



## **Effects of Anti-Competitive Practices on the Profitability of Hotels in Plateau State**

**Florence Onororakpoene Otuagoma**

**Mary A. Ogenyi**

**Prof Ambrose A. Okwoli**

Faculty of Management Sciences,  
Department of Accounting,  
University of Jos.

### **Abstract**

*Anti-competition practices distort hotels which pose a challenge to the profitability, which ultimately affects the survival of the industry, growth of the industry, revenue to government (taxation), employment enhancement and corporate social responsibility. This study examined the effect of anti-competitive practices on the profitability of hotels in Plateau State. The study employed survey design that is cross-sectional to permit for the collection of quantitative data. The simple random sampling method was employed and 70 respondents were sampled. Primary method of data collection in line with World business environment survey questions, developed by World Bank was adapted and regression analysis was used to analyse the data. The study revealed that anti-competition practices have significant effect on profitability of hotels in Plateau state. The implication of the result is that anti-competitive practices prevent businesses access to foreign markets, raise costs of transaction/ inputs, raise prices, increase scarcity of inputs, enhance poor quality of service and product. The study contribute to theory used as anchor theory to this study; the System theory, which assumes that for the organizations to achieve their objective such as profit maximization, they must pay attention to changes in the external environment. The study recommended that government must ensure free and open competition so as to avoid unfair trade practices among the hotels which may result to low quality of service.*

**Keywords: Anti-competitive Practices, Profitability, Hotels.**

### **1.0 INTRODUCTION**

The hotel industry is an important industry in Nigeria which contributes to employment generation, wealth creation and revenue through taxes. The indirect impacts occur due to the effect of tourism activities on other economic sectors such as hotels purchasing goods from retailers (Lemma, 2014). The history of success or otherwise of any tourism destination will be incomplete without the role of hospitality industry especially hotels which is an important component of tourism. The hotel business operates in a dynamic environment, faced with different market competition and policies. Business and government practices determine the success of the business. Anti- competitive practices are business or government practices that prevent or reduce competition in the market such as pricing fixing, exclusive dealings, monopolization and collusion between competitors (The International Trade Centre, 2012). This may be in form of business set prices at a certain level, than what is applicable in the

competitive market. Also while a business agrees only to transact business with one supplier or shutting out other competitors in the market. A single business dominates the market, either by controlling the supply of goods, or other businesses work together to eliminate competition such as dividing the market and restricting output. This results in reducing consumer's choice, higher prices of goods and services and limiting innovation which can affect the performance of the markets and reduce the welfare and prosperity of an economy. Dominant businesses can generate supernormal profit margins and deter competitors from the market. This situation may dampen competition, which promotes innovations, lower prices of goods and services, increases output, better quality products and services and increases more choice for consumers.

Studies found that anti-competitive practices affect firms' performance and the effective control of these practices will promote a successful business environment (Batra, Kaufmann & Stone, 2003). Anti-competition practices pose a challenge to businesses and may affect their returns on investment. Since the hotel industry also operates in a dynamic business environment such as Nigeria, the need to examine specific industry variables such as anti-competitive practices that affect profitability is necessary.

Profitability is one of the primary goals of most commercial businesses and an essential financial value in decision making process. It measures viability and efficiency of the business and provides an indicator for shareholders to ascertain their return on investment (Okwoli, 2008). Firm effectiveness and efficiency are sometimes measured by its profitability and businesses operating without profitability will not survive in the long run because of its inability to meet obligations. Profitability is the relative measure of earning capacity of a company while profit means an absolute measure of earning capacity of a company (Nimalathan, 2013). Profitability measures the success of business and it is relevant for decision making. Profitability has been an area of interest to scholars. Prior studies have showed that profitability influences the growth of firms (Dimitrić, Žiković & Andrea, 2019 & Unal and Unal, 2017).

Study has showed that profitability is relevant in ascertaining returns on investor's investment. Investors examine the return on investments because it assist in decision making, prioritizing resources allocation, Identifying areas for improvement, measuring performance and luring investors. Return on Investment (ROI) is used to measure the ability of businesses to generate profits to close the accounting system for the investment costs already incurred (TediSetiadi & Akhmad, 2018). Studies examined the effect of external environmental on profitability indicators: gross profit, total organizational assets, revenue growth, earnings per share, return on investment and found that environment influences the performance of businesses (Machuki et al, 2011). It is important to evaluate the trends of current, past position and projecting future profitability to ascertain business efficiency to control resources thereby enabling the stakeholders to be aware of their business stake.

Anti-competitive practices restrict competition in the market, often harming: consumers, the economy and affect profitability of businesses especially hotels. Studies found that profitability of businesses is affected by the negative effect of anti-competitive practices (Dollar, 2003). Unfavourable anti-competitive practices are a major challenge, causing lack of profitability faced by businesses in Nigeria (Olubiyi, 2021). The situation ultimately affects survival of the industry, growth of the industry, revenue to government (taxation), employment enhancement and social responsibility projects.

In Nigeria, Government put in place policies to control practices in the market such as the Federal Competition and Consumer Protection (FCCPC) Act, 2019 were formulated to promote good competition practices in Nigeria. The Federal Competition and Consumer Protection (FCCPC) Act, 2019 establishes Federal Competition and Consumer Protection and the Competition and Consumer Protection Tribunal. The Act repealed the Consumer Protection Act of 2004, made provision for the promotion of competition in Nigerian Markets and adopts favourable mechanisms to prevent adverse market practices. This Act covers areas regarding defective products, unfair trade practices and dissatisfactory services. It also enacts laws to eliminate monopoly, prohibiting abuse of a dominant market position, penalising other restrictive trade and business practices.

The concept hospitality was used before the word tourism. Beginning from 1700, the word tourism was used to describe individuals traveling away from home (Abifarin, 2021). The Travelers may travel for business purpose, visiting of friends and relations, health and medical-related, education-related, religious and pilgrimage and shopping and may require accommodation. Likewise, Tourists after tour may require the services provided by the hotels in the aspect of accommodation, food, drinks and other related services. The tourism sector is service oriented. Hotels provide accommodation and other services to guests which they are expected to pay for such services. Nigeria Tourism Development Corporation, States and local government tourism boards are organizations regulating hotels in Nigeria.

This timeliness of the research is relevant for evidence- based policy making, as government around the world including Nigeria are promoting sectors and industries especially the hotels, which promote sustainable development goals. These goals improve the general wellbeing and development of the society. The study of anti-competition practices on profitability of hotels is necessary in Plateau State because there are limited studies in Nigeria that examined anti-competition practices on profitability of the hotels. This study is motivated by the fact that anti-competition practices are an important factor in improving the performance of firms within the environment they operate. The study examines the effects of anti-competition practices on profitability of hotels in Plateau State and suggests possible solution to promote the industry. The researcher formulated the following question which is as follows:

To what extent does an anti-Competitive practice affect profitability of the hotel industry in Plateau State?

The Objectives include:

The objective of the study is to examine the effect of anti-Competitive practices on profitability of hotel industry in Plateau State.

The hypothesis is as follows:

Ho: There is no significant effect of anti -Competitive practices on profitability of the hotel industry in Plateau State.

Hi: There is significant effect of anti -Competitive practices on profitability of the hotel industry in Plateau State.

## **2.0 Literature review**

### **2.1 Conceptual and Empirical Review**

Anti-competitive practices are government and businesses practices which affect the business ability to compete in a large market (World Bank, 2003). The federal trade commission protecting America's consumers (FTC) refer to anti-competitive practices as an unfair businesses practices that are likely to reduce competition and lead to higher price, reduced quality or level of service or less innovation. It reduces firm's ability to compete favorably in the heterogeneous market. Product line, leading competition, VAT, tax and regulations were

used to determine level of anti-competition practice around the world. In the Middle East/North Africa region, more firms perceived it to be serious constraints while Small and medium-size enterprises (SMEs) identified anti-competitive practices as more obstacles compare to the large firms (World Bank,2003).

Anti-competitive practices prevent businesses access to foreign markets, raise costs of transaction/ inputs, raise prices, increase scarcity of inputs, enhance poor quality of service and product and make it easy for dominant businesses to abuse their superior position. Anti-competitive practices affect economy development, reduces innovation and growth, increase prices of goods and services, affect the consumer purchase power which causes increase in poverty rate of the country (United Nation, 2008). Rodriguez (2011) found out that monopolistic practices may arise in the tourism sector of small economies. But domestic competition agencies are typically small, underfunded and they lack a political and social base that would support the agency in any action against the politically powerful domestic economic groups usually associated with the hotel & tourism operation. Anti-competitive practices affecting competitive ability of businesses and it also weaken the productive capacities. There is need for government to create 'competition policy' which government can use to prevent anticompetitive practices and promote the efficient and competitive operation of markets (International Trade Centre (ITC), 2012). The increase in macro variable of taxes on goods and services (% of revenue) value added tax (VAT) negatively affected profitability causes increase price and lowering the demand of product (Voulgaris & Lemonakis, 2014).

Anti- competitive practices affecting businesses in Nigeria are; monopolization, price discriminations, political patronage and predatory pricing unfair mergers, collusions, pricing fixing, the over bearing influence of dominate interests, deceptive marketing practices and cartels conducts (Olubiyi, 2021).The anti-competition practices are unfair practices either from businesses or government which affects businesses to compete favourable in a given environment. Businesses survive better in a given environment where favorable competitive practices are encouraged. These create competitive advantages and increases business performance. Theoretically, system theory suggests that the business environment in which firms operate changes rapidly and may affect business performance. This means that environment specific factors (anti-competition practices) are significant in predicting performance of firms. In this study, it is assumed that, hotels in Plateau State operate in an environment characterized by anti-competition practices constraint. This is likely to have a serious effect on profitability of the hotels.

## **2.2 Theoretical Review**

### **2.2.1 System theory**

The study is built on the System theory. The theory was proposed in the 1940's by the biologist Ludwig von Bertalanffy and promoted by Ross Ashby (1964). System theory is used to examine interaction between social systems (organizations) and the environment. A fundamental belief of systems theory is that it focuses on interactions. Another core tenet of this theory is the distinction between open, closed and isolated systems. In open systems there are exchanges of resources and information between the organization and the external environment. This focus reflects on organizations' ability to adapt to changes in environmental conditions (Boulding, 1956; Katz & Kahn, 1978).

The theory assumes that organizations such as those in the hotel industry operate in an environment and interact with the elements that define the environment. Such external elements are the inputs that the organizations draw from the environment. The inputs from the

environment such as anti-competitive practices define the business performance. The theory further assumes that for the organizations to achieve their objective such as profit maximization; they must pay attention to changes in the external environment. The more a social system is able to draw quality input from the environment, the more it is able to achieve its set organizational goals. According to the theory, managers are expected to scan the environment and be able to respond to changes in the elements from the environment (Katz & Kahn, 1978).

Studies found that businesses have an open and active adaptive relationship with their external environment and that businesses are environment dependent and for managers to manage this businesses-environment interface and appropriate technique is important (Mbithi, et.al., 2017). This study therefore is based on the theoretical description of system theory which presumes that the organization draw inputs from the external environment, process it into output, which the resulting effect may be profits.

### 3.0 METHODOLOGY

The study employs survey design that is cross-sectional to permit for the collection of quantitative data. The study population comprises of all the eight five (85) business units, comprises of listed hotels, motels, resorts and suites collected from registered hotels in the Plateau state tourism corporation. This study draws it sample form the hotels listed in Plateau state tourism corporation. Simple random Sampling method was employed. The study employs sampling method using Taro Yamane Method (1967) and got the sample size of 70.

Primary method of data collection in line with World business environment survey questions, developed by World Bank (Batra, et al, 2003) was adapted and modified to suit the context of the hotel industry in Plateau State. The study adopted the use of regressions to test the relationship between the independent variables and the dependent variable. In this study, the dependent variable is profitability (Return on Investment) while the independent variable used is anti- competitive practices.

#### Model Specification

The regression model specified for the study is represented as follows:

$$PRO_i = \beta_1 + \beta_2 x_i + u_i$$

Where:

$PRO_i$  = Profitability

$x_i$  = Anti-competitive practices

$\beta_1$ , = Constant term

$\beta_2$ , = coefficient of independent

$u_i$  = error term.

### 4.0 RESULT AND DISCUSSION

Computation of Regression result: Anti-Competitive practices and Profitability

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.066	.153		13.491	.000
ACOMP	.324	.055	.584	5.929	.000

a. Dependent Variable: PRO

Source: SPSS 23.0

### **Interpretation**

The hypothesis is stated which state that:

Ho: There is no significant effect of anti -Competitive practices on profitability of the hotel industry in Plateau State.

Hi: There is significant effect of anti -Competitive practices on profitability of the hotel industry in Plateau State.

Decision Rule: Reject Ho if  $P < 0.05$

Accept Ho if  $P > 0.05$

The decision rule is that if the p-value is less than the level of significance of 0.05, the study fails to accept null hypothesis and fails to reject alternate hypothesis. But if the p-value is greater than the level of 0.05 then, the study fail to reject the null hypothesis and fail to accept the alternate.

As shown in Table 20, the standardized regression result for Anti-Competitive Practices (ACOMP) on Profitability (PRO) is 0.324. This means that Anti-Competitive Practices (ACOMP) has a positive and significant influence on Profitability (PRO). This means that increase in Anti-Competitive Practices (ACOMP), will lead to increases in the level of Profitability (PRO). A 1% increase in the level of Anti-Competitive Practices (ACOMP) will bring about a 32.4% increase in Profitability (PRO).

### **Decision**

Since the p-value of Anti-Competitive Practices (ACOMP) 0.000 is less than the significance level of 0.05, we fail to accept the null hypothesis, and fail to reject the alternate hypothesis which states that Anti -Competition practice has significant effect on the profitability of hotels in Plateau state

In this hypothesis, the study reject the null hypothesis and the alternate hypothesis was accepted which states that anti-competitive has significant effect on the profitability of hotels in Plateau State. The result was found to be consistent with the study of Ogu, Tade and Yuni (2021) who examined the impact of investment climate on the performance of manufacturing firms in Nigeria. The results of this study suggest that infrastructure; governance/institutions significant deterrents to firm performance. Also, the result supports the outcome of Batra, et al (2003) who found that a positive relationship exists between anti-competitive practices and growth in the Middle East/North Africa region where More than half businesses identified anti-competition as moderate or major constraints to the growth.

The study supports the system theory which explains that business exit in environment with uncertainty which affect it profitability. It may improve it strategies to combat exogenous factor like anti-competition practices changes which affect the profitability of the business. The implication of the result is that anti-competitive practices prevent businesses access to foreign markets, raise costs of transaction/ inputs, raise prices, increase scarcity of inputs, enhance poor quality of service and product and make it easy for dominate businesses to abuse their superior position. Also anti-competitive practices affect; economy development, innovation and growth, productive capacity, consumer purchase power which causes increase in poverty rate of the country. There is need for government to create 'competition policy' which government can use to prevent anticompetitive practices and promote the efficient and competitive operation of markets.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

## 5.1 Conclusion

The main objective of this study is to examine the effect of Anti-competitive practices on the profitability of hotels in Plateau state. From the findings and discussions, I was concluded that anti-competitive practices showed a positive effect on profitability of the tourism industry in Plateau state.

## 5.2 Recommendations

Based on findings of the study, the researcher recommends that effective measures should be put in place to prevent unfair trade practices and the government should encourage free and open competition so as to avoid monopolist tendencies in the hotels which may result to low quality service.

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