in the case of specifically controlled goods, the Price Controller will prefer absorption costing, and prefer direct costing to generally controlled products. The Price Controller may ignore or include some costs by using either absorption

or direct costing method depending on reasonableness of such costs.

It should be noted that the above methods basically apply to the locally manufactured products. Products produced locally are not costed as imported goods. The methods of costing differ in the sense that for the imported goods all costs of importation are reviewed, before granting a price increase. The Minister for Finance may take into account the following as costs of imported items:

- (a) Cost of importing the goods and clearing the goods. .
- (b) Indirect taxes paid on them.
- (c) Allowances to cover inventory carrying and storage costs and a margin in relation to the turnover and capital employed.

Where practical, importers or agents should produce all documents relating to the importation of goods. Documents so produced should include description of produce and costs incurred to bring the products to the warehouse.

Some products are under specific controls because such products cover a large proportion in the budget of the low income earners. Examples include meat, salt and soaps among others. It has to be pointed out that some products are under specific controls mainly to curb hiking inflation and

illegal profiteering. In this case the government might intervene in two ways, directly as a producer, hence is monopolistic in nature, while indirectly where it is just informed of a proposed increase. An example is where it is involved in the processing of application for price increase by manufacturers.

Determination of costs for price increase under General Price Control Order was introduced in Kenya in 1971. In his Budget Speech of 1972/73, the then Minister for Finance, Mr. Mwai Kibaki stressed the importance of raw materials costs as justification for price increase by producers. These methods vary from year to year. For example, the General Price Order of 1976 awarded only price increases on the account that price increases:

"shall have regard only to increases in the direct costs of raw materials and fuels and the costs of importation of finished products."³⁰

This gives a clue to the importance of direct costs and cost of imports as material in General Control Order. It appears from the clause that labour costs were not accepted as part of costs, in relation to price control policy. Exclusion of direct labour costs may have forced manufacturers into absorbing part of increased manufacturing costs. But, while some studies have shown that it is not easy to pass the labour costs on to the consumer, Edgren Gus

³⁰ Mukui John. Price Controls in Kenya. University of Nairobi. Published Thesis, June, 1978, p. 53.

dismisses such contentious literature and strongly emphasizes that:

"It is unlikely that wage cost increases averaging 10% per year have been sustained by private industry without passing on at least part of the increases to the consumer".³¹

This argument by Gus shows that price control policy instrument is likely to be frustrated where producers can manipulate their cost structures, and Profit and Loss Account, to reflect losses and yet in real sense they are not operating at a loss.

In a nutshell, by using absorption or direct costing firms determine their cost of production, which they submit to the Price Controller for consideration. The Controller in turn reviews such proposed cost structures and then decides upon which costs might be included or disallowed in cost determination of price controlled products.

³¹Edgren, Gus. The Politics of Wage Control, Labour and Society; 4th Ed., October, 1977, pp. 407-24.

CHAPTER III

This chapter is a continuation of the Literature Review. In this chapter quite a number of sub-topics are reviewed. To be reviewed are determination of price, price ceilings and the possible effects of price controls. The chapter starts by discussing the determination of price of controlled items as indicated below.

3.1 DETERMINATION OF PRICE

3.1.1 Locally Manufactured Products.

Since most of the price controlled products in Kenya have their prices determined on the basis of cost-plus method the discussion will basically deal with cost-plus approach. Under this method the price is set to cover materials, labour and overhead costs and a predetermined percentage of profit. The predetermined percentage normally added to the cost, differs strikingly among industries, among member firms and even among manufacturers of the same industry. Notably, differences in mark-ups reflect differences in competitive intensity, differences in cost base, differences in turnover rate and the degree of risk in each company. Ordinarily, the profit margins usually change with sensitivity in the market conditions. For instance, where monopolistic conditions are prevalent, profit margins are higher but the converse is true with perfect conditions.

But it should be noted that there are situations when producers cannot alter or introduce a flex in the profit margins. The profit margins tend to be inflexible and rigid in the following cases. Firstly, when firms compute margins as a matter of common practice as opposed to being geared towards profit objective. Secondly profit margins become inflexible when they are determined by trade associations, either by means of advisory price lists or by actual lists of mark-ups distributed to members of that association. The third and perhaps the most important circumstance is when profit margins are sanctioned under price controls policy as maximum profit margins. In this case the same profit margins might remain even after price controls are discontinued. Under this circumstance may the margins be considered as ethical as well as reasonably maintained. But at times this may not be the case because whenever some products are decontrolled, there is a tendency of prices to rise since the price mechanism is allowed to operate freely. But in a situation where prices are controlled, the less efficient firms are likely to benefit as such. This is because their prices might not be permitted to fall as the Price Controller does set price ceilings.

In setting predetermined profit margins, the Price Controller ought to take into account the following three factors so as to arrive at fair profit margins. The first factor is the expected rate of turnover. If

the turnover is rapid, the profit margin permitted is likely to be large so as to allow producers to survive in their business activities. Here the turnover is taken to mean the ratio of expected sales to average inventory, where average inventory is computed by taking average of beginning and ending inventory. Another factor to be considered by Price Controller in determining mark-ups to be allowed for manufacturers is how rapidly the cost of manufacturing or importing commodities would be expected to increase. For example, where production cost is expected to increase faster, profit margins are also expected to be larger and the converse is true. In his survey on price controls in Tanzania, Rice, is reported to have noted that;

...the faster the cost of production is expected to increase, the larger the margin allowed, so the frequency of price increases will be less.³²

Although Rice's study is useful in providing evidence on setting mark-ups, it fails to justify how costs and margins can increase in the absence of frequent price increases unless manufacturers are subsidized.

The third factor to be considered in setting profit margins is demand for the product sold. This is governed by the elasticity of demand. Simple economic theory

³² Rice, Robert C., op.cit., p. 97.

tells us that the more inelastic the demand is for the product, the higher is the profit margin. But this demand situation ought to be carefully weighed against the demand situation in neighbouring countries. For the controlled profit margins to be operative, Kenyan price ceilings, for example, ought to be compatible with those existing in Tanzania. If the ratio of the Kenyan price to the Tanzanian price is too high, there is a possibility of the product demanded being smuggled into Kenya. The products which are likely to be affected by this kind of demand may include: khangas, cooking oil and ghee.³³

However, there are related factors to the demand problem. Related to demand factor are customer loyalty to company product, the behavioral patterns of competition and costs. With regard to customer loyalty to company's product, producers ought to examine their pricing problems through the eye of their customers. If this is not reviewed carefully, customers are likely to reject the companies product and turn to that of competitors or make their own.

Competitors reaction or lack of reaction influences pricing decisions. Knowledge of rival's technology, plant size, and operating policies help sharpen estimates costs and the profit margin to be set. It may be noted that firms within industries that loathe price competition have been known to swap detailed cost information for mutual benefit. In the absence of collusion, rival's reactions

³³ Rice, Robert C., Ibid, p. 97.

and mark-up pricing decisions must be guessed, otherwise margins so set are likely to be unoperative and redundant.

Costs are also an important element in setting mark-ups. Usually both the Price Controller and manufacturers base their mark-up on the basis of cost. For example, mark-up may be stated as 30% of cost. In relation to costs, maximum price charged on the basis of costs ought not drive customers away. Where a manufacturer has little discretion, he accepts the price set up by competitors. Then, given certain economic conditions, the firm ordinarily selects the level of production and sales that maximizes profits.

The cost-plus method to pricing seem to have had wide acceptance among various manufacturers and the Price Controller for a various reasons. In the case of producers as opposed to the Price Controller, the preference of this method seem to be influenced by sizes, product characteristics and product range and varying degree of competition for their products. So by taking these influences into account, it may become easier to comprehend the strengths of cost-plus pricing.

The first justification for application of cost-plus approach is that it offers a means by which fair and plausible prices can be found with ease and speed, no matter how many products the firm handles. In this respect, after approving cost structures and price structures, the Price Controller can quickly determine

the prices of various products. Secondly, in practice, firms are uncertain about the shape of their demand curves and about the probable response to any price changes. With this pessimistic viewpoint or projection into the uncertain future, it becomes risky to move away from full-cost pricing technique. Another reason for application of this method is the degree of competition. When products and production processes are similar, cost-plus pricing may offer a source of competitive stability by setting a price that is likely to yield acceptable profits. Finally, in cases where cost of getting information is high, and the process of trial and error is costly, and the information about market is incomplete, use of cost-plus method reduces the cost of decision making.

In spite of the above strengths, cost-plus suffers from two deficiencies. Firstly, this method is based on the contention that the higher the costs, the higher the profits. At company level, this generates higher profits but at consumer level, it is likely to create discontent among the people as it may lead to higher cost of living. Secondly, the introduction of predetermined factory overhead component into the cost of a product prevents the selling price from reflecting the actual cost of a product.

Although cost-plus approach to pricing convention relies on arbitrary costs and arbitrary mark-up, it is

widely adopted by manufacturers and Price Controller because of simplicity.

3.1.2 Imported Products.

In order to determine the price of controlled imported products, the Minister for Finance, under the umbrella of the Price Controller, may take the following as landed cost:

- (i) Cost of importation and clearing costs.
- (ii) Indirect taxes paid on these goods.
- (iii) Some allowance covering inventory storage costs, ordering costs and provide a margin in relation to turnover and capital employed.

Landed cost may be defined as the cost incurred in importing the product upto the warehouse. In the case of price controlled products, the Price Controller normally adds predetermined profit margins to the landed costs. With respect to imported products profit margins may be determined by one of the following methods:

(a) De facto:

With respect to this approach, margins have for the most part been historically determined and are supposed to cover fixed costs such as administrative expenses, rent of building and salaries. De facto approach is concerned with generally accepted pricing method and is taken to be ethical or socially acceptable.

(b) De jure:

This approach requires that profit margins be based on the rate of capital employed and turnover rate. In this case the margins are set in accordance with the law. De jure approach creates an incentive to importers to increase their capital employed, where capital employed is taken to mean the size of capital used to import the products, for storage in the warehouse and vehicles used in transporting the products to the wholesaler.

In a nutshell, prices of most controlled items are determined on the basis of cost-plus approach. The cost-plus approach to pricing requires that a predetermined percentage mark-up be added to the cost of production in the case of locally manufactured products. For imported products a margin is added to the landed costs to arrive at their selling prices. With regard to imported products, controlling of prices has been a problem to the Price Controller. This is due to fluctuations in the world market prices which cause unpredictable cost changes. Because of these fluctuations, at one time, the Price Controller was prompted to decontrol some products. An example of this was control of wine in 1973 and its decontrol in 1976, thus leaving the price to be determined by market forces of demand and supply.

The application of price increases follows some form of procedure. A firm applying for a price increase is

required to complete a questionnaire which should be accompanied by company's corporate reports and documentary evidence. He is required to submit a copy of the Profit and Loss Account, Balance sheets for the previous two financial years and supporting documents, for instance suppliers invoices to show that his costs went up. Also submitted are proposed cost structures and price structures. On submission of these documents, the Price Controller reviews costs and respective needed profit margins of the firm in question. In the final analysis, the application may be accepted or rejected. If price increase is approved, then the Price Controller communicates with the manufacturer by letter and subsequently informs the public and middlemen by publishing the recommended selling prices.

3.2

PRICE CEILINGS

After the costing and pricing have been done, the Price Controller ensures that certain price levels are not exceeded or permitted to fall. The study of price controls indicate that price ceilings operate within a frame. This actually shows that in the absence of a frame the term price controls would not suffice.

Price ceilings in Kenya are set by the Price Control Department which happen to fall under the Ministry of Finance. Under the terms of the Price Control Act (Chapter 504) of 1962, the Price Control Department was incepted in 1971 with the power to fix maximum prices for the sale of goods and also set maximum service charge and maximum hire charges. The concept of price ceilings revolves around two limits, the upper limit and the lower limit prices. When the Price Controller sets these two limits she tends to interfere with the market forces of demand and supply. The two limits are discussed below.

3.2.1 Maximum Price.

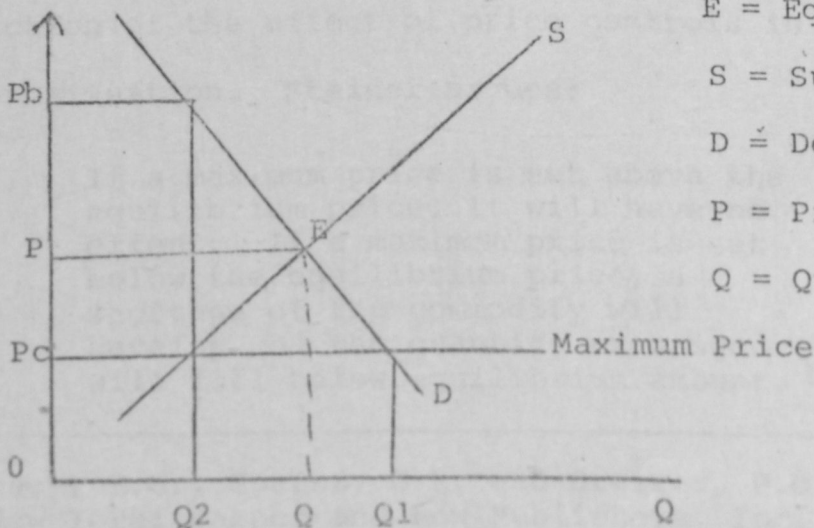
According to Jervis, F.R.J., maximum price is defined as fixed legal prices which may not be exceeded.³⁴ Jervis' definition only stresses the upper limit of selling price but a more detailed definition is contained in the Price Control Act of 1972. The Act provides:

³⁴Jervis, F.R.J., op.cit., p. 44.

Maximum price means the maximum lawful price at which goods may be sold in wholesale or retail quantities or otherwise, as the case may be, in accordance with this Act, and includes any considerations for an option to purchase.³⁵

With respect to maximum price, normally an order is made such that a price is the maximum, and sellers, be they manufacturers, retailers or wholesalers are not permitted to charge a higher price. This order is, in most cases, accompanied by penal clauses as what would happen to a seller if he infringes upon the maximum price legislation. It may also be noted that it is not just a matter of setting maximum price. Setting the price requires the Price Controller to carefully examine the effect on the producer and consumer since it may either affect the producer, consumer or both. The effect of government interference with the market can be illustrated on the diagram below.

FIGURE 1
MAXIMUM PRICE



Key:

E = Equilibrium

S = Supply

D = Demand

P = Price

Q = Quantity

³⁵ Price Control Act, op.cit., Section 1, p.4.

Explanation:

At equilibrium price P , the equilibrium quantity is Q . If a price ceiling is reduced from P to P_c , the quantity demanded will rise to Q_1 , and the quantity supplied will fall to Q_2 . Quantity Q_2Q_1 will be excess demand. Under rationing, Q_2 will be sold as regulated by the government at P_c . The quantity of goods, however, would command a price of P_b per unit on a black market.

If maximum price is set for instance above the equilibrium E , government intervention will not have any effect because the market price will in a way be consistent with the maximum price. Hence no problem or no effect will result. If, however the maximum price is set below equilibrium level at P_c , the equilibrium level will no longer be legally attainable. In this case the price must be reduced, thus expanding the quantity demanded. On the other hand, the forced reduction in price will cause a tremendous reduction in supply, hence causation of shortages. This argument coincides with Steiner's prediction of the effect of price controls in a competitive market situation. Steiner argues;

If a maximum price is set above the equilibrium price, it will have no effect. If a maximum price is set below the equilibrium price, a shortage of the commodity will develop and the quantity exchanged will fall below equilibrium amount.³⁶

³⁶ Lipsey, R.G., Sparks, G.R. and Steiner, P.O. *Economics*. New York: Harper and Row Publishers, Inc., 1973, p. 97.

When the amount exchanged falls below equilibrium level, either the government, consumer or producer is likely to be affected. Writing on this, Ryan observed:

the Government also has its decision time horizon which may not coincide with that of either consumers or producers. We see that the government intervention, if it conflicts with the market, it means that consumers' or producers' objectives are frustrated, and simple theory predicts that the frustrated party will seek ways of minimizing his loss.³⁷

From Ryan's thesis of frustrating controls, one would say that price controls are then redundant and may result into wasted resources which were initially devoted in their preparation and enforcement. Under this situation black market or discrimination among buyers is likely to develop.

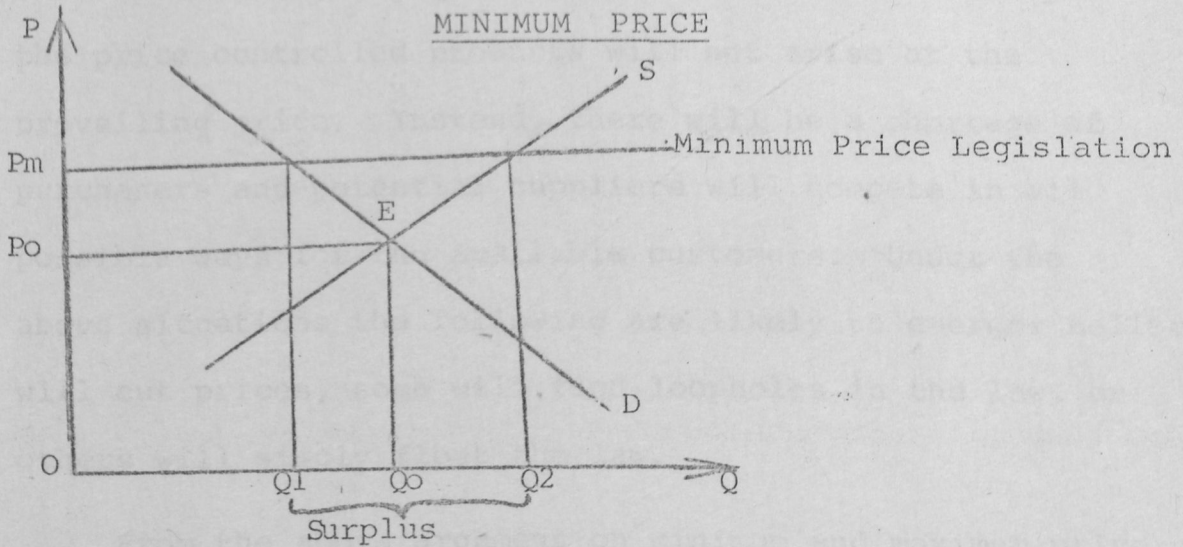
3.2.2. Minimum Price:

Minimum price may be defined as level at which prices are not permitted to fall. A minimum price level is normally set where the government objective is to protect sellers, for instance agricultural farmers, against bumper harvests. The minimum price cannot be zero because at zero price nothing would be bought and sold. In order to enhance sellers protection, the Price Controller may from

³⁷ Ryan, T.C.I. "Illegal Activities in Frustration of Controls: Theoretical Considerations", Price Marketing Controls in Kenya. Occasional paper No. 32. Institute for Development Studies. University of Nairobi, 1979, p. 24.

time to time stipulate laws stating that certain goods and services should not be sold below the set prices. The figure below shows an effective minimum price.

FIGURE 2



At equilibrium E , price is P_0 and the quantity demanded is Q_0 . If a minimum price is set above equilibrium, at P_m , there will be an excess of quantity supplied over the quantity demanded. In this situation, suppliers will be willing to sell at Q_2 , but the purchasers are only willing to buy Q_1 . Effective minimum price reduces the quantity bought and sold and creates a surplus of the commodity. In order to clear the excess supply, Q_1Q_2 , the sellers will illegally sell below minimum price.

On the above Figure 2, the minimum price line was not drawn below the equilibrium level because it has no effect on the market, since the attainment of the free-market equilibrium and the fulfilment of the minimum price law are perfectly compatible. This also explains why the maximum price line was not drawn in Figure 1. But if the minimum price is

set above the equilibrium, as shown in Figure 2, the free-market equilibrium will be higher. There will then be a surplus of the commodity and the quantity exchanged will fall below its equilibrium level. Here scarcity of the price controlled products will not arise at the prevailing price. Instead, there will be a shortage of purchasers and potential suppliers will compete in all possible ways for the available customers. Under the above situations the following are likely to emerge: sellers will cut prices, some will find loopholes in the law, or others will simply flout the law.

From the above argument on minimum and maximum price levels, it may be reasonably stated that, in order to effectively manage price controls, the Price Controller may strike a balance between what is theoretically possible and what is practically enforceable.

3.3 SOME POSSIBLE EFFECTS OF PRICE CONTROLS

The first part this literature review highlighted some of the possible roles of price controls. These included monopoly control, consumer protection, anti-inflationary measure, and sellers protection. It may be stated that while these objectives may be achieved by price controls as a instrument of economic management, a poorly enforced system might lead to problems. On the other hand, there is no justifiable reason to assume that a strict price control system left to itself can satisfactorily work enough in the interest of the producers, consumers or the society in general. Although there may be a handful of effects, this section deals with the effect of price controls on two salient concerns of the producers, namely investment and profitability.

3.3.1 Investment.

Price controls, if not well administered, may have an undesirable influence on the level of investment in production of certain products. Further to that even a mere imposition of controls, irrespective of its operational perspective, may result into some adverse effects. For instance imposition of controls may result in more risk and a decrease in the expected rate of return from investment for potential investors, which in turn results in less investment in the production of certain products. Consequently, this may result in less supply

and a potentially high price in the long-run period.

Apart from that, investors may evade controls by altering their current investment into larger investment in the production of uncontrolled products so as to earn at least normal profits.

In connection with investment, a critical factor which is likely to affect the possibility chain of events is who makes investment decisions, and on what basis are the investment decisions made. The government legislation of price ceilings is likely to have a significant influence on the level of investment in both the private and the public sectors of the economy. In the economy where private investment is dominant including joint venture between the public and private sectors, probably price ceilings (maximum and minimum prices) have led to less investment and less output levels in the long-run period although output may be increased in the short-run. In this theorized situation, price controls may have an adverse effect on investment in knitwear, socks, radios, beds, leather products, cooking oil, bread, some textiles, blankets, stoves, soap, detergents, plywood and chipboards. Other areas that are likely to be affected are investments in iron products such as nails, welded mesh, and fencing wire; retailing, wholesaling and even transportation modes. However, an empirical study is required to justify the importance and extent of these hypothesized effects.

It may be argued that, a manufacturer by altering his

investment decisions may strive to reduce the magnitude of risk. In this case price controls may be perceived as reducing the magnitude of investment incentive of manufacturers. If the objective of price controls is compacting the level of inflation on the poor people of the society, price controls are likely to be more reliable in concentrating on regulating the price of wage goods. If they are successful, price controls may have an effect on holding down profit margins on the production and distribution of "essential" items, and subsequently raise the profitability of uncontrolled luxury products. Thus, a set of investment incentive may be created to discourage the production of essential products and encourage production of luxury ones. Precisely speaking, this situation would be the opposite of what would be desirable to protect the real standards of living of the low income group in the society. If she has to avoid this effect, the Price Controller may put up controls on essential products in order to restore returns to investments in the production of essential products. The resulting effect would be that the controls may tend to be redundant and ineffective. Pointing out the effect of price controls on investment, the Chairman of K.A.M. as well as East African Industries, Mr. Wanjui, J.B. notes,

Price controls have constrained economic growth by keeping investors inadequately rewarded for their efforts...large sums

of money are invested without a proportionate return on such investment.³⁸

The Managing Director of Cadbury Schweppes (Kenya), Paul Judge also agrees with Wanjui's contention on the effect of price controls on investment. He observes

..... the overriding answer to the question of why commercial investment in Kenya has dried up is price control. This is seen as a more serious problem than items like import licences, work permits or financing limits which are other areas regulated by the government.³⁹

Indeed this observation focuses on price controls as the major problem which has caused declining investment. From the manufacturers viewpoint, investment incentive has been influenced by the General Price Control Orders made under Section 5 (1) (c) of the price control Act (1972). This section of the Act has been an obstacle to industrial expansion in Kenya since 1971. For instance, while price control orders may not have been successful in lowering consumer prices, its administration interferes with investment incentive. Ironically, the consumer has continued to pay higher prices for goods except in the case of specifically controlled essential products.

In certain situations, manufacturers may react by

³⁸ Jones, Harry. "Price Controls Bite Hard", African Business, No. 52, December 1982 p. 27.

³⁹ Jones, Harry. Ibid., p. 27.

opting to some evasive measures so as to survive in business. This is true for strict controls and investment disincentive. Given these two circumstances, they may produce poor quality products so as to keep the costs below the meagre prices. In Kenya, this may be evidenced by the locally made matches which are difficult to ignite and sugar which is not properly refined and often contains a multiple of unwelcome little foreign particles. However, poor quality products might not necessarily be attributed to low prices. It may even be due to inefficient machines or labour force that is employed in making these essential items. In spite of this argument, Silas Ita still attributes poor quality products to low prices. He notes

"the uneconomic prices allowed for by the Price Controller force manufacturers to produce low quality products or even drop some product lines."⁴⁰

Apart from production of low quality products, investors might produce uncontrolled items or import uncontrolled products by changing their brand names or/and import numbers in order to evade price controls.

3.3.2 Profitability.

Before dealing with effect of price controls on profitability, it is however important to indicate how profitability is measured. Profitability may be measured by use of after-tax profits expressed as percentage of

⁴⁰ Ita, Silas, M. "The Effect of the General Price Control Orders on Manufacturing", Price and Marketing Controls in Kenya. Occasional Paper No. 32, 1979, pp. 37-40.

of owner's equity and retained earnings. Profitability is measured on this basis for two reasons. First, in times of inflation, absolute profit level may rise without necessarily reflecting real profitability increases. In this case retained earnings may be affected by inflation to the extent as the absolute profit level; in this manner polishing the effect of inflation as a measure of profitability. Secondly, one of the main objectives of management is to maximize owner's wealth. So to measure wealth effectively, profits after tax may be used in measurement of profitability.

In Kenya, price controls have caused heavy losses for some firms, while for some firms their profitability has been on the increase. The heavy losses sustained by some firms are due to delays in the processing of applications for price increase. A case in point is East African Portland Cement Company. It was reported:

✧ The company is approaching its overdraft facility limits. The Board attributes the financial situation it is now facing to have been caused by delays in implementation of price increase following an application made in July, 1981 which was not approved until December, 1981. The delay cost the company nearly 20 million shillings.⁴¹

This loss could have been minimized had the applications been approved in time. The above report seem to be in conformity with various company reports at

⁴¹ Annual Report, East African Portland Cement, 1981.

the Registrar of Companies Office. The reports give an impression of price controls administration being a very serious problem. Most of the companies blamed the Price Controller for delays in approving price increases when raw material costs rise as the delays caused fluctuations in profitability level and thus made forward planning hazardous. A company which fell victim of this is Cow and Gate, which closed its business in November, 1981 after making heavy losses during the previous year than the total of its profits during the previous 14 years. In February, 1982, three months after it had closed its doors, its needed price was gazetted.⁴² In relation to falling profits of firms, Silas Ita views the system of approving applications for price increases allowed as reflecting an attitude of profit control.⁴³ Another evidence of reduced profits caused by price controls is George Williamson (Kenya) Ltd., whose Report and Accounts confirmed the preliminary figures, an after tax profits of K£136,118, down K£109,113 or 44% of the previous years figure of K£245,231 in 1981.⁴⁴ The two factors which seem to have contributed to low performance were continued rising costs and new and higher controlled prices for local tea leaves. Price controls affect companies to a varying extent. The variability in effect can be evidenced by examination of companies quoted on the

⁴² Jones, Harry. op.cit., p. 28.

⁴³ Ita, Silas, M. op.cit., p. 37.

⁴⁴ "Williamson Prospects", East African Report on Trade and Industry, April 1982, p. 12.

Nairobi Stock Exchange are compared. The table⁴⁵ shown below can at least help us reach tentative conclusions and explanations with respect to profitability of the firms.

TABLE 4

AFTER-TAX PROFITS EXPRESSED AS PERCENTAGE OF OWNERS EQUITY PLUS RETAINED EARNINGS.

NAME OF COMPANY	END YEAR	1969	1970	1971	1972	1973	1974	1975	1976
1. Kenya National Mills Ltd.	Dec., 31	7.0	11.0	-	12.0	11.8	5.6	4.1	4.2
2. B.A.T. (Kenya) Ltd.	Dec., 31	18.1	23.0	25.4	23.8	25.7	27.8	28.0	28.0
3. E.A. Bag & Cordage Co.	Mar., 30	14.4	-1.3	-3.4	6.0	8.7	2.4	7.5	19.5
4. E.A. Breweries Ltd.	June, 30	19.2	18.9	21.8	-	24.9	19.3	12.9	13.5
5. Bamburi Portland Cement Co.	Dec., 31	22.7	21.6	-	21.1	15.3	16.3	21.6	25.6
6. Elliots Bakeries Ltd.	July, 31	18.2	20.0	22.2	22.2	20.5	14.7	3.7	2.8
7. Kenya Orchards Ltd.	June, 30	-1.6	0.1	-	-6.4	9.8	1.1	19.6	-5.2
8. Kenya Oil Co. Ltd.	May, 31	13.1	17.2	20.3	21.5	23.0	9.6	9.4	13.1
9. E.A. Oxygen Ltd.	Sept., 30	16.1	20.3	-	25.0	20.8	18.6	22.7	17.9
10. Kenya Cooperative Creameries (KCC)	June, 30	-	-	14.0	-7.8	-46.7	33.6	28.1	.1
11. E.A. Portland Cement	Dec., 31	13.2	15.8	16.9	15.5	16.4	19.0	18.2	-
12. E.A. Packaging Industries	June, 30	-	22.8	18.9	13.3	19.4	41.2	20.5	2.3
Number of firms (K.C.C. excluded)		10	11	7	10	11	11	11	10
Average Profitability of above firms		14.0	15.4	17.4	15.4	17.8	16.0	11.7	12.7
Average for firms quoted on the Nairobi Stock Exchange		12.2	12.5	13.3	13.5	13.8	16.9	12.9	14.3
Number of firms in the Sample		40	44	25	42	50	53	47	29
Average Profitability of non-controlled firms		12.0	11.5	11.7	12.9	12.7	17.1	13.3	15.9
Profits of Price Controlled Firms as % of non-controlled firms.		121	133	149	119	141	93	88	80

⁴⁵ Raphael Kaplinsky's Files. (Extract from Office of Registrar of Companies).

From the above table profitability of B.A.T. (Kenya) Ltd., a manufacturer of cigarettes has been on the increase inspite of the price controls in Kenya. That is so because companies which produce products that the Price Controller considers to be luxuries are allowed to make more profits for instance, B.A.T. and Kenya Breweries Ltd. On the other hand companies engaged in production of essential products, for instance Elliots' Bakeries Ltd. and Kenya National Mills Ltd., their profitability has been on the decline. The reason behind the decline is that the Price Controller normally awards low price increases in attempt to protect lower income consumers of the society. Additionally, although the price controlled firms were more profitable than the non-price controlled ones before introduction of price controls, the ratio of profitability of 'controlled' to the non-controlled firms has been on the decline. This case is justified by the examination of the profitability of the above firms since 1971, although the figures after 1977 were not computed for this study.

In conclusion, the effect of price controls on investment and profitability vary from firm to firm. Price controls have affected investment to the extent that firms may easily shift to large investment in the production of non-price controlled products. In the case of profitability, most firms which engage in price controlled products has been on the decline, while it has been on the increase in the case of some firms.

CHAPTER 4

RESEARCH DESIGN

4.1 Data Collection Methods.

In this study, data collected was of two types, namely secondary data and primary data.

4.2.1 Secondary data.

This data forms most part of the literature review. The data was collected and organized from a myriad of sources. These sources were categorized as:

(a) Government sources.

With regard to price controls, government sources were among the most invaluable source of secondary data. From the Central Bureau of Statistics it was possible to gain accessibility to the following government documents:

- (i) Statistical Abstracts.
- (ii) Economic Survey Journals.
- (iii) Kenya's Annual Expenditure Records.

Another very resourceful Government source was the Government Printer where, as far as possible, documents such as the Price Control Act, Weekly Kenya Magazines and Price Control files were obtained.

(b) Industry Sources:

These included Trade Publications such as:

- (i) East African Report on Trade and Industry Journals.

- (ii) African Business Journals.
- (iii) Executive Journals.
- (iv) Corporate Reports.

(c) Academic Sources:

These sources of secondary data were mainly the library in general.

4.1.2 Primary Data.

In this nature of study, manufacturers attitudes towards Government Price Controls and their administration in Kenya were collected by questionnaire method. The questionnaire was structured and administered. First, the questionnaire was pre-tested on ten firms and ammendments made on the questionnaire by reorganizing and removing bad items. Then the revised questionnaire was launched to business executives.

In the survey, executives were presented with Likert-type statements dealing with social, economic and regulatory aspects of price controls and were asked to either strongly agree, agree, strongly disagree, disagree, or neither agree nor disagree with each statement. A five point Likert scale was used in the questionnaire. In the same questionnaire, the executives were also presented with Semantic Differential-type bipolar adjectives, and were askēd to indicate on a five point scale the performance or character of personnel in the Price Control Department. The Semantic

Differential was used because of its simplicity and versatility. In this study therefore, primary data was mainly collected by using Likert-Scale and Semantic Differential techniques although several other questions which did not fall in the above categories were also presented.

In this study which was conducted between March 1983 and October 1983, attitudes towards particular aspects of price controls were obtained from a population of thirty-eight business executives of thirty-eight manufacturing firms. A breakdown of the business executives was: ten General Managers, five Managing Directors, sixteen Sales/Marketing Managers, five Chief Accountants and two Financial Controllers. Each business executive represented his firm in terms of attitudes and opinions toward Government price controls and their administration in Kenya.

4.2 Sampling Technique.

In Nairobi, there are many manufacturing firms engaged in the manufacture of various products. While some firms produce one product, others produce a range of products. A Directory of Manufacturing firms in Kenya of 1977 indicated that a majority of the firms do not produce price controlled products. So in order to determine which firms were to be surveyed, a list of firms whose products fall under price controls was obtained from the Office of the Price Controller. It was a list of thirty-eight firms and it included details such as

range of products produced by each firm and its industrial location respectively.

Since the list of the thirty-eight firms was significantly large and exhaustive, and products manufactured by the firms were diversified in nature, it was decided that all the firms be surveyed. Another reason for surveying entire population was that after pre-testing the questionnaire there was diversity in opinion of ten executives, meaning the population was heterogeneous. This study therefore was based on the entire judgement and convenient population.

CHAPTER 5

DATA ANALYSIS AND PRESENTATION OF THE FINDINGS.

5.1 DATA ANALYSIS.

In this study data was analysed by a variety of methods or techniques. These were item analysis, percentages, averages, content description and its analysis.

Table 4 summarizes the results of the executives survey whose firms engage in the production of price controlled items. The index in the last column of the table was calculated by subtracting from any given attitude statement, the percentage of respondents who disagreed from the total of those who agreed. A positive index indicates a preponderance of agreement, a negative index means disagreement. It was decided that the best way to discuss the below findings is item by item analysis. The discussion will begin with economic aspects of price controls, followed by social aspects and end with a discussion of the regulatory aspects.

The executives' responses to the bipolar adjectives which reflect the character or performance of the staff in the Price Control Department are summarized in Table 5. The average score in the last column of the table was calculated by adding up to any given set of bipolar adjectives, the score of each respondent. The total score obtained is then divided by the number of executives who responded to that set of adjectives. Finally the average score is indicated on the five point scale and joined to form a graph. The rest of the data was analysed by description of content, averages and percentages.

5.2

PRESENTATION OF THE FINDINGS.

TABLE 5

EXECUTIVES ATTITUDES TOWARD PARTICULAR ASPECTS OF PRICE CONTROLS.

(N = 38).

<u>Statement</u>	<u>Strongly Agree</u>	<u>Agree</u>	<u>Neither Agree or Disagree</u>	<u>Disagree</u>	<u>Strongly Disagree</u>	<u>*Index</u>
<u>Economic Aspects.</u>						
1. Price controls do not improve the quality of products produced.	38%	50%	6%	6%	0%	82
2. In general Price Controls result in lower prices.	12%	41%	12%	35%	0%	18
3. Effective Price Controls can increase output.	12%	24%	18%	29%	17%	-10
4. Price Controls have been a major constraint on profitability of your firm.	29%	47%	12%	12%	0%	64
5. Price Controls contribute to shortages of essential products.	28%	22%	33%	11%	6%	33

<u>Statement</u>	<u>Strongly Agree</u>		<u>Neither Agree or Disagree</u>	<u>Disagree</u>	<u>Strongly Disagree</u>	<u>*Index</u>
6. In Kenya price controls do not control inflation.	18%	65%	17%	0%	0%	83
7. Price controls have been effective in protecting consumers.	18%	35%	12%	29%	6%	18
8. Price Controls affect investment decisions of your firm.	12%	53%	24%	11%	0%	54
9. Price Controls reduce monopoly power of companies.	6%	47%	18%	24%	5%	24
10. Price Controls have no influence on capital structure of companies.	0%	33%	33%	22%	11%	0

<u>Statement</u>	<u>Strongly Agree</u>	<u>Agree</u>	<u>Neither Agree or Disagree</u>	<u>Disagree</u>	<u>Strongly Disagree</u>	<u>*Index</u>
11. In setting price ceilings the Price Controller should take into account all costs of production.	59	30%	0%	6%	5%	78
12. In Kenya Price Controls are not essential.	6%	17%	22%	44%	11%	-32
13. Price Controls help raise our standard of living.	0%	24%	24%	35%	18%	-29
14. Much money spent on price controls is wasted.	12%	12%	52%	24%	0%	0
<u>Social Aspects.</u>						
15. There should be consultations between Price Controls Personnel and Manufacturers	47%	47%	6%	0%	0%	94
<u>Regulatory Aspects.</u>						
16. Price Control Administration is too strict.	6%	24%	58%	6%	6%	18
17. Price Control Act does enhance manufacturer protection.	0%	0%	35%	41%	24%	-65

*Index = (% agreeing with statements minus % disagreeing).

Economics Aspects.

1. Respondents were in strong agreement that price controls do not improve the quality of products produced.
One of the elements of a marketing mix is price, and goods of high quality can be sold at a higher price. That is the better the quality the higher is the price. This may go along with winning the loyalty of consumers. Executives did not think that price controls were useful in improving the quality of the products produced (index = 82). They did not see the possibility of price controls induced improvements in products.
2. In general price controls result in lower prices.
A positive index 18 shows that executives in the study thought that price controls result in lower prices. Lower prices is one of the purposes of controls and if prices cannot be lowered then the term "price controls" would not suffice. Price is one of the variables in the marketing mix that a seller manipulates (or coordinates) in order to achieve a given sales volume.
3. Can effective price controls increase output?
A negative index 10 shows that executives in the study did not think so. They did not see the possibility of price controls induced increments in

output. This response is understandable because the relationship between price and output is a complex one, particularly in both monopolistic and competitive market situations. It therefore requires a clear understanding of all factors which influence the market forces.

4. Price Controls have been a Major Constraint on Profitability of your Firm. It is generally agreed that the financial objective of the firm should be the maximization of owner's economic welfare. However, there is disagreement as to how economic welfare can be maximized. Two well known and widely used criteria are profit maximization and wealth maximization. Where price controls are effective, profit margins are reduced. This is true in the case of increased costs while prices are not permitted to rise because of maximum price levels. As indicated by index 64, executives were in strong agreement that price controls have been a major constraint on profitability of their firms. If a firm is unable to operate profitably, it is likely to close down in the long-run since it may not cover its costs of production.

5. Do Price Controls Contribute to Shortages of Essential Products? A positive index 33 shows that most executives reply was a "yes" to this question. It is possible to give good reasons for shortages of essential products. When demand for the product is high and prices are not allowed to increase due to

maximum price set below the equilibrium level, there is a tendency to hoard essential products. At times storekeepers decide on who should get the scarce product or who should not. In this case goods may be kept under the counter and later sold to regular customers.

While the Price Controller may be able to control the price that producers get for their product effectively, it may not be able to effectively control the price at which the retailers sell to the general public. At retail level a black market is likely to develop because consumers would be willing to pay more than the controlled price for the limited supply. The development of the black market arises because there are a few people willing to risk heavy penalties by running a black market supply organization, and a reasonably large number of people are willing to buy products illegally on black market.

6. In Kenya Price Controls do not control inflation.

A positive index 83 showed that price controls do not perform the role of anti-inflationary measure.

There are various types and causes of inflation.

Demand-pull inflation is due to "excessive" planned consumption triggered off by boom increases in export earning or wages or excessive investment or excessive government spending, government deficit financing and excessive monetary expansion. Cost

push inflation is caused by increases in the cost of the factors of production, while bottleneck inflation is caused by failures in agricultural production, foreign exchange and collapse in import supply. So the executives thought that price controls did not control any of the above forms of inflation. This response is consistent with the popular agreement that price controls contribute to shortages of essential products. Disappearance of essential products from the market may hike the prices of the essential products.

7. Have price controls been effective in protecting consumers? Executives were in agreement that price controls have been effective in protecting consumers as shown by index 18. One of the roles or reasons behind price controls is consumer protection, and consumer protection involves the legislation of minimum price and maximum price level.

8. Do price controls affect investment decisions of your firm? Executives, as shown by positive index 54, thought that price controls affected their investment decisions. The answer to this question was "yes". Investment decisions, as far as price controls are concerned, involve shifting from investing in price controlled items to non-price controlled items, discontinuing production of some

items all together, or importing non-controlled raw materials. Investors, by opting to one of the above methods, can alter their investment decisions.

9. Price Controls reduce monopoly power of companies.

Most executives were in agreement that price controls reduce monopoly power of companies as indicated by index 24. Where the government sets price ceilings, most companies are prevented from selling their products at any price they so wish. In this case most companies are reduced to competitive levels, hence perfect competition. But this perfect competition can be overwhelmed if the products so produced by that company are of heterogeneous nature and are not produced by other firms in the same industry. In some cases some multinational firms use price as a strategy to increase their monopoly powers. So to restrict this Kenya Government has introduced laws to enforce competition.

10. Do price controls have influence on capital structure of companies? Executives, as shown by index 0, were undecided on the influence of price controls on capital structure of companies. They were indifferent to this statement. Capital structure, sometimes known as financial plan, refers to the composition of long term sources of funds, such as debentures, long

term debt, preference share capital and ordinary share capital including reserves and surpluses (retained earnings). A sound or appropriate capital structure of a company ought to have the following features: profitability, solvency, flexibility, conservation and control. Generally, the following factors may be considered whenever a capital structure decision has to be taken: leverage (trading on equity), cost of capital, cash-flow ability of the company, size of the company and floating costs. The index 0 cannot help reach a conclusion as whether or not price controls affect capital structure. May be, this question was difficult for those executives who have never had a course in Finance to figure out the influence of price controls on capital structure.

11. In setting price ceilings, the Price Controller should take into account all costs of production.

Executives were in strong agreement that Price Controller should take into account all costs of production in setting price ceilings, as shown by index 78. Executives felt that all costs of production which included cost of raw materials, labour and factory overhead be taken into account when determining maximum and minimum price levels. Most executives were receptive to this statement.

12. In Kenya, Price Controls are not essential.

A negative index 32 indicates that most executives reply was a "no" to this statement. This shows that price controls in Kenya are essential. It is possible to give reasons as to why price controls are essential. Price controls can play the role of protection of consumers, control of monopolies, control of inflation and producers protection. The response to this statement by the executives is in strong agreement with consumer protection, monopoly control but in very strong disagreement with the statement that price controls do not control inflation. In Kenya, therefore, price controls do not control inflation, as shown by index '83 above.

13. Do price controls help raise the standard of living of Kenyans?

Executives did not think it does as indicated by negative index 29. From the response to the statement that price controls have been effective in protecting consumers, it appears that executives who did not have a course in simple economic theory found it difficult to figure out how price controls is concerned with the standard of living and consumer protection.

The standard of living contribution of price controls rest on the premise that price controls

encourage consumers to purchase more products and as such reduce the cost of living. In this case price controls generate consumption, and thus contributing to the whole economy. Where price controls are effective in lowering prices, there is likelihood of increased aggregate demand. Perhaps the negative response may be in conformity with the failure of price controls to control inflation, hence fails to improve the living standard.

14. Is much money spent on price controls wasted?

Executives, as indicated by an index 0, were undecided as regards this question. They were unable to judge whether the money was wasted or not. Here there is some inconsistency. Perhaps this inconsistency in the response is due to failure on the part of the executives to conceptualize the wide role of the essentiality of price controls in Kenya. They might have looked at price controls at company level rather than at national level where price controls are perceived as a tool of economic management.

Social Aspects.

15. Should there be consultations between Price Control Personnel and Manufacturers?

Executives, were in overwhelming agreement

(index = 94) that there should be consultation between

Price Control Personnel and Manufacturers. There was no other statement upon which executives were as agreed on as this one. Consultation will create good human relations, subsequently resolving standing battle, if any, between the manufacturers and the staff in the Price Control Department.

Regulatory Aspects.

16. Price Control Administration is too strict. An index 18 indicate that most of the executives thought that Price Control Administration was too strict. It may therefore be stated that price control need relaxation.

17. Does Price Controls Act enhance manufacturer protection?
 A negative index of 65 indicate that manufacturers are not protected. Manufacturers may therefore require that the Act be revised to protect them. Most executives were deceptive to this statement and this calls upon the Price Controller to have some sections of the Act ammended to protect them.

Table 6 below summarises the executives opinion with regard to the staff in the Price Control Department. The reader will realize that the table summarizes how the staff does its work and their reaction to manufacturers problems.

TABLE 6

CHARACTER OF THE STAFF IN THE PRICE CONTROL DEPARTMENT

	1	2	3	4	5		<u>Average Score</u>
18. Well informed						Uninformed	3.2
19. Dominant						Submissive	2.3
20. Competent						Incompetent	2.8
21. Flexible						Inflexible	3.5
22. Reformative						Reactionary	3.2
23. Organized						Disorganized	3.0
24. Unintelligent						Intelligent	3.6
25. Efficient						Inefficient	3.0
26. Responsible						Irresponsible	2.3
27. Easily satisfied						Hard to please	3.7
28. Humane						Ruthless	2.8

18. Well Informed - - - - - Uninformed

An average score 3.2 indicate that the personnel in the Price Control Department was uninformed. Being uninformed could be the result of lack of initiative to comprehend the concept of price controls, changing market demand, cost structure and possibly the price structures.

19. Dominant - - - - - Submissive.

Executives, as shown by average 2.3, responded that the Personnel was dominant. They did not give the manufacturers ample time to table their proposals, for instance, applications for price increases. This dominance role could lead to suppressed feelings, which could have been useful to the Price Controller for decision making purposes.

20. Competent - - - - - Incompetent.

An average 3.0 indicates that executives were indifferent. They did not seem to conceptualize the competence of the Price Control Personnel. They were unable to identify the skill or proficiency of the staff. Perhaps, as far as indecision is concerned, executives do not meet the Personnel regularly. However, competence might have been difficult to conceptualize as well.

21. Flexible - - - - - Inflexible.

Executives, as shown by an average score of 3.5, indicate that the Personnel is inflexible in their decisions. Inflexibility is in relation to failure to change price control policy whenever market forces change. May be they have maintained the mechanical aspects of price controls as little is done to change cost determination methods and possibly the personnel is dogmatic in perception of

the changed price and cost structures. In other words it may be stated that it takes too long to accept manufacturers proposed price increases.

22. Reformative - - - - - Reactionary.

An average of 3.2 indicates that the personnel in the Price Control Department were reactionary. The response to this question is consistent with inflexibility, which is indicated by the above average score of 3.5. Most respondents were in acceptance that the staff was unwilling to bring about changes.

23. Organized - - - - - Disorganized.

Most executives, as shown by average score of 3.0, were undecided. It was actually difficult for many respondents who have never had a course in management to figure out how the Price Control Personnel or Department is/are organized. Organization may be defined as an aspect of planning, concerned with the definition of responsibilities of the executive, supervisory and specialist positions into which management process has been subdivided; and the formal interrelations established by virtue of such subdivided responsibilities.⁴⁵ In view of this

⁴⁵Brech, E.F.L. Organization: The Framework of Management 2nd Ed. Edited by Brech. London: Longman, Green & Co. Ltd., 1965, p. 18.

definition by Brech, it might have been difficult for executives outside management positions to conceptualize the structure of tasks, especially staffing and above all the integration of the functions into the human systems of activities.

24. Unintelligent - - - - - Intelligent.

An average of 3.6 indicated that most of the people in the Price Control Department were intelligent. They had the ability to figure out the operation of price control policy, that is, pricing policies, costing and even the general understanding of price controls.

25. Efficient - - - - - Inefficient.

In connection with this item, an average score of 3.0 showed that most of the executives were undecided. Most of the executives found it difficult to measure the efficiency of the people in the Price Control Department. Efficiency is measured in terms of the output/input relationship. In order to understand this relationship, conceptual skills are required. So the respondents indecision is not useful for decision making purposes. They were unable to measure economy in resource use, that is what ought to have been used or how well the attainment of a specified target was accomplished.

26. Responsible - - - - - Irresponsible.

Executives, as shown by average 2.3, were of the opinion that the staff was responsible enough in discharging their duties. Responsible person is one who has an obligation to use authority to see duties are performed. When a person accepts authority, he has in essence accepted responsibility and accountability. Unfortunately the two are not normally understood and as a result conflict and confusion emerge. Eventually a subordiante fails to understand that his performance will be evaluated and be held accountable for the results. Perhaps executives were not able to comprehend what responsible staff meant.

27. Easily satisfied - - - - - Hard to please.

An average of 3.7 showed that the Price Controller and her personnel were hard to please. An interview with executives revealed that the Price Controller was actually feared. Whenever executives received a letter from the Price Controller, even if it was not in conformity with price increase proposal, they found it difficult to complain for fear of being identified. Instead they accepted prices as laid down by the Price Controller. In this case there may have been a degree of coercion involved.

28. Humane - - - - Ruthless.

Executives were of the opinion that the staff was humane. This is shown by average 2.8. This opinion is inconsistent with the above opinion of 3.7. The inconsistency may be true if executives viewed the staff at subordinate level rather than at top management level, the Price Controller.

Apart from the above results of the survey, executives were of the opinion that price controls in Kenya were effective. Their responses are shown in the table below.

TABLE 7

<u>PERFORMANCE OF PRICE CONTROLS</u>	
<u>RATING OF CONTROLS</u>	<u>PERCENT OF EXECUTIVES</u>
Effective	55%
Ineffective	19%
Do not know	26%
TOTAL	<u>100%.</u>

Table 7 summarizes the results of performance of price controls in Kenya. From the table, 55% of the executives rated the controls as effective, 19% rated the controls as being ineffective, while 26% of the executives were undecided. In a nutshell, price controls in Kenya were effective since most respondents thought so (55% - 19% = 36%).

When asked, "which of the following do you regard as

a more serious problem with regard to price controls?", most respondents were indifferent since 50% of the respondents felt that administration was a more serious problem while 50% of the respondents indicated that the price control mechanics was more serious.

4.2.1 Some possible improvements as suggested by
Manufacturers of Price Controlled Products.

In the survey most manufacturers made the following recommendations in respect of price controls. The recommendations, if taken seriously by the Price Controller, can improve price controls operations, the mechanics and the administrative aspects and subsequently reduce undesirable influences on the suppliers of price controlled products. The recommendations are as outlined below.

(a) That there should be flexibility of price controls and regrouping of products. Companies can no longer use commission agents due to tight price controls. Regrouping of products per zones would perhaps be the best system of price control such as that governing the sale of Unga, Cement, Milk, Bread among others. Given that price in Nairobi or Mombasa is different from Garissa, Lamu and Mandera, manufacturers would be able to pay for an element of transportation without necessarily digging in their profits or overheads. In other words problem of distances and transport costs should be considered, as for instance, when only one price is fixed for a whole district covering

a wide area. This recommendation therefore calls upon Price Controller to have general knowledge of the price structures all over the country. This recommendation of flexibility conforms with the response to item number 21 on page (89).

(b) That there should be more consultations between the Price Control Department and Industry, Wholesalers and Retailers. The Price Controller should liaise with the manufacturers before increasing prices. More consultations will require that the price controls be managed by more humane people, who should be honest. Staff should be serious in their considerations of price increases and the criterion to be used to allow price increases and margins should be clearly specified and understood by all in order to minimize any misunderstanding.

(c) Increase accounting staff in the Price Control Department. Accountants will be in better position of reviewing cost structures and price structures assess their suitability in awarding price increases.

(d) That computers be increased to reduce bureaucracy. This will inevitably reduce the magnitude of inefficiency and increase effectiveness of the controls in Kenya.

(e) That the time it takes to process and approve or reject applications for price increases should be shortened

but in any case should not be more than 90 days. In connection with this, most executives were of the opinion that it should take an average of 50 days, but a maximum of 90 days to accept or reject applications.⁴⁷ An average of 50 days will save manufacturers from being antagonised by the price controls.

(f) That all levels of consumption to be considered if the standard of living has to be protected. This is a very important recommendation because some manufacturers used inputs that were not price controlled while their items were price controlled. Others supplied their items as inputs to some firms which did not fall under controls. This therefore calls upon the Price Controller to review prices of suppliers, producers and consumers goods before fixing prices. Also profit margins for manufacturers, wholesalers and retailers should be carefully worked out in order to ensure that there is fair distribution of gains in the case of profits.

(g) That there should be a committee of consumers and manufacturers to advise the Price Controller on a regular basis.

(h) That the Price Controller should include all cost of production namely import duties, storage costs and taxes such

⁴⁷ See Appendix 1.

as sales tax. The government should not see price controls merely as a tool of earning revenue, but a motivator to manufacturers in the production and distribution of essential items.

(i) Very often does the Price Controller takes seriously the views of "vocal producers" as opposed to many small producers. The Price Controller therefore should consult even the small manufacturers and get their views before taking up any decisions.

The foregoing recommendations may be useful in improving price controls but the extent to which they can be implemented depends basically on the Price Controller and her administrative machinery at hand.

LIMITATIONS, SUGGESTIONS, SUMMARY AND CONCLUSIONS.

6.1. Limitations of the Study.

Although this study was successful and conclusive, it had some limitations which mitigated better results than the ones raised in the study. These were:

(i) A study on price controls seem to be a sensitive one. When conducting the survey, some of the respondents strongly felt that the interviewer was an agent attached to the Price Control Office and so it became difficult to get some data from them. Apart from being associated with the Price Control Office, some manufacturers thought that the nature of information sought was in the interest of competitors. But after persuading them for some time, some answered the questionnaire with some degree reservation in their explanations. In spite of this drawback all the executives responded although there were non-response to some questions in the study.

(ii) Another limiting factor in this study was time. Where an appointment was made, executives afforded little time for interviews. Perhaps more data would have been collected had they increased time for interviews. Unfortunately time element govern the

operations of business ventures so much that little attention is given to researchers. In some cases some executives thought appointments interfered with their work since they were to be evaluated on the basis of their performance and time savings.

- (iii) In any given situation, or time horizon a study of attitudes is a volatile one. Possibly, different results would have emerged had the study been conducted at a different time. This is so because with time, ideas change, prices change and thus studies on attitude ought to be updated to incorporate most recent data. Finally, pre-tested samples might have had varied attitudes after launching the final questionnaire.

6.2

SUGGESTIONS FOR FURTHER RESEARCH.

In connection with further research work, four possible research areas can be recommended.

(i) In this study, the literature review was gathered from two areas. One was the already researched work and the other one was purely hypothetical. In view of this it may be necessary to carry out an empirical study to justify the importance and extent of the theorized literature. Some of the theory could be tested for applicability and suitability to the Kenyan setting.

(ii) The study on attitudes was solely based on the manufacturers of price controlled products. Perhaps a study on comparison of attitudes of manufacturers, wholesalers, retailers and consumers could be more viable and useful for decision making purposes.

(iii) Most researches in Kenya seem to have ignored the actual mechanics of price and/or how companies arrive at their prices of essential products so as to ask for increases. This study could only be conducted if firms were willing to provide data regarding gross margins of their firms.

(iv) Organization and organization structure of Price Control Department. A study of this kind will facilitate employment of personnel just enough to man price controls especially the aspects of responsibility and accountability.

6.3

SUMMARY AND CONCLUSIONS:

This research project has discussed the scope of price controls in Kenya and presented results on attitudes toward price controls held by business executives from various firms in Nairobi that manufacture price controlled products. Price controls in Kenya were introduced at the beginning of the Second World War as part of the War time regulation. During the period 1939 and 1964, various Committees, Commission and Ordinances governed the operation of price controls. These were Cost of Living Committee formed in 1948, Vasey Cost of Living Commission formed 1950, Leslie Cost of Living Committee, (1953) and Price Control Ordinance which governed controls between 1956 and 1964. After independence but before 1971 price controls were governed by two agreements, that is First and Second Tripartite Agreements of 1964 and 1970 respectively. After 1971, price controls were administered using the General Price Controls and Specific Controls.

In Kenya determination of costs is normally done by two methods, absorption costing and direct costing for specific and general controls respectively. Apart from cost determination, most of the price controlled products are priced on the basis of cost-plus approach, which takes into account costs of production and adding a predetermined percentage of profit. This is the case with locally manufactured goods, but for imported products, a predetermined profit margin is added to the costs of importation

(landed cost). The effect of price controls on investment and profitability of firms in Kenya has been relative. For some firms, for instance B.A.T. its profitability has been on the increase while for Elliots Bakeries Ltd. and Kenya National Mills, have recorded declining profit levels. Delays in approving orders result in temporary stoppages and shift to new products which do not come under price controls.

Most respondents in this study - executives - expressed their confidence in price controls. They agreed that price controls are essential to the Kenyan economy. This is so because the controls play the role of consumer protection and reduction of monopoly powers of companies. Most respondents were skeptical of price controls policy regarding its control of inflation and manufacturer protection. If as the findings suggest, price controls lead to constraint on profitability, output, investment, quality, and contribute to shortages of essential products, it is a reasonable assumption to make that it is losing effectiveness at the margin in its ability to perform its role properly. What can the Price Controller do to improve controls? The first step is increase consultations with manufacturers. This can only be possible if the price control staff became flexible, reformative, easy to satisfy, more informed and less dominant and take all firms serious as opposed to more "vocal" ones. The price controller, as the finding suggests, should relax the Price Control administration.

CHAPTER 7

BIBLIOGRAPHY AND APPENDICES

7.1 Appendices.

7.1.1 Formula. $\bar{X} = \frac{\sum fxi}{N}$

Where $\bar{X}$ = mean number of days.

$\sum$ = Sigma.

f = Frequency.

xi = Mid-point of each group.

N = Population.

This formula was used to compute the average number of days required to process and approve or reject applications for price increases.

EXECUTIVES' QUESTIONNAIRE

7.1.2

SECTION 1:

This section deals with attitude-opinion statements. Indicate with a tick (✓) if you strongly agree, agree, neither agree nor disagree, disagree or strongly disagree with a particular statement.

Economic Aspects.

1. Price controls do not improve the quality of products produced.
2. In general, price controls result in lower prices.
3. Effective price controls can increase output.

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree

	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
4. Price controls have been a major constraint on profitability of your firm.					
5. Price controls contribute to shortages of essential products.					
6. In Kenya, price controls do not control the level of inflation.					
7. Price controls have been effective in protecting consumers.					
8. Price controls affect investment decisions of your firm.					
9. Price controls reduce monopoly power of companies.					
10. Price controls have no influence on capital structure of companies.					

Regulatory Aspects.

16. Price controls administration is too strict.
17. Price Control Act does not enhance manufacturer protection.

SECTION II:

This section deals with adjectives which reflect the character of the staff in the Price Control Department. In each set of adjectives use X in one of the dashes 1 to 5 to indicate the character of the staff in the Price Control Department.

Example:

	1	2	3	4	5	
					X	Impatient.
Patient	-	-	-	-		

The five dashes for the above set of adjectives were assumed to be very patient (1); patient (2)

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree

neither patient nor impatient (3), impatient (4), very impatient (5). In the above case the 5th dash is marked X meaning the answer is that the staff is very impatient.

	1	2	3	4	5	
18. Well informed	-	-	-	-	-	Uninformed
19. Dominant	-	-	-	-	-	Submissive
20. Competent	-	-	-	-	-	Incompetent
21. Flexible	-	-	-	-	-	Inflexible
22. Reformative	-	-	-	-	-	Reactionary
23. Organized	-	-	-	-	-	Disorganized
24. Unintelligent	-	-	-	-	-	Intelligent
25. Efficient	-	-	-	-	-	Inefficient
26. Responsible	-	-	-	-	-	Irresponsible
27. Easily Satisfied	-	-	-	-	-	Hard to please
28. Humane	-	-	-	-	-	Ruthless

SECTION III:

Answer the following:-

29. How would you rate price controls performance in Kenya?
- (a) Effective ()
- (b) Ineffective ()
- (c) Do not know ()

30. Indicate with a tick (✓) how long you would like the Price Control Department to process and approve or reject applications for the price increases.

- 0- 90 days ()
- 91-180 days ()
- 181-270 days ()
- 271-360 days ()
- Over 360 days ()

31. Which of the following do you consider to be a more serious problem as far as price controls are concerned?

- (a) Price controls administration ()
- (b) Price Controls Principles ()

32. What improvements would you like to see in Price Controls administration . _____

7.3

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