



**Midlands State University**  
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*Our Hands, Our Minds, Our Destiny*

**Faculty of Commerce**  
**Department of Accounting**

**RESEARCH TOPIC**

**THE IMPACT OF COMPETITION ON FINANCIAL PERFORMANCE OF SMES: (A CASE OF VINEYARD FUNERAL ASSURANCE).**

**By**

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**Registration Number R135900E**

**Submitted in partial fulfilment of an Honours Degree in Accounting,**

**Completed with Midlands State University in 2017.**

**COVER PAGE**

## **APPROVAL FORM**

The undersigned certify that they have read and recommended to the Midlands State University a dissertation study entitled “The impact of competition on financial performance of SMEs”. A case of Vineyard Funeral Assurance pvt ltd by Dagny Phiri (R135900E) in partial fulfilment of the requirements of the Bachelor of Commerce Honours Degree in Accounting carried out at Midlands State University in 2017.

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**I the undersigned, hereby declare that the work contained in this study project is my own original work and I have not previously, in its entirety or in part, submitted it at any University for a degree.**

.....

**Signature**

.....

**Date**

## **Preface**

### **DEDICATIONS**

This study is dedicated to the people who have made a difference in my life. To my late grandmother, Eustina Tendaupenyu, Phiri, thank you in absentia for laying the foundation and raising a woman that I am today. Thanks to her for upbringing and everything she taught me. Now I know that nothing can or should stop me to achieve what I want in life.

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To the entire Phiri family, your unconditional love, support and encouragement has been guaranteed throughout the study period.

To my friends, your emotional and moral support has been steadfast. May God bless you.

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First and Foremost, I would like to give honour and glory to the Almighty God for His mercies on me are abundant. God you are the man Himself.

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To Management and staff at Vineyard Funeral Assurance. You mean a family to me.

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Last but not the least special thanks go to management and staff, faculty of commerce, department of accounting at Midlands State University.



## **Abstract**

The purpose of this study was to establish the impact of competition of financial performance of Small and Medium Enterprises in the Funeral Assurance sector in Zimbabwe. The SMEs in Zimbabwe have undergone tremendous growth over the last four years. Despite the undeniable effects of competition on their financial performance which is unavoidable since there is rapid increase on globalisation, technology and entry of new firms into the industry.

The descriptive research approach was used to carry out this study. The population of the study was from management and staff of Vineyard Funeral Assurance which was the case company. Stratified random sampling was employed on this study to select a sample of 24(69%).The study used both primary data from questionnaire administration and secondary data from IPEC quarterly reports for the periods 2013 -2016.Regression analysis using strata 11 statistical package was used to analyse the relationship between competition and financial performance. Qualitative data was analysed using graphs, tables and charts and mode as a measure of central tendency was employed.

The independent variable was competition (entry of new firms, introduction of new products by competitors, expansion of competitor's business horizons and increase in advertising costs) while dependent variable was SMEs financial performance(sales, costs, profitability).The results from both findings(quantitative and qualitative) indicated that competition has a negative effect on financial performance of SMEs. The study recommended that SMEs should adopt competitive strategies for them to remain relevant in competitive business environments.



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## **CHAPTER: INTROCUCTION TO THE STUDY**

### **1.0 Introduction**

“Competition occurs when two or more companies act independently to supply their services or homogeneous products to the same group of consumers” Berger et al (2011). This study seeks to investigate on how competition impacts performance in Small to medium enterprises. Notable researchers Almajali et al (2012), Huck et al (2016), Calhoun (2016), Kejzar (2014), Attari (2012), Kesimili and Gunay (2011) asserts that competition has no positive effect on business performance. The same authors contended that, competition strongly affect Small businesses through various labour costs, production costs and price factors. However, their argument was discounted by Muhammad (2016), Abdul (2016), Grimsley (2015), Baker and Anderson (2013), Onipe et al (2015) and Modanoglu and Castrogiovanni (2011) who asserts that, competition is important for the successful operation of small businesses, because it stretches management into quality decision making all the times, resulting in better firm performance. Considerable arguments from different published literature shows that a lot of previous investigations on this matter was carried out placing much emphasis on large businesses and are also restricted to developed countries, not reflecting the very different environments in which micro-entities operate, in developing, emerging or transition economies. This has motivated the researcher to investigate as to how competition affects performance in small businesses in the life assurance sector in Zimbabwe.

### **1.1 BACKGROUND OF THE STUDY**

The Funeral assurance business is one of the business sectors Zimbabwean entrepreneurs are embarking on. Vineyard Funeral Assurance pvt ltd is a small business operation in this competitive funeral assurance sector. The company is facing competition from the captains of the

funeral assurance industry which comprise Doves Funeral Services, Moonlight, First funeral Assurance and other smaller companies such as Foundation, Cell and Ruvimbo the list is endless which is causing slowing down of its performance. Over the period 2013 to 2016, Vineyard has been recording a decrease in its clientele (premium income) number as compared to its three key competitors. Results of the IPEC quarterly reports for the financial periods 2013 to 2016 showing a trend in the number of clients per each company over the period are presented on table 1.1 below:

**Table 0.1: Approximate Market share by net premium written for the financial period 2013-2016**

<b>COMPANY</b>	<b>Doves</b>	<b>Moonlight</b>	<b>First Funeral</b>	<b>Vineyard</b>
<b>Net premium written Q3 2013</b>	\$7 000	\$9 000	\$6 000	\$8 00
<b>Market share</b>	25%	34%	22%	3%
<b>Net premium written Q3-2014</b>	\$9 000	\$10 000	\$8 000	\$1000
<b>Market share</b>	23%	37%	21%	3%
<b>Net premium written Q3-2015</b>	\$8 500	\$13 000	\$6 000	\$9 00
<b>Market share</b>	30%	38%	21%	3%
<b>Net premium written Q3-2016</b>	\$10 600	\$14 000	\$6 500	\$7 00
<b>Market share</b>	37%	38%	20%	3%
<b>Profit/loss Vineyard Funeral Assurance</b>	<b>\$190</b>	<b>\$263</b>	<b>-\$248</b>	<b>-\$672</b>

Source: *IPEC Quarterly reports (2013-2016)*

As shown by the trend on the table above, Vineyard Funeral Assurance is recording a net premium written (revenue income) every year, resulting in profit revenue decreases as well. According to (IPEC end of year financial report, 2016 speech) end of 2013 Vineyard Funeral Assurance recorded 3% of the total number of people with funeral cover in that year (market share), whilst Doves and Moonlight and First Funeral recorded a percentage of 25%, 38% and 22% respectively. For the year ended 2014, the company recorded 3% market share against



Doves ,Moonlight and First Funeral who recorded 23%,38% and 21% respectively, showing that clients were leaving Vineyard to join Doves, Moonlight and First Funeral. Vineyard Funeral's decrease in annual net premiums from \$1 000 recorded in 2015 to \$700 end of 2016 may be a good example as this was the period a large competitor Nyaradzo introduced the group cover with food benefits.

The percentage number of clients (market share) for Vineyard remained at a lower rate that is 3% in 2016 as competitors recorded increases to 37%, 34% and 20% respectively. This means that, the company is losing approximately 1% of its clients every year. The introduction of Nyaradzo's 6 pack plan and Doves' 1000 in 2015 and 2016 contributed to the decrease, Vineyard recorded 5 to 6 policy drop outs per week during this period, and hence a decrease in premium income and annual profits (Operations managers' report, 2016) .This explains better the increase in competitors' clientele number.

The recorded decrease in company's revenue, over the past 4 years that is \$8 00 in 2013 followed by \$1 000 recorded in 2014, which changed to \$9 00 in 2015 and the lowest amount of \$7 00 being calculated end of December 2016, shows result of a move made by management in September 2015 to drop the agents' monthly marketing trips to rural areas, as this was perceived as a cause of high monthly marketing costs (IPEC report 2015) .Taking advantage of that competitors visit those people in rural areas and market their new products, for example Doves win clients with its \$1000 package plan in Zhombe rural which was one of Vineyard's major contributor of revenue.

The entry of small competitors such as Ruvimbo Funeral Services and First Funeral Assurance in the industry has also posed an impact to the performance of the firm during the period. This means that advertising campaigns and frequency of road shows increased during 2016.At the end

of December 2016, the company recorded an annual loss of \$672 as costs increased against decreasing revenue. The company's premium income (revenue) declined by \$2 00 in 2015-2016 financial year due to the entry of new rivals such as Eco sure, CBZ funeral services and Edgars' Funeral cover's into the industry in mid-2015 (Operations managers' report June 2016).

According to Mabanda (2015), Zimbabwean small business owners are faced with fraught challenges in managing their enterprises. Vineyard Funeral's underperformance is also a result of management being unable to analyse costs against associated benefits. Taking for example, when big companies introduce new benefits into the market Vineyard follow suit, without considering that Nyaradzo owns a fleet of buses and hearses and it has Calundike Exports for coffin production. Doves is a partner of Crocro motors so it has a source of vehicle not only that it has a well-established business since before. The case is different with Vineyard which rely on hired transport for service and coffins are purchased from outside suppliers (Board meeting minutes June, 2016).

This has motivated the researcher to investigate as to what can be done by SMEs to improve their competitive advantage and survive.

## **1.2 PROBLEM STATEMENT**

Competition has impacted negatively on firm performance and wellbeing of Small to medium enterprises. It is clear from the current economic state of affairs that there has been a fall in financial performance and market growth occupied by SMEs in Zimbabwe. The internalisation of the economy, dynamic nature of the business environment greater competitive larger entities and growing use of ICT forces small organisations to face difficulties of improving their competitiveness and remain relevant in the industry. Consequently the topic of competitive strategy plays a major role as SMEs are struggling to survive in a competitive industry. This

study has been carried out to investigate into effects of competition on firm performance and identify competitive strategies that can improve financial performance and competition adaptation ability of SMEs in Zimbabwe.

### **1.3. MAIN RESEARCH QUESTION**

- Does firm performance affected by industry competition?

#### **1.3.0 Sub Research Questions**

**1.3.1** What are the critical strategies to be adopted by Vineyard for successful adaptation to competition?

**1.3.2** To assess how SMEs in other developing countries are handling competition?

**1.3.3** Asses other factors besides competition that affect financial performance?

**1.3.4** Asses challenges encountered by SMEs when trying to adapt to competition?

**1.3.5** What is the relationship between firm financial performance and competition?

#### **1.4 Study Objectives**

The study aims to:

**1.4.1** Assess the critical strategies that Vineyard Funeral Assurance can adopt to adapt to competition.

**1.4.2** Assess how SMEs in other developing countries are handling competition.

**1.4.3** Assess other factors that affect financial performance besides competition.

**14.4** Establish challenges that SMEs may encounter in adapting to competition.

**1.4.5** Establish the relationship between competition and financial performance.

### **1.5 Significance of the Study**

This study is aimed at adding information to the existing board of literature and it will remain available for academic purposes only. The results from this study will edify the achievement of competitive edge in SMEs through appropriate development and implementation of identified competitive strategies. The researcher also hopes that this research will make a contribution in filling the gap in the literature regarding the effect of competition on SMEs performance.

### **1.6 Delimitation of the Study**

This study will focus effect of competition on SMEs trading in the funeral assurance sector in Zimbabwe. More focus will be on the performance of Vineyard Funeral Assurance during the period 2013 to 2016. For any information required in carrying out this study, management and staff at Vineyard Funeral Assurance are going to be the major sources.

### **1.7 Limitations of the Study**

The following listed below, are the main expected limitations which are to be encountered during period of conducting this study:

- Respondents being unable to answer and return the questionnaires due to, may be attitude and time shortages or Inability to comprehend accounting terms. But to make sure that adequate information required for this study to be successful is gathered, follow ups are going to be done on administered questionnaires and simple English for the majority to grasp is to be used.
- Restrictions and internal controls which might hinder access to other financial information of the case company.

- There is little research carried out before on the impact of competition on financial performance of small and medium enterprises in Zimbabwe or even in other emerging economies generally. Previous researches were mainly focusing on superior listed companies and financial institutions. Comparability becomes a problem in a research like this because of differences in organizational, structural, environmental and management variables amongst SMEs in developed countries and those in developing countries.

## **1.8 STUDY SUPPOSITION**

During the course of the study, the following assumptions were made:

- The model used represents the population of Small and medium enterprises in Zimbabwe.
- Competition played a major role in the financial performance of a firm
- Data will be difficult to collect since some sources are confidential.

## **1.9 Acronyms /Abbreviations**

**SMEs** Small to medium enterprises.

**VFA** Vineyard Funeral Assurance private limited.

**MSU** Midlands State University.

**TQM** Total Quality Management

**E-Commerce** Electronic Commerce.

**IT** Information Technology

**UNIDO** United Nations Industrial development organization.

### **1.10. Definition of Key Terms**

#### **1.10.1 Competition**

Osikoya (2016) defined competition as a rivalry among sellers trying to achieve goals such as increasing profits, Market share, and sales volume by varying elements in the market mix. Competition is a rivalry whereby every seller tries to gain market opportunity that other sellers are seeking to have at the same time by offering unique products (Busso and Galiani, 2015). This study is adopting Osikoya's definition because it encompasses all elements of financial performance which are being constrained by competitive activities of competitors.

#### **1.10.2 Financial Performance**

Financial performance is concerned with the analysis of company's financial position, the level of competitiveness in the industry and getting a thorough knowledge of the cost and profit centres within the business. Financial performance is one of the different mathematical measures a firm can use to evaluate how well resources are being used to make profit (Farlex Financial Dictionary, 2012). Mohammadi and Malek (2012) also defined financial performance as a way to determine the company's future obligations and make better investment decisions. In this study financial performance is going to mean all elements which help to determine a company's financial wellbeing and determine its going concern.

#### **1.10.3 Small and Medium Enterprises (Smes)**

SMEs are non-subsidiary Independent firms, which employ below the given number of employees. However this number varies across national statistical systems. According to Chidoko et al (2011) SMEs refer to the segment of labour market in developing countries that absorbed a larger pool of jobseekers mainly self-employed and small production units workers. For this study, SMEs mean those companies in Zimbabwe who employ below 200 workers and sole traders.

#### **1.10.4 Integrated Business and Information Solution (Ibis)**

Business integration is a strategy whose objective is to rate information technology (IT) and business cultures and objectives and align business technology with business strategy and goals (Rouse,2012).

### **1.11 CHAPTER SUMMARY**

This chapter was aimed at introducing the study, giving background, problem statement, research questions, study objectives, delimitation, limitation significance of the study, acronyms and abbreviations. Chapter 2 is on research methodology.

## **Chapter Two: LITERATURE REVIEW**

### **2.0 Introduction**

This chapter gives a review of literature on competition and its effects on financial performance of SMEs. It examines a broad perspective of different stages of competition that affect financial performance, factors adopted by SMEs in other developing countries to adapt to competition, challenges encountered by SMEs when trying to adapt to competition and the relationship between competition and financial performance, with the support from citations of various literature from previous researches carried out by different authors.

### **2.1 The Critical Strategies Adopted To Adapt To Competition**

Global and national competition challenges trade abilities of purely domestic SMEs in Zimbabwe, whose wares and services are immensely localized and disjointed. Globalisation enhances the capacity of well-grounded businesses to enter both remote and underdeveloped business sectors, (Puja et al, 2013). Contradictory to these rapid market changes, it increasingly difficult for young businesses to survive or even maintain their trade identities in such demanding industries. The holding ability of SMEs to maintain reliable, continual business operations and processes for prolonged sustainability, is critical in such a demanding environment. Small and medium enterprises are frequently interested in local niche service and developing relatively narrow specializations. Singh (2010) posits that SMEs usually operate under constraints of scarce resources, a horizontal organizational structure, insufficient innovation, lack of technical proficiency and reduced intellectual capital among other factors. Owing to free entry and exit of new and existing businesses into the market, changes in customer demands and technological advances forced the pattern of competition to change continuously



(Singh et al 2010).Therefore SMEs need to adopt to competitive strategies as below to adapt to competition:

### **2.1.1 Product Differentiation**

This is a strategy whereby a firm adopts certain attributes of the product or services to focus on, hence creating unique product from competitors, (Ortega and Ruiz, (2010). According to Siemasko (2016) product differentiation is what separates the company's service or product from competitors that is, what is it about a company's product that makes it unique. Differentiation means more than being just different but it concerns offering services and products with attractive advantages. Hawks (2015) asserts that product differentiation is a strategy which a small business can adopt to gain an edge by making its products unique so that they stand out and attract customers in an industry where competitors produce homogeneous products. Kouzari et al (2016) also acknowledges that the strategy of product differentiation makes a firm's products unique and attractive customers, thus promoting a small business to remain on the battle field of competition.

Product differentiation is persuading customers that by buying this product, they are getting the satisfaction other products cannot offer them, (Grimm and Malschinger, 2010). This same author contended that differentiation means that, a product has a unique functionality which provides something that competing products do not provide. Porter and Kramer (2007) posits that SMEs can outpace rivals if only they can build up a preserved difference to ensure creation of commensurable value at reasonably low cost and provision of greater value to customers. Vassiliki et al (2014) also agreed that product differentiation is an innovative strategy designed for small businesses to regularly introduce new products, services or processes that are different from those of competitors.

Dirisu et al (2013), noted that a differentiation strategy involves an entity creating a product or service which is considered unique in the aspects of satisfying customer needs. It is evident that product quality is the key market differentiator,(Sumtka and Neve,2011).Koter and Keller (2011) also argued that differentiation through product design and development which is the totality of features that affect how a product looks ,feels and functions is important for the competitive advantage of a firm. Shammot (2010), supportably argued that, differentiation strategy is a competitive tool that can be adopted by organizations in order to provide products that meet individual customer needs.

However, Randolf (2016) argued that, only companies with attributes such as, prominent scientific research, skilled and innovative product development personnel, an outstanding and strategic sales force and reputation for quality, succeed in implementing the differentiation strategy. Randolf says “implementing a differentiation strategy is costly, hence only achievable to those companies with stable finances. Gundala and Khawaja (2014) contended that, product differentiation is more than just merely putting a distinct name on a product, but calls the firm to reinvent unique features from competitors which attract customers. This then demand more resources which small businesses find it difficult to acquire. Small and medium enterprises are struggling to adopt to competitive strategies such as product differentiation due to their low level of absorptive, policy and financial constraints that makes the strategies expensive to implement, Saguy (2011).

According to Camison and Lopez (2010) SMEs are not capable of adopting product differentiation strategy because this strategy requires high financial assets endowments to be successful. Product differentiation requires a firm to have financial resources necessary to confer with differentiation characteristics on their products to outshine competitor’s products. Palmquist

(2014) posits that product differentiation's required investment would not be worth it for SMEs with limited revenue avenues which are more relied on their trade sales.

Williams (2016) however, argued that product differentiation has both some distinct positive and negative effects to the business and its customers. According to Cetin (2010), product differentiation provides variety and enhances creativity but is a costly strategy at the same time. It helps a business to provide different products to meet customer preferences and also by creating new products small firms remain relevant in a competitive global market. Companies who keep on reinventing captivate loyalty from clients, but differentiation requires calls for more resource utilisation for carrying out market research in order to identify customer needs, launch the product, advertise and monitoring (Puja et al 2013). This result in the strategy being expensive and customers ultimately end up bearing the high cost of purchasing the product or service. According to Idris (2015) a successful product differentiation strategy allows a firm to set high prices for its products and gain customer loyalty, because the distinguishing features of the product will bond them firmly to the company. However, the strategy is costly since it requires a careful research of customers' needs and preferences before reinventing the product.

Rahman and Ramos (2013) acknowledges that in a global market full of competition, Small businesses should increase product differentiation to remain relevant in the market, although the strategy is costly. Bords (2010) also acknowledged that "the key presumption behind differentiation strategy is, customers are willing to pay a higher price in exchange for products they perceive to be distinct from other products. Excellent value is created because the product is exceptional and technically superior in appearance and has a special appeal in some expected way, hence building competitive edge by making customers more loyal and price insensitive to a firm's products (Beards 2013). On the same note differentiation do not totally seal off the market

from other entries, other companies may enter the market and produce similar goods to the firm's products which can then confuse customers.

Ehinomen and Adeleke (2012) also attests that product differentiation is a strong competitive strategy that can be adopted by SMEs for them to survive competition pressure. However, SMEs' products are inferior to those of large organizations which makes the strategy unworthy to implement. Kokemuller (2015) also acknowledges that product differentiation strategy is an investment that a firm typically have to make in order to acquire or provide a top notch service or product. This strategy is so demanding which then creates more pressure to stimulate customer demand, and maintain reasonable sales price to drive revenue and profit.

The arguments raised by all the above authors on differentiation strategy emphasize mainly on other countries and focusing more on other business sectors other than the life assurance business. This study then is going to examine if differentiation can be a useful tool for survival of small enterprises in the life assurance sector of Zimbabwe.

### **2.1.2. Out Standing Customer Service**

The customer service any business adopt can make it or break it, because this is where every business owner has the chance to outshine competitors (Chapman 2017). One can be the most expensive service provider in the industry, but with excellent customer service it is possible to win business. Beards (2013) also attest that adding value to the overall customer experience is key to survive in today's competitive business world. Selling exceptional products, outstanding customer services and sales techniques all helps a company to outstand the crowd and gain competitive edge. Oakes (2010) therefore argues that, competition can motivate a business to a higher standard of customer service or innovation and improve its profit margins.

According to McDonald (2015) customer service is a unique asset a company can have in a market with competition. Making customers happy makes them feel honoured and become loyal to the company's products. Gallahar (2013) acknowledges that good customer service helps to develop customer intimacy and by so doing the business become to know as much about its customers and find out different things about them, hence tailor the offering to them. This strategy leads to stronger trust and customer loyalty over time which can induce more purchases by the same customer, therefore increasing revenue. Exceptional customer service is a key element required for a successful business in today's customer driven market, where competition is becoming stiffer day by day (Estepon 2014).

Kansky (2012) however, argued that outstanding customer service has little impact on customer satisfaction, because customers are more concerned with whether a purchase will arrive on time than with extraordinary measures. Brookins (2017) also argued that customer focused business result in a firm lacking on innovation. When a company is customer oriented it may resist ideas of improving products or creating new products which can have a negative impact on a company's creativity. Tjan (2015) also highlighted that majority of small firms spread their resources and services evenly across their client base. As a result even the least desirable customers using disproportional amounts of the sales and service resources. Focus strategy do not give the firm chance to centre its assets on customers who mean the most and clients with greatest repeat potential and ordering greater average purchases to enable the company weed out competitors.

Dunnet (2016) posits that firms develop customer focused policies, such as retail return policies that allow customers to bring back any item after purchase, in a desire to please and retain customers. This can be expensive to a small entity and may not make long term financial

viability. Brown (2012) investigated into the behaviour of customers and pointed out that it is important to listen and focus to customers, but it is also relevant for a small firm to know when to be customer oriented. Sometimes customers do not know what they want. Dixon et al (2011) also argued that there is a weak relationship between satisfaction and loyalty. Offering outstanding customer services do not guarantee customer satisfaction. Businesses ought to offer satisfactory solutions when a service issue arises instead of investing in costly activities in trying to surpass customer expectations.

Hill (2014) however asserts that emphasizing on quality customer service helps a small business to build customer loyalty which results in increase in sales revenue. Loyal customers are also likely to refer friends, families and businesses associates to the company's products and services, thus makes the enterprise remain relevant in the industry. But although with these importance, customer oriented business is associated with downsizing effects such as neglecting creativity whilst focus much on customer service.

### **2.1.3 Focus Marketing Strategy**

Gallahar (2013) define focus as a strategy that enables a company to dominate a niche by concentrating on a limited part of the market. Companies that understand the dynamics and unique customer needs of their niche markets succeed, because they develop and promote niche products that attracts a higher share of customers in that market segment than competitors. The company can also earn above average profits and reduce the threat of competitors' entrance to the market. According to Daniel (2011) focus strategy is a marketing strategy, in which an organization concentrate all its resources mainly on expanding or entering a narrow industry segment or market. This strategy is best choice for small businesses as they customarily lack resources for competing industry wide. Barret and Burgess (2013) attest that, a company

adopting a focus strategy naturally looks for the competitive advantage by brand marketing and product innovation than efficiency and this can allow for high return on the initial investment as target markets are less open to substitutes.

Hill (2010) also asserts that, focus strategy enhances the capability of an organization to identify the preferences of a narrow market region and enabling it to meet them better than other competitors. Gliga and Evers (2010) says focus strategy identifies the market segments where the company can compete effectively through matching market characteristics with its competitive advantage. The company can then select markets where a focus of company's resources is likely to lead to desired sales volumes, revenues and profits.

Hill (2014) however, argued that although being a customer focused business is essential for successful financial operations, this is not enough to guarantee it. Success requires a firm to focus on a range of factors in addition to customers in order to understand the competitive business environment of today. Mello (2015) acknowledges that focus strategy is cost effective for a business because it is associated with less competition, but the strategy is not suitable for a small company that intends to grow in the current competitive market since smaller market makes it difficult for a business to enjoy larger profit margin. Lynch (2003) supports that the niche is characteristically small so it may not be significant or large enough to justify a company's attention and focus on costs can be difficult in industries where economies of scale play a major role.

Focus strategy gives emerging businesses the chance to maximize profit margin in a less competitive niche segment, but it limits the business to innovation as it concentrate on a small segment (Dunnet, 2016). According to Dixon et al (2011) focusing resources on a market

segment gives a competitive advantage to a small business with a low asset base, but it is evident that the strategy is costly since there is need for researches into customer preferences. The lack of resources is one evident obstacle faced by SMEs in comparison to large enterprises such as multinational corporations (MNCs), (Zapf 2008). This resource limitation would deter an SME from competing on price alone as the bigger competitor has the advantage of economies of scale making it easy to afford to lower its prices. However, even though a large company might have adequate resources to outrange an SME from the market, bigger companies still face barriers that force them to accept the existence of Small to medium enterprises in the focus (niche) Market. “This is the case when the cost of aggressive retaliatory action against a small business may far exceed the cost of accommodating the SMEs’ presence in the market” (Maseko and Manyani, 2011).

The arguments from all the citations above on focus strategy are paying attention on what a small firm should do and less on how its bigger counterparts will react to the action. This is evident then that a focus strategy does not necessarily cause products and services to be effectively promoted in organizations pursuing a focus strategy. This study is then taking a look at a criticism towards focus strategy to examine if the adoption of the strategy does protect an SME against defaulting.

#### **2.1.4 Employee Engagement in Decision Making**

Mwangi (2011) acknowledged that, involving employees in decision making directly affect firm’s productivity and financial viability. This idea was supported by Ssekakubo et al (2014) who argued that, though active employee engagement may not seem to directly add to company profits, it has strong impact on firm’s financial performance. Cetin, (2010) noted that it is



important for managers to involve the whole organization in strategic decision making in order to remain competitive in worldwide scale.

According to Sorenson, (2013), employee involvement is a key performance indicator even in competitive business environment. Dickson, (2011), supportively stated that, engaged workforce helps in improving the company's earnings per share which also enables speedy rate of recovery from recession. Businesses with high employee involvement tend to outperform their competitors, (Ncube and Jerie, 2012).Kiisel, (2011) also argued that, engaged workforces are more productive as they tend to be more profitable, more customer focused, safer and able to withstand turnover temptations.

Talmatrix, (2015) contended that, employee involvement results in employee satisfaction which also leads to profitable and high stock market. Ncube et al (2013), postulated that employee engagement is an important ingredient to labor efficiency in companies. This was supported by Mathis and Jackson, (2011) who posits that employee engagement is an important to for showcasing the alignment of a firm's mission with those of workforce in relation to financial performance.

Employee engagement impacts positively on the behavior of employees leading to company success as measured against productivity, safety, key staff retention, employee satisfaction and customer satisfaction among other indicators in a changing labor market,(Mutambara and Hungwe,2011).Sibanda et al (2014) also attested that employee engagement and organizational performance is linked together.

However, Verma (2015) argued that, engaging employees does not mean productivity nor it is an output. He based his argument in an analogy that, employee involvement may be smoke but it is not fire. This means that an employee may be fully engaged and fully tied to the company but without proper training, leaders and resources, thus no amount of commitment may improve their output. George (2011), also supports that, high levels of engagement are not always positive for employees and in the long term may results in employee burnouts and stress. Delbridge, (2013) also discussed that it is a failing attempt trying to establish employee involvement in a local workplace in a complex and big organization structure, because it might not cohere with company strategies.

Reddy (2016), opined that, employee engagement leads to security risk. This typically means that sharing valuable and sensitive information and data with a large chunk of people is a huge threat of having that information passed on easily even to the company's rivals. Bates, (2004) also argued that an attempt to increase involvement results in negative outcomes being incurred for retention. This argument was based on the idea that the kind of training that gives employees higher feelings of engagement also gives them changes to leave the organization. Purcell (2012), posits that engaging employees results in undefined line of authority and responsibility in an organization which may lead weak internal controls, thus abuse of both financial and non-financial resources.

The arguments above on employee engagement as a strategy to survive competition were based on researches carried out in other business sectors different from the funeral assurance sector in which the findings of this study a based. Therefore, this study is going to find out whether employee involvement is an important strategy in adapting to competition or not.

## **2.2 COMPETITION ADAPTION FACTORS IN OTHER DEVELOPING COUNTRIES**

Small and medium enterprises find themselves in today's dynamic business world with rigorous competition and odd situations in the business environment troubling firms consistently and place them in positions where their relevance is consistently threatened. Small firms are then adopting to different survival strategies through sound financial policies and administration to remain competitive.

### **2.2.1 GHANAIAN SMES**

Amidu et al, (2011) asserts that, adopting Information and Communication Technology (ICT), provide means to small enterprises to compete in global business markets through augmentation and closer client, supplier relationships. Manyinka et al, (2011) posits that increasing technological advancement has posed strong effects in small businesses operations in other parts of the world such as Brazil and China. The Ghanaian government is correspondingly making such efforts through policy introductions to ensure availability of ICT to small and medium enterprises. SMEs in Ghana are adopting various ICT technics for them to remain relevant in today's global competitive markets.

#### **2.2.1.1 Adoption of E -Commerce**

Electronic commerce was defined by Awiaga et al (2015) as a way of broadening the concept of trade from a mere transaction approach to intensified and more complex concept of intercompany co-operation, amidst market globalization and growth inter infiltration of national economies. Huy and Filiatrault (2012) claimed that e commerce any economic or business activities that uses ICT applications to enable the buying and selling of products and services and easy of transactions between or among businesses. Qureshi and Davis (2007) also acknowledges that e commerce can enhance competitiveness of developing countries and reduce poverty. The

introduction of augmented international connectivity combined with rollout of national fibre backbone networks by a number of business players is becoming a revolutionizing force to Ghana's broadband market and is paving way for the convergence of technologies services.

A study carried out by the Ghanaian government in (2003) claims that, Ghana is one of the few African countries with a liberalized telecom market and vast pool of Internet service providers, which range from total telecommunications products and services to modified data management services. The study was also focusing on e commerce readiness and adoption in the country which have caused progress in many business sectors. According to Ghobakhloo et al (2011) adoption of ecommerce by Ghanaian SMEs is allowing them to find ways of attracting customers to their products and services, thus enhancing their presence in the global market.

The BuddeComm (2013) indicates that ICT improvements have generated subscriber growth and SMEs access to international business platform. According to International Telecommunication Union (2012), Ghana had an estimated 2,085,501 internet users in 2011 which was a major increase over the estimated 3000 internet users in 2000. This approximation work collaborates Abbey (2011), who attested that over 2 million Ghanaians have access to the internet. In 2013 the mobile cellular subscriptions in Ghana was recorded at 108 per 100 people, which shows that the majority of people have access to internet ([http:// wdi.worldbank.org](http://wdi.worldbank.org)).

Quarshie and Ami –Narh (2012) contended that 40.6% of Ghanaians depend on the internet for information on products and services, hence many Ghanaians SMEs and individuals employ the internet and e commerce to enhance their businesses and remain competitive. The ability of Ghanaian entrepreneurs to adopt e commerce is enabling them to process knowledge and compete in a turbulent environment (Chilchrist et al 2012). Adopting internet based electronic commerce offers considerable opportunity to an SME to expand customer base, rationalize

business and enter new product market(<http://www.The OECD small and medium enterprises outlook:2000>).

However, Khurana (2016) argued that e commerce has some disadvantages associated with it, which can be a threat to a company's customer reputation. For example, delays in delivery, not allowing the customer to experience the product before purchase and also many goods cannot be purchased online.

Researches previously carried out place focus on the advantages of e commerce to SMEs' survival in rival trading environments, but touching less on internal barriers such as limited understanding of the complexity of electronic operations, high initial investment required to develop a viable ecommerce strategy and lack of skills. As a result SMEs tend to slowly adopt technologies as compared to large firms. This study aims at finding out in broader context if the internal business environment can hinder a small business from adopting e technologies and increase their trading opportunities.

#### **2.2.1.2 Total Quality Management (TQM)**

Ankra (2012) defined TQM as “an approach which seeks to improve quality and performance of products and services in order to meet or exceed customer expectations. Sadikoglu and Temur (2012) acknowledged that, quality has become one of the most vital drivers in today's global competitive market. In Ghana, total quality management (TQM) is becoming an effective competitive tool small businesses are adopting to survive. Mawse (2011) says continuous business performance monitoring is the best way to address problems as they arise and stay attuned to the competitive business environment.

Hendricks and Singhal (2000) defined total quality management as the management philosophy based on the principles of total customer satisfaction ,employee involvement , continuous

improvement and prolonged partnerships with providers of resources. Kwamega and Ntiamoah (2015) highlighted that, “intensifying global competition and increasing demand for better quality by customers have caused many organizations to be fully aware that providing high quality products and services is the best option to compete in the marketplace”. Almost 69% or 48% of the majority manufacturing SMEs in Ghana have adopted TQM. The textile and clothing industry is one of the developed industry in Ghana, therefore has developed quality standards and members are voluntarily adopting to stay competitive (Agbola, 2013).

Davood et al (2013), posits that quality improvement is an important strategy that organization can use to achieve competitive advantage. Their argument was that companies that improve the quality of its products and services are able to compete in expanding global markets. This was supported by Zehir and Sadikoglu (2012) who attested that quality helped Ghanaian firms to lower costs as defects are minimized, as total quality management drives fear of change from workforce. Nguyan et al (2016), carried out a research in Hanoi construction companies to find out the link between total quality management and organizational performance using regression analysis methods, hence, they concluded that there is enough statistical evidence that companies who implement TQM will positively increase their performance.

According to Sadikoglu and Zehir (2010), it is evident that, effective knowledge monitoring ensures that workers obtain timely reliable, consistent, accurate and relevant data and information needed for them to do their job effectively and efficiently. This therefore implies reduced variations in the process and improvement in the quality of the product. Phan et al (2011) noted that, knowledge and successful process management practices enhances the monitoring of data on quality to effectively control activities, thus turnover rate of purchased materials and inventory can be improved. This also means, errors and mistakes can be picked out

and corrected on time, hence costs are minimized and firm's profits are increased (Sarangerajan et al, 2013).

Kim et al (2012), postulated, firms should train their workforce adequately to adapt rapidly to changes and develop unique behaviour which enables them to outperform other firms and obtain better financial results. Total quality management helped small enterprises in Ghana to focus on serving customers by knowing their expectations and requirements, hence offer products and services accordingly, (Parast and Adams (2012).When customers' expectations are met, their satisfaction rise and the firm's sales and market share will follow suit. Mackelprang et al (2012) also argued, total quality management enables supply chain management which implies reducing and streamlining the supplier base to facilitate close monitoring of supplier relationships.

The literature point out the importance adopting TQM as a competition survival strategy in developing countries, but the focus was on Ghana with a stable economic condition as compared to Zimbabwe.

### **2.2.2 Nigerian Smes**

Small and medium enterprises are being considered as the engine for economic growth and promoting equitable development in Nigeria because the sector has an advantage of employment potential at low cost (Aremu and Mukaila, 2011).However, most Nigerian SMEs die within the first five years of existence due to various reasons of which competition is the chief among them (Mosk, 2010).As rate of competition is rising daily, Nigerian SMEs are adopting different competitive strategies to remain relevant in the market:

#### **2.2.1 Adoption of Integrated Business and Information Solution**

Ojukwu (2015) defined Integrated Business and information solution (IBIS), as a concept of exploring and analyzing the relationship between investments made in ICT and the resultant impact on the growth of the organization. Akulu and Ige (2011) asserts that Information Communication and Technology (ICT) is a driver and enabler of economic growth in developing economies including Nigeria. Adoption of ICT by Nigerian SMEs has brought many changes in the way business is conducted, because it play a major role in information storing, retrieving, processing and disseminating. Ifinedo (2006), attested that, adoption of integrated business and information solution by Nigerian SMEs have increased their market reach, enhanced customer service and reduce both marketing and delivery costs through e business.

Uchgbulam et al (2015) discussed that, Nigeria's business environment is situated in the midst of a challenging economic landscape and intense competition. Hence, SMEs' managers are adopting strategic approaches such as intergraded business to accomplish, improve and sustain organizational performance and competitive advantage. UNIDO (2003) surveyed that, it is evident that rapid advances in ICTs have far reaching effects on both the government and business operations. As such it is important for SMEs to access and have adequate information to enhance their productivity and facilitate market access.

However, there are some hindrances to the adoption of IBIS and ICT by SMEs in Nigeria. These are but not limited to the following: Lack of constant electricity (Apulu and Ige, 2011); High cost of ICT implementation (Faisal 2012); Lack of education and government policies and intervention (Apulu and Ige 2011).The UNIDO in 2003 also argued that, the SME sector in most developing countries is suffering to access business information which is only available from standalone institutions, thus rendering it limited in scope and not provided in an integrated way.



Access to information is not enough SMEs need tailor made information solutions (Bornfante 2017).

The adoption of IBIS might have enhanced small firms' adaptability to competition but this may not guarantee the success of the strategy in Zimbabwean context. The current study seeks to investigate if IBIS is a worth taking survival strategy.

### **2.2.2 Adoption of Mergering and Acquisition Strategies**

A merger was defined by Sanders (2017) as, a combination of two or more businesses. It is a way small businesses can work to costs and launch new products into the market. Katty (2005) and Amedu (2004) defined a merger as coming together of two or more firms to become one large business entity while acquisition is the takeover or purchase of a small firm by a big firm pursuing similar business motive.

Babalola and Ajewole (2016) observed that small firms in the banking sector of Nigeria are adopting acquisitions and mergers as reform strategies to reposition their businesses and improve financial performance in competitive business environment. Okpanachi (2011) asserts that SMEs play a merger role in economic development of Nigeria. Therefore, mergers are being adopted in order to reposition SMEs for efficient financial performance to enhance their market relevance.

A research carried by Ukandu in 2011, shows that the business world is becoming a global village due to continual progress in all ramifications. Thus, Nigerian SMEs are adopting mergers and acquisitions as these are borne out of economic realities with emphasis on resource strategy for maximum profitability. Oghojafor and Adebisi (2012) supports that there were glowing performances in the Nigerian SME banking sector after the adoption of consolidation (mergers and acquisition) strategy in 2004. According to the Nigerian financial analyst, the ratio of non-

performing for Sky bank steadily reduced from 22.60% in 2006 to 5.34% in 2007 and 3.70 in 2008 which is an indication of improved asset quality. Anyanwu and Agwor (2015), discussed that mergers and acquisitions still remain a raw issue for Nigerian corporate practices as the number of businesses that adopted this form of reorganization for corporate survival are much fewer than developed countries.

However, in spite of all the above discussed benefits of mergers and acquisitions in Nigerian SMEs, the literature shows that focus was put in the banking sector. This has motivated the researcher to investigate if mergers and acquisitions can help SMEs in the life assurance sectors to remain competitive in the market.

### **2.3 OTHER FACTORS THAT AFFECTS PERFORMANCE BESIDES COMPETITION**

Company performance is the measure of what the company has achieved over a given period of time. The measure can be financial or non-financial performance (Almajali et al 2012). Financial (economic) performance is usually expressed in terms of sales growth, employment, turnover or stock prices (Havness and Senneseth, 2001). Below are the factors affecting financial performance?

#### **2.3.1 Debt Leverage**

Debt leverage is the measure of the degree to which a company is depending on borrowed funds compared to equity, (Rehman, 2013). Enekwe et al, (2014) espouse that is the measure of the extent to which entities use equity and debt to finance its assets. It is measured by the ratio of total debt to company equity (debt/equity ratio). According to Almajali et al (2012), companies that depend more on debt finance may be at risk of becoming bankruptcy if they are unable to meet their commitments. Pandey (2010) posits that, financial leverage affects either profit after tax or earnings per share or the combined effect of two leverages can be equally important for

the earnings available to owners of equity. Akbarian (2013) asserts that, there is a negative relationship between leverage and cash flow per share.

According to Enekwe et al (2014) borrowing funds as a company always brings about a heightened level of risk, because regardless of cash flow or earnings downturn, available income has to be used to pay back the debt. Gweyi and Karanja (2014) also noted that, multiplication of losses is an obvious risk associated with financial leverage. An enterprises that depend too much on borrowed funds might face bankruptcy during a period of business downturn, because financial leverage affects Solvency. A Company that is financially over leveraged is likely to experience a decrease in return on equity, because the investment risk will outweigh the expected return on investment (Akhtar,et al (2012).

However, Rajin, (2012) argued that it is worthy to factor in the value of the company and activities undertaken when evaluating leverage riskiness. If a company borrow money to modernize, expand its operational base or add to product line, the additional diversification will evidently offset the leverage risk. Shen and Rin (2012) also acknowledged that, if value is expected to be added to company assets from the use of financial leverage, then the added financial risk will not have a negative impact to the company and its investments. Wabita (2013) contended that, if a company borrows money to acquire an asset with higher return than the interest on debt, it creates value rather than bankruptcy.

Chatelain (2013) acknowledged that, financial leverage has a positive effect on firm performance when the earnings from the asset acquired with debt capital outweighs the cost of the debt. Barstow (nd) argued that, the more debt the firm takes on, the more the possibility of having adequate cash to generate sales, but the problem with company managers is on finding the right equilibrium between debt and equity for an optimal capital structure. Akinmulegun, (2012) also

argued that debt financing allows management and owners to keep full ownership of the business, thus greater control.

Ujah and Brusa,(2012) however, argued that debt financing improves the company's financial performance because it out factors the need to pay a portion of the earnings to owners of equity, but debt has a disadvantage that, when it comes to payment debt investor must be paid irrespective of the prevailing financial situation. Financial leverage is the easier way for a business to raise capital for value adding and modification of assets, but in the case of shareholders being unable to service the debt, there is high risk of defaulting (Taani, 2012).Mahira (2011) also argued that, leveraging is less expensive as compared to stock financing because of tax savings and reduced exposure to risk, however debt finance increased company financial risk. The cost of loan contracting and bond issuance is relatively low as compared to cost of issuing stocks (Islam 2012), but due to lack of collateral security SMEs find it difficult to secure long term loans.

The studies by previous authors was on how leverage affect financial performance of firms with more emphasis placed on other sectors besides the life assurance sector. This has motivated this study to find out if small companies in the life assurance sector in Zimbabwe have access to debt finance and the implications thereof.

### **2.3.2 Company Size**

Niresh and Velnampy (2014) acknowledged that size of an organization is the amount and variety of production capacity and ability a firm can possess. Size is the concurrent amount and variety of services a business entity can provide to its customers. Large businesses are more profitable as compared to Small and medium enterprises because a large organization can get better interest rate and discount for bulk purchases, (Pervan and Visic 2012). This means that,

large businesses enjoy economies of scale due to buying in large quantities, but SMEs do not enjoy these benefits due to their nature of financial capital, hence their costs remain higher. The traditional neo classical view of the firm (TNCVF), reveals that, contradictory to SMEs, items and services can be produced in much lower costs in bigger organizations.

Nazir and Saita ,(2013)noted that large firms operate under the control of managers who are pursuing self-interest goals, therefore profit maximization of the firm's objective may be substituted by managerial utility maximization function of managers. Obradovich and Grill, (2013) also contended that, firm size plays a major role in explaining the profitability of a business. Firm size brings about the ability a company possess, variety and quantity of production capacity or the quantity and extent of services an entity can offer consequently to its customers (Vinasithamby, 2015).Dogan (2013) supportively argued that big firms have the opportunity to have more profit share, since they own a bigger share of the market. Therefore, large business entities work more profitable and with less competition expected than SMEs.

Banchucnvijit (2012) however, argued that there is no relationship between firm size and financial performance, because performance depends on the ability of those who are charged with governance to make quality decisions which can drive the firm towards achievement of its financial objectives. Khatab et al (2011) attested that, there are some factors such as competition and management competence which significantly affect financial performance than size. Nasroller et al (2013) posits that, the relationship between size and profitability is industry specific regardless, but regardless of the shape or the size, the profitability function shows that profitability is negatively correlated to number of employees for firms of given sizes.

The above arguments about the effect of firm size was mainly reviewed from other countries with different economic conditions from Zimbabwe, thus the current study is going to assess the impacts on Zimbabwe's life assurance sector.

### **2.3.3 Company Age**

Company age was defined by Ilaboya and Ohiokha (2016) as the length of time during which a being or thing existed. It was defined by Shumway (2001) as the number of years of incorporation of a company. However Shumway's definition was debunked from the perspective of a company as a legal person (Waelchi and Pufferer 2011). The Company's age can be calculated in terms of incorporation date since a company as a legal person is born through incorporation (Pickering 2011).

Halil and Hasan (2012) discussed that, while other organizations report a negative relationship between company size and financial performance, others report a positive one. Akinyomi and Olagunju (2012) investigated into the impact of firm size on financial performance on Indian firms and found out that older firms are more productive but less profitable. On the same note, Dogan (2013) carried an investigation focusing on companies listed on the Istanbul stock exchange from 2008 and 2011 and discovered that, financial performance improve with age, the older the firm the lower the productivity and profitability.

Coad et al (2010) acknowledged that financial performance improve with age, because ageing firms have a potential to steadily increase levels of productivity, higher profits ,larger sizes, lower leverage ratio and higher equity ratios. This is derived from the notion that, older firms are better able to convert sales growth into subsequent earnings growth and productivity. Osunsan et al (2015) also asserts that, experience through age helps the business to financially perform

better. It is therefore evident that reputation effect benefit older firms by allowing them to earn higher margin of sales.

Gaur and Gupta (2011) however, argued that firm performance deteriorate with age. Keown (2005) supportively argued that, older firms have lower expected sales growth rate and profit because they are less capable to convert employment growth into revenue growth and profitability.

Coad et al (2013) argued that, there is a mixed relationship between age and financial performance. The argument was that, some ageing companies experience increasing levels of productivity, profits and lower debt ratios while others are recording lower expected growth rate of sales revenue and profit levels.

The above reviewed literature discussed the effects of company age on financial performance, but most of them were focused on developed countries and also in large companies. This study is therefore, going to find out if age affects financial performance in Zimbabwean SMEs.

#### **2.3.4 Management Competency**

Hayton (2015) attested that, deficiencies in leadership and management skills are a key constraint on business performance mainly in SMEs. Bloom et al (2012) supportably posits that, nearly three quarters of small businesses report poor financial performance due to deficiencies in leadership and management tactics. Skills level and the adoption of best financial management practices are uneven across the SMEs sector,(The chartered institute of personnel and development(2012).This means that, SMEs are long trails of business with poorly developed skills and which lack in management best practices. Unger (2011) acknowledged that smaller

and closely held firms lag behind when it comes to management best practices employed to enhance financial performance in big companies.

Nupakorn and Phapruek, (2010) explained that SMEs managers lacks in competent resource allocation, which is the ability to analyse resource requirement and allocate resources in each department, in order to efficiently utilize them to achieve corporate goals. Mutambanengwe, (2012) supportably argued that, organizational resource allocation impact financial performance. Management must have adequate accounting information skills for them to effectively allocate financial resources for innovation expenditure to sustain firm's ability to innovation,(Goswami and Sarka,2011).This means that, efficient allocation of financial resources plays a pivotal role in ensuring the translation of creative ideas into new processes, products or services, thus improving financial performance.

According to Mwangi, (2011) management competence is essential for effective decision making and better decisions influence tax management which enhance financial performance. Owolabi et al (2011), contended that, management capability to produce information with accounting practices influence financial performance, through mediating tax management decision making. Gwarisa (2012), noted that, having management with accounting practice skills helps to reduce the amount of tax payment for error. Kachembere,(2011) also argued that, if management is competent in making tax decisions it enhances the company's ability to avoid tax payment error hence, enhancing firm's financial performance.

However, Grill (2011) argued that, SMEs managers are incompetent when it comes to achievement of the objective of accounts receivable, to obtain an optimal balance between cash flow management components. Ahmet, (2012), attested that, efficient management of accounts receivables enhances, a firm's ability to improve on its profitability by lowering transaction costs



through raising of funds in cash crisis times. Competency in terms of cash management is a rare skill in SMEs' managers and this the reason why realization of mission, goals and objectives is difficulty these young businesses (Sherman, 2010).

Szabo (2012), noted that SMEs find it challenging to improve their financial performance in today's competitive internal and external business environment due to management lack of financial literacy. Prere (2010), supportably says, "Even profitable firms can become bankrupt because of management's failure to manage accounts receivables and payables effectively in today's dynamic business world". Cetin (2010) contended that, human resource performance have statistical influence on the financial performance. This means that, increasing employee commitment is related to higher organizational performance.

However, all the above discussions were placing emphasis on financial institutes not taking into account the funeral assurance sector, hence the study is going to examine if management competency affect financial performance of a company.

### **2.3.5 Corporate Governance**

According to Aybars and Kutlu, (2010) firms with good corporate governance tend to enjoy lower costs of capital and lower cash operating expenses. In support, Edelman, (2010) acknowledged that lower cost of operating expenses improves the profitability of a firm. Portfolio quality and profitability are the main builders of financial performance, (Maseko and Manyani, 2011).

Miller,(2011) argued that, organizations that use governance tools more often to control agency costs will dominate greater contracting cost advantages, thus resulting in management focusing more on business with greater managerial discretion. According to Brown and Caylor, (2009),

due to the fact that management pursue self-desire of consumption instead of maximizing shareholders wealth when they are empowered to take discretionary decisions, firms should minimize free cash flow under managers discretionary control. This can help reduce chances of cash abuse through under takings of unprofitable investments by management. Myers and Smith (2010), noted that, board independence and pay for performance for managers strongly enhance each other. Sueyoshi et al (2010), posits that, corporate governance has a strong influence on the financial performance of an entity.

Dallas,(2011) however argued that, country specific studies on developing markets have delivered mixed results, suggesting that research evidence on the effects of corporate governance indicators and corporate financial in developing industries is inconclusive. In addition, Ponu (2008), attested that, there is no significant relationship between corporate governance and financial performance. Latona,(2011) also argued that, there is no difference between organizations having poor and good corporate governance, thus corporate governance do not affect a firm's financial performance.

Peters and Bagshaw (2014), posits that, corporate governance is not the sole factor which affect financial performance of an organization, hence competition and firm size should also be considered worth. Abdullah (2009), postulates that there is no clear link between governance factors and improved performance and there is also no strong evidence that governance reduces either total or systematic risk. The new concept of governance to bring about quality corporate governance is not only a necessity to serve the diverse interests, but is also a key requirement for corporate performance as a whole, (Amba, 2011).

The above authors argued on the effects of corporate governance with public sector in mind, however in this study focus is going to put on small firms, operating in the private sector of Zimbabwe.

## **2.4. CHALLENGES ENCOUNTERED WHEN ADAPTING TO COMPETITION**

It is difficult for Small and Medium Enterprises (SMEs), to adapt to the competitive business environment due to different factors related to their small scale (Asian Development Bank, 2014).

### **2.4.1 Difficulties in Accessing Finance**

A survey by the Chinese SME Bureau in 2008, shows that SME financing difficulty exists in the world, even in the developed countries with relative abundance of resources. He (2012) highlighted that, commercial banks in developing countries are transforming their development strategies to large entities and cities in order to guard against financial risk. These changes have caused difficulties to SMEs in getting access to credit facilities. Gichuki et al (2014) also posits that, accessing credit facility is the major challenge for SMEs growth and survival in competitive business environment. This is a result of lenders behaviour in terms of hedging against borrowers' risks by demanding collateral which they lack.

Research by (Kenya National Bureau of Statics, 2007) indicated that 3 out of 5 Small businesses fail within the first few months of operation and 80% of those remain in the industry fail before the 5<sup>th</sup> year. Small businesses lack adequate funding to acquire adequate resources and gain competitive edge because, even if they are willing to pay prevailing credit rates, they cannot access to credit since lenders are unwilling lend to them due to lack of collateral assets. Firm level information collected by the World Bank indicated that access to finance is the major obstacle in SMEs than it is in larger businesses, particularly in developing world. That access to

finance adversely affect the growth and survival of the SME sector more than that of the large companies, (Demirguc-Kunt and Maksimovic, 2005).

Kauffmann (2005) argued that, the financial system in most Africa is underdeveloped, thus it cannot provide more financial instruments. The capital market is still in its infancy, shareholding is rare and no long term financing is available for SMEs. Osano and Languitane, (2016), asserts that “acuteness of information asymmetries between banks and Entrepreneurs is the stumbling block in SME financing in Sub Saharan Africa”.Fatoki and Garwe, (2010) noted that inaccessibility of finance is a major factor contributing poor performance of SMEs in developing countries, rendering them vulnerable to competition.

Arguments raised by the previous researchers on the effect of difficulties encountered by SMEs to access financial support, were focusing more on other African developing countries with market environments different from Zimbabwe who is experiencing an economic down turn. This has prompted this study to find out if SMEs in Zimbabwe have access to financial support.

#### **2.4.2 Lack of Human Capital**

Gonzalez-Loureiro and Pita-Castelo (2012) noted that, human capital (HC) is a source of competitive edge in both large and small businesses. This originates from the fact that, improvement in human capital has an impact on performance due to its complex to evaluate and imitate. Clarke et al (2011), contended that human capital is more important as source of competitive advantage to SMEs than large firms, because it is specific and SMEs can use it to differentiate from competitors.

Jin et al (2010), argued that, the impact of human capital on performance is not direct, hence SMEs lack the hidden mediator between HC and performance. Unger et al (2011) acknowledged

that, the impact of human resources management (HRM) on internal performance indicators is what contributes to better financial performance. Lahiri et al (2012) argued SMEs fail to adapt to competition because they lack managerial capability as a mediator between intangible assets and performance. Jin et al (2010) supports that human resource management combined with effective recruitment lacking in SMEs for them to create sustainable competitive advantage.

Small and Medium enterprises lack the sum total of knowledge, skills, abilities and other characteristics of individuals (HC) belonging to the firm (Ployhart and Moliterno, 2011). Human Capital is a unique competitive tool because people cannot be separated from their knowledge, skill and values in the way they can be separated from their financial and physical assets.

However, Amber et al (2010) argued that human capital is a rare resource because skills and knowledge of human resources need more time to develop and constant updates, which is costly is costly and not possible for Small organization. Protecting human capital from expropriation by rivals should be difficult for SMEs because human resources can easily move between organizations (Lahiri et al 2012). Jardon and Loureiro (2013) also argued that, the tacit knowledge developed by interaction in the organization makes human capital an imperfectly imitable resource.

The reviewed literature above, brings about a discussion on the importance of human capital as a factor that affect financial performance in firms trading in developed economies which are different from Zimbabwe. This has opened the gap for this study to examine if human capital has an impact on financial performance of SMEs in Zimbabwe.

## **2.5 RELATIONSHIP BETWEEN COMPETITION AND FINANCIAL PERFORMANCE**

Only a handful of studies directly address the issue of the relationship between competition and financial performance. Segarra and Teruel, (2013) opine that the relationship between competition and financial performance is well documented, discussed and presented differently in previous researches. There are also researches carried out looking at the relationships which exist between various determinates of competition and measures of financial performance.

### **2.5.1. Entry of new firms and sales growth**

Grimsey (2015) carried out a research in Uganda focusing on the banking angle, investigating on the impact of intensifying competition on sales growth, using the fragility hypothesis to analyse data. Results of his findings shows that entry of new firms into the industry have a strongly negative impact on an entity's sales generation. In support Ahlin et al, (2010) carried out a research in 70 Indian companies from different sectors using Lerner index and regression method. Their results brought about that a strongly negative relationship exists between intensifying competition and a firm's sales revenue. Increased competition as new firms enter the industry is expected to be associated with decrease in sales. Anyadike et al, (2011) used a dynamic model of rivalry in banking sector and found that in the absence regulation, increased rate of new entry into market leads to more risk. Thus a strongly negative relationship was established between competition and sales.

Segarra and Teruel, (2013) also carried out a research on a sample of 20 lending companies in India, examining the relationship between the three competition measures (presence, number and proximity of closet competitor) and sales as a measure of firm performance using Lerner index and simple regression for the period 2008 - 2010. They found out that the existence and entry of new competing lenders and absence of formal information sharing mechanisms on credit

histories of clients results in deterioration in repayment performance. The lower repayment performance the lower the degree of financial performance, thus a negative relationship was established. In support, Beck et al (2013) carried an investigation on the effects of competition on financial performance in 79 different countries. The data was analysed using the fragility hypothesis. Their results empirically confirmed that competition through new entry erodes company's pricing power, increases risk taking behaviour and is therefore detrimental to sales revenue, thus a negative relationship existed.

In contrary to above findings, Bressler, (nd) argued that new entry of firms into the industry with greater resources and willingness to build the market may attract other organisations to nascent the industry. Hence, this argument shows existence of a strongly positive relationship between new entry and sales revenue of existing entities. Box and Miller (2011) also argued that new entry of rivalries to the industry enhances SMEs innovativeness through production of unique products and creativeness which attracts customers, thus a strongly positive relationship exist. Anderson (2016) carried out a research on a sample of 23 OECD countries on the relationship between new entry and existing firms' financial performance(using simple linear regression method to analyse data).Results of his findings indicated a strongly positive relationship between product market and new entry.

Stein (2013) argued that new competitors' entry to the market has an indirect competition enhancing effect by pushing existing organisations to improve their products, thus attracting more clients, increasing product market and sales revenue. Therefore, a positive relationship was established between new entry and financial performance. This was also supported by Olukayode and Somoye (2013) who conducted a research in Nigerian SMEs and analysed data using pooled least square method. Their findings concluded that a positive relationship exist

between firms product market and emerging of new competitors into the industry. On same view a study carried out by Johnson et al (2016) in Asian SMEs in the manufacturing industry (measured using HHI) established that there is a positive relationship between entry of new firms and existing SMEs financial performance.

However, Farouk and Saleh, (2011) argued that entry of new firms into the market intensifies competition resulting in either productivity of existing small businesses or their exit from the industry. Wang and Wu (2011) also supported that the effects posed by new entry of competitors into the market is determined by the business decision making art possessed by management of an existing firm. Proponents to their findings are Head and Meyer (2011) and Harrigan and Deng (2010) who found no existence of a relationship between intensifying competition and financial performance.

### **2.5.2 Competitors' marketing strategies and sales**

Malik and Razzaq (2011) examined the effect of competitors' marketing strategies on SMEs revenue in different sectors across 22 countries. The findings of His research established a strongly negative relationship between competitors' actions and a firm's sales. Supportively, Kurtus (2016) examined the impact of large organisations' marketing devices on a sample of 50 Kenyan SMEs. The results of his findings shows that a strongly negative relationship exist between demand for an entity's products and competitors' actions. This was also in line with findings from a research by David et al, (2013) who found a strongly negative relationship between superior firms' marketing strategies and SMEs sales growth in South African Eastern region.



Recent research by Beiner et al (2011) in respect of 200 Swiss companies suggested a negative relationship between marketing strategies of rivalry companies and an organisation's product market (measured as HHI) and SMEs financial performance. Boone et al (2008) proposed a measure of the impact of competitors' action on a firm's products and service demand using his new Boone Indicator (BI). Results from the BI measurement indicated existence of a negative relationship between competitor's actions and an entity's sales growth. Taiwo, (2010) carried out a research in Ghanaian SMEs investigating on the relationship between larger firms' marketing mix elements and a small firm's sales revenue. He concluded that, an adverse relationship exist between competition and financial performance. In support Ayala (2013) conducted a research in 70 SMEs from different parts of the world to find out if there is a relationship between competitors marketing mix and a firm's sales. Results of the findings indicated that there is a negative relationship between competitors' actions and demand for a firm's products and services.

However, Simo (2016) argued that intensifying competition encourages innovation in organisations which results in higher sales revenue, firm's ability to meet its operating costs and improved profitability, thus a strongly positive relationship was established. Georgeou (2011) support the significant positive relationship between competition and financial performance. He argued that intensifying competition promote allocative production and productive efficiency, resulting in lower production costs and lower product prices attracting more customers to the business. Ajisafe and Akinlo (2014) examined the relationship between expansion of competitor's business horizons and a firms sales in Nigerian commercial banks using data from 1990 – 2009. The data was analysed using HHI and dynamic panel generalised method. A significantly positive relationship between competition and financial performance was observed.

The more efficient the entity becomes the lower its expenses (production costs), hence improved sales revenue.

The World Bank (2013) also posits that competition in the banking sector is desirable for efficiency. A positive relationship between sales and entries of new rivalries, competitors' marketing strategies and expansion of competitors' business horizons was established. This was also supported by Dezine and Aseidu (2010) who investigated the impact of introduction of new competitor's products on the sustainability of micro finance institutions (MFI) in Ghana. The research used data for the periods 2003-2007 and Harfindahl –Hirschman Index (HHI) was used for measuring. Therefore their research observed existence of a positive relationship between competitions and financial performance. Arguing that growing competition in the sector enhances overall efficiency, encourages innovation and lowers the repayment risk. This shows a positive relationship between competition and financial performance.

### **2.5.3 Profitability and costs**

Onipe et al (2015) investigated the money banks in Nigeria during the period 2005 -2014 using the traditional competition model. They discovered that competition is associated with financial instability and increased as it reduces market power and profit margins, resulting in managers taking higher risk, thus a strongly negative relationship was observed. Casu and Girardone, (2006) also argued that increased competition calls for an increased need for product and service promotion which increase costs and reduce profitability. Therefore, their argument concluded that there is a strongly negative relationship between intensifying of competition and profitability. Meyer (2014) supportively found a strongly negative relationship between intensifying of competition and profitability, arguing that competition result in loss of major clients to rivalries.

Mugo (2012) did a research on the effects of competition on entrepreneurial financial performance using the pooled least square method of data analysis in Kenya. Results from his findings indicated existence of a negative relationship between introduction of new products by competitors and existing entity's product market and profitability. In line with these results is Kinyua (2014) who carried out a study in the Jua Kali sector in Nakuru town. Data from this research was analysed using pooled least square method and a negative relationship was established between profitability and lose of clients to competitors. Mwanja (2014) also conducted a research on Biashara Boresha loan to test if there is a relationship between profitability and reduced product prices to adapt to intensifying competition. Results from this study established an adverse relationship between increase in competition and profitability of SMEs.

However, the above findings were discounted by Nunoo et al (2012) in a study to examine competition influences profitability of SMEs in Ghana. His results shows that competitors' actions motivates management to introduce competitive strategies to protect their brand loyalty in fear of losing clients to rivalries, thus increasing profitability. Mohr et al (2010) also argued that the nature of market uncertainty means that small entities can never be certain of what tomorrow's market holds for their product demand. The fear of shortened product life cycle due to competition put enormous pressure on SMEs management to constantly launch new products, thus, increasing their market viability and profit margins. Simo (2016) found a positive relationship between increased advertisement campaigns and profitability.

Akinola (2012) argued that there is no relationship between competition and financial performance. This was also supported by Marques-Ibanez et al (2014) who conducted a research on the effects of securitisation on the banking sector of Nigeria prior to the 2007-2009 crisis

intensifying the effect of competition and found no relationship between securitisation and financial performance.

The above authors' reveals literature on the relationship between competition and financial performance but their focus was mainly on the banking sector and no literature was revealed on the funeral assurance sector. Their studies were also focusing more on large organizations in other developing countries, ignoring the very developing or emerging countries where most SMEs operate in. Thus, based on the literature reviewed above, this paper proposes the relationship between intensity market competition and firm's financial performance in Zimbabwean SMEs to be negative. Therefore, it can be hypothesized that:

H<sub>0</sub>: There is a significant negative relationship between competition and financial performance.

## **2.6 CHAPTER SUMMARY**

The objective of this chapter was to review the literature on established study objectives, find gaps and recommendations for best competition adaptation techniques. Section 2.5 was on reviewing literature on the relationship between competition and financial performance. Chapter 3 is designed to discuss aspects of research methodology.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

This chapter details how the study is going to be carried out. The aspects of research design are provided together with reasons for the choice, the population of the study and size. It also entails the methodology, sampling, data collection and analysing procedures. The choices herein were made to facilitate a complete synthesis and conclusion of the study in relation to research objectives.

### **3.1 Research Design**

Research designs are strategies of inquiry (Broadhurst, 2012). In this research, the design is going to be a contact print for fulfilling the research objectives. It shows how data is to be collected, measured and analysed. According to Kutsaru (2014) a research design is a framework intended to guide the researcher towards achievement of objectives. Denzin and Lincoln (2011) defined a research design as a type of inquiry within qualitative, quantitative and mixed method approaches to provide direction in data collection and analysis.

### **3.2 Research Approach**

This study is going to adopt the mixed research approach or pragmatic knowledge claims philosophy because its objectives are qualitative and some are quantitative in nature. A mixed approach is a research approach which involves collection and mingling or integration of quantitative and qualitative data in a study (Creswell (2013). Quantitative research approach was defined by Creswell (2013) as “an approach for testing objective theories and examination of relationships among variables”. It is an approach which produces numerical and mathematical data suitable for statistical analysis. Palinkas et al (2015) defined qualitative approach as any approach which does not involve figures or numerical data, thus involves languages and can use

observations or pictures and graphs. This study philosophy entails “that the researcher should consider the consequences of actions, be problem centred and the study must be pluralistic and oriented toward real world practices” Creswell, (2014). Blumberg, Yee, Woong (2011), defined a research philosophy as “a belief about the way in which data about a phenomenon should be gathered, analysed and used. The mixed nature of the study objectives calls for both philosophical assumption and theoretical assumptions to be applied in data collection and analysis. This makes the combination of quantitative and qualitative approaches useful for proving a complete understanding of the impact of competition on financial performance in SMEs.

### **3.2.1 Descriptive research design**

This study is going to employ a descriptive study method to investigate the effects of competition on financial performance of SMEs in Zimbabwe. Shield (2013) noted that descriptive study aims at describing the effect causation in order to find underlying principal characteristics of a group and focuses on objectives of the study. Descriptive method is appropriate for this study, because it provides the opportunity for mixing both quantitative and qualitative data collection methods. Duvoviskiy (nd), noted that descriptive method deals with a state of affairs as they are at present but having the researcher with on control over the variables. Hale (2014) attested that descriptive case study methods involves study of individuals or group of individuals.

### **3.3 Population of the Study**

The population of the study can be categorized into target and accessible population. Knight (2014) defined a target population as the entire group of people or objects to which the researcher is intending to generalize the conclusions. This is the theoretical population of the

research in this case owners and employees at Vineyard Funeral Assurance. The accessible population (study) is the research population in which researchers draw their conclusions (Knight 2014). The study population will be functional supervisors, marketing team and top management at Vineyard Funeral Assurance. This study population is being considered appropriate for gathering data given the limited time and monetary resources available to carry out the study. In this study an accessible population will be selected from the target population as shown in table 3.1 below:

**Table 0.1: The population of the study**

Group	Target Population	Accessible Population	Percentage
Top Management	7	4	11.43%
Functional Supervisors	10	8	22.86%
Employees	18	12	34.29%
Total	35	24	68.58%

*Source: Researcher statistics*

As shown on the table above 24 respondents from a target population of 35 is going to be selected using random sampling. This population represents 68.58% of the target population, which was considered large enough to represent the whole target population. Karthik et al (2011) posits that a sample around 50% of the target population is ideal when dealing with a target population within the 100 range

### 3.2.1 Sampling Techniques

A sample was defined by Karthik et al (2011) as “a sub set of the population selected which is an unbiased representative of the larger population”. It is a small portion of the population selected for observations. According to Kutsaru (2014) a sampling method is a diagram set forth by the

researcher to be sure that the sample used in the study represents the population from which the sample was drawn.

In this study respondents are going to be partitioned into groups for ease of determining which sampling units belong to which sample, thus probability stratified sampling is going to be employed. MacLeod (2014) defined probability stratified sampling as the sampling method in which different types of people that make up the target population are identified and the proportions needed are worked out in order to have a representative sample. The accessible population is going to be partitioned into groups based on different positions held by respondents within Vineyard Funeral Assurance, thus sample stratification is appropriate.

### **3.4 Data Collection**

The study is going to gather both primary and secondary data. The researcher is going to make use of structured questionnaires, with both open ended and closed questions and interviews for primary data collection. Data collection is going to be sub divided into three sub sections. Sub section A will touch on background information of respondents, sub section B will be collecting data on competitive strategies employed by the firm and sub section C will be collecting data on other factors affecting financial performance besides competition. The target population is going to be management and marketing team. Drop and pick later approach which opposite of mail survey is going to be used for questionnaire administering.

Secondary data is going to be extracted from the financial statements and management reports of Vineyard Funeral Assurance for a three year period covering 2013 to 2016.

#### **3.4.1 Secondary Data**



Grimsley (2015) defined secondary data as information that has been collected for a purpose different from the current research project, but has some significance and utility for the current study. Secondary data sources can be divided into internal and external data sources. Internal data includes information that exists and is stored within the case organization. External data sources is that data collected by other people who are not within the case company. Examples of internal data are inventory records, balance sheets, sales figures and profit and loss statements. According to community medicine (2015), secondary data is information collected by someone else to serve other purposes, but being utilized by the investigator for another purpose. Due to limited resources such time and money available for the research, secondary data was considered appropriate for this study since the data is already there, thus no hassles of data collection and the data is less expensive and the researcher is not responsible for its quality.

### **3.4.2 Primary Data**

Primary data is a source of data that is established by the person carrying out a project study in the study process, Concordia University (2010).According to Creswell, (2013) there should be a direct link between the events which the researcher aims to focus on and the responses provided. Primary sources of data is the first hand information and this can render information which is free from manipulation as individuals express their own opinions on the problem understudy. In-depth interviews will be used in this study as a primary source of data, because there is some information which cannot be disclosed in written questionnaires but requires verbal interviews. Thus, interviews will be an appropriate source.

### **3.4.3 Data Collection Techniques**

Data collection techniques or research instruments are the ways of finding and collecting data (Annum, 2014).These techniques employ methods such as interviews, questionnaires and

reading and observations. In this study due to its nature of being mixed, interviews and both closed ended and open ended questionnaires are going to be used.

#### **3.4.3.1 Questionnaires**

Knight (2014) identified a questionnaire as a study instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. It is a written interview which enables a cheap, quick and efficient way of obtaining large amounts of information from a large sample of people (Mcleod 2014). Drop and pick up later strategy is going to be used for data collection so that respondents will have ample time to answer the questionnaires since it requires not the researcher to be present when the questionnaire is being completed. A questionnaire allows the use of both open ended and closed ended questions, thus this may be appropriate for this study which have a mixture of qualitative and quantitative information requirements. The research makes use of closed ended questions using a five pointer likert scale.

Mcleod (2014) posits that, a closed ended questionnaire is one which structure the answer by allowing only answers which fit into categories that have been decided in advance. Farrel (2016) defined closed ended questions as those questions that have a limited set of possible answers such as yes or no. They provide answers which can be easily analysed statistically (Fluid surveys (2013)). Since the study have an objective which requires information on relationship between variables closed ended questions will be appropriate to collect quantitative data. A 5 point Likert scale is going to be used in closed ended questions for scaling responses.

#### **3.4.3.2 Likert Scales**

This a widely used approach to scaling responses in survey research .Vanek (2012) noted that a likert scale is used when one intends to get overall measurement of the sentiment around a

particular topic, opinion, or experience and collect data on factors that contribute to that sentiment. It helps the researcher to more easily identify areas of improvement. Wigmore (2014) says, it's a commonly used survey tool that request an assessment of some variables from among a range of potential responses. The 5 pointer likert scale was used for the purpose of this study because it provides opinions ranging between two extreme positions. The responses were ranging from 5 strongly agree to 1 strongly disagree.

**Table 0.2: Likert Scale**

Strongly agree	Agree	Neutral/Undecided	disagree	Strongly disagree
5	4	3	2	1

*Source: Christian Vanek (2012): Survey gizmo*

### **3.4.4 Interviews**

There are three basic types of interviews namely: structured, semi structured and unstructured. Structured interviews are mainly, verbally administered questionnaires in which a set of predetermined questions have little or no difference and no extent of follow ups (Hamza, 2014). According to Zohrabi (2013) interviews enables the gathering of relevant information to the problem understudy. It is relevant to the qualitative type of study. The study consist of some objectives which are of a qualitative nature, hence an in-depth response to the impact of competition on financial performance on SMEs. Top management of Vineyard Funeral Assurance are the target respondents of the interviews so that they will bring personal views concerning competition and their operations. On the same note the use of interviews is expected to clearly and briefly bring out information which may not be disclosed in questionnaires. Open ended questions are to be employed in conducting interviews.

Open ended are those questions which prompt people to answer with sentences, lists and stories, (Farrel, 2016). Open ended questions allow respondents to give free form of answers. Oppenheim (2010) allow the researcher to find more than what is anticipated. It gives room for discussions and respondents are free to share motivations and concerns that the research know nothing about. Open ended questions allows for revealing of surprising mental models, problem mitigation strategies, hopes and fear and collection of qualitative data. Since the aim of the study is to have an opinion of respondents on the effects of competition on their financial performance, few questionnaires are will be distributed.

### **3.4.5 Ethical Considerations**

Ethical issues is one of the critical areas on data collection. Dudovskiy (2016) noted that, during the research participants should not be subjected to harm in any ways whatsoever. Kalpesh (2013) supportively argued that, there a various ethical issues to be considered while planning to collect data of any type. These include some expenses to be incurred by the researcher, completion of surveillance forms, there is a need for coordination with each member of the population and not to forget that the people in the population may cause a certain amount of discomfort and potential harm in the process. There is a probability that ethical implications can emanate during data collection process (Sekaran and Bougie 2010). Consideration in regard to confidentiality of information and protection of participants is going to be employed.

### **3.5 Data Analysis**

Under data analysis different data analysis techniques to be used will be discussed. Methods to be used will include both descriptive and inferential in analysing data. Measures of central tendency (mean, mode, median) and measures of relations and associations (correlation and regression)

According to the business dictionary (2017), "data analysis refers to a procedure of joining together facts and figures for better analysis, presentation and interpretation of data. Analysing and interpreting data helps the research to prove a point". Data is going to be checked for completeness and consistency before analysis. On the same virtue qualitative data is going to be coded quantitatively for ease of analysis.

Previous researchers used different statistical methods to test the relationship between competition and financial performance, using the same variables the research is going to test the relationship by simple linear regression analysis using **STATA 11** statistical package. The model is as follows

$$Y = \beta_0 + \beta_1 \alpha_1 + \beta_2 \alpha_2 + \beta_3 \alpha_3 + \beta_4 \alpha_4 + \beta_5 \alpha_5 + \epsilon$$

Where:

Y= SMEs financial performance (dependent variable)

A<sub>1</sub>-A<sub>4</sub> = Independent variables

A<sub>5</sub> = Moderating variable

A<sub>1</sub> = Entry of new firms into the industry

A<sub>2</sub> = Introduction of new products by competitors

A<sub>3</sub> = Marketing strategies used by competitor

A<sub>4</sub> = Expansion of competitors' business into your market horizons

A<sub>5</sub> = Government policies and regulations

B<sub>0</sub> = Coefficient of the model

$B_1 - B_5$  =Beta coefficients of determination

$\epsilon$  =Stochastic error term

### **3.5.1. Measures and Liability**

The form of questionnaire was in line with the pattern of Ganzalez et al (2006) based on scales from literature on chapter 2. Respondents were asked about each factor (see table 3.1). They were required to indicate whether each factor was considered relevant in affecting a firm's financial performance variables and this was put forward in a 5 point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

### **3.5.2 Results of Empirical Analysis**

The aim was to determine the model that better explain the relationship between competition and financial performance through linear regression. In order to assess the effect of competition on financial performance, Pearson's correlation analysis is performed. It is a measure of strength of association between two variables. Correlation coefficients are used to determine the magnitude and direction of association. Their values range from **-1** (perfect negative correlation) to **+ 1** (perfect positive correlation). The nearer the values are to these two values, the stronger the relationship, at **0** there is no relationship (Maddala, 2008).

### **3.5.2. Data Presentation**

Data is going to be presented in forms of tables, frequencies and figures such as bar graphs and pie charts.

## **3.6 CHAPTER SUMMARY**

This chapter presented the adopted research methodology that guided the present study project. In summary to achieve the objective of the study, a mixed research approach was employed. This

approach was deemed necessary, though challenging. The following chapter will be chapter four which is based on data presentation and analysis.

## CHAPTER 4: DATA PRESENTATION AND ANALYSIS

### 4.0 Introduction

This chapter presents and analyses data gathered in the field by means of administered questionnaires and interviews. Data has been analysed by making use of Microsoft excel and mode was a descriptive statistic used to the data. Regression analysis using **STATA 11** was used for testing relationship between variables under study in relation to the study objectives. The data was then presented on graphs, tables and charts. Therefore to analyse the impact of competition on financial performance of small and medium enterprises (SMEs), the findings from the field are used.

### 4.1 Response rate

The target population for this study was 35 and the accessible population was set to be 24 respondents. Of the 24 questionnaires administered, 22 (91.7%) were completed and returned and 2 were not returned. This shows 63% of the target population of 35, meaning that the results of the sample size were still ideal. These results were also supported by Karthik (2011) who posits that a sample of 50% and above is ideal when dealing with a study which falls in the 100 range. The response rate is shown on table 4.1 below:

**Table 4.1: Questionnaire response rate**

Respondents	Targeted Responses	Actual	Response rate
Top management	4	4	100%
Functional Supervisors	8	6	75%
Employees	12	12	100%
Total	24	22	91.7%

*Source: primary data*

The total number of distributed questionnaires to the management and staff at Vineyard Funeral Assurance was 24 .Responses to the questionnaires were 22 out of the expected total number of 24. This represented a response rate of about 92% which was very high. These results are also



obviously excellent by any standards. The 92% response rate could be attributed to the artfulness of the researcher in conducting the data collection. The follow-ups were effectively made leading to a large number of respondents filling up and returning the questionnaires. The fact that the sample size was small but big enough to provide the required information was another reason for high response rate.

## **4.2 QUESTIONNAIRE RESPONSES**

### **SECTION A**

#### **Q1. Socio demographic data**

A total of 24 questionnaires were administered to Vineyard Funeral Assurance and 22 complete responses were obtained. The questionnaire contained questions that addressed objectives of the study.

#### **Gender of respondents**

The purpose of this section was to gather socio demographic information of respondents the aim of which was to establish the nature of what influence the behaviour of respondents in relation to the business. This was in line with gender, age experience level in the organization as well as their professional and academic qualifications. Socio demographic data assisted the researcher to group respondents according to their classes which makes data analysis easy. This is in line with Wyne (2012) who suggested that socio demographic information helps the researcher to create meaningful data and analysis in the form of cross tabulation to compare results of the findings easily. Gathering such data also helps the researcher in determining what segments or subgroups existed in the target population. It also helped to typically establish clear and broad picture of every member's characteristics in each segment.

Gender details of respondents who participated in this study were sought and obtained in this part of the questionnaire. Majority of the respondents were females and results are presented on table 4.2 below:

**Table 4.2: Showing the proportion of responses in relation to Sex**

Responses	Number	Percentage
Females	12	55%
Males	10	45%
<b>Total</b>	<b>22</b>	<b>100%</b>

*Source: Survey Data*

As depicted on table 4.2 above, of the 22 respondents 12 which represents (59%) were females, meaning that the researcher has observed gender balances in administering the questions. Male respondents were only 10 that is (45%) meaning that the population gender imbalance exist even at workplace. The difference of 2 individuals between numbers of respondents per each gender group is considered small and insignificant which makes results of questionnaires ideal for addressing the problem under study. Also the researcher is evident that the findings from questionnaire responses will be reliable. This is based on the assumption that women are verbally social, thus they have all the information about what is going on in the industry concerning competition and the company's product and service market. This idea is in line with Cameron, (nd) who acknowledged that women are interactive beings who can chat to people and build rapport as they are good at that thing.

## Q2. What is your position in the organization?

The results on table 4.3 below shows distribution of work positions occupied by respondents.

**Table 4.3: Showing number of respondents in relation to position occupied in the entity**

Position	Number of respondents	Percentages
Top management	4	18%
Marketing supervisors	6	27%
Agent	5	23%
Administration	7	32%
Total	<b>22</b>	<b>100%</b>

*Source: primary data*

As alluded on table 4.2 above, 4/22(18%) of the respondents were top management, 6/22(27%) were marketing supervisors, 5/22(23%) were agents and 7/22(32%) was made up of the administration team. This shows that majority of the respondents 82% (32% admin +23% Agents+27% marketing), were lower level employees, meaning that research findings from this survey was reliable since employees are the ones who reach out to the customers and they have full information of the market than top management who spend ample time in offices. Only (18%) the respondents were top management. This result is important to the study because top management are the ones who make strategic decisions for the company. Hence, it is evident that their responses are directly addressing the prevailing effects of competition to achievement of their set financial performance objectives. This was supported by Abdel Rahman et al (2013) who attested that every success, mishap, opportunity seized or missed by an organisation (small or large) is a result of a decision top management made or failed to make.

### **Q3.How long have been in the company?**

Table 4.4 below shows the distribution of skills in form of years of working experience.

**Table 4:4 Years of Experience**

<b>Number of years in service</b>	<b>Number of responses</b>	<b>Percentages</b>
0 -1 Years	4	18%
1-5 Years	8	36%
6 + Years	10	46%
<b>Total</b>	<b>22</b>	<b>100%</b>

*Source: primary data*

From the above distribution (Table 4.4), 4 out of 22 respondents representing 18% answered that they have been in the company for 0-1 years.8 out of 22 respondents that is 36% confirmed that they have been in the company for 1-5 years, while 10 out of 22 respondents representing 45%

indicated that they have served the entity for 6 and above years. Therefore, in total 54% of the respondents have less than 5 years of experience in the business. This percentage is significant and can imply that most of the employees were experienced and have an idea on the company implying that the enough that respondents have reasonable number of years of serving the company, hence they are in a better position to supply useful information concerning the case organization based on the subject matter. Mitovic et al, (2008) attest that, contrary to the industrial era, where tangible assets were valued more than intellectual assets in the success of an entity, in today's IT era the value of intangible assets (employee experience) significantly increases the value of the entity, arguing that employees should have a clear understanding of their entity and the environment in which it trades.

#### Q4.What is your educational qualification?

Table 4.5 below show responses in relation to educational qualifications of respondents.

**Table 4.5: responses on educational qualifications of respondents**

<i>GCE/O/A LEVEL</i>	12	55%
<i>CERTIFICATE OR DIPLOMA</i>	6	27%
<i>DEGREE</i>	4	18%
<i>Total</i>	22	100%

*Source: Primary Data*

From Table 4.5 above 12 respondents that is 57% possess at least a GEC/O/A Level, thus these people are able to read and understand English language, meaning that they answered questions which they understand, making their results reliable for the study .6 respondents representing a percentage of 27% are holders of a certificate or diploma. This shows that as the level of education keeps on going up the number of achievers goes down. Only 4 respondents, representing 18% have a degree, meaning that only minority of staff in SMEs in especially holders of top positions are the ones who attained higher academic levels. Based on the obtained

responses, the researcher was optimistic that all the respondents are literacy, thus are in a better position to give useful information on the impacts of competition on financial performance of Small firms. However, the distribution of educational qualifications can also imply that SMEs employee workmen without skills on how to outperform competitors and that is the reason why they find it difficult to survive competition. This is in line with Drucker, (2008), who postulated that knowledge has power in today's twenty first century because it controls access to opportunities and advancement. Jelenic, (2011) supportably posits that globalization has brought about modern trends in the business industry which requires companies to employ skilled workforce for them to easily and painlessly adapt and survive in competitive markets.

**Q5. How are old are you?**

Table 4.6 below shows range of age distribution of respondents to administered questionnaires.

**Table 4.6: Distribution by range**

<i>Range</i>	No of Responses	Percentage
<b>18-25 years</b>	<b>5</b>	<b>22%</b>
<b>26-30 years</b>	<b>3</b>	<b>14%</b>
<b>30 + years</b>	<b>14</b>	<b>64%</b>

*Source: primary data*

From the Table 4.6 above, response findings shows that 5 out of 22 (22%) of the respondents are from the 18-25 years age range, meaning that some employees are those young adults who left high school and join the company without any qualifications required by the company's type of business. 3 out of 22 respondents range from 26-30 years of age, meaning that as people grows older they settle for one employer as they become satisfied. 14 out of 22 of the respondents are 30 and above of age. This age distribution shows that most of the respondents are mature and thus may be able to offer reasonable answers for subject matter since they have experienced a lot

during their working experience. Lamintakanen et al, (2012) noted that, old aged workforce are a bunch of knowledge in the organization in which the younger age have to learn from.

## SECTION B

### Q6. Strategies that Vineyard can adopt to adapt to competition

Table 4.7. Below shows responses on strategies that can be adopted to adapt to competition.

**Table 4.7: responses on strategies that can be adopted to adapt to competition**

	Strongly agree	Somewhat agree	Undecided	disagree	Strongly disagree	Total
<i>Product differentiation</i>	15	4	0	1	2	22
<i>Outstanding customer service</i>	10	11	0	1	0	22
<i>Focus Strategy</i>	8	8	1	2	3	22
<i>Sell off some operations</i>	5	5	3	4	5	22
<i>Employee engagement</i>	13	5	4	0	0	22

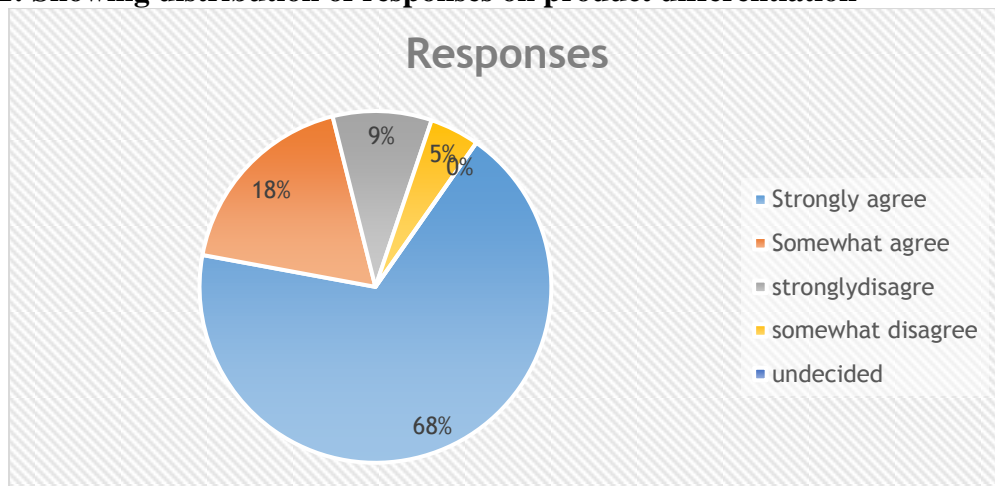
Source: primary data

The data presented on table 4.7 above is going to be analysed after being graphically presented in different figs below.

#### 6.1 Product differentiation as a competition adaptation strategy

Fig 4.5 below shows percentage distribution of responses in relation to product differentiation as a competition adapting tool for SMEs

**Figure4.1: Showing distribution of responses on product differentiation**



*Source: Survey data*

Fig4.1 of table 4.7 illustrates the responses in relation to product differentiation as a competitive strategy. 15 out of 22 (68%) strongly agree, 4 out of 22(18%) agree, 0 out of 22 (nil %) neutral, whilst 2 out of 22(9%) strongly disagree and only 1 out of 22 (5%) disagree. This means that 19 out of 22(86%) agree with the notion that product differentiation enhances an entity's ability to outperform its competitors by providing unique product and services to clients. It indicates that product differentiation should be adopted as a competition adaptation strategy by SMEs as majority of respondents are in agreement. Also supported by Abu-Aliqah, (2012) and Henderson, (2011) who acknowledged that smart product differentiation strategy the only way a brand can become brand success in a turbulent market It is also important for customers to perceive a consistent difference, (Shammot, 2011) between a firm's products or services with those of competitors, because competitive advantage is meaningful if it is determined by attributes of a product valued by the market. None of the 22 respondents were neutral as to the idea of adopting product differentiation as a competitive edge for their small organisation. This means that all the 22 respondents were fully aware of either advantages or shortcomings of product differentiation as a competition survival tool. Also supported by Idris, (2015) who asserts that product differentiation is the most well-known among porter's generic strategies, but its adoptability depends on how management of an entity perceive it.

3 out of 22(14%) of the respondents disagreed to the idea of adopting product differentiation as a competition adaptation equipment for their company. This means that although it carries a bundle of advantages, differentiation strategy also have its inherent limitations, which makes it difficult for other SME owners to successfully embrace. This result is in agreement with Camison and Lopez (2010) and Saguy (2011) who espoused that SMEs are not financially

healthy enough to adopt an expensive strategy such as product differentiation. It is also clear that the strategy (product differentiation) is only successful to firm's that have internal strength such as an access to leading scientific research, highly skilled and creative product development team, (Moses, 2010).

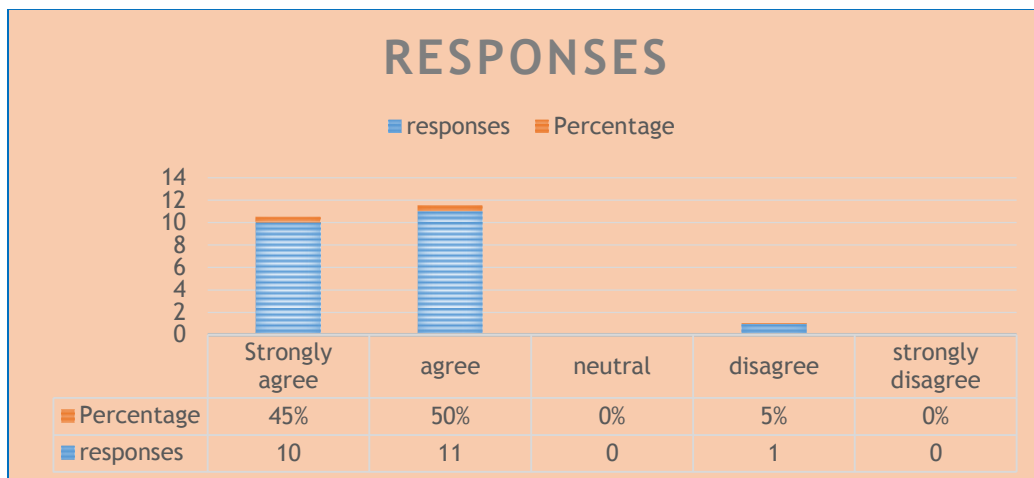
A mode of 5 was obtained on responses as to adoption of product differentiation as a competitive strategy. This means that majority of respondents strongly support the notion that adopting product differentiation techniques can help SMEs to survive in competitive business environments. This is also in agreement with Hawks (2015) who argued that an SME should adopt product differentiation for it to gain a competitive edge in turbulent markets.

Therefore, basing conclusion on above findings it is evident that product differentiation is a strategy that SMEs in Zimbabwe may adopt if they are to survive in competitive business markets.

## 6.2 Adopting outstanding customer service techniques

Results on adopting an outstanding customer service technique as a competitive strategy in SMEs is presented on fig 4.6 below:

**Figure4.2: Showing results in relation to outstanding customer service as a competitive tool.**





*Source: primary data*

As alluded on fig 4.2 above, 10 out of 22 (45%) strongly agree, 11 out of 22 (50%) agree, 0 out of 22 (nil %) neutral, whilst 1 out of 22 (5%) disagree and 0 out of 22 (nil %) strongly disagree. In aggregate majority of respondents in this study 21 out of 22 (95%), agree with the notion that, Zimbabwean SMEs should offer outstanding customer services for them to adapt to intensifying competition. This means that majority of respondents. This idea was also supported by Beards, (2013) who posits that adding value to the overall customer experience is a key to SMEs survival in a dynamic business environment of today. None of the respondents was neutral (nil %) about the idea of adopting outstanding customer service techniques as a strategy for SMEs to adapt to competition. This means that at least every one in the accessible study population of this strategy. This also supports Ebitu(2015) who articulated that almost every business person is aware of the Porter's (1985) generic strategies as these infer competitive and marketing dimensions which have been widely tested for firm survival in competitive environments. Only 1 out of 22(5%) disagree with the notion of adopting outstanding customer service techniques as a strategy which can be adopted by Vineyard adapt to competition. This means that not all business people perceive this strategy as the best way to go for enhancement of their adaptability to competition. Also supported by Kansky (2012) and Tjan (2015) who argued that outstanding customer service has little effect on customer satisfaction as customers are more concerned with timeous arrival of their purchase than with extraordinary measures.

The modal class in relation to outstanding customer service as a competition adaptation strategy is 4. This means that majority of the respondents agree which makes the strategy ideal for adoption by SMEs in Zimbabwe. This was also supported by Gallahar (2013) who contended

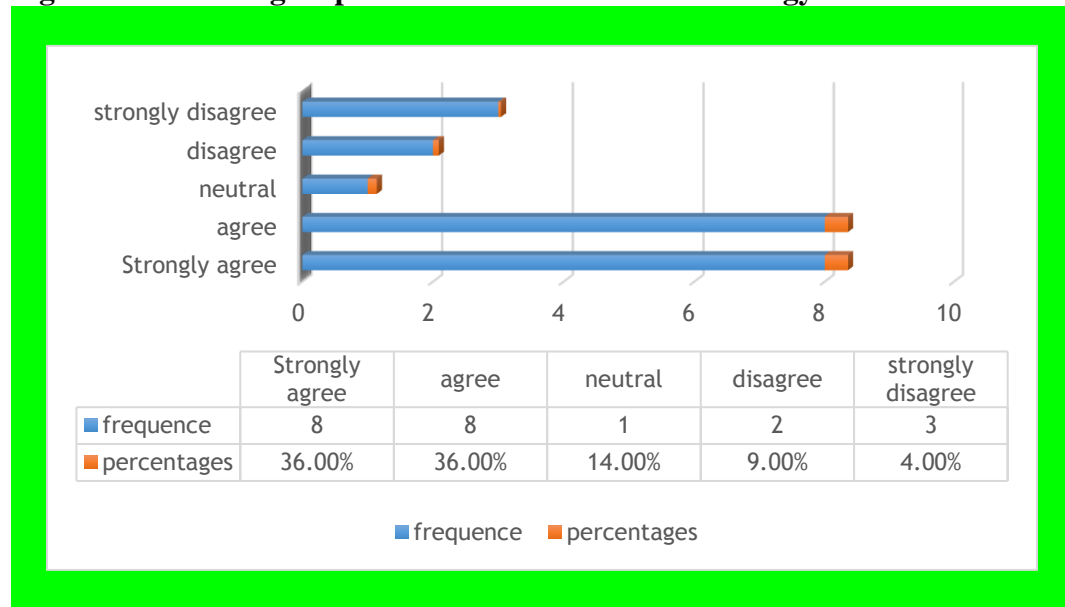
that, SMEs should adopt outstanding customer service techniques for them to develop customer intimacy.

Basing conclusion on the above findings, it is evident that providing outstanding customer services helps a business to retain clients and remain competitive.

### 6.3 Focus Strategy

Below is fig 4.7 graphically presenting results of focus strategy as a competitive strategy?

**Figure 4.3: Showing responses in relation to Focus strategy**



*Source: primary data*

The study findings in fig 4.3 above shows that, 8 out of 22(36%) strongly agree, 8 out of 22(36%) agree, 1 out of 22 (5%) was neutral, whilst 2 out of 22 (9%) disagree and only 3 out of 22(14%) strongly disagree. This means that majority, 16 out of 22(72%) agree with the notion that to remain relevant in the competitive funeral assurance sector, Vineyard have to adopt focus strategy. This also imply that focus strategy is among the competitive strategies to be adopted by Zimbabwean SMEs as indicated by the questionnaire responses. Also backed up by Erel (2014) and Gordon (2014) who postulated that adopting focus strategy enables a young business to

develop impressive expertise about goods and services that it provides, thus scaring away rivals and new entrants to the market. Only 1 out of 22 (5%) was neutral as to the idea of adopting focus strategy as a competitive strategy. This means that although majority of business people have an appreciation of focus as a competitive strategy, they are some who are still wondering on how this strategy can help in a turbulent today's business world. Also in line with Dixon et al (2011) who perceived the strategy as helpful but only to larger organisations which are financially sound as it is expensive to adopt. Of the 22 respondents, only 5(23%) disagree with the notion of adopting focus strategy in SMEs as a competition survival technique. This number also means that the strategy, though good may be associated with its shortcomings which might render it not the strategy for SMEs. This is in support of Wishon (2014) and Francour (2015) who also posits that a niche can disappear or be taken over by larger competitors which makes it an unreliable strategy for a small company intending to grow.

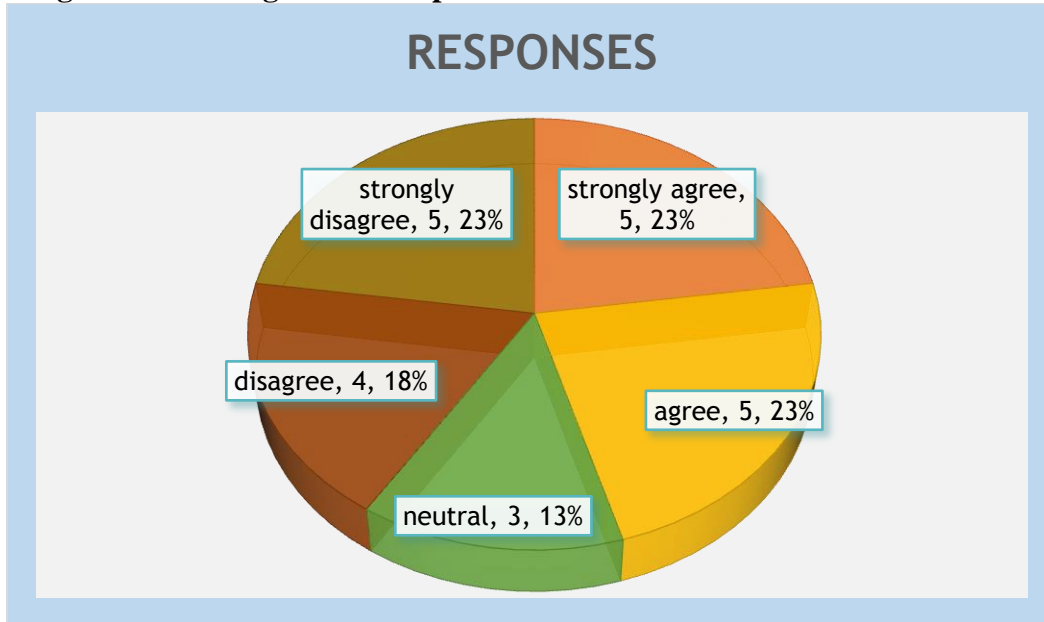
The distribution of responses gives an arithmetic mean of 4.4, which means that most of the responses were in agreement. This shows that even in SMEs trading in the Zimbabwean funeral assurance, focus strategy is useful as a competition survival tool. Also backed up by Barret and Burgess (2013) who attested that adopting a focus strategy helps a firm to gain a competitive advantage by brand marketing and product innovation.

Looking at the findings and discussions above, it can then be concluded that, Vineyard Funeral Assurance has to adopt focus strategy in order to adapt and remain relevant in the Zimbabwean funeral assurance industry.

#### **6.4 Selling out some operations**

Fig 4.4 below shows distribution of responses on selling out some operations as a competitive strategy.

**Figure 4.4: Selling out some operations and concentrate on core activities**



*Source: primary data*

As depicted by the pie chart on fig 4.4, above 5 out of 22(23%) strongly agree, 5 out of 22 (23%) agree, 3 out of 22(13%) neutral, whilst 4 out of 22(18%) disagree and 5 out of 22 (23%) strongly disagree. These questionnaire findings also means that about 10 out of 22(46%) agree with the idea that SMEs in Zimbabwe should outsource some of their operations and start to concentrate on core activities in order to adapt to competition. This means that majority of the respondents agree with the idea that young firms have to outsource complex and time consuming activities for them to remain relevant in the market. Also supported by Grauman (2016) who contended that selling out some operations can free the entrepreneur from tedious and time consuming activities such that he or she can concentrate on core activities that are more essential to the firm's long term growth and prosperity. Only 3 out of 22(13%) were neutral about the idea of outsourcing some of their operations in order to concentrate on core activities. This means that

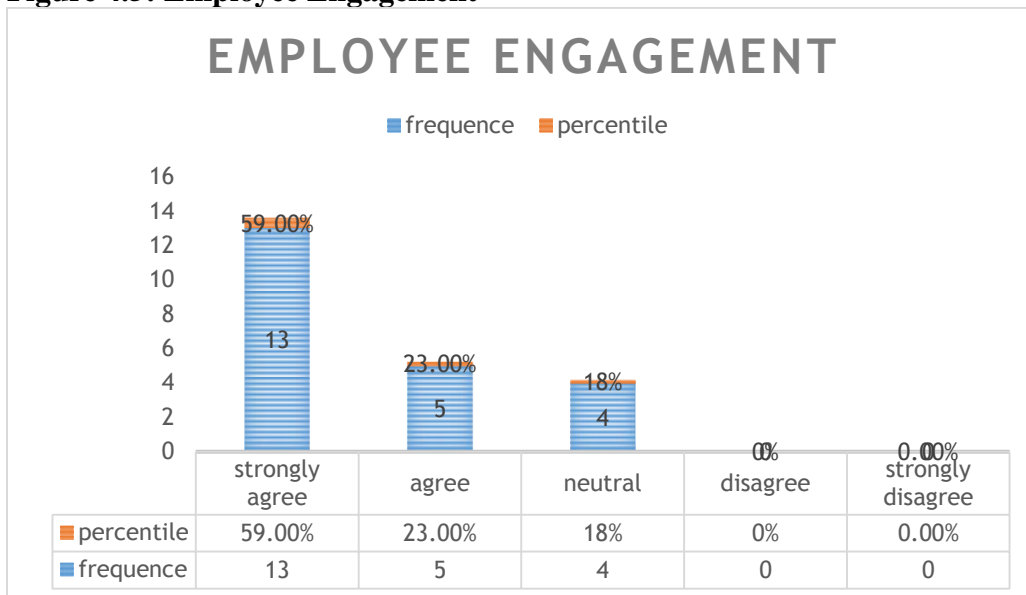
these people were also disagreeing with the notion of adopting outsource as a competitive strategy, adding the number of those who were disagreeing to 12 out of 22(54%). This means that although the strategy seem to be advantageous, it has drawbacks such as compromised quality of goods and services which may outweigh the benefits attached to it. This view was also supported by Chesto (2011) and Flavelle, (2013) who espoused that selling out operations is associated with daunting challenges such as political risk and compromised quality of services.

The results also gives an arithmetic mean of 4.4 ,which means respondents agree with the idea that SMEs should sell out some of their operations to be competitive. This was supported by George (2011) who espoused that SMEs spend much time trying to concentrate on complex activities which they can outsource and concentrate on core activities.

### 6.5. Employee Engagement

Fig 4.5 below graphically shows the percentage responses on employee engagement

**Figure 4.5: Employee Engagement**



Source: primary data

As depicted to on fig 4.5 above, 13 out of 22(59%) strongly agree, 5 out of 22(23%) agree, 4 out of 22 (18%) neutral, whilst 0 out of 22 (none) disagree and 0 out of 22(nil%) strongly disagree. This means that 18 out of 22(82%) agree with the idea that engaging employees is a strategy which can help an SME to outperform rivals and grow big. Indicating a full support of the notion by majority of respondents. Also supported by Ruziwa (2016), Williams and Berthal (2015) who argued that organisations that do not engage employees are at a competitive disadvantage, since engaged employees are willingly able to perform beyond what they are expected on the job description. 4 out of 22(18%) were neutral concerning the issue of engaging employees. This may also mean that these do not agree with the idea. In support of their view are Delbridge (2013) and verma (2015) who postulated that engaging employees does not mean productivity nor it is an output. 0 out of 22(nil) disagree with the notion that employee engagement can enhance a young business's adaptability to competition. This means that majority of the respondents were in favour of the idea making it ideal.

The modal class of 5 calculated also supports the questionnaire response result. This means that majority of the respondents strongly agree that involving employees is a strong competitive strategy for SMEs to adapt to competition. Supported by Tamatrix (2015) who opined that employee engagement leads to high employee satisfaction which motivates them towards productivity.

**Q7. The following are strategies adopted by SMEs in other developing countries to adapt to competition**

Table 4.8 below illustrates obtained responses on strategies that are adopted by SMEs in other developing countries and their adoptability in Zimbabwe.

**Table 4.8: Strategies adopted by SMEs in other developing countries**

	Strongly Agree	Somewhat Agree	Strongly Disagree	Somewhat Disagree	Undecided
E-Commerce	12	5	1	3	1
Mergers and acquisitions	10	9	0	2	1
Total Quality Management	17	3	0	1	1
Integrated business information solution	16	5	0	0	1
IT based capabilities	15	2	4	0	1

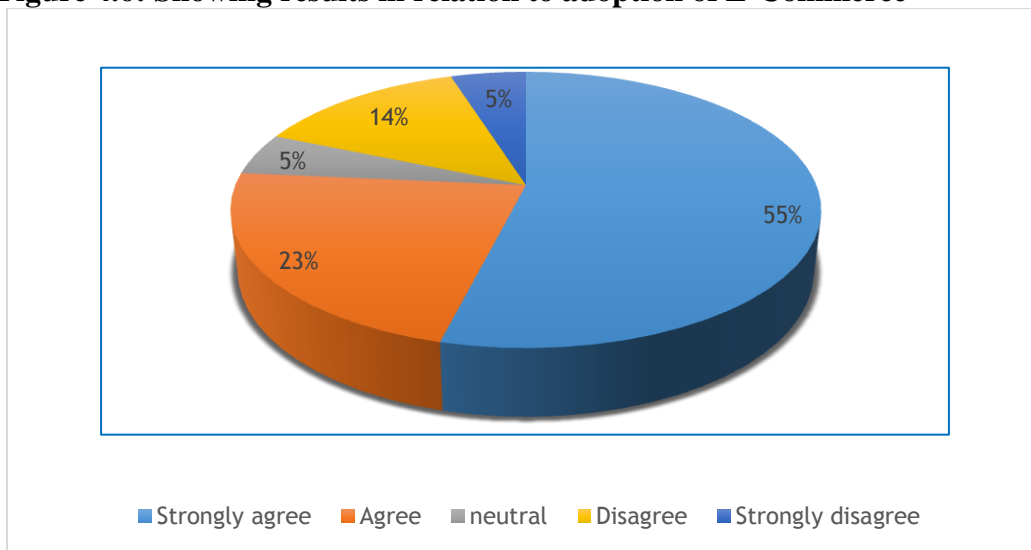
*Source: primary data*

Respondents were requested to indicate their level of agreement on the suggested strategies used by SMEs in other developing countries to adapt to competition. Results are presented on figs below and analysed thereafter.

### 7.1 Adoption of Electronic commerce

It was suggested that Vineyard like SMEs in other developing countries should adopt e-commerce techniques in order to adapt to intensifying competition.

**Figure 4.6: Showing results in relation to adoption of E-Commerce**



*Source: primary data*

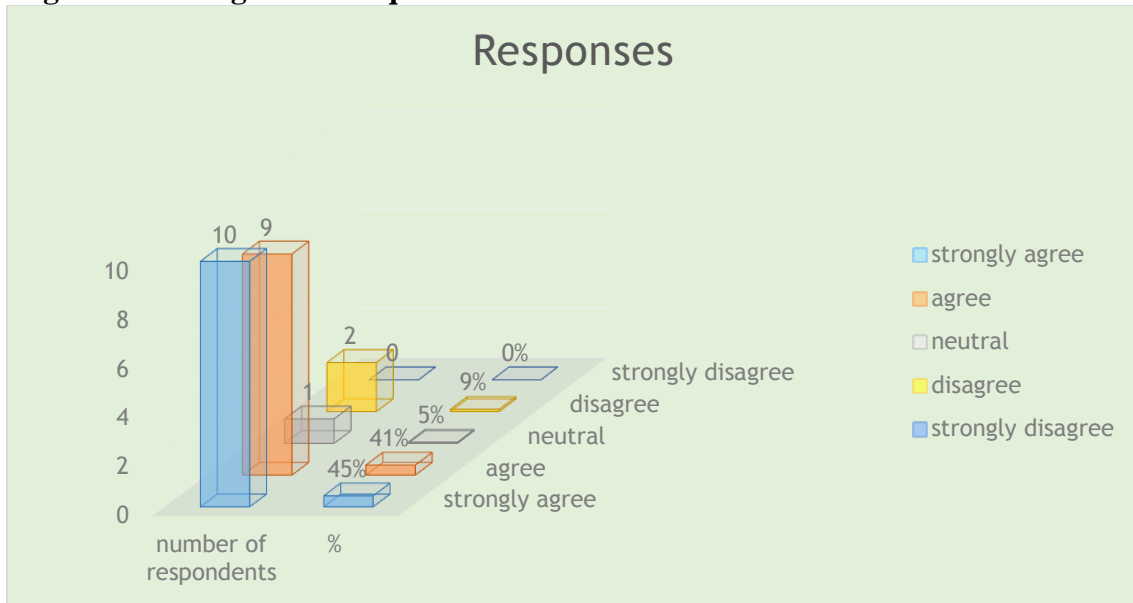
Fig 4.6 above shows distribution of responses on e-commerce as a strategy used by SMEs in other countries to adapt to competition. Results shows that 12/22 (55%) strongly agree, 5/22(23%) agree, 1/22(5%) neutral, only 3/22(14%) disagree and 1/22(5%) strongly disagree, giving the modal class of 5. This means that, 17/22(78%) agree with the notion that e-commerce as it is adopted by other developing countries as a competition survival strategy should also be adopted by Zimbabwean SMEs. This means that majority of the respondents agree with the idea that SMEs should adopt business technologies such as e-commerce for them to be competitive. Also supported by Prohaska (2011) who posits that SMEs must quickly accept ecommerce technologies or they will succumb to competitors. Significant benefits are also achieved by those young businesses who adopt and use e-commerce, (Wymer and Regan (nd), Rahayu and Day (2015). 1/22(5%) were neutral which means these respondents do not have idea about e-commerce as a competitive strategy. This also is in line with the 4/22(19%) who disagree with the idea of adopting e-commerce in Zimbabwean SMEs .This means that although it is technologically up to date strategy e-commerce is expensive to adopt in small businesses operating in struggling economies such as of Zimbabwe. Proponents to their views is Khurana(2016) who argued that-commerce is not advantageous to a small business with a small number of customer base because it is associated with delays in delivery which might render it a poor strategy.

The calculated arithmetic mode for the above results is 5, which makes the e-commerce relevant even for SMEs in Zimbabwe. Also in line with Abbey (2011) who asserts that over 2 million Ghanaian SMEs are surviving competition because they have adopted e-commerce.



From the response distribution above, it can be concluded that as SMEs in other developing countries are curbing competition effects by adopting e-business, Zimbabwean SMEs can also do the same and adapt to intensifying competitive businesses.

**Figure 4.7: Merger and Acquisition**

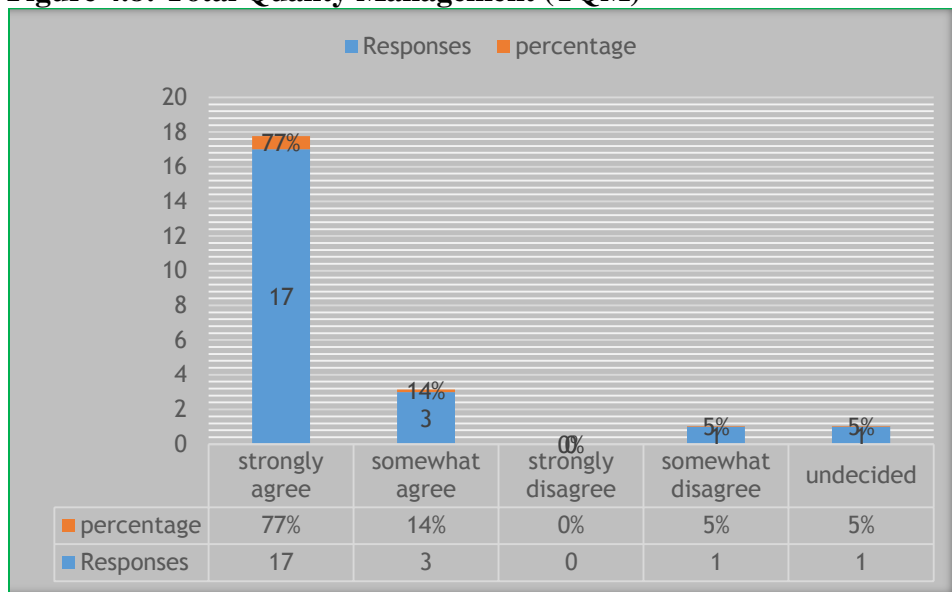


*Source: primary data*

The results presented on graphs above shows that 10 out of 22(45%) of the respondents strongly agree, 9 out of 22 (41%) disagree, 1 out of 22(5%) neutral, whilst only 2 out of 22(9%) disagree and 0 out of 22(nil) strongly disagree. This means that majority of respondents 19 out of 22(86%) agree with the idea that SMEs in Zimbabwe like other developing countries should engage themselves into mergers and acquisitions for them to adapt to competitive industries they trade in. This means that majority of respondents agree with the idea of adopting mergers and acquisitions as a competitive edge. Also supported by Akinbuli and Kelilume (2013) who argued that mergers and acquisitions bring about unique financial synergies to SMEs, which cannot be obtained by either entity alone and it also gives the new firm greater value than the combined sum of total rival firms. 1 out of 22(5%) was neutral. This means that although some respondents

found it worth to engage in mergers and acquisitions, they are still some few who do not understand the concept. 2 out of 22(9%) disagreed with the idea of SMEs engaging in mergers and acquisitions. This means that some business people fear risks associated with mergers and acquisitions. This supports Agwor (2015) who argued that mergers and acquisition are still a raw issue as some people are still doubting the strategies since they are subject to risks such as hostile takeovers. Therefore, given the findings presented above, it is clear that mergers and acquisitions are worthy adopting for small business to adapt to competition.

**Figure 4.8: Total Quality Management (TQM)**

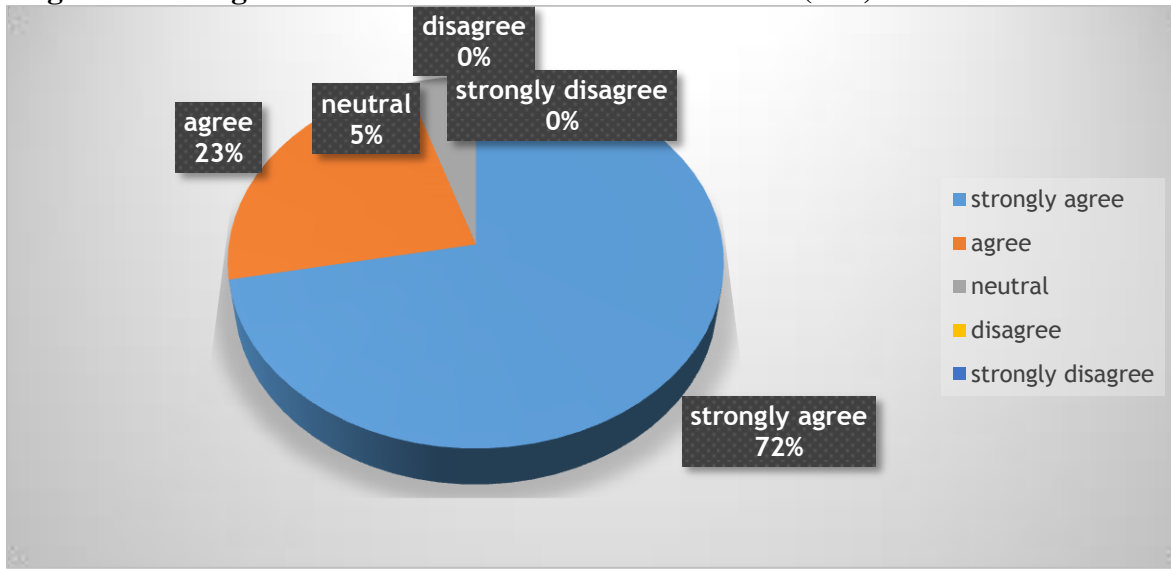


*Source: primary data*

Fig 4.8 of table 4.8 shows a summary of study findings on whether total quality management is among the competitive strategies that can be adopted by Vineyard Funeral Assurance. Findings shows that 17 out of 22(77%) strongly agree, 3 out of 22 (14%) agree, 1 out of 22(5%) neutral, 1 out of 22 (5%) disagree and 0 out of 22(nil) strongly disagree giving a modal class of 5. In aggregate 20 out of 22(91%) of the respondents agree with the notion that SMEs in Zimbabwe should embrace total quality management techniques for their businesses to survive in

competitive business markets. This means that majority of the respondents agree, also backed up by Shah and Jani,(2013) and Adams,(2012) who espoused that implementing Total Quality Management Techniques (TQM) enhances an organization's ability to improve customer satisfaction, quality of products or services, productivity ,production line capacity and competition position. This idea was also supported by Kim et al, (2012), who postulated that TQM enhances a firm's ability to minimize time, waste of inventory, work in progress, costs, delivery times and employee turnover.1 out of 22(5%) was neutral, meaning that although majority have the knowledge of TQM, there is still quite some who are not sure about the benefits of this strategy. This is also supported by Gilani (nd) who attested that total quality management (TQM) is a term process that take time to show results, hence companies that operate in highly competitive business environments cannot afford luxury of time.1 out of 22(5%) disagree with the idea, meaning that some people take this strategy as an expense to the business rather than a benefit as it requires extensive research. Also supported by Kwamega and Ntiamoah (2015) who argued that TQM is costly to adopt as it often comes with additional training costs, consulting fees, team development costs and continuous measurement which makes the strategy not suitable for small firms. It was also argued that implementation, training and execution costs of TQM far supersedes its financial benefits. The arithmetic mode of 5 also shows that majority of the respondents strongly supports the notion that adopting TQM techniques helps SMEs to compete in global business world.

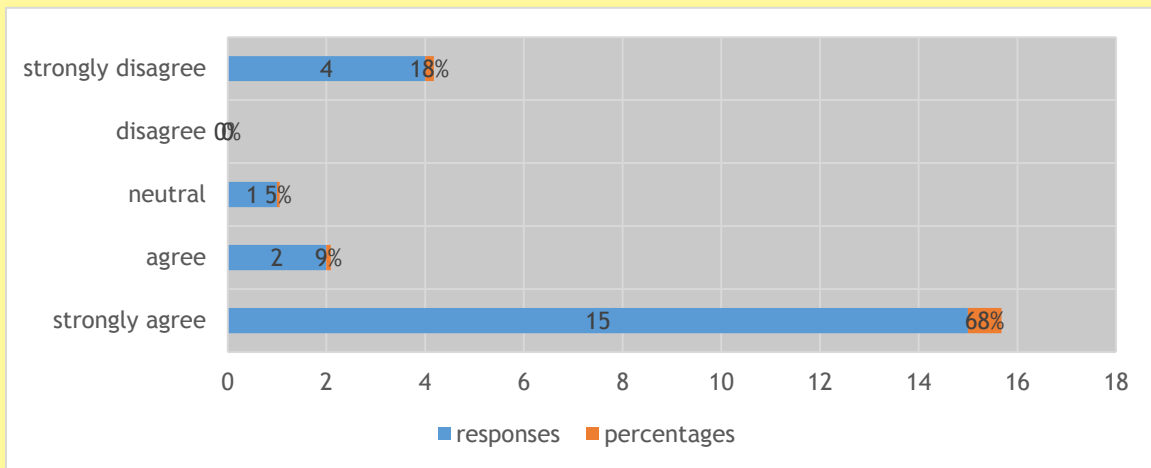
**Figure 4.9: Integrated Business and information solution (IBS)**



*Source: primary data*

Figure 4.9 shows findings of the study on adopting Integrated Business and Information Solution strategy by SMEs. 16 out of 22(72%) strongly agree, 5 out of 22(23%) agree, 1 out of 22(5%) neutral, 0 out of 22(nil) disagree and 0 out of 22(nil) strongly disagree. This means that in aggregate 21 out of 22(95%) agree with the idea that SMEs in Zimbabwe should adopt and implement competitive strategies such as IBS for them to compete and survive in the industry. These results imply adaptability of the strategy in Zimbabwean SMEs. Also supported by Zhang (2017) who compounded that companies must agile in adopting business processes such as IBS to remain financially sound and competitive in ever changing market dynamics. Of the 22 respondents only 1 out of 22(5%) was neutral, whilst none disagree. This means that majority of people in businesses are moving along with dynamic changes in technology making the notion of adopting IBS a worthy taking idea in Zimbabwean SMEs since it is well known. Also supported by a survey by UNIDO (2003) which asserts that it is important for SMEs to access adequate information on time to facilitate their market access and productivity.

**Figure 4.10: Information Technology (IT) Based Capabilities**



*Source: primary data*

As presented on the bar chart above, 15/22(68%) strongly agree, 2/22(9%) agree, 1/22(5%) neutral, only 4/22(18%) strongly disagree and 0/22(nil %) disagree. This means that almost all the respondents 17/22(77%) agree with adoption of Information Technologies capabilities (IT) as a competition adaptation strategy in Zimbabwean SMEs. Which implies that more than half of the respondents agree with the idea making it worth taking. Also backed up by Ghobakhloo et al, (2011) who suggested that IT adoption promises many benefits to SMEs, which may include reduced communication and administration costs and offers transformative benefits such as quick response retailing. 5/22(14%) of the respondents disagree with the notion of adopting IT base technologies. This was also supported by Madewell (2014) and Henderson(2017) who postulated that, information technology is associated with expenses such as implementation, execution, maintenance and training of those who are going to use the technology, hence these costs present a major drawback of adopting information technology in business particularly small firms entering the technology era for the first time. The mode of 5 calculated from the results also shows that IT based technologies are good for SMEs adaptability to competition.

**Q8.Factors affecting Vineyard Funeral Assurance’s financial performance besides competition**

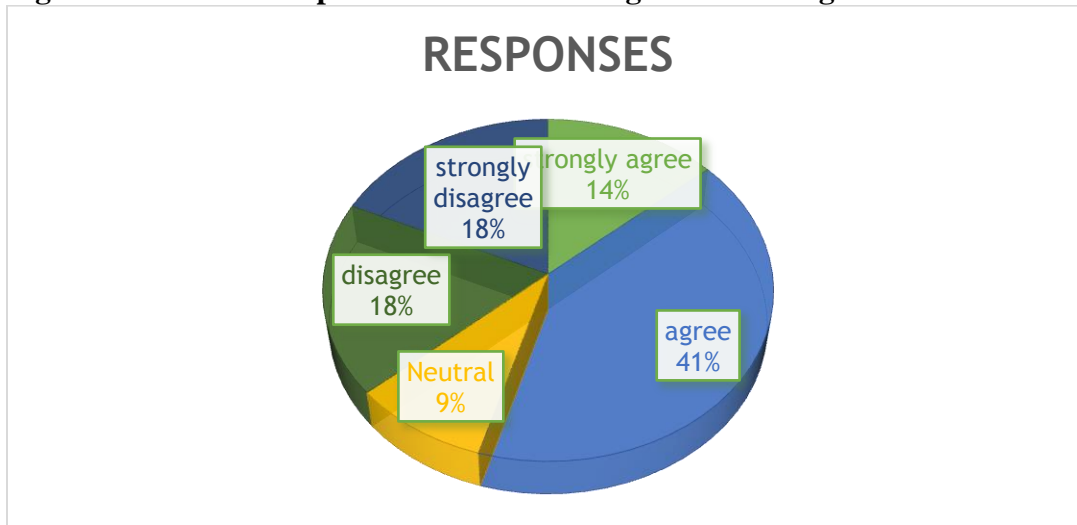
**Table 4.9: Other factors affecting financial performance besides competition**

	Strongly agree	agree	Neutral	dis agree	Strongly disagree
High debt leverage	3	9	2	4	4
Company size	4	14	1	1	2
liquidity	9	5	2	5	1
Company age	3	6	2	1	10
Lack of investment in capital assets	14	2	0	2	4
Lack of management competence	5	9	0	3	5

Source: primary data

Result presented on table 4.9 above shows that out of the 5 factors that affect financial performance besides competition, all have negative impacts. The results are presented and analysed on figs below:

**Figure 4.11: Shows responses in relation to high debt leverage**



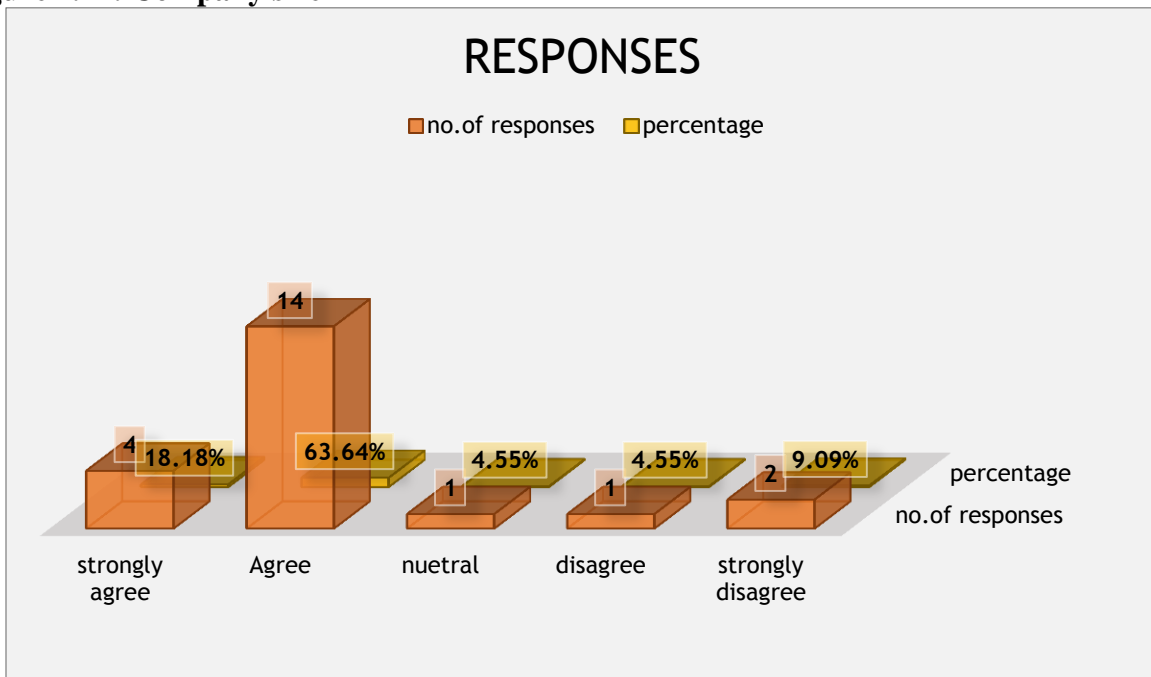
Source: primary data

As depicted on fig 4.11 above, 3 out of 22(14%) strongly agree, 9 out 22(41%) agree, 2 out of 22(9%) neutral, 4 out of 22(18%) disagree and 4 out of 22(18%) strongly disagree. The study results reveals that majority 12 out of 22 (55%) agree that debt leverage negatively affect a

young business's financial performance. This was also supported by the propositions of Javed et al (2015) and Raza, (2013) who says high degree of financial leverage results in high interest payments which affect earnings per share negatively, arguing that increased interests as a result of increase in debt leverage drives earnings per share lower. This means majority of the respondents agree making study findings relevant. 2 out of 22(9%) were neutral about the idea that high debt leverage is the reason for poor financial performance in SMEs. This means that they are still some people who discounted the idea of engaging in debt finance in SMEs.

This was also supported by Islam (2012) arguing that SMEs are less leveraged because they lack collateral security for them to secure loans. 8 out 22 (36%) disagree with the notion of pointing out high debt leverage as another factor affecting performance in Zimbabwean SMEs. Also backed up by Rajin (2012) and Shen and Rin (2012) who argued that if a company borrows funds to acquire assets it creates value than bankruptcy. The discussed results are also supported by an arithmetic mode of 4 calculated, which means that majority of the questionnaire respondents agree with the notion that high leverage affect performance in SMEs.

**Figure 4.12: Company size**



*Source: primary data*

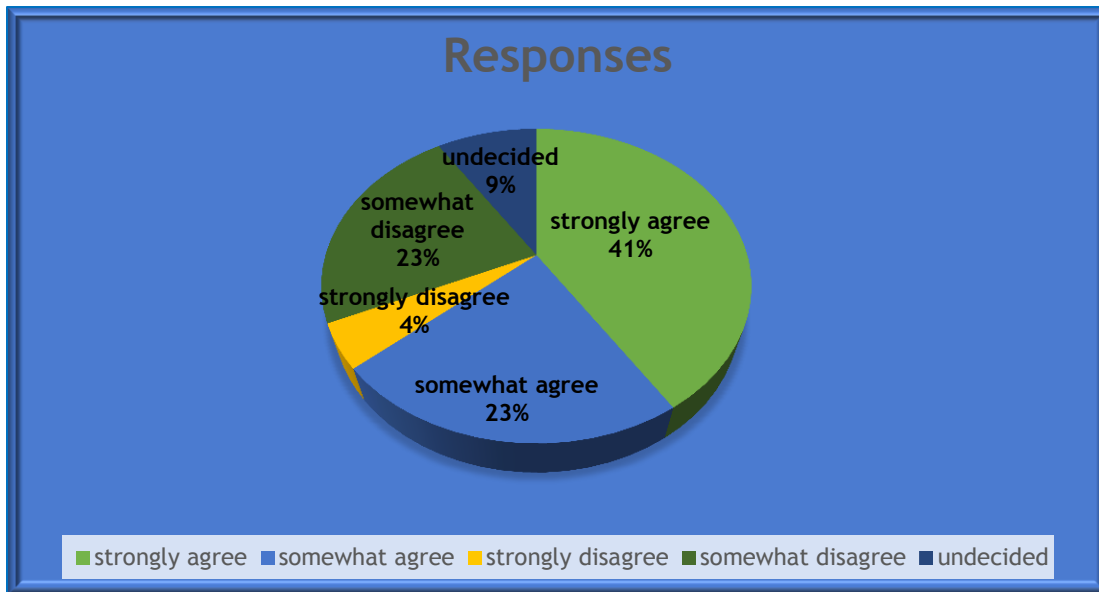
As illustrated on fig 4.12 above 4/22(18%) respondents strongly agreed, while 14/22(64%) agreed, 1/22(5%) neutral, 1/22(5%) disagree and 2/22(9%) strongly disagree expressly to the view that company size affect their company's financial performance. This means that in aggregate 18/22(82%) agree with the opinion that company size affect financial performance. This result also means that the idea of having company size among the effects of financial performance in SMEs is strongly supported by respondents. Pevan, (2012), and Saunders et al (2012) also, argued that large organizations can exploit economies of scale and scope, thus they can be more financially sound than small firms. Only 1/22(5%) was neutral about the notion which means they are few people who are still undecided as to the effects of company size on financial performance. This was also supported by Khatab et al (2011) who is of the opinion that competition and management competence are the key factors affecting financial performance in organisations but size matters not. Of the 22 responses obtained 3(14%) disagree with the notion



that financial performance of SMEs is suffering because of their size. This means they are some business people who still do not believe that company size has an effect on firm performance. However the calculated arithmetic mode of 4 supports the idea, meaning that company size do affect performance.

Basing conclusion on all views from different responses above, the researcher concluded that company size affect financial performance negatively in SMEs.

**Figure4.13: Liquidity**

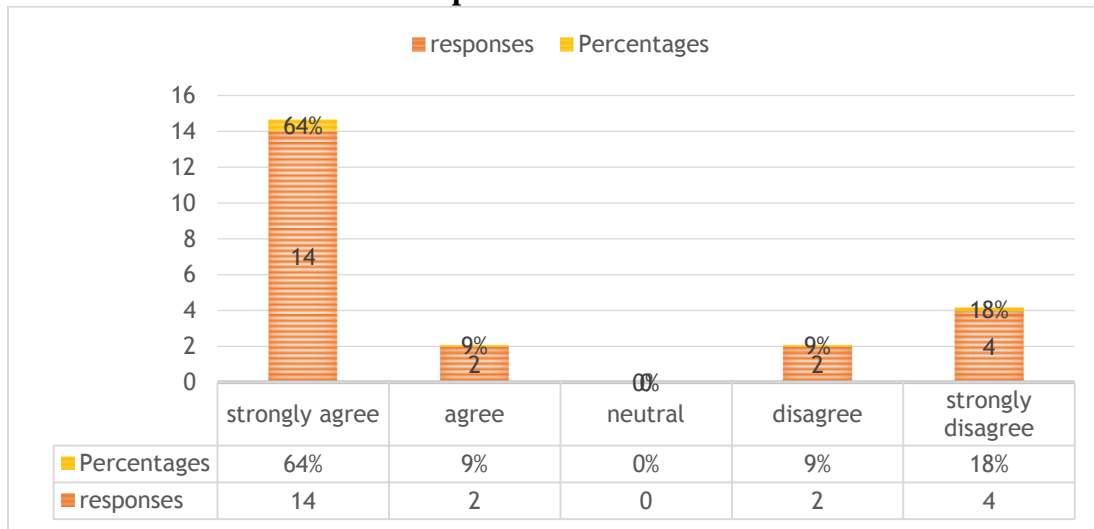


*Source: primary data*

Pie chart on fig 4.13 above form the responses obtained from the questionnaires distributed. It shows that those who strongly agree that liquidity affect the financial performance of an organization were 9/22(41%), while 5/22 (23%) agree, 2/22(9%) neutral,5/22(23%) disagree whilst only 1/22(5%) strongly disagree.This means that majority of the respondents 14(64%) agree with the argument that liquidity is another factor affecting financial performance of SMEs in Zimbabwe, also supported by Hacker and Hatemi (2012) and Maki, (2012) espoused that high liquidity allows a company to deal with unexpected contingencies and thus, cope with its

commitments during periods of low earnings. 6 out of 22 (27%) disagree, with the idea that liquidity is among the factors affecting SMEs performance in Zimbabwe, also in line with Coad et al (2013) who postulated that there is no significant relationship between performance and firm performance(Marozva,2015).2 out of 22(9%) were neutral concerning the issue of having liquidity among the factors negatively impacting financial performance of SMEs .This means that liquidity may contribute to financial performance of SMEs but it depends with the sector in which the business operate in. Pattitoni et al (2014), also suggested that a company’s financial performance depends on its conduct which in turn depends on structural factors. The calculated mode was 5, meaning that findings of questionnaire responses which showed that majority of respondents strongly agree with the idea that liquidity affect performance was clearly supported. Thus, from the findings above it is evident that liquidity play a relevant part in influencing financial performance of an organization.

**Figure 4.14: Lack of investments in capital assets**



*Source: primary data*

As alluded to on fig 4.14 above, there were 14 out of 22(64%) strongly agree, 2 out of 22(9%) agree, 0 out of 22 (nil) neutral, whilst only 2 out of 22(9%) disagree and 4 out of 22(18%)

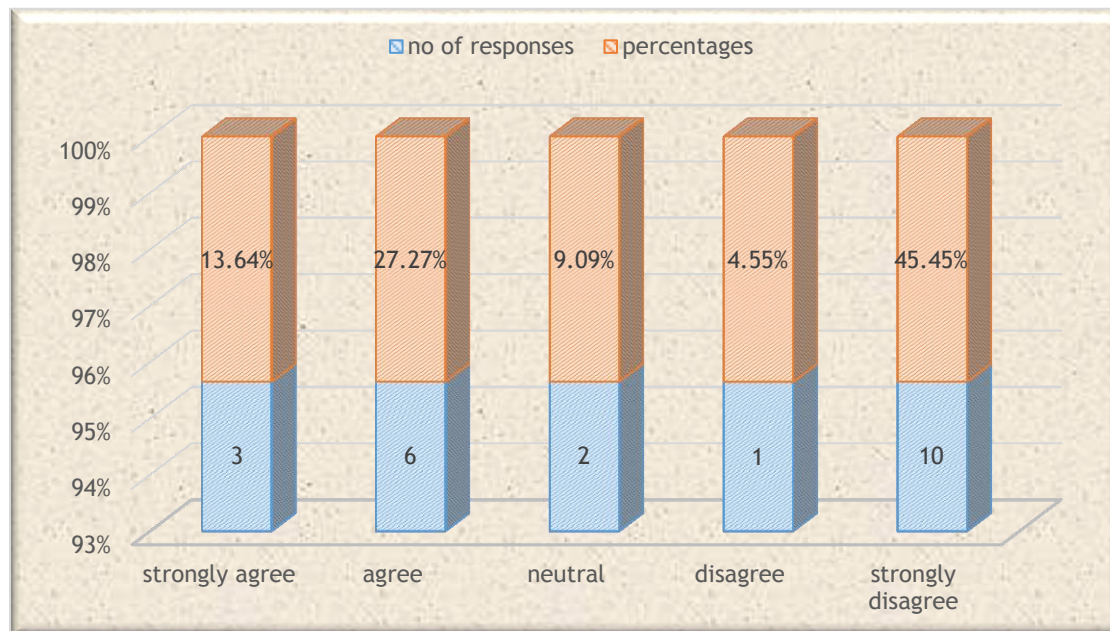
strongly disagree. This indicates that 16 out of 22(73%) respondents agree with the notion small businesses' financial performance is succumbing to that lack of investments in capital assets. impacted the financial performance of Vineyard Funeral Assurance This imply that majority of the respondents are agreeing making the study relevant. In favour of their responses, Berzkalne and Zelgalve (2014) postulated that, intellectual capital has an impact on creating value and enhancing the financial performance of companies. In support Kayacan and Ozkan (2015) also contended that, investing in capital assets enhances the profitability, efficiency and earnings per share of entities. 6 out of 22(27%) disagree with the idea implying that though lack of investments in capital assets affect a firm's financial performance, there are some other factors which contributed more. In line with their opinions, (Mondal and Ghosh, 2012, Yalama, 2013 and Ozkan et al 2016), argued that there is a delayed relationship between investments in capital assets and return on investments. None of the respondents was neutral concerning the issue meaning that there is a significant correlation between investment in capital assets and firm's financial performance. Also supported by who argued that Almajali (2012) who suggested that the effect of capital assets on performance depends with the nature of business undertaken by a firm. In support of the findings, an arithmetic mode of 5 was obtained, which means the results which shows an agreement from majority of respondents was strongly supported.

Concluding from the above findings, it is clear that lack of investment in intellectual assets affects an organization's financial performance.

### **Company Age**

The table4.9 above indicates the various responses from respondents on the effects of company age on financial performance of Vineyard Funeral Assurance. The results are also graphically presented below.

**Figure 4.15: Bar chart showing responses on Company age**



*Source: primary data*

Fig 4.15 shows responses on company age as a factor affecting financial performance in SMEs. Results of the responses indicated that 3 out of 22 (14%) strongly agree, 6 out of 22 (27%) disagree, 2 out of 22 (9%) neutral, whilst 1 out of 22 (5%) disagree and 10 out of 22 (45%) strongly disagree. This means that minority of the respondents, 9 out of 22 (41%) agree with the idea that company age can explain the financial performance of an entity. Indicating a full support of the proposed notion. This was also supported by Gaur and Gupta (2011) and Waelchli (2010) who argued that experience through age enhances an organisation's performance. Only 1 out of 22 (5%) of the respondents was neutral, also supported by Coad et al (2010) who found both a negative and positive relationship between financial performance and company age. 11 out of 22 (50%) disagree with the notion that age affect performance of organisations. This means that though company age was previously cited as a factor affecting financial performance in SMEs, it is not among the prominent factors in Zimbabwean context. Also supported by Coad et al (2013) who found a mixed relationship between financial performance and company age. The calculated

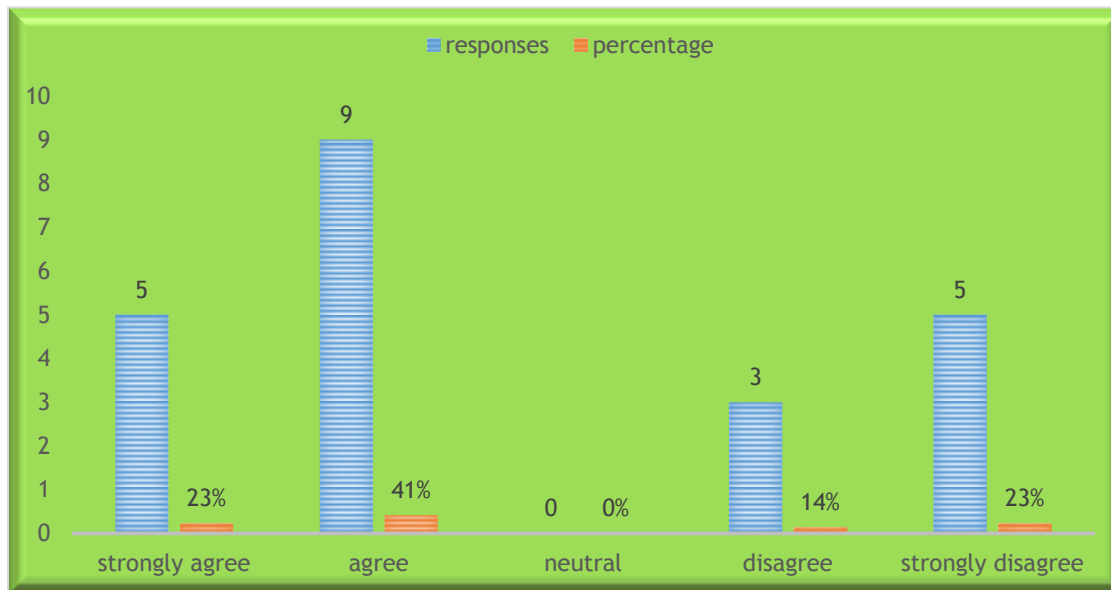
arithmetic mode of 1 also means that the notion of having company age as a factor affecting firm performance was strongly discounted.

Therefore, basing the conclusion on findings above, company age do not have a significant effect on financial performance.

### **Lack of management competence**

The effects of management competence on financial performance was common to all the respondents, as indicated on the table above it shows that over 95% of the respondents have clear opinions as their responses range from strongly agree to agree.

**Figure 4.16: Bar graph showing responses on lack of management competency**



*Source: primary data*

As shown on bar chart above, 5 out of 22 (23%) respondents strongly agree, out of 22 (41%) agree, 0 out of 22 (nil %) neutral, whilst only 3 out of 22 (14%) disagree and 5 out of 22 (23%) strongly disagree. This means that majority of the respondents 14 out of 22 (64%) agree with the concept that management competence is affecting small and medium enterprises in developing

economies specifically Zimbabwe. Meaning that the study was perfectly supported. This confirms the argument of Nkundabanyanga et al, (2014), who posits that entities with better systems of management continue to attain organizational objectives and goals than those that do not have, suggesting that good management policies and procedures are significant factors in improving financial performance of companies. Williams and Carol,(2012) also argued that having those charged with governance fully skilled encourages the efficient use of scarce resources within the organization which results in resources flow to the most productive processes, thus management remain focused on improving performance. Contrary to them were 8 out of 22 (36%) who disagree with the notion of pointing out management competence as a factor affecting financial performance of small and medium enterprises in Zimbabwe. This means that although it contributes to poor financial performance, management competence is not the major factor affecting financial performance of Vineyard Funeral Assurance. Also supported by Tara et al (2013),Kakuru (2010) and Mint and Rodney (2011) who argued that despite the aforementioned benefits of management competency on financial performance, lack of technical skills has remained a major constraint affecting small and medium firm's success and survival ambitions. The obtained mode of 4 also means employee engagement has an effect on financial performance. Having all the above arguments, it can be concluded that, if management lacks in technical skills, financial performance of an organization also suffer.

**Q 9 What are the Challenges that Vineyard encountered when trying to adapt to competition.**

This question seeks to find out if the listed factors affect an organization's ability to adapt to competition. The table 4.10 below shows the different responses obtained from the questionnaire distribution.

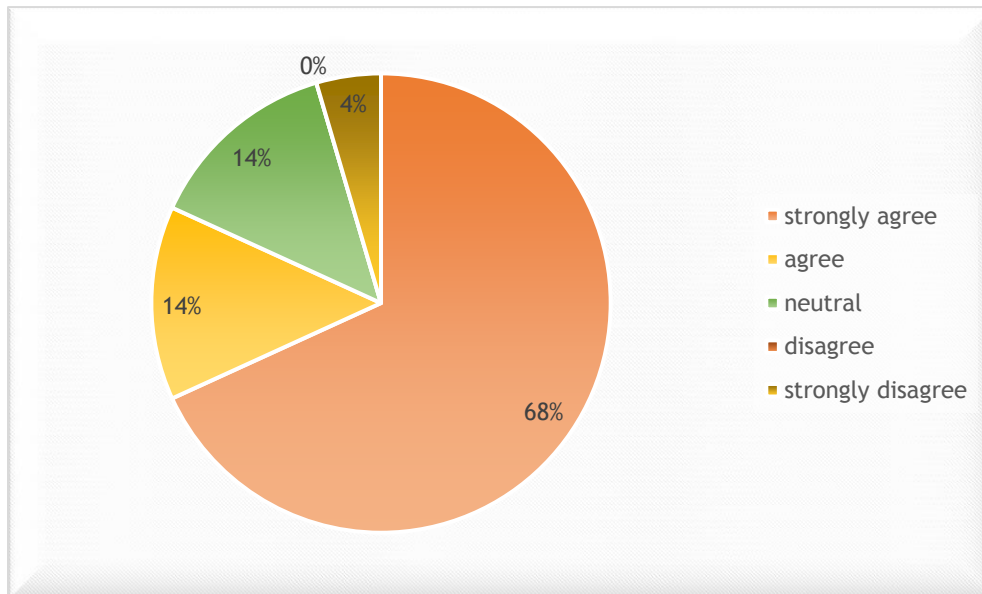
**Table 4.10: Challenges that Vineyard encounter when trying to adapt to competition**

	Strongly agree	Agree	neutral	Disagree	Strongly disagree
Difficulties in accessing financial support	15	3	1	0	3
Lack of human capital	13	7	0	1	1
Difficulties to find financial investors	15	1	0	4	2

*Source: primary data*

Table 4.10 above indicates the responses obtained from the questionnaires distributed to management and staff of Vineyard Funeral Assurance, to find out their experience with the business market and find out how the different factors affect the company’s potential to adapt to competition. Results are also going to be presented below in form of pie charts and bar charts and analysed thereof.

**Figure 4.17: Pie chart showing responses on difficulties in accessing financial support**



*Source: primary data*

According to responses 15/22(68%) strongly agree, 3/22(14%) agree, 1/22(5%) neutral, 0 out of 22(nil) disagree and 3/22(14%) strongly disagree. These findings means that 18/22(88%) agreed that lack of financial support is among the major challenges haunting SMEs ability to adapt to

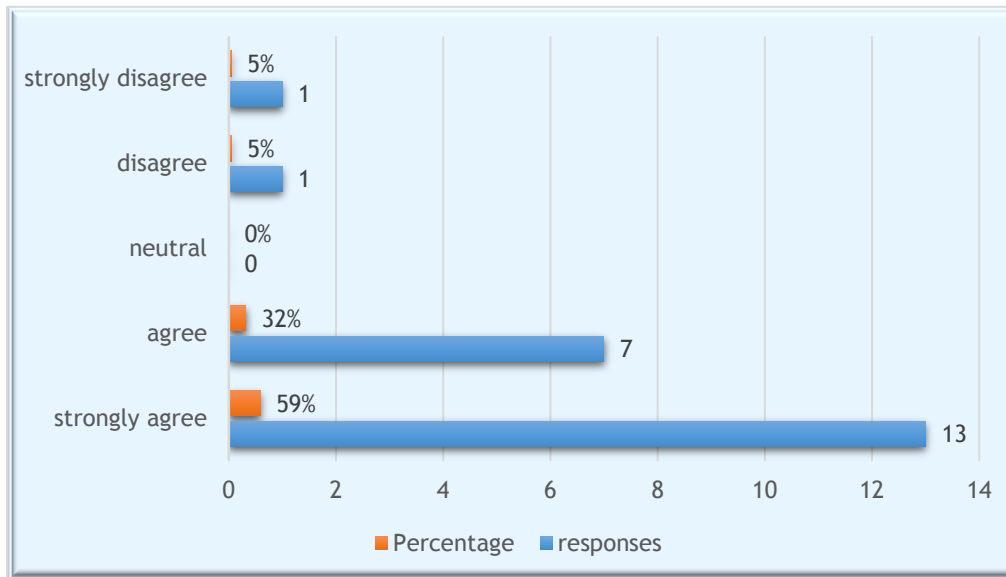
competition. This also means that lack of financial support is one of the factors that affect a firm's financial performance and ability to adapt to competition. In support Fatoki and Garwe, (2010) noted that inaccessibility of finance is a major factor contributing to poor performance of SMEs in developing countries rendering them vulnerable to competition. 3 out of 22(14%) disagree and 1 out of 22(5%) neutral with the notion that SMEs in developing countries are struggling to access financial support that is the reason their financial performance is poor. This means that, though it is common in all business sectors, some respondents indicated that they do not acknowledged its existence as a factor which impact a firm's performance. Also supported by Osano and Languitone (2016) who argued that acuteness of access to financial resources is impacting on financial performance SMEs in Saharan Africa. The calculated mode of 5 also means that majority of respondents strongly agree with reviewed literature that lack of financial support affect adaptability to competition

### **Lack of human capital**

Another factor which may hinder an organization to adapt to competition is lack of human capital. Firms gain a competitive advantage if they own specific resources in which competitors cannot copy. Uniqueness of human capital enhances productivity potentials. If appropriately adopted, human capital is a strategy which helps an organization to improve its workforce productivity and drive higher value for an organization.



**Figure 4.18: Bar chart showing findings for lack of human capital**



*Source: primary data*

Fig 4.18 above presents graphically the responses on lack of human capital as a factor that affect a firm's adaptability to competition. According to the responses obtained from distributed questionnaires, 13 out of 22 (59%) respondents strongly agree, 7 out of 22 (32%) respondents agree, 0 out of 22 (nil%) neutral whilst 1 out of 22 (5%) respondents strongly disagree and 1 out of 22 (5%) disagree. This means that, human capital is an important element of an organization's competitive advantage as supported by the majority of respondents 20 out of 22 (91%) and it is evident that previously reviewed literature on the study is relevant to SMEs in the funeral assurance sector of Zimbabwe. Abdulkadir, (2009), Makhbul (2011) and Monks (2010) pointed out that, in order to lower employment costs small and medium enterprises hire lowly skilled workmanship with little or no skills on the job to be done. In aggregate 2 out of 22 (9%) disagree that lack of human capital affect SMEs performance in Zimbabwe. This shows that although majority of the respondents in this study embrace the impact of human capital in financial performance, there are still some who perceive non-existence of a significant relationship. Also

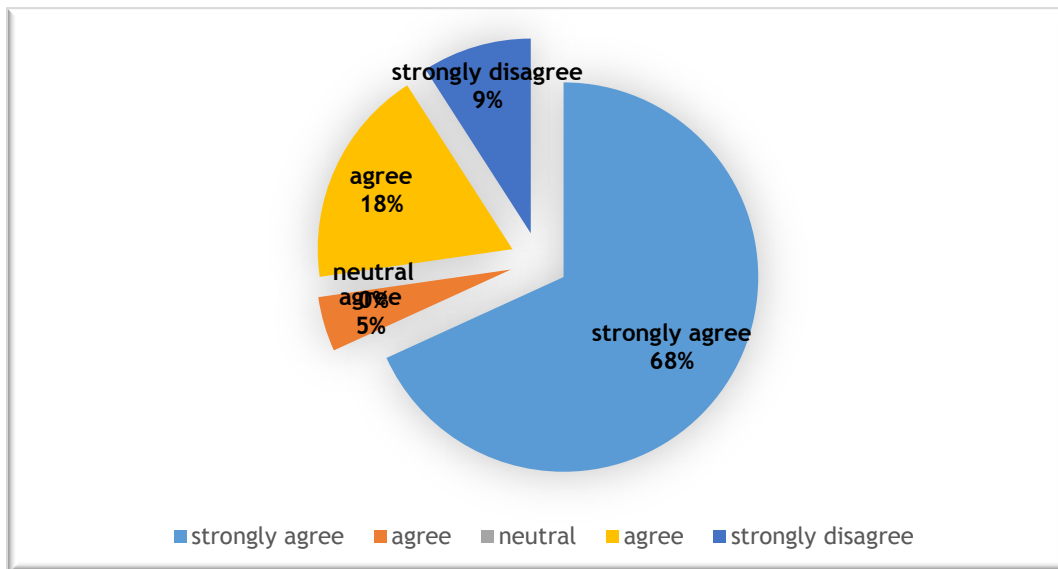
supported by Lahiri et al (2012) who argued human capital is a tacit resource which is difficult to maintain in every organisation be it large or small. Calculated arithmetic mode of 5 also shows that majority were in agreement with the notion that human capital is an essential asset which should not lack in an entity.

Concluding from the above findings and argument, it is then clear that, lack of human capital is factor which may hinder a firm from achieving its competitive ambitions.

### **Difficulties to find financial investors**

The pie chart below illustrates the percentage responses on different opinions of respondents about difficulties to secure financial investors in SMEs.

**Figure4.19: Pie chart showing responses on difficulties to secure financial investments**



*Source: primary data*

Fig 4.19 of table 4.10 represents the 22 responses obtained from questionnaires distributed. 15 out of 22 (68%) respondents strongly agree that difficulties to secure financial investors affect a firm's ability to compete. 1 out of 22 (5%) agree, 0 out of 22 (nil%) neutral, 2 out of 22 (9%) responses strongly disagree whilst 4 out of 22 (18%) disagree. This means that majority of the respondents

out of 22(73%) agree that their company is finding it challenging to secure financial investors for it to better compete with others. Meaning that the idea was perfectly supported as majority of respondents agree. In support of the above responses, Goia et al, (2013) conferred that SMEs find it difficult to outperform their competitor because they lack in financial muscles. 0 out of 22 (nil) neutral which means every respondents in this study have a knowledge on financial investors as a serving instrument for an entity's financial sustainability. Only 6 out of 22(27%) disagree with the notion that difficulties in securing financial investors is a factor affecting performance in young organisations in Zimbabwe. This means that small firms have other ways of acquiring and securing capital assets better than relying on investors. This was supported by Anderson et al (2010) who argued that SMEs could try other cheaper sources of capital and survive rather than taking risk of inviting investors of funds. The modal class of 5 calculated also means a strong support in favour of the idea that difficulties to secure financial support is affecting performance of young businesses.

Basing on the mode of the findings above, the researcher therefore strongly agree that, difficulties in securing financial investors is one major factor affecting SMEs ability to adapt to competition.

## **Q 10 Relationship between competition and financial performance**

### **Regression Analysis**

Researcher carried out a moderated regression analysis to explain the impact of various competition determinants on financial performance of SMEs in Zimbabwe. The scores to be regressed were computed through factor analysis (data reduction) and then saved as variables. Regression analysis was conducted using Stata 11 package.

Regression Equation

$$Y = \beta_0 + \beta_1 \alpha_1 + \beta_2 \alpha_2 + \beta_3 \alpha_3 + \beta_4 \alpha_4 + \beta_5 \alpha_5 + \epsilon$$

$$\text{Sales} = 1.464385 - 0.0748614 - 0.1215909 - 0.1724085 + 0.0564163$$

Model Summary

The model summary is shown in Table 4.2.23 below:

**Table 4.11: model summary**

Model	R	R Square	Adjusted R Square	Std.Error of estimate	R Square change	F Change
1	0.738	0.7132	0.6415	0.2223881	0.7132	9.95
2	0.768	0.7015	0.6488	0.2181333	0.7015	13.13
3	0.768	0.7015	0.6488	0.2181333	0.7015	13.13
<b>a.Predictors:</b>	(Constant)	Entry of new firms	Introduction of competitors' new products	Competitor's marketing strategies	Expansion of competitors' business horizons	

**b.Predictors:** (Constant) Entry of new firms, Introduction of competitors' new products, competitors marketing strategies, expansion of competitors' business horizons

<b>c.Predictors:</b> (Constant)	Entry of new firms	Introduction of competitors' new products	Competitor's marketing strategies	Expansion of competitors' business horizons
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**Source: Stata 11 out put**

In a model summary above, the "R" value is used to indicate the strength and direction of the relationship between variables. The closer the value gets to 1 the stronger the relationship. In this case as shown in model 1 in the Table above R=0.738. This means there was an overall strong and negative relationship between the variables. The R Squared in the study was found to be 0.7131. This value indicates that the independent variables, (entry of new firms into the industry, Introduction of competitors new products into the market, Competitors marketing strategies and expansion of competitors business horizons) can explain 71,3% of the variance in the financial performance of SMEs (sales) in Zimbabwe. The  $r^2$  is a measure of model specification. According to Gujaratt (2004) a model is said to be correctly specified if the  $r^2$  is above 0.5 which

is the value which measures the percentage being explained by endogenous variables to the dependent variable. In this scenario 0.7132 is showing that endogenous variables are explaining a high percentage to the dependent variable which is sales. Also the high relationship of 71% shows that the model adopted is correctly specified.

The results on table 4.2.13 above in model 2,  $R=0.763$  and  $R\text{ Squared}=0.7015$  indicated the strength between independent variables and costs. This means that there is a strong positive relationship between increased need for advertisement, reduced product prices and high employee turnover due to competition and costs. The increase in competition drives operation costs up resulting in negative financial performance. The negative relationship is in line with test results by Beck et al (2013) and Grimsey (2015)

In model summary, the R value for model 3 is used to indicate the strength between competition variables and profitability. In this case as shown in table above,  $R=0.768$ . This means that there is an overall strong negative relationship between competition variables and profitability of SMEs. The R squared in the model was found to be 0.7015. This indicated that independent variables (reduced premiums, loss of clients and entry of competitors' new products) reduce the profitability of Vineyard Funeral Assurance. Proponent to the results is Georgiou, (2011), who espoused that there is a strong positive relationship between increased need for promotional campaigns and operational costs. The findings shows that increased need for advertisement campaigns results in increase in costs.

### **Coefficient of determination**

The beta values in the model indicated the direction of the relationship. A positive or a negative sign shows the nature of the relationship. The significant value (P-values) on the table shows the statistical significance of the relationship or probability of the model giving the wrong

prediction. A p-value of less than 0.05 is recommended as it signifies a high degree of confidence.

**Table 4.12: Coefficient of moderation**

sales	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
entryofnew~s	-.0748614	.0918134	-0.82	0.427	-.2694972	.1197743
newproduct~s	-.121590	.0569886	-2.13	0.049	-.2424013	-.0007805
mktnngstrat~s	-.1724085	.092171	-1.87	0.080	-.3678024	.0229853
expcompbz	.0564163	.0697644	0.81	0.431	-.0914777	.2043103
_cons	1.464385	.2223881	6.58	0.000	.9929429	1.935826

costs	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
adve	0.0812443	.0905377	0.90	0.382	-.1097736	.2722621
ppservice	0.1076257	.0537534	2.00	0.061	-.005784	.2210354
turnover	0.1301352	.0751365	1.73	0.101	-.0283889	.2886593
_cons	-0.4884499	.2181333	-2.24	0.039	0.9486711	-0.0282288

profitabil~y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
rdcdprem	-.0812443	.0905377	-0.90	0.382	-.2722621	.1097736
lossofc	-.1076257	.0537534	-2.00	0.061	-.2210354	.005784
compp	-.1301352	.0751365	-1.73	0.101	-.2886593	.0283889
_cons	1.48845	.2181333	6.82	0.000	1.028229	1.948671

Source: **Stata 11 out put**

In this case all the predictor variables produced statistically significant results which (p=0.05) in relationship to dependent variable, (entry of new firms p=-0.075), (marketing strategies of competitors=-0.172), (expansion of competitors business horizons=-0.056), (advertising costs p=-0.382), (reduced product prices, p=-0.061) and (turnover, p=0.0101). This means that the model was perfectly specified.

At 95% confidence interval, significant values (p-value) of 0.0003, 0.0001 and 0.0001 and F values 9.95, 13.31 and 13.31 were registered as shown on table 4.2.14. This shows this shows that the regression model has a probability of less than 0.0003 of giving wrong prediction. Thus,

regression model used above is suitable model for explaining relationship between competition and financial performance in SMEs operating in Zimbabwean funeral assurance industry.

## **SECTION C**

### **4.3 INTERVIEW RESPONSES**

In this section respondents' views about the critical factors and challenges encountered by the company during its course of business were presented. The following questions were presented to the respondents: In your opinion what do you think are the critical factors affecting the company's ability to adapt to competition? How entry of competitor's new products into the market does affected your sales revenue? How entry of new firms to the market does affected your firm's financial performance? All questions were found in interview form.

All respondents found unanimously that among the critical factors that affected their entity's ability to adapt to competition lack of skills among employees and inadequate funding are major contributors.

According to interview results, with Managing Director (MD) of Vineyard Funeral Assurance, he explained that majority of their employees lacks in marketing strategies and vision as to what they want to achieve and where do they intend to see their organization in the near future. Dr Chikanda (MD), described the skills, knowledge and attitudes of personnel towards their work and customers as being something that differentiates an organization from competitors. With passion the MD pointed out that if only our staff could have their organization at heart, and prioritizing their work, we can see our success ways in the funeral assurance industry and he noted out that not all of our employees have comprehended this idea. According to his view, united personnel are described as motivated, customer minded and having a mind-set of taking their business seriously. The overall good personnel relationships was pointed out.

*“I have noticed that lack of clear strategy and vision among our staff is a raw issue which need to be addressed to the whole organization or personnel as it is pulling the company backward from what is set forward.”(MD)*

The managing director also agreed that entrance of new firms into the funeral assurance industry has affected his company’s sales revenue greatly. He also noted that introduction of new products by competitors has greatly affected their financial performance as every entrepreneur is into the funeral assurance industry.

*“It affects greatly as everyone is now into funeral assurance, be it banks and traditional life companies”. (MD)*

This same issue was also supported by the finance manager (FM), who cited that, lack of clear strategy and vision is impacting the whole organization. He also pointed out the entry of funeral covers by banks as a major threat to their sales revenue streams.

*“Lack of clear strategy and vision has impacted the whole organization. Entrance of banks especially the cash back products is resulting in decrease in our sales.”(FM)*

Finance manager (FM), also pointed out that introduction of new products by competitors has affected his company’s profitability as well as shareholders value.

*“Profitability has been affected as well as creation of value for the shareholders.” (FM)*

However the operations manager (OP), argued that it is mainly exogenous not endogenous factors affecting their company’s performance giving for instance, lack of resources and unstable economic conditions as the critical factors that are currently affecting his firm’s ability to adapt to competition. He also pointed out that as compared to Vineyard those new firms who are



entering the market have huge financial streams that assist them to sustain their operational demands.

*“Our company is being affected by lack of adequate competitive resources and economic challenges faced by the country. Also big companies that enter the business have huge financial muscles. (OP)*

This means that majority of the interview respondents agree that entrants of new competitors into the industry is greatly affecting their financial performance. Also supporting the questionnaire responses which give a mode of 5, showing that majority of the respondents strongly agree, with the notion that entry of new rivals result in decreased sales revenue and profitability associated with increase in operating costs. This is also backed up by Beck et al (2013) who espoused that entry of new competitors into the industry, (Grimsey,2015) is detrimental to and organisation’s performance.

On measures that can be put in place to mitigate the effects of competition on his firm’s financial performance, the managing director of Vineyard Funeral Assurance, suggested use of advertising campaigns and brand awareness promotions. He also opted for the adoption of employee screening procedures in relation to performance in order to have the best team of personnel who can assist the company to achieve its objectives.

*“I think if we can introduce road shows, increasing brand visibility and adopting the performance based HR management system we can sail through even in tough economic condition such as these.” (MD)*

The operations manager, also supportably suggested that if the company introduce road shows and increased brand mobility his company will be able to adapt to competitive pressures in the

funeral assurance sector. He also pointed out to training of personnel as another strategy that can be done by Vineyard as a way of curbing competition.

*“I suggest if we could do road shows and increased mobility even into rural areas we can make our brand popular to the intended public. Our staff also need to be trained in order to enhance their skills and knowledge.” (OP).*

The FM in agreement suggested for increased brand visibility through on-line marketing, road shows, continuous staff development in the marketing team and adopting performance based human resource management strategy.

*“Increased brand awareness, online marketing and adoption of performance based human resource management can help the entity to remain competitive in such a tough industry” (FM)*

This means that almost if not all the respondents are of the view that if their company could adopt modern business technologies and employee trainings, they can reach greater heights in a competitive business world. Also in conjuncture with the mode of 5 obtained from questionnaire responses which shows that majority of respondents strongly agree that embracing modern business technologies like e-commerce just to mention is a way for SMEs to adapt to competition. This was also backed up by Abbey (2012), Agbola(2013) and Davood et al (2013) who posits that small firms should be up to date with modern technologies if they are to be successful and competitive in competitive markets.

Raping up from interviews findings, the challenges and strategies to adapt to competition from literature review is now making meaning in Zimbabwean context as seen with the similarity in all the three interview responses.

## **SECONDARY DATA**

Vineyard Funeral Assurance wrote \$26906 gross premiums in 2016. The gross premiums inflows which have grown by 4% from the comparative previous financial period matched by an identical surge in total costs for the period, (IPEC report, 2016 3Q). According to the report cumulative technical profits for the period 2014 to 2016 is \$4867 representing 3% decrease as compared with same period in previous financial years. The rates for expenses were reportedly increased by more than 5% showing loopholes in cost management. Total assets as at 30 September 2016 were \$60294, a 15% growth from 456073 in 2015. This was due to efforts made to increase investment in property and other funeral service related assets. These results however, means that prescribed assets compliance for the company continued to be well below the required 7.5% as it is remaining at below 1%.

According to IPEC quarterly report for 2016, the whole funeral assurance industry reported not taken up policies (policy lapses) amounting to \$68 000. Of this amount Vineyard was contributing 19.59 % ( \$13321.20) among the registered 9 assurers. This means then that clients are leaving Vineyard for several reasons not mentioned in the report which is contributing to its financial performance constraints.

#### **4.4 CHAPTER SUMMARY**

This chapter was focusing on data presentation and analysis. Data were presented in the form of tables and charts and an analysis thereof was done. The subsequent chapter will focus on conclusion, summary and recommendations.

## **CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.0 Introduction**

This chapter provides the summary of chapters in the study, discussions and conclusions drawn thereof. Major findings of the study, recommendations for both the study and the policy change and practice and areas for further study.

### **5.1 Summary of chapters**

The study sought to evaluate the impact of competition on financial performance of small and medium enterprises in Zimbabwe. Chapter one, which is the introductory chapter to the study was aimed at giving an overview or a general introduction to areas of concern which was addressed in in-depth in literature review. This is the chapter in which background to the study, the problem statement from which a need to carry this study was explained in detail. Objectives as to what the study seeks to achieve were also explained in this same chapter together with their corresponding questions to be answered in order to achieve these set objectives.

Chapter two is about reviewing literature on study objectives in trying to answer the study questions. It is in this chapter where literature on challenges faced by SMEs when trying to adapt to competition was discussed, supported by various authors from different countries and business sectors, for example Fariza (2012) and Hernandez (2010) who pointed out lack of financial power as a major challenge. Literature was also reviewed on strategies that can adopted by SMEs to adapt to competition, what other developing countries are doing to survive and other factors other than competition and the relationship between competition and financial performance. At the end of the relationship objective, a hypothesis was established to test if a significant negative

relationship existed between competition and financial performance, and was tested in chapter four using regression analysis.

Chapter three is based on methods, designs and research approaches used to gather data which was required for the success of this study. A mixed research approach was used because of the nature of the study objectives which comprise of both qualitative and quantitative. Stratified random sampling was used as a sampling method in which respondents were put in groups according to positions they filled in the company. This have helped in obtainment of balanced findings of the study. Hypothesis was tested using the model:  $Y = \beta_0 + \beta_1 \alpha_1 + \beta_2 \alpha_2 + \beta_3 \alpha_3 + \beta_4 \alpha_4 + \beta_5 \alpha_5 + \epsilon$  which was tested and analysed in chapter 4 using STATA 11 statistical package.

Chapter four was on analysis and presentation of data gathered in chapter 3 and give meaning to it and importance to the study. A total of 24 questionnaires were administered and the study managed to obtain 22 completed questionnaires representing 91.70% response rate. The questionnaires contained questions that addressed objectives of the study. Findings were analysed and linked to literature, also mode as a measure of central tendency was used to present meaning of the findings. Data presented on tables, charts and graphs and overall a negative impact of competition on financial performance was established.

## **5.2 Summary of major findings**

### **5.2.1 Strategies that can be adopted by Vineyard to adapt to competition**

The study established that adoption of product differentiation helps to enhance VFA's ability to adapt to competition to a greater extent. This idea was not readily available to the market as was assumed.

- It was found out that implementing it can see SMEs in Zimbabwe remain competitive even in unstable market conditions. The result was in support of findings in Siemasko,(2016)'s research who asserts that differentiation is all about separating a company from competitors by producing unique and distinctive products. Hawks (2015) also noted that small businesses should differentiate their products from rivals if they are to survive and gain a competitive edge in a turbulent business market.
- The study also established that outstanding customer service has a moderate effect in improving adaptability to competition. After being reviewed the respondents found the strategy useful to the entity. Also supported literature by McDonald (2015) had found that customer service is a unique asset a small company in a turbulent business market.
- Focus strategy was established to be a useful strategy that small businesses should adopt in today's competitive business environment. This strategy was not available to the mind of majority respondents. Hence, they found it a new strategy but were interested to hear about it.
- Employee engagement was established a key area management of SMEs should consider when making strategic plans for growth and survival. This strategy was found to have a great chance of making a small business adapt to competition but results shows that few adopted it .

Even though some strategies were readily known to respondents, it is evident that they were not deemed relevant nor does the respondents seem to have a clue on the changes that can be brought to their businesses as a result of adopting the competitive strategies.

### **5.2.2 Strategies adopted by other developing countries**

This section examined the applicability of competitive strategies adopted by SMEs in other countries in Zimbabwe.

- Among others, competitive strategies adopted in other countries include, e-commerce, total quality management, mergers and acquisitions and IBS were established to be appropriate for Zimbabwean SMEs to adapt to competition.
- The study showed that, e-commerce, total quality management and integrated business and information solutions are highly accepted by the majority of respondents as strategies Vineyard can adopt to enhance its customer base, sales growth and revenue growth.

It was found out that management support for product and service quality must be assured and ensured in all aspects of an organisation's operations and processes.

### **5.2.3 Other factors affecting financial performance besides competition**

- Findings of this study by say, that the financial leverage has got a little effect on Vineyard funeral Assurance's financial performance. This was sought to be so because the company is relying more on premium incomes.
- Company age has no significant impact on financial performance of Vineyard Funeral Assurance.
- It was also established that, company size has a significant impact on financial performance of small firms. This finding is supported by Nasrollah (2013) and Pandey (2010) who attested that larger organisations are more profitable than smaller ones. Thus, large entities own more resources, more skilled workforce and sophisticated information systems that result in high financial performance.

- The study findings also states that, liquidity and management competence have significant effects on financial performance of small firms in the insurance industry of Zimbabwe.

#### **5.1.4 Challenges to adapt to competition**

- The findings of this study indicated that SMEs insufficient IT support as it is difficult for them to attract good IT personnel. Respondents noted that good IT personnel are costly and may not be affordable by SMEs. This was in line with Fairoz et al, (2010) and Talaia et al, (2011) who argued that SMEs target lower standard of IT personnel since they do not afford highly skilled expensive workforce.
- Financial resources are often scarce in SMEs. This usually encourages the company to engage in other activities which seem to be cheap initially, but the hidden costs will start to resurface in the course of implementation. Thus, rendering the business even weak to survive competition. Fariza. (2012) argued that SMEs lack financial power to produce quantity and quality goods to serve majority of the market.
- It was also established that lack of human capital in SMEs renders them unfit to survive in competitive businesses they operate in. This was in support of Hernandez et al (2010) who contended that SMEs lacks on financial resources to train and improve the skills of their workforce to enhance their competitive advantage.

#### **5.2 Conclusion**

The study has revealed that adaptation and survival are top most priorities of small firms in dense competitive business environment such as the Zimbabwean funeral assurance industry. Majority SMEs' financial performance has been affected to a greater extent by competition leading to their failure at an infancy stage. Adaptation to competition has not been an easy task for young



Zimbabwean businesses in the funeral assurance sector. Small firms are affected by lack of adequate financial support to run their operations and high level of competition imposed by larger organisations.

For this reason it is necessary for Vineyard Funeral Assurance and other SMEs within the funeral assurance industry to adopt the competitive strategies reviewed in previous chapters. Competitive strategies give direction to what the firm has in mind and find ways through which set objectives can be achieved. To ensure the adaptability, SMEs must compete and porter's generic strategies, resource based strategies and other strategies as reviewed in literature are required to enable that. Development of these strategies would enable Vineyard consciously carry its activities differently or to outperform competitors in conveying unique mix of value.

Overall, SMEs must not forget that they are operating in competitive business environments which requires the adoption of efficient and effective marketing strategies inured to consistently obtain a competitive edge over rivals and subdivide its complex structure.

### **5.3 Recommendations**

Based on the study findings, the following recommendations as to how SMEs can adapt to competition and make a difference to their financial performance and the industry in which they operate were developed.

- Small and medium enterprises need to be more creative and innovative in terms of product and service designs for example producing unique products which are tailor made for each client group.
- SMEs must ensure customer satisfaction through consistent delivery of services to clients and ensure adequate response to their needs.

- The greatest strategy for SMEs to be distinguished from competitors is product differentiation. SMEs should customize their services or produce unique designs on their products and multi features so as to meet each client's needs at due point.
- Marketing research must be a priority so as to be able to properly identify customers' needs and correctly meet them.
- SMEs should adopt E-business as it provides less expensive medium for reaching their clients or even sell their products and services to a larger market than before. Therefore, SMEs are encouraged to embrace the online business platform to improve their performance.
- The greatest need to improve financial performance in SMEs is to employ highly qualified staff in the top management positions and marketing department.
- Staff engagement is essential for SMEs to achieve a competitive edge.
- SMEs should embrace total quality management techniques to remain up to date with market trends.

#### **5.4 Areas for further study**

This study sought to establish the impact of competition on financial performance of SMEs operating in Zimbabwe, more emphasis was put on the funeral assurance sector. The study therefore recommends a further research to be carried out on the effects of competition on financial performance of SMEs operating in the non-insurance sector of Zimbabwe.

There is also need to conduct a study on the effects of competition on financial performance of companies listed on the Zimbabwe stock exchange.

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## Appendix

### COVER LETTER



## MIDLANDS STATE UNIVERSITY

### FACULTY OF COMMERCE

### DEPARTMENT OF ACCOUNTING

#### QUESTIONNAIRE FOR RESPONDANCES

The above matter refers:

In partial fulfilment of Bachelor of Commerce in Accounting I have successfully completed part of my 4 years of examinable courses in the undergraduate course I enrolled in August 2013 with Midlands State University. I am now supposed to carry out a research project in partial fulfilment of the undergraduate degree.

Fourth year students are required to carry out a study research on problems affecting their organizations of work related learning. My approved dissertation concentration is thus on; **“THE IMPACT OF COMPETITION ON FINANCIAL PERFORMANCE IN SMEs.”**

The research proposal was accepted and I am now working on chapter 3 of the paper. My research examined in detail the extent to which SMEs financial performance is being affected by competition and establish factors that can be adopted by Zimbabwean SMEs to adapt to competition.

It is in light of this that I request for your assistance in filling the questionnaire submitted to your offices. The results of the report will be used solely for academic purposes and a copy of the same will be availed to your organization upon request.

Please find the attached questionnaire below.

Yours faithfully

Dagny Phiri.

**The answers provided for this questionnaire will solely be used for academic purposes and they will be treated with highest level of confidentiality.**

**QUESTIONNAIRE**

## SALES

Source	SS	df	MS	
Model	.930431043	4	.232607761	Number of obs = 22
Residual	1.66047805	17	.097675179	F( 4, 17) = 2.38
Total	2.59090909	21	.123376623	Prob > F = 0.0923

R-squared = 0.3591  
Adj R-squared = 0.2083  
Root MSE = .31253

sales	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
ent	-.2005791	.0720434	-2.78	0.013	-.3525774	-.0485808
np	-.0039837	.0699786	-0.06	0.955	-.1516256	.1436581
msc	.0277156	.0720288	0.38	0.705	-.1242518	.1796831
eoc	-.0816604	.0646758	-1.26	0.224	-.2181143	.0547935
_cons	1.156003	.4054886	2.85	0.011	.3004967	2.011509

## COSTS

Source	SS	df	MS	
Model	.774718282	3	.258239427	Number of obs = 22
Residual	1.81619081	18	.100899489	F( 3, 18) = 2.56
Total	2.59090909	21	.123376623	Prob > F = 0.0872

R-squared = 0.2990  
Adj R-squared = 0.1822  
Root MSE = .31765

costs	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
adv	.1960837	.0731333	2.68	0.015	.0424362	.3497311
rp	.030368	.0678791	0.45	0.660	-.1122406	.1729767
het	.0155073	.0644114	0.24	0.812	-.1198161	.1508307
_cons	-.0807488	.4076506	-0.20	0.845	-.9371909	.7756933

## Profitability

Source	SS	df	MS	
Model	1.58378235	3	.52792745	Number of obs = 22
Residual	2.27985401	18	.126658556	F( 3, 18) = 4.17
				Prob > F = 0.0209
				R-squared = 0.4099
				Adj R-squared = 0.3116
Total	3.86363636	21	.183982684	Root MSE = .35589

profit	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
rp	-.1810219	.0895455	-2.02	0.058	-.3691499	.0071061
lc	-.1816058	.0738411	-2.46	0.024	-.3367402	-.0264715
cpem	.1405839	.0691203	2.03	0.057	-.0046323	.2858002
_cons	1.065839	.5301419	2.01	0.060	-.0479474	2.179626