

**INFLUENCE OF INTEREST RATE CAPPING ON
PERFORMANCE OF NEW MOTOR VEHICLE FIRM, ISUZU
EAST AFRICA LIMITED**

BY

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DECLARATION

This Research Project is my original work and has not been presented for a degree in any other University or any other Institution of Higher learning for examination.

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D61/7425/2017

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

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DEDICATION

This project is dedicated to my family members including my Wife, my brothers and sister, for their love, support and constant encouragement during the entire period of this project and to my colleagues at work who provided a wealth of knowledge during this project.

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ABSTRACT

The primary aim and objective of this study was to investigate and determine the influence of interest capping rate on the performance of new motor vehicle firms focusing on Isuzu East Africa Ltd. The study adopted case study design and data collection included both secondary and primary data methods. The researcher used face to face interview in collecting the primary data. The target population of the study included the top management of Isuzu East Africa such as the Managing Director, the Financial Director, the Sales Director, Production Director and the Distribution Manager. The interview questions were closely related to the objective and aim of the study and the data analysis in the study was done through the use of content analysis. This was done with the aim of obtaining systematic qualitative in-depth description of the study variables. The study concluded that interest rate capping negatively influence the performance of Isuzu East Africa Limited. This is because since the introduction of the new interest capping rates, the firm has experience high decline in sales volume as well as decline in revenue generation. The study recommends the need for Isuzu East Africa to consider and appeal the interest rate capping by suggesting relevant policies and programs to various stakeholders. The study also recommends that Isuzu East Africa top management should use other financing options including internal financing to attract their customers rather than dependence on financial institutions for financing their customers. The study also recommends that further research should also be undertaken to investigate, analyze and provide the effect of interest rate capping policies or rules on borrowing operations and other inflation and foreign exchange activities or rates within the East African region.

CHAPTER ONE

INTRODUCTION

This chapter presents the background of the study, the working definition of the main concepts of the study including the concept of interest rate capping and the concept of performance. The section also covers a brief overview of Isuzu East Africa Company Limited which is the case study of this research paper. Additionally, the introductory part of this study also provides a close review of the research problem, the research objectives as well as the value of the Study.

1.1 Background of the Study

The concept of interest rate capping refers to a situation where there is a ceiling placed on interest rates charged by financial institutions such as banks in the society (Anderson et al., 2014). In most cases, the interest capping rates dictates the maximum rate that a bank can charge on its customers on loans in the country. It also considers a minimum interest the financial institutions can pay to their clients for savings made with the institutions.

There are those who argued that the interest rate capping policies and rules is a form of government management and control model mainly used within the financial industry to avoid inflation challenges and a good interest rate cap should be acceptable to vary in the country to avoid risks and financial challenges (Timney, 2015). Performance mainly includes the actual results that an organization achieves and may be in terms of the goals and objectives achievement in the firm (McGrath, 2007). Motor Vehicle firm's performance can be defined in different areas including the financial performance as well as the market production and the shareholder outcome levels.

In most cases, motor vehicle industry outcome is measured in terms of financial performance which includes the profits achieved as well as the return on assets or on investment (Mintzberg et al., 1998). There are several theories that can be used to define a firm's competitive advantage. This study will rely on dynamic capability theory, resource-based theory and the free market theory. The resource-based theory provides the view that firms can achieve and improve its competitive advantage by deploying their unique and rare resources.

The proponents of the theory also argue that the managers must consider the assets within the firm to promote outcomes (Barney & Clark, 2007). Cherciov (2013) postulated that dynamic capability theory supports the view that firms have the ability to adapt, integrate as well as to provide and maintain high changes within the current different and dynamic working or trade environments, thus support growth of the economy. The free market theory which indicates that the demand for credit increases as the interest rates increases as well.

In a free market environment, the market forces of demand and supply determine the process of goods and services in the market. There is also the need for considering external factors such as elections, new government and changing government policies also have a direct effect on interest rates and increased risk of loan defaults and non-performing loans which affect performance of banks (Robben & Probert, 2015). Despite several past report on the impact of interest capping conditions on the outcome or performance of new motor vehicle firms in the global society, these studies are scanty and mainly focused on banking industry (Lawton et al., 2014).

Notably, it is true that there are no previous research studies or reports done to ascertain and discover the impact of interest rate capping policies on the performance of new motor vehicle firms, Isuzu East Africa. Therefore, the researcher plans to provide a research-based study that would provide relevant facts on the influence of interest capping on the performance of new motor vehicle vendors using a case study of Isuzu East Africa Ltd. The study provides insights on how interest capping has influenced performance of the firm.

1.1.1 Interest Rate Capping

The concept of interest rate capping systems is mostly associated with government control and financial management systems. The process is mostly adopted to help financial centers including banks to create, regulate and provide an effective rate or level of interest that these centers can charge on their customers in the society, especially while borrowing money in terms of loans(Anderson et al., 2014). According to Timney (2015), the working definition of the interest rate capping programs within the East African region is mainly designed to help banks avoid exploitation of the poor and their key customers in the society.

Therefore, the maximum or minimum amount the banks or financial hubs can charge must be dictated and control by relevant government sector or agency (Aligonby, 2016). This is why the rate mostly varies and is not constant in the world, especially among the developing regions in the society (Uddin & Alam, 2009). When used accordingly the application of the interest rate caps can help to regulate and improve the financial industry especially in terms of money borrowing or loan taking activities.

Kasman, Vardar and Tunç (2011) support the view that the capping of interest rates is also essential in protecting the public from exploitation from lenders, as well as protecting public interest through provision of affordable loans, thereby increasing investment and income flow. Also, the capping of interest rates is an avenue of considering all parties in lending, including low-income customers, hence a fight of social harm (Obura&Anyango, 2016). Although it is theoretically easy, there is a large disparity in the ways or methods that the government initiates the capping of interest rates limits in loans. Notably, it is true that the capping of interest rates with a rigid rate, also impact the economy to large extends, hence reducing the surplus that is commonly used for investments (Nkwoma, 2014).

1.1.2 The Concept of Performance

The concept of performance mainly refers to the actual output as well as the results that an organization achieves in the society. The performance of the organization is usually measured in terms of the goals, objectives as well as the targets of the organization (McGrath, 2007). There are also those who argue that outcome is measured in different terms such as financial performance, the market productivity and human resource productivity.

However, the most common measure of productivity is in terms of financial conditions which is mainly measured in terms of the profits achieved as well as in terms of the return on assets (Mintzberg et al., 1998).Moreover, it is true that performance help increase and promote the firm status of providing relevant and high quality goods or services to various regions in the world. Taylor and Taylor (2014) argued that performance outcome is a multi-dimensional concept and cannot be based in a single measurement.

Effective performance should cover factors associated with leadership, knowledge management and profitability levels of the firm. Sales increase or sales volume as well as market share volume can also help to measure performance. Accordingly, effectiveness in performance ensures that an organization is able to achieve their set strategic objectives and goals (McGrath, 2007). This is because it promotes efficiency, efficacy and add value to the organization activities and programs. It should also be noted that productivity levels, creativity levels as well as growth rate determine the performance of the firm (Porter, 1986). Good performance should help create value to the organization.

1.1.3 Isuzu East Africa Company Limited

Isuzu Motors limited, which trades as Isuzu is a Japanese commercial vehicle and diesel motor manufacturing company founded in 1916 in Tokyo Japan (Leggett, 2017). Isuzu East Africa limited is a subsidiary of the firm, serving the East African region. The company's product portfolio includes Isuzu pickups, as well as trucks and buses. The firm also helps in servicing and maintenance of their previously owned Chevrolet, Opel and hummer brands from the USA (Nkwoma, 2014). However, to suit local infrastructure and environmental conditions, the organization redesigns its vehicles for extra robustness and quality in critical territories radiator, undercarriage, suspension and frame.

As a feature of the Isuzu motors Limited, the organization chips away at actualizing best practices in the entirety of her zones of activity (Oirere, 2017). According to recent studies by Miller (2013), Isuzu East Africa (Isuzu EA) is the one of the motor vehicle hubs or center that is well known for providing high quality cars. The firm has showed this excellent and outstanding outcome for more than forty years now.

This is good for the future operations and stability of the firm especially within the East Africa region where the firm is currently providing a wide range of Isuzu cars and services. The firm currently has more than 15 models in its product line-up and is regarded as one of the leading brands in the provision of new vehicle segment (Leggett, 2017). Isuzu East Africa has been awarded as the leading new motor vehicle company in the region as well and this is mainly due to its constant delivery of high quality cars.

The firm was launched in the region partly to provide unique, high quality and durable cars and it has achieved this mission despite various challenges. Originated from Japan, the firm top management understands the importance of maintaining customer values and relationship. This is evident in the firm activities and operations within the East African region as well as within the rest of the world. It is worth noting that the firm is also operating within the rest of the world (General Motors East Africa changes name to Isuzu East Africa Limited, 2017).

Isuzu East Africa was formerly General Motors EA and was established in late 1975 (Isuzu acquires General Motors East Africa, 2017). The firm main services include assembling cars promoting car selling in the world and importing of unique cars to their customers. Over the last seven years, the firm has managed to provide relevant cars that meet the region demands and values. This has led to high profitability and increased market shares of the company as well. The firm top management also plans to expand their operations within the next five years (General Motors East Africa changes name to Isuzu East Africa Limited).

1.2 Research Problem

The concept of interest rate capping defines the interest rates charged by financial institutions such as banks in the society (Anderson et al., 2014). In most cases, the capping interest rates have been criticized since there are some additional charges making it difficult for the people to access credit. There are some firms that have high performance since they are able to implement value creating strategies than their competitors within the industry.

Notably, firms mainly aimed at developing high performance to outsmart and to stay ahead of competitors. When employed appropriately, interest rate capping rates can help firms to gain high performance in the society. Studies done by Kasman et al. (2011) to determine and investigate the impression that the interest rate changing models and conditions have on the economic in Turkey indicated that capping interest rates in an economy can induce an injection of liquidity and this mostly led to increase in demand and prices of stocks thereby affecting the stock market.

The study did not expressly identify effect of the capping on productivity of firms participating in the Turkey stock exchange. Additionally, Nkwoma (2014) studied the main connection linking interest capping systems and the return of shares in Nigerian stock market. The study indicated that there was no relevant or positive connection between changes of interest capping rates and change of share prices in various firms in the country which impacted on the performance of the firms especially those that failed to align their resources and strategy to the new regulations. Moreover, a local study done by Miller (2013) to determine the factors influencing the credit access using a cross-sectional method revealed that there are high inconsistent results in both micro and macro factors in credit access.

This is a clear indication that there is need for soundness in the management of the interest capping rates in various regions globally. The study also indicated that the bank regulatory changes as well as political problems in the country have negatively influenced the access to credit and interest capping rate. Evidently, this study failed to consider the impact of political factors and changes in bank regulations towards performance of new motor vehicle firms in Kenya and how they would otherwise harness their resources to meet the new environmental challenges as well as sustain their performance.

A review of various existing literature also shows that Uddin and Alam (2009) did a research to evaluate how the interests charged by financial centers relate with the stock price in both developed and non-developed regions. Their study main objective was to show how interest rate impacts the risk management practices of various firms, financial securities as well as government policies in the global society. The study covered stock index and interest rate of more than ten countries including Japan, South Africa, Jamaica, Chile, Canada as well as Bangladesh and Italy (Nyakio, 2017).

The study adopted content investigation and analysis as a method of data analysis. The findings of the study revealed that the stock exchange as well as interest rate is the main critical factors that promote the economic improvement of a region in the society. The researcher concluded that interest rate is an important factor in stock exchange management, performance of firms participating in the stock conditions and the promotion of investment opportunities in the countries (Uddin & Alam, 2009). The study identified the correlation between performance of the firms and the regulation of interest rates in the countries of study.

Moreover, a study by Odhiambo (2010) on determining and investigating how new reforms in interest rate capping affects the growth and development of Tanzania revealed that the adoption of good reforms is important for the general improvement of the economy. The study involved a trivariate model and the researcher recommended the need for promoting and adopting interest rate reforms to improve and spur the country's economic growth (Timney, 2015). Despite this, it should be noted that the study failed to find how financial deepening can spur economic growth within the motor vehicle firms (Odhiambo, 2010).

Based on the above studies, it is evident that there are no previous research studies that have focused on the impact and effect of interest capping models on the outcome of motor vehicle firms in Kenya especially focusing on a case study of Isuzu East Africa. This therefore affords the opportunity for other studies to be undertaken to offer a better understanding on the phenomenon. Moreover, these previous studies are scanty and mainly focused on the banking industries rather than the motor vehicle industry. Additionally, the majorities of these studies were conducted five years ago and may fail to capture the current changes within the motor vehicle industry in the country. Therefore, this study provides the research-based findings and answers the question; what is the influence of interest capping on the productivity of new motor vehicle firm, Isuzu East Africa?

1.3 Research Objective

The objective of this study was to establish the influence of interest capping on performance of new motor vehicle firm, Isuzu East Africa Ltd.

1.4 Value of the Study

This study results and findings would benefit several stakeholders including top leadership and management of Isuzu East Africa Ltd, other industry players, policy makers as well as the academicians and government agencies. The study findings would provide top leadership and management of Isuzu East Africa Ltd with insights on how interest capping rates affects their performance as well as their motor vehicle sales within the East African region. This would help them to set best practices, policies and strategies that are in line with their plans.

Moreover, the study findings would help different policy makers and government agencies to adopt the best interest capping rate policies that organizations can use to achieve their mission and vision. The interest capping rate policies can help other companies formulate financing and pricing policies that attract more customers and improve their profitability. The government agencies would use the study findings to determine the most appropriate interest rates in relation to the motor vehicle industry.

Further, the results of this study would also help various readers and scholars around the world. The scholars can use it to reference and update their studies. This is important in providing good and valuable further research since it would form a basic discussion point in all regions in the society.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The aim of this Chapter is to provide effective analysis of theoretical and empirical literature. The section included the analysis of the historical and current literature related to interest capping on motor vehicle industry in the society. The chapter ends with a section on knowledge gaps identified from the literature.

2.2. Theoretical Framework

Theoretical framework mainly refers to a structure which is used to support a theory in a research study. The theories in a study are formulated with the aim of explaining, understanding as well as to help predict phenomena under study. In most cases, theoretical framework help describe the theory which explains the research problem. This study presents various theories that inform the study findings. This includes dynamic capability theory as well as free market theory and resource-based theory. The three theories are explained in detail below.

2.2.1 Resource Based Theory

This theory view firm's competitive advantage based on its competitive advantage and it indicates that for a firm to promote its success it must adopt and use its unique and rare resources (Penrose, 1959). It is also worth noting that firm must gain competitive edge by using different sources of assets. Firms with assets and capabilities can promote their services delivery through using these assets in the correct way (Barney & Clark, 2007). Global firms should also adopt high valuable assets and engage different groups in the setting of their goals and mission in the society (Wernerfelt, 1984). This can help to solve the problems, increase proper decision making as well as planning of the firm operations (Porter, 1980).

The model also assumes that using assets by global managers can help to improve innovation and achievement of the set policies. Therefore, all global firms must adopt programs that will improve effective use of their resources and capabilities. This may include adoption of collaboration and coordinating of activities. The firm can also organize its people and assets to achieve maximum performance (Hongzhi et al., 2018).

There also those who argued that the use and application of this model can change how firms improve their internal values and success. This is because it involves the consideration of the environment and the economic conditions of the region where the firm is operating. It also involves the consideration of the capabilities of the workers and how they can be organized to improve the general success of the organization (Barney & Clark, 2007). The firm should also ensure that the assets they have are unique and cannot be copied by others in the society (Barney, 1991). Despite this, it should be noted that the model failed to consider various effective ways of managing diverse human resources in the society (HongzhiGao et al., 2018).

2.2.1 Dynamic Capability Theory

Dynamic capability model is associated with scholars like Teece, Pisano and Shuenin (1997) and it supports the use of different plans in achieving the firm goals. The model also considers the importance of firm top management in rebuilding their success through the application of flexible planning prototype. In that sense, it is important that global firms organize their factors of production and consider combining different degrees of conditions in the process of planning and implementing their plans (Mintzberg et al., 1998).

According to Cherciov (2013), dynamic capability theory supports the view that firms have the ability to coordinate their plans and use the variables they have in dynamic or different ways to achieve their success. It is also true that the model consider the level of top management skills as well as the capabilities of other workers in the firm. The firm should use its competencies in solving various challenges affecting their operations. This can help promote success and good outcome in all the firm activities (Aligonby, 2016).

The supporters of the theory also assert that it is part of resource-based framework since it allows global firms to use their resources to improve and promote their general productivity and competitive level in the society. Thus, it can be argued that the theory can be used by global firms to respond to the current changing business environment as well as to set direction towards their major operations and activities (Barney & Clark, 2007). Notably, one of the major strengths of theory is the view that it can allow top management of organizations to manage change and to use their capabilities to accomplish tasks against competition.

Despite this, it should be noted that the theory failed to consider the costly nature of organizing assets and managing human capabilities in modern organizations. Karimi-Aghdam (2017) noted that the application of this model may not help in achieving success in all sectors in the organization and there is need for the application of a more astutely and fortuitously way to create sustainable competitive advantage through resource configurations. This is a big limitation towards the usage of the theory within modern organizations.

2.2.2 Free Market Theory

Free market theory can be traced back to late 1962 when Milton Friedman advocated for a free market system in the society. The theory supports the law of supply and demand. Notably, according to the proponents of the theory, government should not intervene in the supply and demand of goods and services in the society. Thus, it can be argued that the theory tries to restrict trade and protect the local economy (Barney & Clark, 2007). The main assumption of the theory is that the good selling prices in the society should be based on the demand level as well as by the level of supply provided by different stakeholders in the market (Kasman, Vardar & Tunç, 2011). This can help reduce exploitation of the poor and improve effective supply of goods and services. This can also help organization to invest in unique areas and achieve their set plans. However, the government agencies must coordinate the process to avoid confusion and lack of compatibility.

In cases where the market is free, the top management of firms must consider the risks and challenges available and organize their activities based on the problems identified. This can help improve the economy, achieve the set goals and improve the general success of the organization. Thus, all industries should be given an opportunity to conduct business based on free market policies and programs (Robben & Probert, 2015). The top management should also consider the market changes and provide corrective measures within time to improve demand and supply of services in the market (Aggrawal, 2010). The theory supports consumer's sovereignty and may encourage entrepreneurial culture in the society. However, it should be noted the theory may lead to high prices of goods and services in the society since the market is not regulated (Aligonby, 2016).

2.3 Strategies Used by Motor Vehicle Firms to Improve their Performance

There are various strategies that firms used to improve and promote their performance in the society. Robben and Probert (2015) noted that when an organization has a high performance, it has the ability to deliver various unique services as well as the ability to provide high-quality services or products that attract the firm customers. Notably, high level of performance can be achieved by adopting strategies that add value to any organization especially the use of both human and material resources as well as through delivery unique and well-defined products (Porter, 1980). According to Lawton et al. (2014), the use of tangible resources is superior in creating sustainable and outstanding performances among motor vehicle companies in the society. In most cases, firms within motor vehicle industry use various strategies such as adoption of innovative and creative technologies to improve their performance. There are also companies that have adopted cost effective leadership style, focused based strategies as well as participatory leadership strategies to improve their performance (Ricken & Malcotsis, 2011).

The provision of excellent customer services is also some of the strategic plans used by global firms within motor vehicle industry to improve their performance in general (Porter, 1979). These plans allow them to conduct effective and proper environmental scanning to identify their threats and weaknesses to deal with as well as opportunities and strengths to take advantage of in the society. Such companies enjoy high levels of reasonable superiority over its rivals (Porter, 2008). There are three possible types of competitive strategies that firms within motor vehicle industry can employ in order to improve their performance (Barney & Clark, 2007). These include offering the most favorable rates in the industry, using the differentiation strategy, and cutting a narrow niche in the market (Porter, 1980).

There are companies that use corporate strategies to diversify as well as to stand out in terms of the product or service provided or the problem solved in order to gain high performance (Kasman, Vardar & Tunç, 2011). Moreover, it should be noted that cost effective pricing is another strategy used by firms within motor vehicle industry to improve their performance. This strategy mostly works better for bigger companies because they have the advantage of economies of scale (Arbuckle, 2016).

Other major notable strategies used by firms within the motor vehicle industry to improve their performance include adoption of proper promotion plans. This allows the firms to communicate about the availability of a product or service to the target market and ensuring that the message has been received (Porter, 1996). The major promotional activities entail advertising through mass media, having good public relations by minimizing negative situations as much as possible and having sales promotion programs (Mambo & Gallegos, 2014). The use of direct selling, internet marketing and social media is also common among many motor vehicle-based firms in the society.

2.4 Empirical Studies and Knowledge Gaps

Various studies have been conducted to determine the influence of interest capping on different industry performance in the society. For example, Mambo and Gallegos (2014) did a stock take on the countries engaged in putting ceilings or floors on the interest rates and found that it is a widespread phenomenon and there are more than 40 developing countries including transitional countries which practice interest rate capping. The European Union was seen to have 14 of its member states have used interest rates caps by the year 2010.

The study indicated that the key reason countries impose caps is the protection of its consumers from high-interest rates as was seen in Spain. There are also countries that imposed interest rate caps with the aim of limiting the freedom enjoyed by the banking sector that was leading to the exploitation of consumers. This reduces the performance levels of the firms. Laeven (2003) noted that interest rate capping should be controlled to reduce and control economic challenges in the society. This has been approved within the United States of America and it is important that small firms as well as large firms coordinate with government agencies in setting their plans related to interest rate capping policies and programs. Nkwoma (2014) in a study to check and discover how the use of reforms of interest rates intervention in the neighboring country Tanzania were and he noted that interest rates bring in a positive influence on the economy. The findings of the study also supported the view that reforms on the interest rates influenced financial deepening in the country though minimally and should be promoted to improve firms' performance levels in the society. Moreover, Odhiambo (2010) in his study indicated that interest rates in Kenya remained stable in the years 1960-1970s.

During the period, the government-controlled interest rates through ensuring minimal interest rates were given to depositors, and there was a maximum lending rate for all financial institutions. However, in the year 1981, following recommendations by the World Bank and IMF the interest rates were reviewed nominally. The aim of the reform was based on the belief that government interventions on the interest rates were limiting the growth of the economy. The study established that liberalization of interest rates positively influenced Kenya's economy through financial deepening.

According to study done Nyakio (2017), it was evident that the set interest reforms affect the operations of financial centers in the society. In that sense, it is imperative that banks coordinate with government agencies and consider how interest rates vary in the market (Lagat & Okendo, 2016). Based on the above reviews, it is evident that no studies have been done to determine the influence of interest capping on new motor vehicle industry using a case study of Isuzu East Africa Ltd. Therefore, it can be argued that more research needs to be conducted in this field. It is expected that the findings from the future reports can help improve formulation of well-organized and relevant interest rate capping reforms in the society.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides how the research was conducted in line with the stated objectives. This involves specifying research design used data collection techniques as well as data analysis tools that were used to conduct the research. Since this is a case study, the study population and the sample size were not included in the study.

3.2 Research Design

To help achieve the set objective of the study, case study model was adopted. According to Bryman and Bell (2003), case study is a detailed analysis of a situation and it provides an in-depth understanding of phenomena under study as well as provides multiple kinds of information. It also allows flexibility in its format and forms a basis for further research. The researcher focused on Isuzu East Africa as the case study and data was collected and analyzed in order to determine, examine and evaluate the influence of interest capping on performance of new motor vehicle firms in the region.

The researcher established the relationship between interest rate capping and the performance on new motor vehicle firms. The researcher selected a case study since it helps to provide a detailed analysis of the situation under study. Importantly, it allowed for an in-depth understanding of phenomena under study and provided multiple kinds of information within a short time and in a cost-effective way.

3.3 Data Collection

In this study, the researcher used primary as well as secondary data. The primary data was collected in the field especially at the offices of Isuzu East Africa Company. The secondary data was obtained from various publications including the annual strategic plan reports of Isuzu East Africa and the Kenya Motor Vehicle industry reports. The researcher used face to face interviews to obtain important information about the population of study. The interview gave the respondents an opportunity to express their views regarding the topic of the study.

The use of interview helped to achieve high response rate during the data collection process. Before the actual data collection, the researcher conducted a pilot study to test the interview questions. This helped to reduce limitations during the actual data collection process. The pilot study assisted in revising the interview questions so as to avoid misinterpretation of the research topic. The respondents included 12 managers, 5 top managers and 7 middle levels managers within different department at Isuzu East Africa. These respondents were selected from various branches of Isuzu East Africa in Kenya.

3.4 Data Analysis

The researcher used qualitative techniques in analyzing the data. Qualitative research method involves exploration of a concept with the intention of providing more understanding of a topic or just for the purpose of creating awareness of an existing concept. The data collected through interviews were analyzed through content analysis.

Content analysis is mainly used a research tool since it helps to make valid inferences by interpreting textual materials. It allowed the researcher to systematically evaluate texts including oral communication, videos and audio texts. The use of content analysis also allowed the researcher to interpret responses from the respondents so as to determine relationships between research variables.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter mainly presents the results and discussion of analysis findings. The study sought to find out the influence of interest rate capping on the performance of new motor vehicle firms focusing on Isuzu East Africa. The secondary data used for analysis in this study was gathered from the Isuzu East Africa annual reports.

The study used The Kenya Motor Vehicle Industry annual reports to gather information as well. The study was an event analysis of the coming to law of Interest Rate capping law on 14th September 2016 and its impact on the new motor vehicle industry. The focus was on new motor vehicle company, Isuzu East Africa Ltd and the impact that the capping of interest rate has had on its performance.

4.2 The Influence of Interest Rate Capping on Performance of New Motor Vehicle Industry

Based on the study findings and the response given, it was evident that interest rate capping has a negative effect on the performance of new motor vehicle firms, Isuzu East Africa Ltd. They intimated that the same effect is apparent in other new vehicle firms. The respondents argued that the introduction of new interest rate capping has led to low sales volume, low market share as well as low profitability of their organization. This is a clear indication that the new interest rate capping is negatively influencing the performance and productivity of new motor vehicle firms in the society. The respondents agreed that the new interest rate capping has led to high operation costs in their activities especially in the process of marketing their products and services to attract new customers.

It was evident that the interest rate capping policies has led to low credit access from customers as most financial institutions have employed stringent measures in evaluation of loan applications which has locked many applicants. Due to this, the firm is facing low customer inflows and low sales as well. Majority of the firm customers are currently opting for cheaper cars due to the influence of new interest rate capping policy. This negatively impacts on the operations of the organization.

4.3 Interest Rate Capping and Performance Indicators

When asked about the effect of the interest rate capping policies on the main performance indicators of their firms, the majority of the respondents reported that the new interest rate capping law has led to low sales volume. The respondents also indicated that the introduction of interest rate capping programs have reduced their profitability levels. This is because their customers cannot access credit easily and opt to purchase already used cars mainly from, UAE and Japan.

Moreover, it was evident that the number of the customers in the firm was declining since the introduction of the interest rate capping. There is need for customer education and collaboration to ensure that the firm customers understand the main influence of their purchasing decisions on the interest rate capping laws. Notably, the respondents reported that their firm financial growth was declining due to the interest rate capping policies.

They argued that the new interest rate capping policies are not favorable to their customers. This has led to a decline in market share for the firm and there is need for the introduction of various programs that can help to abolish this policy. It is expected that the abolition of this policy will help to improve the performance of motor vehicle firms in future.

4.4 Interest Rate Capping and Customers Purchasing Decisions

The respondents agreed that the interest rate capping laws and policies were affecting their customers purchasing decisions to a large extent. For example, they noted that their customers were currently opting for low cost cars and did not have enough credit power to access loans and purchase high quality cars. This reduced their ability to purchase cars from the firm. The majority of the firm customers have been shifting since the introduction of the new interest rate capping and the respondents argued that the government should look for ways of providing reforms to reduce the negative effects of the policy to their operations.

The number of customers in the firm was also declining to a higher rate due to the interest rate capping policy. The respondents reported that their customers opted for other investment opportunities rather than buying cars since the introduction of the new policy. Therefore, it can be argued that the interest rate capping policy is negatively affecting the purchasing decision of customers within the motor vehicle industry.

4.5 Interest Rate Capping and Organization Challenges

When the respondents were asked about the main challenges the firm was experiencing since the introduction of the interest rate capping policy, they argued that there has been poor perception from customers and high decline of sales volume. The respondents also noted that it was challenging to market the firm products unlike in the past. This is because the introduction of interest rate capping policies has made it difficult for customers to invest in new motor vehicles.

Evidently, the respondents also indicated that challenges associated with high operational costs were negatively affecting their activities. The firm top management reported that it was not easy to convince a client to buy cars with the interest rate capping law in place. This means that the firm was experiencing high costs in marketing and branding their products and services. The respondents indicated that there was a high unavailability of financing platforms that customers can use to get loans and purchase new cars. Another challenge was lack of financial institutions cooperation and collaboration with the motor vehicle firms to help repeal the policy in the society. This means that the customers may continue suffering for long without any intervention from the relevant authorities.

4.6 Discussion of the Findings

The findings and results of this study indicated that there the interest rate capping policy has a negative effect on the performance of motor vehicle firms in the society. From all the top management of Isuzu East Africa interviewed, it was evident that the interest rate capping law has led to poor or decline in the performance of the firm. The respondents indicated that the performance of their firm was growing at a high rate before the introduction of new interest rate capping law in late 2016.

According to resource-based theory, it is important that global managers use their resources to improve their performance (Ricken & Malcotsis, 2011). The findings revealed that the top managers within Isuzu East Africa are using the available resources they have to improve the performance of their firm. This is important, and it is expected that effective use of the firm resources will help improve their performance and competitive edge in general (Barney & Clark, 2007).

The new interest rate capping policy has led to low growth rate, low number of customers and low profitability of the firm in general. The firm customers are currently finding it challenging to access loans and other credits to purchase cars. This has led to low performance of the firm (Barney & Clark, 2007). To improve their performance, the firm top management should reduce their prices of cars and work closely with various relevant authorities to help provide new reforms and curb the negative effects of the new interest rate capping policies. This is in line with the free market policy that supports the freedom of trade and setting of prices of goods and services in the society (Villegas, 982).

The results and findings of this study are also in line with the dynamic capability theory which indicates that global firms should adopt and integrate the flexible methods in managing their operations and activities in the society (Cherciov, 2013). It is evident from the study findings that Isuzu East Africa top management involved the use of dynamic models in managing their operations and this helped improve their performance in general. Notably, the use of dynamic capability theory allowed the company to fit their operations within the East African business environment (Barney & Clark, 2007).

This allowed the firm to react adequately towards different changes within their internal as well as within their external environment (Mintzberg et al., 1998). The study findings also support several past empirical studies done in various parts of the world. For example, the study was in line with studies done by Mambo and Gallegos (2014) which indicated that the lack of stocks prices and interest capping rates reduced the performance of global companies in the society.

The study also indicated that the use and consideration of legal policies associated with interest rate capping improved the performance of Isuzu East Africa (Mambo & Gallegos, 2014). Additionally, the study results also supported the past studies done by Laeven (2003) which indicated that the consideration of the capping of interest rates and policies in firm operations in the United States was negatively affecting the firm performance in terms of reducing the sales volume and profitability in general. In that sense, it can be argued that global firms such as Isuzu East Africa should consider adopting procedures to mitigate the interest capping rates in their major operations and activities (Lagat & Okendo, 2016). This is because the interest rate capping policies mostly results into high costs of operations in the firms (Laeven, 2003).

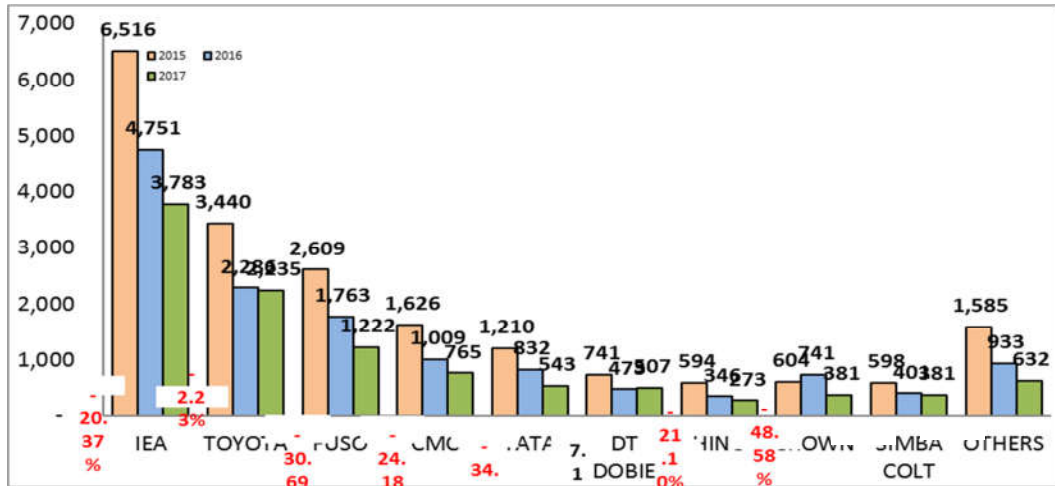
Evidently, the study findings also indicated that there is need for the adoption of effective reforms in the promotion of proper interest rates in the motor vehicle and banking industry. This supports Nkwoma (2014) who argued that adopting effective reforms of interest rates intervention in the neighboring country Tanzania resulted into positive development of the country's economy. The findings of the study also supported the view that reforms on the interest rates influenced financial deepening in the country though minimally and should be promoted to improve firms' performance levels in the society (Nyakio, 2017).

Based on these findings, it can be argued that the study results supported by findings as well and there is need for adoption of effective interest capping reforms to improve the general performance of global firms such as Isuzu East Africa (Odhiambo, 2010). From a close analysis of the General Motors East Africa Limited Annual reports it was evident that the firm total revenue in 2015 stood at Kshs. 23, 274, 377, 000 while in 2016.

The firm revenue stood at Kshs. 18, 131, 393,000 which is a decline of Kshs. 5, 142, 984, 000 (Isuzu East Africa Limited, 2017). In addition, the firm revenue decline further in 2017 to Ksh.15, 472, 881, 000 representing a total drop of Kshs. 7, 801, 492, 000 indicating a percentage drop of 33.5% in the period 2015 to 2017 (Isuzu East Africa Limited, 2017). This is a clear indication that the firm revenue reduced after the implementation of the new interest capping rates in 2016. Moreover, a close of Kenya Motor Vehicle Industry Report for 2017 indicated that Isuzu East Africa sales volume was at 6, 516 motor vehicles sold for the year which later declined to 4, 751 in 2016 and eventually dropped to 3, 783 motor vehicles for the year 2017 (Kenya Motor Vehicle Industry Report, 2017).

This means that after the implementation of the interest capping policy, the firm experience a drop of motor vehicle sales of 2, 733 in the period 2015-2017 representing a sale drop of 41.9% in vehicle sales volume (Kenya Motor Vehicle Industry Report, 2017). It is also worth noting that the total industry sales volume declined from 19,523 in 2015 to 10,722 in the year 2017, representing a total of industry volume decline of 45% over the period 2015 to 2017. This implies that the introduction of the new interest capping rates resulted into a decline in the total sales volume in the industry. This is clearly illustrated in the figure below.

Figure 4.1: Industry Sales Volume from 2015-2017



Source: Kenya Motor Vehicle Industry Report, (2017).

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter mainly discusses the summary of findings, the conclusions drawn from the study as well as includes some of the recommendations for policy change and suggestions for future research. It explains the various conclusions drawn and their impact on the study. The chapter presents some of the limitations of the study as well.

5.2 Summary of Findings

The study sought to find out the influence of interest rate capping on the performance of new motor vehicle firms focusing on Isuzu East Africa. From the findings and results gathered, it was evident that interest rate capping negatively affects the performance of new motor vehicle firms in the society. The majority of the respondents agreed that the introduction of interest rate capping policies have led to low sales and market share of their firms.

Moreover, it was evident that the new interest rate capping policies were introduced in the region in late 2016 and this has led to poor performance of new motor vehicle firms. There was a high drop in sales and profitability of the organization since the introduction of interest rate capping policies. However, the firm top management has introduced various programs such as cost rationalization as well as customer loyalty programs to maintain and improve their sales. It was also evident that the firm customers perceive the interest rate capping policy negatively and they argued that the new policy made them vulnerable to borrow money.

The policy also affected the purchasing decisions of the firm customers. The firm customers are currently focusing on purchasing low cost vehicles since they cannot afford to get loans at a good rate and purchase high costs and high-quality cars from the firm. The customers have reported low purchase of new motor vehicles since the introduction of new interest rate capping policies. Financial institutions in the region do not support the new interest rate capping as well. They argued that the law should be changed to attract new customers. This is because the introduction of the policy has led to high operation costs on marketing the programs of the organization to boost sales volume. All the firms within motor vehicle industry should adopt risk sharing programs especially with financial institutions to improve their performance.

5.3 Conclusion

The study concludes that interest rate capping has a cumulative negative effect on the performance of Isuzu East Africa. This implies that the firm may not have high number of customers unlike in the past and it is important that they appeal the policy to be abolished. The study findings also revealed that interest rate capping resulted to low access to credit and trading and this led to sales at Isuzu East Africa.

There was a drop in profitability since the interest rate capping policies were introduced. Therefore, it can be concluded that interest rate capping policies and programs have a cumulative negative effect on the performance of the firm. Motor vehicle firms should consider the implications of this policy and collaborate with government agencies to ensure that new reforms are adopted. This will help promote and improve their market share and sales volume in future.

5.4 Recommendations

There are several findings that were gathered from the study. For example, the study found out that interest rate capping had a cumulative negative effect on the performance of Isuzu East Africa. Therefore, the study recommends that Isuzu East Africa should consider and appeal the interest rate capping by suggesting relevant policies and programs to various stakeholders. Importantly, Isuzu East Africa top management should use other financing options including internal financing to attract their customers rather than dependence on financial institutions financing their customers.

It is also imperative that Isuzu East Africa expand their performance to other regions outside East Africa to improve and promote their customers base. The firm should also ensure that loans given by banks are not based on exploitative programs and consider other methods of marketing their cars and vehicles to attract all types of customers. This will improve their performance and general competitive edge in the East African region.

5.5 Limitations of the Study

The primary limitation of the study was that part of the data in this study was collected through secondary method. The researcher did not have the powers to control the accuracy and validity of the secondary data. However, the researcher ensured all data provided were based on valid models and was carefully analyzed. Majority of the respondents were top managers of Isuzu East Africa and they had a very busy schedule making it a bit challenging to organize an interview with them. Moreover, there was the possibility that some respondents did not provide accurate data of their company due to fear of competition and to improve privacy and confidentiality of their data. Due to this there was the risk of biased information being presented.

5.6 Suggestions for Further Research

This study mainly focused on the effects of interest rate capping on the performance of motor vehicle firms, Isuzu East Africa Ltd. Other vehicle firms were not included in the study. It is important that future research studies determine the impact of interest rate capping on the perception of customers within the motor vehicle industry as a whole.

Furthermore, it was evident that interest rate capping negatively influenced the performance of motor vehicle firms and future studies should determine the rate at which interest rate capping affects or negatively affects the new motor vehicle firm's performance in general. If possible, future studies should also determine and compare the effects of interest rate capping in Kenya as well as in countries outside such as China and its effects on the performance of new motor vehicle firms.

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APPENDICES

Appendix I: Introduction Letter



UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS

Telephone: 020-2059162
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Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 08/11/2018

TO WHOM IT MAY CONCERN

The bearer of this letter DAVID WEE OMWANGI

Registration No. DB/17425/2017

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PROF. JAMES M. NJIHIA
DEAN, SCHOOL OF BUSINESS



Appendix II: Data Collection Confirmation Letter

ISUZU
EAST AFRICA

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P.O. Box 30527 – 00100,
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Tel: +254 703 013 111
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www.isuzutrucks.co.ke

10th December, 2018

The Dean,
School of Business,
University of Nairobi,
NAIROBI.

Dear Sir,

REF: DAVID O. WERE, STUDENT ID NUMBER D61/7425/2017

We wish to confirm that David O. Were is an employee of Isuzu East Africa Ltd and was authorized to collect data on his project topic being INFLUENCE OF INTEREST CAPPING ON PERFORMANCE OF NEW MOTOR VEHICLE FIRM, ISUZU EAST AFRICA LTD.

Kindly accord him the necessary assistance.

Yours faithfully,



Christine Adolwa
HR Business Partner & Head of Training

Appendix III: Interview Guide

1. In which department are you working?
2. What is your position in the organization?
3. How long have you been working in the organization?
4. What is your highest level of education?
5. What do you consider as the main influence of interest rate capping on the performance of your organization?
6. What is the main influence of interest rates capping on the performance of your organization?
7. How has interest rate capping affected the market share of your organization in the motor vehicle industry?
8. In what ways has interest rates capping affected the profitability of your organization?
9. In which ways is your organization working to improve its performance after the adoption of the new interest rate capping policy?
10. How do your customers perceive the interest rate capping policy?
11. What is the main influence of the new changes on interest rate capping policy on your customer's purchasing decisions?
12. In which ways has increase in interest rate capping influence the number of customer's in your organization?
13. Has the number of loans given to customers for the purchase of new motor vehicles increased or decreased since the adoption of the interest rate capping policy?
14. What is the perception of financial institutions towards the new interest rate capping policy?

15. What key challenges has your organizations faced since the introduction of the interest rates capping law?

16. How is your organization adapting to the changes that have come about due to the interest rate capping laws?

17. What recommendations can you give to your organization on adaptation of the interest capping policy and maintain high performance in the new motor vehicle industry?