COMPETITIVE PRICING AND PERFORMANCE
OF FINANCIAL INSTITUTIONS

CASE STUDY:
CENTENARY BANK
(TWO BRANCHES)

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A RESEARCH REPORT SUBMITTED TO KAMPALA INTERNATIONAL UNIVERSITY SCHOOL OF ECONOMICS AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENT OF THE AWARD OF A DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

JUNE 2014
DECLARATION

I Mugarura Samuel declare that this is my original work and it has never been produced by anyone other university or higher institution.

Signature: ____________________________

Mugarura Samuel

Date: 16/06/2014
APPROVAL

This research proposal by Mugarura Samuel under the title “Competitive pricing and performance of financial institutions” has been under my supervision and is now ready for submission to the faculty.

Signature: [Signature]

Date: 16/06/14
ACKNOWLEDGEMENT

I am greatly indebted to a number of people who helped me in various ways and enabled this booklet to see the light of the day.

I would like to thank God for giving me an enduring heart and wisdom.

I would not have gone this far if it were not for my supervisor Mr. Rutegenda Michael, who was patient with me. He gave me adequate instructions during the study but also went an extra mile to offer valuable suggestions, comments and positive criticism, which expedited the production of this work. I greatly appreciate.

I would like to thank my Parents for the support and sacrifices they made to make me what I am today.

Similarly, I send my cordial gratitude to all my friends for their spirit of solidarity.

Mugarura Samuel

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DEFINITION OF KEY TERMS

**Competitive pricing:** Refers to the situation where a company sets the prices of its products on the basis of what its competitors charge.

**Price:** Refers to the amount of money or any other valuable that individuals ask for in exchange for goods and services.

**Financial institutions:** This refers to businesses that act as intermediaries by channeling the savings of individuals, businesses, and governments into loans or investments.

**Price leaders:** Refers to the first company to announce price changes, which competitors quickly imitate.

**Price war:** Is a situation in which competitors continually undercut each other's price in an effort to be perceived as offering the best price.

**Efficiency of institutions:** This refers to deregulation of financial markets, advances in technology, growing customer sophistication, stricter regulations and transition to undertaking banking activities under a flexible interest rate and exchange rate environment.
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<td>ATM</td>
<td>Automatic Teller Machine</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>EADB</td>
<td>East African Development Bank</td>
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ABSTRACT

Research under the topic “Competitive pricing and performance of Financial Institutions” was carried out in two branches of Centenary Bank.

The objective of the study

- To identify the pricing techniques used by Centenary Bank
- To investigate the influence of competitive pricing on the banking sector
- To find out competitors that has dominant edge in the financial sector of Uganda.

Means of competitive pricing

When a company sets its prices chiefly on the basis of what its competitors are charging, its pricing policy can be described as competition oriented. It is not necessary to charge the same as competitors, although this is a major example of this policy. The competitors oriented pricing firm may seek to keep its prices lower or higher than competitors by a certain percentage.

Methods used in the collection of data

Questionnaires; Self-administered questionnaires that are both open and closed ended questionnaires are used.

Interviews; Formal and informal interviews are used. That is, the interviews will have formulated questions written down and others come in the due course of the interview process.

Observation; under this, the researcher simply observes what the respondents are doing. She uses non-participant observation method. This is where she simply observes minus participating in what the respondent is doing.
CHAPTER ONE

INTRODUCTION

1.0 Background

The Catholic Church as a trust in 1985 established Centenary Bank. It commenced operations in 1986 with the Head office and first branch on Nkruumah road, Kampala. The trust transformed into a commercial bank in 1983 and the branch network has since grown to 25, spread throughout the country and plans are underway to setup more branches. Centenary bank was created as a finance institution to serve the economically disadvantaged people especially in rural areas and to contribute to the overall economic development of the country.

To reduce business risks, the business has diversified to other activities including; lending to small and medium enterprises and large corporations to reach the middle and higher end markets in order to provide services to sectors that are complementary to the target market and customers.

The bank has installed at least one ATM at all branches with Entebbe road annex having three units.

1.1 Current state of Uganda’s banking sector

Uganda’s banking sector has steadily recovered from the effect of political turmoil that had left the country’s financial system in an appealing state with substantial loan repayments, a weak currency and soaring inflation.

During the 1970’s and early 1980’s, Uganda accumulated a foreign debt that was used largely for non-productive purposes. Debts climbed while the productive capacity of the country deteriorated.
To solve this problem, the government of Uganda by then tapped both external creditors and internal sources, crowding out private sector borrowers. When president Museveni took over power in 1986, government then attempted to reduce the percentage of government borrowing from domestic sources and to reschedule payments of foreign loans. The government also implemented an excessive devaluation of the shilling in order to stabilize the economy.

Government owned institutions dominated most banks in Uganda.

1966, the Bank of Uganda, which controlled currency issues and managed foreign exchange serves, became the Central Bank. The Uganda commercial bank, which had fifty branches throughout the country, dominated commercial banking and was wholly owned by the government. The Uganda Development Bank (UDB) then was a state owned development finance institution, which channeled loans from international sources into Ugandan enterprises, and administered most of the development loans made to Uganda.

The EADI3 established in 1957 and jointly owned by Uganda, Kenya and Tanzania was also concerned with development finance. These are some of the few institutions that survived the break up of the East African Community and received a new charter in 1980. Whereas Uganda had 290 commercial bank branches in 1970, by 1987, there were 84 of the government owned banks that operated 84 branches. This number began to rise slowly the following year and in 1989, the gradual rise in banking actually signaled growing confidence in Uganda’s economic recovery.

**Transformation and development of the banking sector in Uganda**

The Ugandan economy that suffered a setback in 1998 started its transformation and development after the financial sector went through a period of crisis.

The economy’s poor corporate practices, inadequate capital level, high levels of performing debts characterized the sector.
However, in 1988 and 1999, four insolvent commercial banks were closed by the central bank. These measures were designed to stabilize the sector and to restore public confidence in that important industry and by 2004; there were 16 commercial banks and two development banks. One major and mark in this sector was the sale of the gigantic Uganda commercial bank to Stanbic bank of auth Africa. This enabled the government to get out of the business of running banks and it had to increase competitiveness.

In 2005, commercial banks continued to post wealthy profit. Their earnings are coming under scrutiny as concerns arise about their discipline lending and interest rates paid to depositors. There arc about 21 banks today operating in Uganda including Allied Bank, Bank of Baroda, Barclays Bank, Cairo International Bank, Citi Bank, Centenary Bank, DFCU Bank, East African Development Bank, National Bank of Commerce, Orient Bank, Tropical African Bank, Diamond Trust Bank, Post Bank, Kenya Commercial Bank among many others.

In 2005, profit growth for most banks recorded double-digit growth. Increased lending to the public financed growing deposits and boosted industry earnings. Private sector deposits at banks rose from 6% to GDP in 1999 to over 15% today.

Over the same period, total assets of the banking sector also rose from 12% of GDP to about 25%. The non-performing assets as a ratio of total outstanding loans also decreased from more than 50% to less than 5% today.

Bank of Uganda (BOU) introduced new prudential regulations in 2008. The minimum capital requirement for financial institutions was a measure intended to provide a cushion for losses and as a safeguard to depositor's funds.

The creation of the commercial court increased the pace of settlement of commercial disputes, improved loan recovery further and reduced non-
performing assets acquired using bank loans. The competitiveness has led banks to daily innovation to get more Ugandans in the banking system.

Commercial banking has been able to introduce new products such as debt cards, cash cards, ATMs, electronic funds transfers among others.

1.2 Mission and objectives of Centenary Bank

The bank’s mission is to “promote appropriate financial services especially micro finance to all people in Uganda, particularly in rural areas, in a sustainable manner and in accordance with the law”.

The main objective of Centenary Bank is to promote and enhance development through loans to rural farmers, processors of agricultural producers to small traders. The bank also endeavors to participate in the government’s poverty eradication program with more branches spread across Uganda and with its state of art banking network. The bank is determined to achieve its dream of “the bank for all Ugandans”. The Centenary Bank is focusing on achieving strong sustainable financial returns while promoting a more decent dignified and kinder security through the production of the triple bottom kind of people.

1.3 Governance of the bank

The bank is comprised of an effective and independent board that provides strategic direction. The board comprises of two executives directors and nine non-executive directors. The board and all of its committees (shareholder’s committee, board risk committee, managing director board staff committee, board head quarters committee and board audit committee) all operate on well defined and agreed mandates, which set out their terms of reference and are reviewed and revised regularly in order to keep pace with best international practice.
All board committees have clearly defined and written terms and reference setting out their roles, functions, terms and responsibilities.

1.4 Staffing

As of December 3 2005, Centenary Bank as a whole had 847 employees, 745 in 2004. The bank's turnover rate had been steadily declining from 10% in 2000 to 7.3% in 2002 and 4.9% in 2004. The trend was back up to 8.5% as a result of some high profile losses of senior staff. In 2005, the rate was back down to 6.14% staff turnover at branches.

1.5 Statement of the problem

The competitive pricing technique is the tool that boosts the efficiency performance in the financial institutions especially in the financial sector, where competition is becoming stiff due to the growing number of financial institutions in Uganda, even up to the rural areas, which had no access to financial institutions.

1.6 General objective of the study

The study aims at investigating the relationship between pricing of services offered by financial institutions and their performance.

1.7 Specific objective

- To identify the pricing techniques used by Centenary Bank
- To investigate the usefulness of competitive pricing in the banking sector
- To find out the competitors that have dominant edge in the financial sector in Uganda
1.8 Research questions

- What are the pricing techniques employed by Centenary Bank?
- Who are the major competitors of Centenary Bank?
- What is the usefulness of competitive pricing to Centenary Bank?

1.9 Scope of the study

The study will be carried out in two branches of Centenary Bank for the duration of one week.

1.10 Significance of the study

The study will also help the management understand the importance of competitive pricing in the financial sector.

The study will also provide ground for further research to be carried out in future.

The study will help the management of Centenary Bank to understand other means of out-competing their competitors.
CONCEPTUAL FRAMEWORK

Independent variable: Pricing

Positive factors:
- Competitors
- Techniques
- Policies
- Manpower
- Performance of the economy

Dependent variable: Performance

Negative factors:
- Long Queues
- Poor location
- Local bank
- Network
- Limited services
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter is concerned with reading and gathering information about what other people have said about the topic under study.

2.1 Definition of price

Kotler (1980), refers to price as the only element in the marketing mix that created sales revenue; the other elements are costs. In spite of the importance of selling at the right price, most companies do not handle pricing well. The most common mistakes are as follows.

Pricing is too cost oriented in that, the companies fail to take sufficient account of demand intensify and customer psychology. Price is not revised often enough to capitalize on changed conditions in the market place. Price is too often set independently of the rest of the marketing mix rather than as an intrinsic element to market-positioning strategy and price is not varied enough for different product items and market segments.

According to Michael Wood (1977), price refers to the amount of money or any other valuable that marketers ask for in exchange for a product.

According to O’sullivan (2001), price is the mechanism that coordinates what goes on in an economy, even in a complex economy. Price helps to coordinate who does what, what resources to use, how much to make, from whom to buy and so on; so that the economy produces as efficiently as possible.

Price gives the correct signal to all producers in the economy so that resources are used efficiently and without extravagance or wastage. If consumers decide
to consume fresh fruits rather than chocolate, the price of fresh fruits will rise and that of chocolate will fall. The economy produces more fresh fruits and less chocolate on the basis of these price signals. On a day-to-day basis, the price system works silently in the background, matching the desires of consumers with the output from producers.

2.2 Competitive pricing influences

When a company sets the prices chiefly on the basis of what its competitors are charging, its pricing policy can be described as competition oriented. It is not necessary to charge the same price as competitors, although this is a major example of this policy. The competition oriented pricing firm may seek to keep its prices lower or higher than competitors by a certain percentage. The distinguishing characteristic is that it does not seek to maintain a mild relationship between its price and its own cost or demand. Its own cost or demand may change but the firm maintains its price because competitors maintain their price. Conversely, the same firm will change its prices when competitors change theirs even if its own costs or demand have not altered.

Price leaders are the first to announce price changes that competitors quickly imitate. This is in a market characterised by pure competition, where many marketers compete with nearly identical products. All marketers theoretically price their products the same.

One market could do it to control the prevailing price, and higher prices would cause consumers to defect to competitors.

At the other extreme, in monopoly, one market operates without competition and does not have worry about competitors when setting prices. However, alone marketers might have to follow strict pricing guidelines set by government regulators.

These days, most marketers do not compete in either the pure competition or monopoly framework. Instead, they face competitive market characterised by
oligopoly or monopolistic competition. In an oligopoly, just a few marketers compete, so every marketer is highly sensitive to the marketing actions taken by its rivals including pricing. The cereal industry is an example. In monopolistic competition, many producers compete with products that are not identical and they can differentiate their products in many ways not by price alone. The computer industry is an example, as are shoe stores. Marketers faced with oligopoly and monopolistic competitions find pricing an important element in their competitive strategies. Watching what competitors do with prices is essential, especially since prices can change quickly - in some instances, one marketer may assume the move of price leaders.

When competitors continually undercut each other's prices in an effort to be perceived as to be offering honest prices, they are caught in price war. Customers benefit from falling prices but marketers suffer from falling prices.

Price war is a situation in which competitors continually undercut each other's prices in an effort to be perceived as offering from falling prices.

According to Roger A. Arnold (1996), firms match prices cuts but not price hikes, due to the argument that, if they do not, they will lose a large share of the market. They do not match price hikes because they hope to gain market share. He also stated that the true behavioural assumption in the price leadership theory is that one firm in the industry-called the dominant firm, determines the price and all other firms take this price as given.

Suppose there are ten (10) firms in an industry, A-J and that firm A is the dominant firm; assume also that it is much larger than its rival firms (although the dominant firm need not to be the largest firm in the industry, it could be the low cost firm). The dominant firm sets the price that maximizes its profits and all other firms take this price as given.

All other firms then are seen as price takers. Thus, they will equate with their respective marginal costs.
This explanation suggests that the dominant firm acts without regard to the other firms in the industry and simply forces the other firms to adopt. This is not quite correct. The dominant firm sets the price based on information it has on the other firms in the industry, hence competitive pricing.

According to N. Gregory (1998), a competitive market in which there are many buyers and many sellers so that each has negligible impact on the market price. Each seller of ice cream has limited control of the price because other sellers are offering similar products. A seller has little reason to charge less than the going price, and if he/she charges more, buyers will make their purchases elsewhere. Similarly, no simple buyer of ice cream can influence the price of ice cream because each buyer purchases only a small amount.

Perfect marketers are defined by two primary characteristics. One, that the goods being offered for sale are all the same and two that the buyers and sellers are numerous that no single buyer or seller can influence the market price. Because the buyers and sellers in perfectly competitive markets must accept the price the market determines, they are said to be price takers.

The market for many goods and services, however, are not perfectly competitive. Some markets have only one seller who sets the price. Such a seller is called a monopoly. Some markets have only a few sellers and these sellers do not always compete aggressively. This kind of market is called an oligopoly. For example, some airline routes are oligopolies.

According to David C. Colander (1993), the goal of a firm is to maximize profits, to get as much for it as possible. To do so it should produce where marginal cost (the change in total costs associated with a change in quantity) equals marginal revenue (the change in total revenue associated with a change in quantity). Any other output level will yield lower profits.

Thus, the marginal cost curve is a competitive firm's supply curve because of the given price, the firm can do no better (its profits are the highest possible)
than producing the quantity at which marginal cost equals price which in turn, equals marginal revenue.

2.3 Financial institutions

Financial institutions act as intermediaries by channeling savings of individuals, businesses, and government into loans and investments. Many financial institutions directly pay savers interest on deposited funds. Others provide services for a fee (for example, checking accounts for which customers pay service charges). Some financial institutions accept customers or firms; others invest customer's savings in earn assets such as real estates or stocks and bonds and some do both.

Financial institutions are required by the government to operate within established regularly guidelines.

According to Laurence J. Contman (1999), the key customers of financial institutions are individuals, businesses, and government. The savings that individual customers place in financial institutions with a large portion of their funds. Individuals not only supply funds to financial institutions but also demand funds from them in the form of loans. They save more money than they borrow. Business firms also deposit some of their funds in financial institutions, primarily in checking accounts with various commercial banks. Like individuals, firms borrow funds from these individuals but firms are net demanders of funds. They borrow more money than they save.

Governments maintain deposits. Some of temporarily idle funds contain tax payments and social payments in commercial banks. They do not borrow funds directly from financial institutions, although by selling their debt securities to various institutions, government indirectly borrows from them. The government, like business firms is typically a net demander of funds.
2.4 Efficiency of institutions

The financial sector reforms in India since the early nineties that covered the regulation of financial markets, advances, technology, growing customers' sophistication, stricter regulations and transition to undertaking activities under a flexible interest rate and exchange rate environment have generated intense competition among banks and other financial institutions in India. Its impact has been felt in terms of competitive pricing of services, narrow spreads and improvements in the quantity of services. Competition among financial institutions is also expected to have enhanced efficiency in savings mobilisation, credit allocation and the provision of a diversified range of financial services.

According to Raj Kapila and Uma Kapila (2002), greater competition is sought to be fostered by permitting new private banks and more liberal entry of branches of foreign banks. As on March 31St 2000, eight new private sector banks and 42 foreign banks were in operation. In the rural and semi urban areas, competition is being encouraged through local area banks. Modest diversification of ownership of select public sector banks has helped to process off the autonomy and also has contributed to strengthening the competitive pressures.

2.5 Relationship between performance and competitiveness

The relationship between performance and competitiveness is best illustrated by an example from the world of athletics. Consider the example of track star Juan Arballo. In high school, he was his track team's best sprinter. Competing at the district level, Juan easily bested the competition in such events such as the 100-200 and 400 meter runs and several relays in which he was the anchor. He did well enough in high school to win a college level scholarship. However, at college level, the competition was of higher performance level and
Juan found he had to train harder and run smarter in order to win. This he did. Though he no longer won every race, Juan did well enough to pursue a spot in the US Olympic team. In the Olympic trials, the quality of the competition was yet again better than that to which Juan accustomed. He made the Olympic team but only in two events; the 200 meters dash and 4x100 relay.

In preliminary events at the Olympics, Juan Arballo found the performance level of his competitors to be even better than he had imagined—it would be. Some competitors had preliminary times better than the best times he had ever run in weeks. Clearly, Juan faced the competitive challenge of his career. When his event was finally run, Juan for the first time in his life did not place high enough to win a medal. The quality of the global competition was simply beyond his reach.

According to David L. Goetsch and Stanley B. Davis (1997), in this example, at each successive level of competition, the quality of performance of the competitors increased. A similar phenomenon happens to business in the market place. Companies that used to compete only on a local, regional or national level now find themselves competing against companies from throughout the world. Like Juan Arballo, some of these companies find the competition to be more intense than any they have ever encountered. Those who are able to produce world class qualities can compete at this level.
CHAPTER THREE

METHODOLOGY

3.0 Introduction

In this study, the researcher employed different techniques and methods in order to come up with qualitative and classical research findings. The different methodologies that were used are indicated below;

3.1 Design of the study

The researcher used both surveys and non surveys research design.

Non-survey design involved reading through documented information, which provided secondary data whereas, survey design such as questionnaires, observation, and interview and sampling methods helped in collection of primary data.

3.2 Study population

A systematic sampling design was used in selecting the sample from the target population. The researcher used simple random method to select the sample in order to avoid bias.

The sampling size comprised of 20 respondents from two branches of Centenary Bank. That is Nakivubo branch and Kampala road branch totaling to 40 respondents.

3.3 Data collection

Both primary and secondary sources of data collection were used. Primary data included relevant data that was obtained from the field and this ensured reliability, accuracy of information since it comprised of first hand information.
On the other hand, secondary source employed textbooks, newspapers and internet and all these made this paper look classical academic paper.

3.4 Method of Data Collection

3.5 Questionnaires

The questionnaires were designed in a way that allows the respondents to give simple answers among the alternatives and express their view on asked questions. They were both open ended and closed questionnaire.

Sample questionnaires

1. What do you understand by the term price?
2. What is competitive pricing?
3. What do you understand by the term financial institution?
4. What are the sources of finance for financial institutions?

The information that was provided by the selected ample was representative of the entire population.

3.6 Interviews

The researcher also used both formal and informal interviews. In formal interviews, the researcher used guided questions to interview different categories of people such as the customers and the staff members of different Centenary Bank branches while taking into account the gender, age, education background and other issues.

This was done to obtain clear information about the benefits and challenges the organisation management and individual workers faced while using this kind of tool.
Informal interviews formed an important part of this study. It helped the researcher to find some of the more delicate and critical issues of the topic. This informal interview was done through day-today free interaction with the focused groups.

3.7 Observations

The involvement of the researcher in observing the activities of the focus groups that is to say, the staff members and the customers in the study area gave me enough and authentic information about the topic of the study since this was a first hand information about the topic. This method was helpful in finding out how competitive pricing has helped to improve the performance of Centenary Bank.

3.8 Data Processing and Analysis

To make this work very presentable and academic, the data collected was compiled, edited, sorted and summarised using graphs and tables by use of Microsoft excel program.

3.9. Limitations of the study

a) It was the first time for the researcher to carry out a research study and therefore found it difficult to conduct the study

b) It was to get information from libraries, internet; where payments were involved as well as transport costs

c) Information was not easy to get and a lot of books were read and websites visited. Information was also got in bits and this made the work so hard to compile.
CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter is concerned with presentation and discussion of the findings of the study which includes the pricing techniques of Centenary Bank, usefulness of competitive pricing and competitors in the financial sectors of Uganda.

4.1 Demography

65% of the residents investigated are male, 35% of them are female. Most of the employees of Centenary Development are between the ages of 25-30. The study indicates that, 50% of the employees of Centenary Bank are between the ages 25-30. 25% are in the age 31-35 whereas 10% are in the age bracket of 36-40 and 15% of the employees are above 41 years.

It is also found out that the domination of young employees are simply because Centenary Bank mainly recruits fresh candidates from University and trains them and does not rely on experience when carrying out recruitment of staff.

Comparing the recruits of the questionnaires and the interviews and observation carried out, it is definitely true that Centenary Bank mainly recruits fresh graduates from universities and trains them and take them as asset of the bank.

4.2 Understanding of the term price

71% of the respondents understand the term price as the amount of money or any valuable that the market asks for in the exchange for a product. 20%
referred to price as the value money someone places for an item, while 9% defined price as the only element in the market mix that creates revenue.

According to Phillip Kotler (1980), price is the only element in the marketing mix that creates sales revenue. But Michael Wood (1977) refers to price as the amount of money or any other value that marketers ask for in the exchange with a product whereas O'sullivan defines price as the mechanism that coordinates what goes on in an economy, even in a complex economy.

In comparison of the analysis of the study with what others have written about price. I believe price refers to the amount of money or any other valuable that marketers ask for exchange with a product.

4.3 Influence of competitive pricing

From the study, 60% of the respondents stated that competitive pricing makes Centenary Development to gain in market share and as a result of market pricing, the bank has been able to open new branches in areas like Kapchorwa which was mainly dominated by Stanbic Bank whereas 25% argued that competitive pricing makes Centenary Bank cut its charges without regarding of the demand for services offered by the bank hence resulting into losses or poor returns. 75% of the respondents said that competitive pricing results into price wars where competitors in the financial sector tend to charge lower prices than those charged by their counter competitors, resulting into inefficiency in the banking sector.

According to Roger A. Arnold (2003), firms match price cuts but not prices hikes due to the argument that if they do not, they will lose large share of the market. They do not match price hikes because they hope to gain in market share. He also stated that true behavioural assumption in the price leadership theory is that one firm in the industry called dominant firm determines the price and all others take this price as given. David C. Collandr (1993) tells us
that the goal of a firm is to maximize profits, to get as much for it as possible. To do so, it should produce where marginal costs equal marginal revenue. Any other output level will yield lower profits.

4.4 A graph showing the percentage in influence of competitive pricing

![Graph showing influence of competitive pricing]

**Influence of competitive pricing**

**Source:** Global Trust Bank

Comparing the results of analysis from the study with what other people have written, I conclude that competitive pricing has influence on the market share, profit level and relationship between competitors.

**Sources of finance for financial institutions**

The findings of the study have shown that 70% of the funds of the financial institutions are savings of individuals and businesses whereas 3 of the respondents stated that financial institutions source of finds range from
savings of individuals, businesses and government and other services charges paid by customers.

According to Lawrence J Contman (2009), the financial institutions act as intermediaries by channeling savings of individuals, businesses and government into loans and investments. Many financial institutions directly pay savers interest on deposited funds. Others provide services for a fee. Some financial institutions invest customers' savings in assets such as estates, stocks and bonds.

Conclusively, I do agree that the source of funds for financial institutions includes; savings of individuals, businesses, government and charges of services provided by financial institutions such as maintenance of current accounts.

4.5 Graph showing the percentage of sources of funds to financial institutions

![Graph showing the percentage of sources of funds to financial institutions](image)

Individual and businesses  government fees (sources of funds)

Source: Global trust bank
4.6 Relationship between competition and performance

55% of the respondents stated that there is a close relationship competition and performance and they backed their argument by saying that, with the increase in number of banks in Uganda's financial sector, banks have started offering additional services like provision of monthly financial statements which was initiated by one of their competitors namely Barclays Bank Uganda. And also the encouragement of customers to hold current accounts without monthly charges has improved the performance of Centenary Bank by increasing the number of their customers thus increasing the funds available to be lent out as loans to borrowers hence a relationship between competition and performance. Whereas 45% of the respondents said that, there are no common features between competition and performance. They argued that though there is increase in the level of competition in the Banking sector, their level of profit does not change with big margin hence competition is a normal circumstance for them.

4.7 A chart showing the relationship between competition and performance.

![Chart showing relationship and no relationship](image)

**Source:** Global Trust bank
According to David L. Goersch and Stanley B. Davis (1997), at each successive level of competition, the quality or performance of the competitors increases. Companies that used to compete only on local, regional or national level now find themselves competing against companies from throughout the world. Like Juan Arballo, some of these companies find the competition to be more intense than any they have ever encountered. Those who are able to produce world qualities can compete at this level.

From the comparison of the findings with what other people have written, it is clear that there is great inter-relationship between competition and performance. That is, in order for one to succeed in a competitive environment, he/she must produce world class qualities.

4.8 Competitors of Centenary Bank

40% of the competitors of Centenary Bank are Stanbic Bank. This is because Stanbic Bank has branches almost in every district of Uganda. 25% of the competitors is Barclays Bank due to the fact that it offers a variety of services and a variety of accounts like; “Sanyka account”, “Bank account” to mention but a few, with favourable rates. 20% of its competitor is DFCU. Post Uganda and Bank of Africa. These banks do not yet have many branches in Uganda. 15% of its competitors are other banking financial institutions, which are either entering the Uganda financial banking sector or still expanding.
In conclusion, the banks that are a threat to Centenary Bank are mainly Stanbic Bank, Barclays Bank, DFCU and Posta Uganda, although other banks like Bank of Africa, Equity Bank to mention but a few are trying to enter the banking sector of Uganda.

**4.10 Pricing techniques used by Centenary Bank**

According to the findings on the ground, it is found out that Centenary Bank charges no monthly fees on savings account holders and it scrapped off interbank transaction charges and charges Ug.shs 200 on each transaction through ATM and Ug.shs 2,000 for counter withdrawals and interest fees of 16% on loans, 4% interest on bank overdrafts.

Initial opening of the accounts with Centenary Bank regardless of the type of the account is Ug.shs 10,000 and there is no minimum balance for savings.
account. The bank charges on transactions such as school fees accounts, Uganda Revenue accounts; a fee of Ug.shs 2,000 per transaction.

Analysis of the charges Centenary Bank offers indicates that the bank really has a competitive advantage over other competitors like Stanbic bank, which has a minimum balance of Ug.Shs 15,000.

4.11 Challenges facing Centenary Bank

50% of the respondents stated that the major challenges the bank is facing is the increase in the number of competitors both local and international for example Stanbic bank with many branches almost everywhere in Uganda, Barclays with better services, Bank of Africa, DFCU, EADB, Bank of Baroda, Diamond Trust Bank, to mention but a few. 20% of the respondents stated that rapid changes in technology are draining their profits. For example, the emergency of Automatic Teller Machine (ATMs), followed by electronic banking and currently cell phone money transfer, which is trying to reduce their level of profits.

15% of the respondents argued that financial crisis coupled with lack of investment facilities in which borrowers could invest the borrowed money was a huge challenge.

15% also stated that there was low saving propensity of the population due to unemployment poverty and high costs of living.
4.12 Graph showing challenges faced by Centenary Bank

Source: Global Trust Bank
CHAPTER FIVE

RECOMMENDATION AND CONCLUSION

5.0 Recommendation

I would recommend the management of Centenary Bank to continue with the policies of not imposing monthly charges on savings account holders and if possible, extend the policy to other account holders like current accounts.

They should remove the policy of initial opening price of Uganda’s Shs. 10,000 and instead make account opening free without any initial payment as other Banks like Barclays bank, Equity Bank to mention but a few are doing so as to remain competitive.

For Centenary Bank to compete effectively in today’s financial sector with the increasing development in technology there is need to establish numerous ATM locations in order to open up access points for their customers hence winning the competitive edge.

Since one of the major problems faced by Centenary Bank is how to mobilise finance due to low saving level of the individuals and businesses, Centenary Bank should issue or offer its shares in the market so as to raise more funds that could be lent to borrowers in order to earn interest.

In order for Centenary Bank to remain competitive, it should use accounting information to continually update and improve their accounting system to provide accurate and timely data for decision-making.
5.1 Conclusion

Majority of the employees of Centenary Bank are youth who have just graduated from universities and with no experience at work place.

The major competitors of Centenary Bank are foreign banks who have wide sources of funds and well equipped with technology such as ATM and most use visa.

The main problems faced by Centenary Bank are increase in the number of competitors both local and international, difficulties in raising funds are rapid evaluation of technology such as ATM services, cell phone money transfer and electronic banking.

The pricing techniques used by Centenary Development range from free savings accounts, free interbank transactions, Ug.Shs 200 charged on each transaction on ATM. Ug.Shs 2,000 charged on withdrawals made at the counter and Ug.Shs 10,000 initial pay on account with Centenary Bank.

5.2 Areas for further study

- Competitive pricing and economic growth
- Impact of financial institutions on development of an economy
- Competitive pricing and performance of financial institutions
KAMPALA INTERNATIONAL UNIVERSITY

Questionnaire

I am a third year student of Kampala International University.

The result of this research is to be kept confidential and will be used for educational purposes only.

SECTION A

1. Personal information
   i. Name _______________________
   ii. Position ______________________
   iii. Age
      a) 25-30
      b) 31-35
      c) 36-40
      d) 41 and above
   v. Sex
      a) Male
      b) Female

SECTION B

Select the best alternative.

1. What do you understand by the term price?
   a) Price refers to the amount of money or some other valuable that the market asks or in exchange for a product.
   b) Price is the mechanism that coordinates what goes on in an economy, even in a complex economy.
c) Price is the only element in the market mix that creates revenue

d) Others

3. What is competitive pricing?

a) Competitive pricing is when a company sets the prices of its products chiefly on the basis of what its competitors are charging.

b) Does not know the meaning

c) Others

4. i) What do you understand by the term financial institution?

ii) What are the sources of finance for financial institutions?

5. What are the influences of competitive pricing in financial institutions?
6. What are the signs of efficiency in financial institutions?

7. What are the advantages of competition among financial institutions?

8. Are there any other forms of competition in financial institutions?
   a) Yes
   b) No
   i. If yes, mention them

9. What do you understand by the term performance?

10. Is there any relationship between competition and performance?
    a) Yes
    b) No
    i. If yes, what is the relationship?
11. Who are the major competitors in financial institutions?

12. What means of competition devices are they using?
References


