

Influence of Competition on Performance of Enterprises: A Literature Review

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Abstract: - The objective of this study is to investigate the influence of competition on performance of enterprises. Specifically, the relationship between competition and performance of enterprises. Based on the review of the literature and past studies, the findings of this study suggest that, competition have a negative effect on the performance of enterprises. The implication is that, enterprises should be aware that competition in the industry effect their organisational performance therefore, these enterprises should focus on good business practices to be able to cope with the competition in the industry in order not only to improve their performance but also to sustain their success.

Keywords: Competition, Performance, Enterprises

I. INTRODUCTION

The complexity and dynamism of competition as one of the important external factors in the business environment can influence the activities of an organization and the way it chooses to structure its business activities. As such, organizations need to organize their activities by more effective structures and forms as well as maintaining a balance between the influence of the external forces and the internal environment of the organizations (Gwasi & Ngambi, 2014; Moradi, Velashani, & Omidfar, 2017; Nkundabanyanga, Akankunda, Nalukenge, & Tusiime, 2017).

More importantly, it is essential for management of organizations to know, understand, and appreciate that competition is usually complex. The management of the organization must not only be aware of the competition in the environment but also able to oversimplify the information about it that flows in to the organization. With regard to the information about competition, some information is easy to get. However, there is some other information about competition may be more difficult to obtain.

Despite the relevance and importance of understanding the business environment to the business organisations, this area of study have not attracted much research and interest. In particular, research to know the intensity of competition in the enterprises as well as investigating the relationship between competition and performance of enterprises has been neglected. The review of the past studies indicates previous research on business environment primarily concentrated on examining competition in the large firms (Nthigah, Iravo, & Kihoro, 2014; Oyewobi, Windapo, & Rotimi, 2016). Moreover, the few studies that examined competition in the small enterprises are predominately in developed nations

(Cull, Demirgüç-kunt, & Morduch, 2011; Gwasi & Ngambi, 2014; Moradi et al., 2017).

Based on this information and research gaps, the objectives of this paper is to investigate the influence of completion on performance of Enterprises from review of literature and past studies. The paper is presented in three sections. The following Section Two is literature review and Finally, Section three presents conclusion of the paper.

II. LITERATURE REVIEW

Previous studies have adopted different approaches, definitions and dimensions of environment to examine its effect on organizational performance. According to Drucker (1977), environmental influences such as economic forces can set limits to what management can do as well as create opportunities for management's action. Although these forces do not by themselves determine what a business is or what it does, a business enterprise need to identify, manage and adapt to the forces in the environment.

In one of the earliest study on environment, Duncan (1972) defined environment as the physical and social factors that occur outside an organization which are relevant in the decision-making process of the managers and are often characterized based on levels of dynamism, heterogeneity, and /or complexity.

However, the study by Lenz (1980) noted that there is no widely held consensus concerning how organizational environment should be assessed and which aspects of the environment affect performance. According to the author, past empirical studies generally adopt two methods. The first method, which is usually taken along two dimensions such as from stable to shifting and from homogeneous to heterogeneous which, uses perceptual measures to assess environmental complexity and uncertainty. The second method uses relatively objective measures to assess the relevant environmental factors such as demographic trends that can influence the goal attainment of an organization.

According to Hashim (2008) a business organization has to compete with each other for resources. The most common resources that business organizations compete for are customer money. However, competition is not only confined to business organization alone. Different organizations in different types of industries or markets also need to compete among themselves. For instance, public universities and colleges compete with others public universities and colleges,

the police, the military, other government agencies, and the job market to attract bright and talented candidates.

Earlier on, Porter (1980) emphasized on the effect of competition on organizational performance. Porter developed the five forces model to help explain the nature of competition in a market. The model suggests that there are five specific forces that drive competition in a particular market. These forces include: Threat of new entrants or competitors, Rivalry among existing firms, Threat of substitute products or services, Power of buyers, and Power of suppliers.

In addition, Porter (1980) emphasized on the need for organizations to know the competition in a market as well as the five forces driving it. In order to compete, in a particular industry, organizations would need to identify the five forces and also determine the intensity of each of the forces. Each of the five forces can influence the level of the competition in the market and the organizations operating in the market in different ways.

Miller and Friesen (1983) organizations need to develop their capabilities to cope with changes occurring in their business environment. In order to cope with dynamic, competitive or complex environments, the study recommended that organizations seek more specific information as well as change their organizational structure. In addition, the study indicates that organizations must also revise their strategy development process so that they are able match their business strategy with their organizational structure as well as their competitors.

In the context of enterprises, most of the past studies focused on internal factors such as governance, ICT, ownership and capital structure without giving serious research attention on the external environmental forces such as competition. Organizations that ignore their external factors, in particular competition, will affect its chances of survival. More specifically, the contingency perspective suggests the need for organizations to adapt their internal operations to the conditions that exist in their external business environment (Bluedorn, Johnson, Cartwright, & Barringer, 1994; Oyewobi et al., 2016).

In view of the importance of competition to enterprises and the suggested relationship between competition and organizational performance, this study adopted competition as one of its research variable.

In measuring the performance of an organization, it is necessary to identify as well as know its primary objectives. Organizations establish their primary objectives based on their business mission or the purpose they are created. Once the organizations have determined their specific objectives, they need to work on how best to achieve all of their objectives in a given period of time (Drucker, 1977).

Although the literature reveals that different organizations in different industries and countries tend to emphasize on different performance measurement, findings of past studies

indicated that financial profitability and growth to be the most common measures of organizational performance.

For instance, the earlier study by Nash (1993) claimed that profitability is the best indicator to measure whether an organization is performing. According to the author, profitability can be used as the primary measure of organizational success. Doyle (1994) further considered profitability not only as the most common measure of performance but also claimed that western companies primarily used profitability measures to determine the extent to which their companies are performing.

The studies by Robinson (1982) and Galbraith and Schendel (1983) specifically found that financial indicators such as profit margin, return on assets, return on equity and return on sales are considered to be the common measures of financial performance of organizations. Similarly, in the context of the performance of manufacturing firms in Malaysia, the study by Abu Kasim, Minai and Chun (1989) found sales, sales growth, net profit and gross profit as the common financial measures.

However, in the case of enterprises, practitioners and researchers agree that these firms need to adopt different measures of organizational performance. As social business, enterprises have both financial as well as social objectives. Given this, the performance of Enterprises should be measured by using not only financial but also non-financial or social measures (Thomasa & Kumara, 2016).

Enterprises have different organizational objectives as compared to the commercial banks. Their organizational objectives are not only confined to financial profitability and sustainability but they also include social objectives such as social outreach as well as the impact of their loans on the lives of the poor people that borrowed from them. The need to measure the performance of Enterprises by using both financial and social measures has also been supported by organizations such as the Consultative Group to Assist the Poor (CGAP), The Small Enterprise Education and Promotion Network (SEEP) and the impact network organization (Mustafa & Saat, 2013; Thomasa & Kumara, 2016). The following section explains briefly the financial and social performance relevant and applicable to Enterprises.

Organizations are created for specific objectives. For organizations to achieve their objectives, they must be able to perform their operations efficiently and effectively. Organizations need to adopt effective business practices to help them accomplish their objectives as well as sustain their organizational performance. The performance of organizations is measured in terms of their abilities to achieve their specific organizational objectives.

The literature indicates that different organizations use different methods and measurement to determine their level of performance as well as to know the extent to which they are able to achieve the specific organizational objectives. Different organizations in different industry use different

methods and measurement of performance because each different organization has different set of organizational objectives to accomplish.

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III. CONCLUSIONS

This study attempted to investigate the influence of completion on performance of Enterprises. The review of the literature and past studies indicated that competitions influence the performance of enterprises. The finding is in line with the previous studies by Cull et al. (2011), Gwasi and Ngambi (2014) Nkundabanyanga et al. (2017). The result shows that, the higher the intensity of competition the low will be the performance of enterprises. The implication is that, regardless of the type of product and services the enterprises offers managers of Enterprises should be able to cope with their competition in their industry in order not only to improve their performance but also to sustain their longtime success.

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