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Keywords: *pricing strategies, competitive advantage, financial performance, primary schools.*

GJMBR-C Classification: *JEL Code: G10*



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Pricing Strategies and Financial Performance: The Mediating Effect of Competitive Advantage. Empirical Evidence from Uganda, a Study of Private Primary Schools

Ester Nafuna [α], Ayub Kutosi Masaba [σ], Dr. Sulait Tumwine [ρ], Dr. Susan Watundu [ω], Tirisa Caroline Bonareri[¥] & Norman Nakola [χ]

Abstract- The purpose of this study was to examine the mediating effect of Competitive advantage on the relationship between Pricing strategies and Financial performance in private primary schools of Uganda. - The research adopted the Med Graph program and Sobel tests for the mediation effects so as to develop a closed loop model of financial performance of private primary schools. The study is based on a quantitative approach and cross sectional Research design. Descriptive statistics and inferential statistics were used in the analysis. The results reveal that that competitive advantage partially mediates the relationship between pricing strategies and financial performance (partial mediation). This study makes a contribution by providing information that is relevant for filling the practical gap that exists in financial performance of private primary schools in the settings of developing countries as well as contributing to the theoretical development of pricing strategies. Practical implications of this paper puts it that in order to have a meaningful interpretation of the results of the relationships between study variables, it is always vital to assess the role of the mediator in the relationship. This enables practitioners and scholars to comprehend and make legitimate decisions and conclusions that can foster enhanced financial performance of private primary schools.

Keywords: pricing strategies, competitive advantage, financial performance, primary schools.

I. Introduction

Kasirye (2009) and UNEB (2011) elucidates that like any other country across the globe, primary education is regarded as a core level in Uganda's academic achievement. As such, improving access to primary education is a priority in Uganda (MoES Report, 2015). Ministry of Education Report (2013) eulogizes that through the liberation strategy, the numbers of private primary schools have increased tremendously since the 1990s, which has increased the number of school-going children. Although this is the case, Hamza, Mutala and Antwi (2015) contends that many private primary schools are recording dismal performance manifested in the declining profitability and increasing liquidity challenges. This attracts a lot of interest for the researcher to seek inquiry into the factors responsible for the declining financial performance.

Nevertheless, the financial performance of private primary schools within Rubaga Division, Kampala District in Uganda continues to decline. Schools such as Muslim Girls Primary School, Trinity Love School and Destiny Junior School registered net losses by close of First Term for 2015. Trinity Love registered a net loss of UGX12.5 million and the school was also unable to pay teachers their salary for March 2015 due to liquidity challenges (Trinity Love School Performance Report, 2015). On the other hand, Muslim Girls Primary School faced liquidity challenges which left teacher's salary unpaid for two months of March and April 2015. This salary was never paid until the beginning of Second term (Muslim Girls Primary School Payroll, 2015). Recurring liquidity and profitability challenges were also eminent in 2016. Notable, New Rock Foundation School in the entire year registered losses of UGX 5.9 million, UGX 7.7 million and UGX 7.9 million in first term, second term and third term respectively (New Rock Foundation Quarterly Assessment Report, 2016). Consequently, most of the private schools within the area are experiencing high level of teacher turnover while the general performance of schools within the Division has also declined. Therefore, this paper aims to examine the relationship between pricing strategies and financial performance and the mediating effect of competitive advantage on the relationship between pricing strategies and financial performance of private primary schools in Uganda.

II. Literature Review

a) Pricing Strategies and Financial Performance

Pricing has attracted a lot of attention and has been associated with various variables, one being financial performance. According to Hinterhuber and Liozu (2014) pricing of goods and services determines the level of profitability and the general liquidity experienced by firms. Similarly, Wuollet (2013) who acknowledged that the different pricing strategies of

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cost-based pricing, competition-based pricing and customer value-based pricing predict the amount of revenue that the firm can be able to generate over the long-term. They further acknowledge that customers are price sensitive and therefore, the demand for the goods and services largely depends on the perceived fairness of the price.

In addition, Sije and Oloko (2013) argue that companies which do not manage their prices lose control over them, impairing their profitability due to fading willingness to pay a higher price. Avlonitis and Indounas (2006) also revealed that pricing is a powerful force in attracting attention and increasing sales, and that it can also have a major influence on customer loyalty which determines the ability of the firm to consistently generate revenues to boost profitability and liquidity in the long run. Within the same context, Gupta and Zeithaml (2006) noted that price serves as a proxy determining profitability since it is the only element within the marketing mix that is directly linked to generating revenues for a firm. Consistence is also evident in a recent study by Ritz (2013) who found out that pricing and financial performance are positively associated. More so, when the price is attractive, so are customers willing to purchase goods and services from the firm.

Furthermore, empirical studies indicate that pricing enable firms to generate the cost and additional income for the value devoted to the goods and services to comfortably meet the cost of production and guarantee some level of sustainability of the business (Abito, Besanko & Diermeier, 2012; De Toni *et al*, 2013). Furthermore, Hinterhuber and Liozu (2014) revealed that pricing enables firms to determine the amount to charge the customer in order to remain profitable in its dealings, which boosts financial performance of firms in the long term. On the other hand, Avlonitis and Indounas (2006) stressed that a mistaken or inexistent pricing policies negatively affects the volume of purchase by customers which affects their profitability while a fair price boosts sales and subsequently boosts the financial performance of firms. Hence, they concluded that firms can only boost their financial performance when they establish and implement an effective pricing strategy that encourages customers continued demand for the goods and services offered by the firm.

Nevertheless, some studies (Achrol & Kotler, 1999; Abito *et al* 2012) observe that the association between pricing and financial performance is not a clear since different markets react to price differently. It is indicated that what is perceived as a high price in one market may be perceived as a low price in another market, hence affecting the demand in anticipation that the quality of the product is low. On the other hand, a market that perceives the goods and services prices as high is likely to purchase a low quantity which would also affect the profitability potential of the firm. In general, it can be concluded that pricing impact on financial performance is subjective.

While this is the case, this study observes that pricing is a core component no matter what the business deals in. Therefore, depending on how it is perceived, it would have influence on many organizational objectives achievement of which financial performance is among. It is worth noting that every business aims at formulating a price which it considers worthy enough to achieve a given profit and maintain the businesses liquid. It is on this note that the study hypothesizes that:

H1: Pricing Strategies is positively related with financial performances

b) 2.2 The Mediating effect of Competitive Advantage on Pricing Strategies and Financial Performance

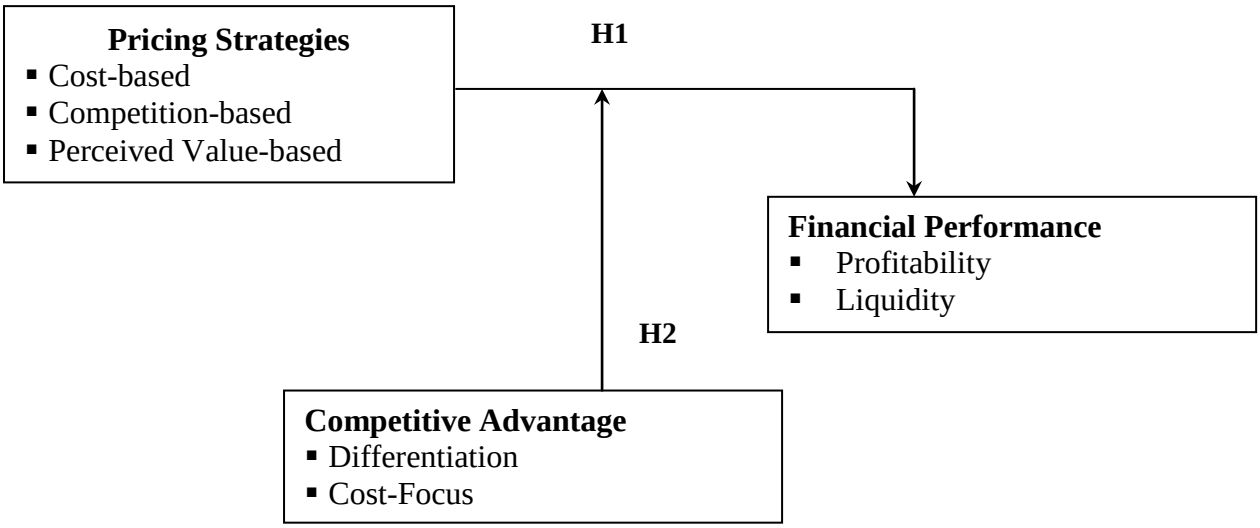
Generally, the mediation of competitive advantage on pricing strategies and financial performance has received less attention among researchers and academia. Much as this is the case, studies focused on single variables of pricing and competitive advantage and mostly indicate that both variables significantly influence financial performance of organizations. For instance, Hinterhuber and Liozu (2013) indicated that pricing is fundamental in boosting financial performance and can also influence competitive advantage when the organization engages in innovation. Earlier findings by Zbaracki and Bergen (2003) indicated that the price adopted by the firm determines whether it has an advantage or not. Yet highly competitive businesses would easily generate profits and simplify liquidity challenges. (Direct mediation).

On the other hand, Wuollet (2013) focused on the competitive advantage indicating that it enables the firm to become flexible in the market and undertake innovative decisions to boost revenue in the process. Dutta *et al* (2003) complemented and revealed that a business with competitive advantage enjoys a cost advantage which enables it to set either lower prices and gain more sales or set a higher price and record value for sales because customers are ready to continue using the product or services due to the perceived superiority perceived by the customer. Nevertheless, Suri and Monroe (2003) revealed that the major focus should be on how best an organization gains a better advantage other than price because pricing alone is not enough for the company to gain competitive advantage and generate revenue. In conclusion, scanty information available is an eye opener for researchers to put much focus to it since the component of pricing is something that no organization can run away from just like there is no single organization that does not want to have an advantage. Hence, this study hypothesizes that:

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H2: Competitive advantage positively mediates the relationship between pricing strategies and financial performances

The Conceptual Framework



Source: (adapted from Zou & Li, 2014; with modification)

Figure 1: The Conceptual Framework

The conceptual framework above depicts the relationship that exists between price strategy (Cost-based, Competition-based, and Perceived Value-based) and financial performance. The dependent variable is defined by financial performance, measured by profitability and liquidity. The independent variable is price strategy keeping which is seen as the key predictor in determining the effect on the dependent variable(financial performance) in order to arrive at a conclusion as to whether there is a significant effect on financial performance or not. Competitive advantage is a mediating variable. Competitive advantage intervenes in to mediate the relationship between pricing strategies and financial performance.

III. Methodology

a) Research methodology

This study adopted a cross-sectional descriptive and analytical research design. The cross sectional research design used was useful in providing snapshot of what was actually happening about the study area at point in time. Analytical research design was used for descriptive and inferential statistics reasons to test the formulated hypotheses. To address the research hypotheses generated in literature, the researchers undertook a large scale comprehensive survey covering a random sample of private primary schools in Kampala district. A self administered questionnaire was developed to tap the constructs of pricing strategies, competitive advantage and financial performance.

b) Study population, research setting, sampling design and procedure

The study population comprised of a total of 184 private primary schools projects in Kampala district (Rubaga Division Urban Council, 2017). Data were collected from headteacher, bursar, and resident director involved in direct management of private primary schools in Kampala district. The unit of analysis was the primary schools in Kampala district. Unit of inquiry consisted of headteacher, bursar, and resident director. Using the formula provided by Krejice & Morgan (1970), a sample size of 123 private primary schools was determined. The power of Sample size was explained by 95% confidence interval and with acceptable error of 5%. Krejice &Morgan's' (1970) sample size determination approach was preferred because it yielded a representative sample which one would expect even if other popular approaches such as Yamane (1973) were used. Simple random sampling technique was used to select the projects. The researcher generated a table of random numbers using EPITABLE- random number listings. All private primary schools in Rubaga division in Kampala district were listed in alphabetical order and assigned numbers from 00001 to 184. Consistent with the rules of sampling,

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researchers only selected cases from the list for the sample which corresponded with the identified number from the table.

c) *Data sources, data collection instrument and measurement of variables*

Primary data was collected by gathering views from the headteacher, bursar, and resident director using a questionnaire. Item scales for all the study constructs were anchored on a 5-point likert scale with 1= strongly disagree to 5= strongly agree. Pricing strategies was measured in terms of cost based, competitive based, perceived value (Avlonitis *et al*, 2005). Competitive advantage was measured by adapting item scales developed by Porter (1998). Financial performance was measured by adapting the item scales developed by Omasete (2014), Boermans & Willebrands (2012), Zou & Li (2014). Data were tested for the assumptions of parametric data prior to analysis.

d) *Data Analysis*

e) *Validity and reliability of the instrument, data cleaning, parametric tests, analysis and reporting*

All items were derived from previous studies and modified to suite Ugandan context. These item scales were given to experts to assess their relevance to the study. The researcher, then pilot tested the questionnaire using a sample size of 30 respondents to test for validity and reliability of the measurement items as indicated in table1.

Table 1: Validity and reliability of the instrument

Variable	No.of Items	Cronbach Alpha	Content Validity Index
Pricing Strategies	11	.717	.730
Competitive Advantages	11	.753	.820
Project Performance	12	.811	.752

Cronbach's alpha coefficient was used to check the reliability of the instrument in table 1. As justified by Neumann (2006) and Nunnally (1978), all variables of study conformed to the minimum cut-off point of 0.7 and above.The researcher examined the data for outliers and missing values before analysis. The results showed an acceptable range of missing values which was less than 5 % (Sekaran, 2003). The researcher then tested for the assumptions of parametric data. The data analyzed proved no serious problems. Pricing strategies was assessed using dimensions that include; cost based, competitive based, perceived value. Some of the questions included; *The school dues reflect the cost incurred in operation, the school dues take into consideration the targeted mark-up, the school frequently adjusts dues to fit the cost incurred, the school dues are within the same range as for competitors, this school frequently surveys the market to identify competitors school dues adjustments, this school's dues are parallel with other schools within the division, this school sets a low price compared to other schools within the division, this school adjusts dues based on the academic performance, the school fees reflect good will, the school dues charged by this school are reflective of the class of customers she serves*.

Stakeholder engagement was analyzed in terms of dimensions of cost focus and differentiation with questions which include; *The school dues are friendly for our customers. The school charges are among the lowest within the division, the parents can afford the school fees charged, this school frequently engages in advertising and publicity, the school has well trained and qualified staff, this school considered among the best performing schools within the division, our services are popular in the market, the school staff has customer care, this school is known for serving a specific class of customers.*

Financial performance was assessed using dimensions of profitability and liquidity. Questions asked included; *This school frequently acquires external funding to meet its obligations, the Return on Assets for this school has increased compared to the previous year, the gross income of this school has increased lately, this school registered a higher profit after all deductions last year of 2016 compared to other years, this school finds it challenging to execute its day to day operations, the school has several sources through which it generates cash, the assets possessed by this school exceed the liabilities owed, all school obligations are paid on time, the customers pay their school dues on time, this school has expenses that have been outstanding for a long time.*

IV. Results

a) *Descriptive statistics*

Table 2: Characteristics for Private Schools

Demographic Characteristic	Parameter	Frequency	Percent
Number of staff in your school	1-10 staff	51	42.6
	11-20 staff	17	14.4
	21-30 staff	18	15.3
	31-40 staff	12	10.2
	41 and above	21	17.6

Source: Primary Data

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b) Correlation Analysis

The Pearson correlation method was used to examine the relationship between price strategy advantage and financial performance.

Table 3: Correlation Analysis

Study Variables	Price strategy	Financial Performance
Price strategy	1	
Financial Performance	.554**	1
**. Correlation is significant at the 0.01 level (2-tailed).		

Source: Primary data

The findings from the correlation table above, indicate a significant perfect positive relationship between Price strategy and Financial Performance as revealed by the correlation coefficient ($r = .554^{**} p<0.01$). This implies that Price strategy with its dimensions such as cost based, competitive based and perceived value positively influence the financial performance private primary schools in the context of Uganda entities. These results also signify that appropriate price strategies are associated with high levels of financial performance. Similarly, poor pricing strategies are associated with low levels of financial performance. These therefore implies that private primary schools should ensure that school dues reflect the cost incurred in operation, the school dues take into consideration the targeted mark-up, the school dues charged cater for all the school costs plus a proportion of profit, the school frequently adjusts dues to fit the cost incurred, the school dues are within the same range as for competitors, this school frequently surveys the market to identify competitors school dues adjustments, this school's dues are parallel with other schools within the division, this school sets a low price compared to other schools within the division, this school adjusts dues based on the performance, the school fees reflect good will, the school dues charged by this school are reflective of the class of customers it serves.

This conforms to H1 which states that price strategy is positively related to the financial performance

c) Regression analysis

Table 3: Regression analysis for competitive advantage on the financial performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	1.235	.248		4.980	.000
	Pricing Strategy	.640	.066	.554	9.722	.000
R = .554[a] R Square = .306 Adjusted R Square = .303 F statistics = 94.525 Sig. (F statistics) = .000 *a. Dependent Variable:* Financial Performance						

Source: Primary data

The findings in table 3 showed that the financial performance was significantly influenced by pricing strategy (beta = .554, $p<0.01$, Sig =.000). This implies that pricing strategy with its dimensions of cost based, competitive based and perceived value greatly predict financial performance of private primary schools. Pricing Strategy should therefore be highly considered by the school management and board members for better enhancement of financial performance private primary schools.

The regression analysis model of financial performance of private primary schools as seen in table 3 was found to be significant and hence well specified, which means that; Pricing Strategy with dimensions of cost based, competitive based and perceived value were found to be appropriate determinants of financial performance of private primary schools in Uganda. The predictive power of the model was found to be 30.3% (Adjusted R Square =.303). The result in table 3 indicates pricing strategy account for 30.3% variation in enhancing financial performance of private primary schools in Uganda hence predicting the financial performance while the remaining 69.7% of predictors of financial performance is accounted for by other factors

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that are not part of this study. The Model specification was found to be fit and valid for this study (Sig<0.00).

d) Mediation

Using the Baron and Kenny (1986) mediation steps, Med Graph program version 2013 was used as a modified version of the Sobel test to compute the Sobel z-value and the significance of the mediation effect of competitive advantage on the relationship between pricing strategies and financial performance. The significance of the mediation effect and type of mediation was also tested basing on Sobel's z-value and ratio index calculated using the Med Graph program.

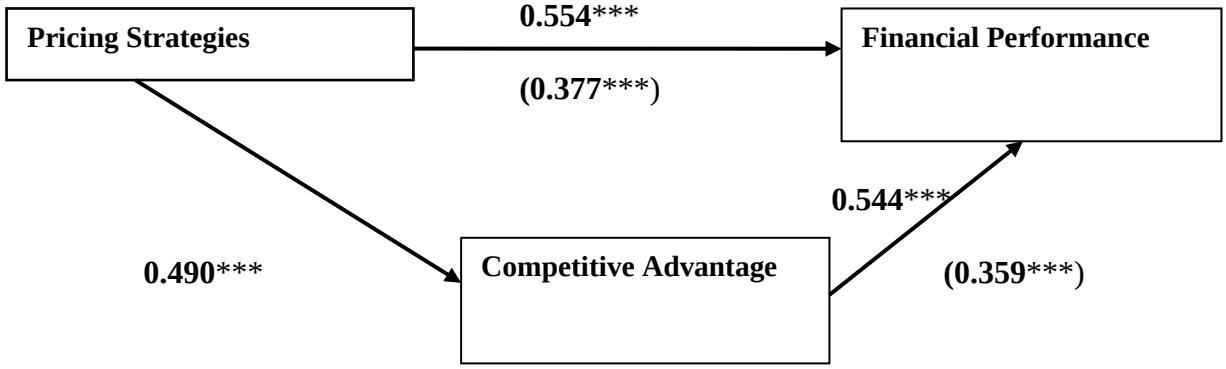


Figure 2: Mediation of Competitive Advantage on Pricing Strategies and Financial Performance.

Figure 1: Mediation results

These results indicate that, since the Sobel Z-value is large with a p-value less than 0.01(Sobel Z-value: 0.4798498, sig: P<0.01), it means that a significant mediation of Competitive advantages on the relationship between pricing strategies and financial performance exists. In a real sense, it indicates that the association between pricing strategies (predictor variable) and financial performance (criterion variable) has been significantly reduced (i.e. from 0.554 to 0.377) by the inclusion of competitive advantage (the mediating Variable). A partial type of mediation was also registered because the correlation between independent variable and dependent variable was reduced to a significant level (i.e. from 0.554** to 0.377**). The ratio index of 10% (0.0103/0.103*100=10) implies that 10% of the effect of competitive advantage on financial performance goes through pricing strategies.

Therefore the results have revealed the contribution of independent variables to the dependent variables. Accordingly, the findings indicate that competitive advantage partially mediates the relationship between pricing strategies and financial performance (partial mediation). This means that the entire effect on financial performance does not only go through the main predictor variable (pricing strategies) but also competitive advantage. This further signifies that the connection between pricing strategies and financial performance is weakened by the presence of competitive advantage. Competitive advantage induces financial performance and partly acts as an agent in the association between pricing strategies and financial performance of private primary schools.

This is in line with *H2: Competitive advantage is a significant mediator of pricing Strategies and financial performance among private primary schools.*

V. Discussions and Conclusion

a) Pricing Strategy and Financial Performance

This study revealed a positive relationship between pricing strategies and financial performance. These results are consistent with De Toni, *et al* (2013) that highlighted that strategic pricing is necessary to enhance financial performance. Hence, the price should continuously change with the changes in market conditions such as, economic conditions and degree of competition for the firm to remain profitable. Similarly, Hinterhuber and Liozu (2014) who noted that pricing of goods and services determines the level of profitability and the general liquidity experienced by firms. Moreover, Abito *et al*, (2012) noted that pricing enables firms to determine the amount to charge the customer in order to remain profitable in its dealings, which boosts financial performance of firms in the long term. This study therefore postulates that an improvement in pricing strategies would lead to improvement in financial performance. On the other hand, the findings also signalized that adopting wrong pricing strategies would result in the decline in financial performance. Consistent with the findings, Avlonitis and Indounas (2006) stressed that a mistaken or inexistent pricing policies negatively affects the volume of purchase by customers which affects their profitability while a fair price boosts sales and subsequently boosts the financial performance of firms.

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The findings further observed that unlike competitive based pricing strategy, cost-based pricing and perceived value-based pricing were positively related with financial performance. In other words, the findings noted that the adoption of competitive based pricing would not in any way improve financial performance among private schools. However, the findings contradict with Wuollet (2013) who emphasized the need for institutions to adopt different pricing strategies of cost-based pricing, customer value-based pricing as well as competition-based pricing if they are to boost revenue that the firm can be able to generate over the long-term. On the other hand, it was observed by Ritz (2013) that competitive based pricing is fundamental in boosting financial performance since it enables firms to set prices that would make their services more attractive than for other competitors. Subsequently, this increases the firms' ability to boost sales and generate higher profits in the long run.

The study emphasized the positive relationship between cost-based pricing and perceived value-based pricing towards determining financial performance. The exploration indicated that when institutions adopt cost-based pricing strategy and the perceived value-based pricing strategy, then they would be able to generate more profits and boost their liquidity. These results affirm earlier findings by Gupta and Zeithaml (2006) which revealed that price serves as a proxy determining profitability since it is the only element within the marketing mix that is directly linked to generating revenues for a firm. In particular, the findings signalized that when cost-based pricing strategy is adopted, then institutions would be able to set a price which is able to reflect the cost incurred and frequently adjust prices based on the cost incurred which would boost liquidity and profitability of firms. Previous work by De Toni *et al*, (2013) posit that price is one of the most flexible elements of the marketing mix, which interferes directly and in a short term over the profitability and cost effectiveness of a company. In other words, adopting a cost-based pricing would give room to institutions to identify the best price that would keep them profitable such that they continuously boost their financial performance.

b) Mediation of Competitive Advantage on Pricing Strategies and Financial Performance

Generally, studies explaining the mediation Competitive Advantage on Pricing Strategy and Financial Performance are in nonfigurative. While this is the case, Hinterhuber and Liozu (2013) indicated that pricing is fundamental in boosting financial performance and can also influence competitive advantage when the organizations engage in innovation. On the other hand, Wuollet (2013) focused on the competitive advantage indicating that it enables the firm to become flexible in the market and undertake innovative decisions to boost revenue in the process. Hence, these findings portray a new pool of knowledge by affirming the relevance of both pricing strategies and competitive advantage.

Consistent with these findings, Ivlonitis and Indounas (2006) indicated that pricing is essential in marketing because it determines the general profitability and liquidity of firms. In the same view, Payne and Frow (2014) indicated that it is critical issue formulating the price for products and services since the price has the potential to determine the profitability and liquidity position of the firm. Besides, De Toni *et al*, (2013) emphasized that price is one of the most flexible elements of the marketing mix, which interferes directly and in a short term over the profitability and cost effectiveness of a company. Therefore, is necessary that institutions closely monitor price for their products and services to determine financial performance.

The findings also observed that when the firms gain a higher competitive advantage, they would record changes in their financial performance where they would record more profits and liquidity. On the other side, where firms lose the competitive advantage, they would record declines in profitability and liquidity. This is supported by Sheehan and Foss (2007) who postulated that competitive advantage makes a significant contribution to the success of the business in terms of boosting financial performance widely examined in the context of profitability and liquidity. Dutta *et al* (2003) also commended competitive advantage indicating that firms that enjoy cost advantage or firms that differentiate themselves from competitors gain more sales necessary for boosting financial performance. Therefore, it is necessary for firms to consider pricing strategies and competitive advantage as important considering the benefits that accrue to them.

VI. Recommendations

The study recommends that private primary schools put in place measures that evaluate the most effective pricing strategy to reduce product costs and thus increase profitability whenever such a strategy is used. They should also adopt ways to implement their pricing strategies better compared to competitor firms. Further, they should ensure that the pricing strategies they adopt help them discourage competition and focus more on enhancing the financial performance.

Private primary schools carry out market survey when formulating prices for their services. They should identify the prices charged by their competitors in order to come up with prices which are nether too low or very high. This will ensure a steady advancement in the financial performance of the school

Private primary schools should conduct customer survey to obtain knowledge about customers' perception of the market offers. This will allow establishing pricing based on customer value, price

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sensitivity and varieties of willingness to pay. Further on that, price review should be conducted annually by private primary schools to ensure that the price for their services is frequently matched against the prevailing market conditions and the competitors.

Schools should use pricing to distinguish themselves from its competitors to expand market share which results into increased revenue, which has a bearing on the profitability of the business. Improving pricing strategies allows firms to gain a better competitive advantage on the market.

VII. Limitations and Areas for Further Research

This study has some inherent limitations which include; a cross sectional research design that restricts us from studying causal relationships among the variables. The behaviors of the variables over a long time could not be completely analyzed which restricted the applicability of the findings as a longitudinal study may give different results from the ones that were obtained. However; this was overcome by expanding the scope of the study in two division of Kampala district.

Further research may focus on; customer information, credit terms, access to finance and financial performance of private primary schools using a longitudinal research design. Research should also be undertaken to explore the concept of financial performance of private primary schools in other contexts such as higher institutions of learning, SMEs, financial institutions among others. This follows from the relatively scarce studies that have been made on the concept of financial performance in these areas. A meticulous research to focus on qualitative research will get the in-depth contextualization of financial performance since this study focused more on quantitative approach based on positivistic paradigm.

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