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*PRESENTS*

# BUSINESS STUDIES

**TOPIC 9: GOVERNMENT & BUSINESS**

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## GOVERNMENT AND BUSINESS

### Topic Objectives

**By the end of the topic, the learner should be able to:**

- a) Explain reasons for Government involvement in business
- b) Explain how the Government gets involved in business
- c) Discuss the merits and demerits of government involvement in business activities
- d) Discuss the importance of consumer protection



## Introduction

Government involvement in business activities is one of the commercial duties it owes its citizens. It is the one that provides the necessary environment for investments to be undertaken by itself, or by the local and foreign investors. This, the government may do in various ways, these include;

- a) Producing goods and services
- b) Distributing goods and services
- c) Advising producers and traders
- d) Promoting trade and economic development.
- e) Protecting consumers against exploitation by producers and traders.
- f) As a consumer of goods and services.

## Reasons for Government involvement in business

The following are the major reasons for the government's involvement and participation in business activities;

- 1) To prevent exploitation of the public by private business persons especially in the provision of essential goods and services such as sugar, transport, communication etc. the Kenya Bureau of standards (KEBS) regulates the quality of goods consumed in Kenya.
- 2) To provide essential goods and services in areas where private individuals and organizations are unwilling to venture because of low profits/ high risks involved.
- 3) To provide essential goods and services which private organizations and individuals are unable to provide due to the large amount of initial capital required b e.g. generation of electricity, establishment of airlines etc.
- 4) To attract foreign investment by initiating major business projects.
- 5) To stimulate economic development in the country e.g. by providing social services.
- 6) To provide goods and services which are too sensitive to be left in the hands of the private sector e.g. provision of firearms.
- 7) To create employment opportunities by initiating projects such as generation of electricity.



- 8) To prevent foreign dominance of the economy by investing in areas where the locals are not able to.
- 9) To redistribute wealth where returns are very high.
- 10) To prevent establishment of monopolies.

## Methods of Government Involvement in Business

The government gets involved in business activities through the following methods:

### Regulation

This refers to Rules and restrictions the government requires business units to follow in their business activities. Through this method, the government ensures high quality goods and services and puts in control measures to protect consumers from exploitation. The government regulation measures include;

### Licensing

A license is a document that shows that a business has been permitted by the government to operate. It is usually issued upon payment of a small fee.

Licensing is the process of issuing licenses to businesses. Some of the reasons why the government issues licenses include;

- Regulating the number of businesses in a given place at any given time to avoid unhealthy competition.
- To control the type of goods entering and leaving the country.
- To ensure there are no illegal businesses.
- To ensure that traders engage only in trade activities that they have been licensed for.
- To ensure that those who engage in professional activities meet the requirements of the profession.
- To raise revenue for the government.



- a) **Ensuring standards/ enforcing standards;** the government regulates business activities by setting standards that businesses should and ensuring that the standards are adhered to. To achieve this purpose, the government has established bodies such as;
- ✓ **Kenya bureau of standards (KEBS)** whose main responsibility is to set standards especially for the manufactured goods and see to it that the set standards are adhered to/ met. Goods that meet such standards are given a diamond mark of quality, to show that they are of good quality.
  - ✓ **The ministry of public health** to ensure that businesses meet certain standards as concerning facilities before such businesses can be allowed to operate. Such standards may include clean toilets, clean water and well aerated buildings.
- b) **Legislation;** The Government may come up with rules and regulations (laws) that regulate business activities e.g. banning hawking in certain areas, matatus required to carry certain number of passengers etc.

(i) **Training**

The government takes keen interest in training and advising people in business about business management strategies and better ways of producing goods and services. The government offers these services through seminars and courses. This is mainly done by **the Kenya Business Training Institute (K.B.T.I).**

***Reasons for government training include;***

- To expose business persons to modern developments in management.
- Introduce modern technology and skills in management
- Educate the business people on efficient methods of operating a business e.g., effective methods of advertising and keeping books of accounts.
- Expose business people to problems/ challenges facing them and their possible solutions for example, problems of raising capital and identifying investment opportunities.
- Impart proper business ethics e.g. good customer relations and honesty.
- Creating awareness of the available profitable business opportunities in their environment.



- Expose business people to government policies regarding business activities in the country.
- Educate business people on how to use available resources to minimize costs and maximize profits.
- Expose people to other opportunities that exist in the import and export market.

## (ii) Trade promotion

This is a government initiated and supported policy to encourage local business people to enter into business. This is aimed at increasing the volume and variety of goods and services traded in.

Trade promotion is classified as either **external trade promotion** or **internal trade promotion**.

### (a) External trade promotion

- The purpose of external trade promotion is to encourage local business people to enter into the export market.
- It also intended to attract foreign investors into the country.
- In Kenya, external trade promotion is done through the department of external trade in the ministry of trade and industry.
- External trade promotion may also be done by *Commercial attaches*.

**Commercial attaches** are officers sent by the country's government to work with the embassies in foreign countries as support staff in the field of commerce. Their main duty is to look at the interests of their home countries' exports e.g. cash crops and manufactured goods.

#### Duties of commercial attaches

- ✓ Explore and identify new markets for more export opportunities.
- ✓ Research and analyze markets for exports from their home countries.
- ✓ Keep statistics of products such as volumes, packaging size and method of manufacturing.
- ✓ Attend meetings, seminars and workshops on trade patterns of the countries and keep data for new markets of exports.
- ✓ Publish and advertise their country's exports in business journals and magazines.



- ✓ Select buyers, agents and distributors of the home country's exports.
- ✓ Inform traders in their home countries of the standards required for exports.
- ✓ Assist sales missions from their home countries by organizing educational tours for them.
- ✓ Organize visits to trade fairs and exhibitions for business people from their home country.
- ✓ Make detailed reports on commercial activities that may help improve the exports of their countries.

*To perform these duties, the commercial attaché needs to:*

- Keep information on prices paid for exports and terms of payments( conditions to be filled before the payment is made)
- Be aware of the rules that govern payment in international trade.
- Be aware of the working of the regional organizations that operate in developing countries such as **the East African Community (E. A. C), Inter-Governmental Authority for Development (I.G.A.D), Common Market for Eastern and Southern Africa (COMESA), Economic Commission for Africa (E.C.A) and African Growth Opportunity Act (A.G.O.A).**

**(b) Internal trade promotion**

This is done by the government through the ministry of trade. The ministry carries out various activities that are aimed at helping local traders to start and run their businesses.

*Such activities include:-*

- ✓ Advising business people on matters such as type of goods and services to producers, source of finances where to locate their business and legal formalities required for various businesses.
- ✓ Training business persons on appropriate ways of carrying out business
- ✓ Offering business persons financial assistance to enable them to start and run their businesses
- ✓ Creating an enabling environment for business to thrive





- ✓ Providing incentives such as tax exemptions to encourage local businesses.
- ✓ Organizing shows, trade fairs and exhibitions through which local traders may promote their goods and services or from which investors may obtain business ideas.

#### **4. Provision of public utilities**

Public utilities are essential services such as water, transport and sewerage, power and communication which are provided by either the central government or local authorities.

Public utilities are essentially non-profit making enterprise and their main aim is to provide essential services.

The sources of finance include local authorities for public utilities include local taxes government grants, private and public loans and charges such as rent, rates

#### **5. Enabling Environment**

The government creates a conducive environment in which business people are able to start and sustain their businesses.

The ways in which the government creates an enabling environment are:-

##### **i. Subsidies**

A subsidy is a financial assistance given by the government to business to make it easier for them to sell their products at lower prices.

The government may subsidize operations of a business in order to reduce its running costs

##### **ii. Incentives**

An incentive is something that is offered in order to encourage one to do something.

In order to attract business people and encourage them to invest, the government may offer various incentives e.g. tax, holidays, duty free privileges and favourable expatriate protection that safeguards the interests of foreigners who invest in the country

##### **iii. Protection**

This refers to instituting legal measures/ regulations to shield local industries from foreign competition.

For the government to help a firm sustain itself, it may introduce import duties and quotas.



Import duties have the effect of making imported goods expensive. In comparison to locally manufactured goods.

Quotas have the effect of reducing the quantity that can be imported.

iv. Loan Guarantee

Lending international agencies may insist that for them to lend money to local business persons, the host government must act as a guarantor to help the local firm benefit from funds by offering the required guarantee.

### Merits of government involvement in business

- a) The government is able to carry out business that require a large amount of capital which may not be possible with private investors. E.g. Kenya Power and lightening company.
- b) It ensures essential goods and services are provided to the public e.g. water and sewerage service provision.
- c) Business started and run by the government's help to solve unemployment problems.
- d) To contribute income so as to finance various government services. E.g. education, medical and security
- e) Businesses run by the government help create competition which may make private investor improve quality and charge reasonable prices for the goods or services they offer.
- f) It enables reduction of foreign domination of the country's economy

### Demerits of government involvement in business

- a) Political interference.  
Political interference affects the operations of the business activities initiated by the government thus negatively influencing their performance.
- b) Managerial problems  
Because of the complexity of some business activities, managerial problems may arise due to employment of unqualified personnel and embezzlement of funds
- c) Lose making



Some business activities that are government run have a tendency of making losses. This may derail public resources as money is used in areas that are not helping Kenyans.

d) Hinder competition.

The government may operate as a monopoly hence hindering competition leading to provision of poor services

e) Inhibitive regulation

Through licensing and legislation, the government may discourage participation of private enterprise by passing inhibitive regulations

f) Low quality

They offer low quality goods and services

g) Interference

Sometimes the government interferes with the price mechanism in areas of commodity prices, interest rates and exchange rates.

## Consumer protection

It is the effort put in place by the government or private organizations to ensure that consumer's rights are not violated in terms of prices, quantity and quality of goods.

The government ensures that the consumers are not cheated by adopting measures that control the activities of business people and traders.

### Need for consumer protection

There are various reasons why the government needs to protect consumers from producers and business people. These include:-

- a) To ensure that consumers get high quality goods from business people or manufacturers. i.e. provided with standardized goods.
- b) To ensure that consumers buy goods in the required quantity, right equipment to be used in weighing and measuring.
- c) To ensure that goods sold to the consumers are charged fair prices.



- d) To ensure safety and standard measures in construction of business premises and adhered to buildings. For examples; schools, hospitals, warehouses and supermarkets should be firm and safe.
- e) To ensure that contracts between business people and consumers are respected. Producers and traders might fail to honor contract entered into with the consumers as regards the sale of commodities
- f) To protect consumers against discriminatory practices by traders selling goods to some consumers and refusing to sell to others.
- g) To ensure health standards are maintained. Premises where production takes place should be clean and hygiene. E.g. butcheries and eating places.
- h) To ensure that commodities are readily available to the consumers. Producers and business people might create artificially shortages by hoarding restricting production.
- i) To protect consumers from false advertising due to ignorance of consumers concerning products the producers may take advantage of misleading to buy goods they don't require through advertising

Some of the bodies concerned in protecting consumers include:-

- a) Kenya Consumer Organisation
- b) Health Inspectorate
- c) Price Control Advisory Board
- d) Kenya Bureau of Standards
- e) Department of Weights and Measures

### **Methods of consumer protection**

The following are some of the methods that may be used to protect consumers and they are divided into three:-

- a. Government initiated consumer protection
  - b. Consumer- initiated method
  - c. Non-governmental organizations (NGOs)
- a. Government initiated methods



Several methods are used by the government to protect consumers. These include:-

i. Setting up standards

The Kenya Bureau of Standards carries out the following functions

- a. That goods and services offered to the consumers by manufacturers are of the right quantity.
- b. It ensures that commodities are examined and test before being sold.

ii. Weights and measures act.

The government ensures that equipment used for weighing and measuring are correct and accurate. It is done by regular checking and adjusting of the equipment. Consumers are issued with receipts indicating the quantity, size and price which can be used as an evidence in case of complaint by consumers.

iii. Licenses

Manufacturers and business people are required to get a license before they can operate. This ensures that there is control on the type of business carried out.

iv. Foods and drugs Act.

The government ensures goods sold to the consumers do not contain any harmful products that may affect the health of consumers. This is done by indicating the ingredients on the packaging. Side effects of the commodity should be disclosed. Those selling certain types of foods and drugs be licensed.

v. Trade description Act / sale of goods Act

This ensures that a producer or trader does not cheat the consumer by providing false description of commodities. It requires that goods that are offered for sale are of good quality and right standards.

vi. Public health Act.

The government trains officers in public health to ensure that they inspect the level of hygiene in all business circles. They look at hygiene in terms of sanitation in schools, hospitals and other public places. They ensure goods sold to consumers are sold by people who are in good health and are sold in hygienic conditions.

vii. Price Control



They government may set a price beyond which a commodity should not be sold especially for essential goods and services.

It is also a requirement that traders display price lists or price tags for the goods and services they sell.

viii. Rent tribunal Act.

Ensures that tenants are not overcharged by the landlords

b. Consumer – Initiated Methods

These are voluntary organizations set by consumers to protect themselves against exploitation by traders.

Ways used by consumers to protect themselves.

- i. Through consumer associations.
- ii. Consumer cooperative societies
- iii. Writing letters to the press

### **Consumer associations**

They perform some functions which are highlighted below:-

- ✓ Dealing with complaints about defective items bought by members
- ✓ Making sure commodities are not hoarded and that a regular supply is maintained
- ✓ Ensuring that health and safety regulations are adhered to.
- ✓ Ensuring that essential goods and services are available and that their prices are fair
- ✓ Educating their members on their rights and consumers.
- ✓ Ensuring that weights and measurements of commodities are correct.

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- e) Educating their members on their rights and consumers.



- f) Ensuring that weights and measurements of commodities are correct.
- g) Lack of support from the government
- h) Lack of capital to finance their Organisation
- i) Ignorance of consumers about their rights
- j) Reluctance of many consumers to join these associations so that they may voice their complaints as a group.
- k) Lack of initiative from consumers to check on trader's performance and report cases of non-compliance to quality and price.

### Consumer cooperative societies

Consumers may decide to come together to form a cooperative society to protect their interest. This society will buy goods on behalf of members and sell to them at fair prices.

### Letters to the press

Consumers may present their complaints on exploitation through print and electronic media so as to make the government respond to their problems.

The same media may also be used to identify markets where better quality products and better terms are available.

### c. Non-Governmental Organizations

Some non-governmental organisations participate in activities aimed at protecting the consumer e.g. public law institute.

They ensure that standards are maintained by both the producers and traders e.g. Kenya Association of Manufacturers (K.A.M)

Traders to charge same prices for a particular product e.g. retail price maintenance (R.P.M)



## Emerging trends in business and Government

i. Corruption

Corruption has adversely affected running of government business and bodies to protect consumers-traders conceal the expiry dates of products and sell goods of low quality

ii. Drug abuse

False advertisement in producers such as cigarettes and unauthorized wines and spirits continue to harm consumers. The government ensures that these are not affected.

iii. Dumping

Goods of poor quality produced in other countries may find way into the country. This is because they are being sold at low prices.

Non- Governmental organisations have come up to assist in consumer protection and education to traders.