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Influence of Product changes and performance of commercial banks in Nairobi County, Kenya

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ABSTRACT

The business environment within which the commercial banks operate has been very volatile. Further, social reforms, political anxieties, technological advancements, competition from new entrants and effects of globalization are some of the challenges that have caused this volatility, and have greatly affected the performance in this sector. The general objective of this study was to investigate the influence of product changes and performance of commercial banks in Nairobi County in Kenya. A descriptive research design was adopted in this study. All management persons or their equivalents in all branches of commercial banks in Nairobi County were the target respondent. All of the commercial banks have a total of 126 managerial personnel. Closed-ended questions were used to acquire primary data. The study instrument was pre-tested to guarantee its validity and reliability. The data was analyzed using descriptive statistics such as frequencies and percentages. The study discovered that product modifications have an impact on commercial bank performance.

Key Words: *Product Change, Performance, Strategic management.*

I. INTRODUCTION

Commercial banks are often the leaders in new product development. New products can bring in new customers, and therefore new revenue, which can be vital to a bank's financial health. To maintain a strong market presence, products must be updated and completely restored. Products must be improved in order to sustain market dominance. According to Story and Easingwood (2008), product development is the clearest way to generate revenue.

Long-term business growth demands improving the items we offer our clients and fundamentally changing how those products are delivered. This requires us to reconsider how we develop products and how we deliver them to customers. It also requires us to reconsider our supply chain and production capabilities, as well as how we collaborate with other businesses to bring their goods to market. It entails obtaining more data on how our customers interact with our goods and how we can improve their experience (Hart, 2014). New products in the association, improved quality, and specialist determination can all be indicators of product presence in an organization. However, things don't always go as planned. According to Gurbuz (2018), a company's long-term success depends on its ability to pivot and respond to shifting conditions. If a business cannot adapt its products to satisfy the needs of new customers, it will be unable to do so in the future. This takes a lot of time and resources, but it's an important aspect of long-term business success.

In an undeniably changing world, change is frequently viewed as a crucial source of long-term competitiveness (Atalay, Anafarta, & Sarvan, 2013). With the emergence of the internet, the mobile revolution, and now the fourth industrial revolution, the rate of change has accelerated in recent years. Each of these technology breakthroughs has significantly affected the way banks function and compete with one another. Banks are continuously attempting to adapt to their clients' changing needs and requests. However, new products also create risk for commercial banks. If a product is unsuccessful, it can lead to a loss of customers and revenue. In recent years, the banking industry has also been impacted by the economic crisis. As a result, banks have lost a significant number of their customers.

Highly dynamic environments necessitate more contingent methods, which are more situational, and where change tactics can be altered to achieve maximum fit with the ever-changing environment, according to change management approaches. These approaches arose from a fundamental skepticism of the effectiveness of planned change initiatives (Burnes, 1996). Organizations might rely less on specific plans and projections and instead gain a knowledge of the complexities of settings and the issues at hand, according to emergent approaches. Change should be related to market realities, flexible boundaries and stakeholder interactions, shifting work ethics, and changes in management control. Short-term change methods and plans produce short-term results as well as increased volatility (Burnes, 2009).

An organization's commitment to change is required to attain this goal. As a result, bank performance is measured in terms of managerial effectiveness and resource utilization efficiency (Naser & Mokhtar, 2012). Organization performance is very important to management, shareholders, debt holders, and the government because it is an outcome that has been achieved by an individual or a group of individuals in an organization in relation to their authority and responsibility in achieving the goal legally, not against the law, and in conforming to the morale and ethic of the organization (Iswati & Anshoria, 2018).

In a competitive marketplace, strong leaders can put their organizations in the best position to win. This is due to the fact that successful leaders recognize the significance of continuously evolving and enhancing their organizations' strategies and operations in order to seize new opportunities and stay ahead of their competition. Strong leaders will be required to identify and implement new initiatives, which will necessitate a high level of strategic thinking and change management. Strong executives in banking have been able to navigate through difficult times by employing excellent change management techniques (Misati, Njoroge, Kamau, & Ouma, 2010).

1.1 Statement of the Problem

According to the CBK annual assessment (2014), Kenya's banking sector had 42 commercial banks as of June 30, 2014. This confluence of competitors has resulted in increased competitiveness, as well as advancements in change management and disruptive innovations in Kenya's banking business. Commercial banks have been forced to make strategic changes in order to capitalize on the competition and reclaim lost market share as a result of the new threats.

Product changes, operational changes, marketing changes, and management changes are all examples of strategic changes made by banks. According to the financial sector deepening report (2016), after the adoption of strategic management changes in the banking sector, industry performance has decreased by 7.8% over a six-year period (2011-2017), indicating that the goal has not been fully realized. The purpose of this study was to determine the impact of strategic change management strategies on commercial bank performance in Nairobi County.

1.2 Research Objective

To determine how products change affects the performance of commercial banks in Nairobi County.

II. LITERATURE REVIEW

2.1 Theoretical Review

The study is based on Schumpeter's Theory of Change which was fronted by Joseph A. Schumpeter in 1934. The author contended that business people, who could be autonomous creators or Research and Development (R&D) designs in substantial industries, opened opportunities for new benefits with their advancements. Schumpeter (1934) underlined the part of enterprise and the searching out of chances for novel esteem producing exercises which would grow and change the circular flow of income, however it did as such with reference to a qualification between development or revelation from one perspective and advancement, commercialization and business enterprise on the other.

The theory distinguished between the entrepreneurs whose changes create the conditions for profitable new enterprises and the bankers who create credit to finance the construction of the new ventures (Schumpeter, 1939). Schumpeter's brief discussions of historical episodes of changes in the field of banking might appear to suggest a positive role for financial changes in financing the entrepreneurial ventures that produce the primary wave growth spurts. The spread of joint stock banking was cited as an essential change that occurred in the early 1800s (Schumpeter, 1939).

The theory is deemed relevant to this study as it explains the main independent variable which is process change. Schumpeter (1934) stressed process change as the introduction of new tactics for the product or service or new way of commercializing the product or service. Process change may have influence on the, productivity, growth or profitability. The process is required in order to deliver product or services which customer does not directly pay for. Therefore process change should be a novel changes to the act of producing or delivering the products which allow significantly increase the value delivered to the stakeholders.

2.2 Empirical Review

Product change is defined as the presentation of a decent or a service that is new to the market or has been altogether enhanced in connection to its attributes or employments. These incorporate critical enhancements in mechanical determinations, segments and materials, joined, or ease of use among different capacities (Roberts, 1999). On their part, Kotler and Alexander (1984) defined product change as the result of bringing to life a new way to solve the customer's problem – through a new product or service

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development – that benefits both the customer and the sponsoring company. In relation to the current study, product change can be described as the ability of commercial banks to generate new products or services aimed at addressing the prevailing needs of the customers in the market as well as boosting the firm's performance.

The ability of product change in helping organizations develop competiveness is unquestionable. Products must be refreshed and totally reestablished for holding solid market nearness. To maintain a strong market power, products must be improved. As indicated by Story and Easingwood (2008), product development gives the clearest method of creating incomes. Enhanced and fundamentally changed products are viewed as essential for long haul business development (Hart, 2014). Product presence in an organization can be recognized by new products in the association, enhanced quality and specialized determination. It is evident that product development is essential for the prosperity of any firm, given the dynamic market condition.

Change is generally viewed as a fundamental source of long run competitiveness in undeniably evolving world, since it prompts product and process enhancements, makes advances that encourages firms to survive, enables firms to develop more rapidly, be more productive, and at last be more beneficial than non-pioneers (Atalay, Anafarta & Sarvan, 2013). The review of the investigation by Atalay, Anafarta and Sarvan was directed to top level supervisors of 113 firms working in the car provider industry in Turkey. The outcomes exhibited that mechanical advancement (product and process development) has huge and positive effect on firm productivity, yet no evidence was found for a critical and positive connection between non mechanical advancement (organization and marketing) and firm productivity.

Ibidunni, Iyiola, and Ibidunni (2014) in their study explored the role of product change in enhancing growth of small firms in Nigeria. The results demonstrated that there was an important association between product change and success of independent industries. Furthermore, those changes in tastes of clients require product improvement. The conclusion from the investigation showed that there is necessity for SMEs to finish the research on product development with a particular true objective to deal with and fulfill the request and wants of all purchasers and the market. The study recommended that satisfactory fund, ideal condition, and public policy framework ought to be introduced by the Nigerian governments to help and empower the SMEs. However, Ibidunni, Iyiola and Ibidunni (2014) was conducted in Nigeria, thus presenting a contextual gap.

Pishgar, Dezhkam, Ghanbarpoor, Shabani, and Ashoori (2013) assessed the effect of product change on customer satisfaction and customer loyalty in the construction industry in Iran. The study found that the efficient allocation of limited resources to maximize value requires focusing on relationship oriented customers and strong, long-lasting customer retention. Pishgar et al. (2013) further observed that customer orientation has typically been measured by self-reports from service employees. Customer orientation has also been shown to have a positive impact on performance. They observed that improving customer is one of the major challenges in the whole construction industry. The study concluded that change management and customer orientation have been widely recognized as key factors in enhancing customer satisfaction. However, the study by Pishgar et al. (2013) focused on customer satisfactions as opposed to organizational performance, thus revealing a conceptual gap. The current study seeks to address this gap by focusing on performance of organizations.

Karanja (2014) evaluated the effect of strategic change on performance of SACCO's in Kenya. The study looked at product, process, market and stimulus strategic changes. The research employed a descriptive survey design and used a census method. The study collected primary data on the variables using a questionnaire. The study findings showed that strategic change influenced profitability of commercial banks to a very great extent. The research concluded that strategic changes are important to banks future growth and sustainability. The study by Karanja (2014), gives insight on the importance of strategic change in enhancing organizational performance. Nonetheless, the study fails to focus commercial banks.

Mutegi (2018) assessed the role of change strategy on insurance penetration in Kenya. The research reviewed four variables including product change strategy, marketing change strategy, technological change strategy, and scenario plan strategy. The study adopted a descriptive research design. Based on the findings, a large number of the respondents thought product change analyzes and identifies what customers want. The study concluded that all the independent variables (product change, marketing change, technological change and scenario planning contribute significantly to insurance penetration. Based on the findings, study recommended that insurance industries should lay out procedures and strategies such as product change, marketing change, technological change and process change so as to enhance their penetration in the market. Although Mutegi's study focused on insurance firms in Kenya, it is very informative as it points out methods that can be considered in this current study.

Githikwa (2013) carried out a study on the influence of financial change on profitability of MFI's in Kenya. The research observed that banks conceptualize financial change as a mean to create impact in the profit performance. In addition, the study revealed that implementation of financial change requires more banks to have a great deal of resources and reduce costs of

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operations, reduce cost per transaction and equally enable banks to satisfy the customer needs. Similarly, Antonnet (2014) assessed the impact of product change on profitability of banks in Kenya. The research adopted an explanatory survey approach. The research findings indicated that core and augmented product changes had no influence on bank's profitability. However, formal product change had an indirect influence on firms' profitability. These studies help the researcher to understand the role of production change in influencing organization performance. However, the studies do not focus on commercial banks.

Furious rivalry in the present worldwide markets, the presentation of products with shorter life cycles and increased desire of clients has constrained business ventures to focus on their supply chains. Supply chain management is a vast area. It can possibly include an incentive as a vital capacity for organizations in enterprises (Noche & Elhasia, 2013). This examination explored supply chain improvement and its cost reducing role in the German cement industry. The authors observed that since 2000, SCM has assumed an operational part inside cement and mineral extraction organizations. Lately, the cost reduction projects have brought production network administration into the spotlight. The level of progression in cement Supply Chain Management (SCM) can encourage or oblige world monetary improvement. This investigation concentrated on value addition and therefore, the concept of product development was not addressed.

Outsourcing technique has turned into a typical practice among both private and public institutions. The cement producing industry isn't an exemption to this respect and it is key segment of the construction sector in Kenya. Murunga (2016) attempted to decide the outsourcing technique and profitability of outsourced exercises in the cement producing firms in Kenya. The examination was cross-sectional and targeted six industries. The research revealed that the need to address the core capabilities and improve productivity as the key components affecting outsourcing system implementation. The profitability measures in outsourcing were enhanced specialized capacity and performance contract. Murunga's study concentrated on outsourcing activities with an aim of achieving operational efficiency. With outsourcing, the mother firm may not have a direct control on product features and related changes (Murunga, 2016). In the current study, the intensity of product change is being examined with a deeper assessment on how it impacts overall performance of commercial banks in Kenya.

III. RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a descriptive research design. According to Mugenda (2003), descriptive research is used when the problem has been well designed. It involves fact finding and enquiries of different types (Baker, 2010). This method is suitable since it allows flexible data collection and the respondents are not manipulated. Walter (2009) argues that descriptive research design is used when the problem is known and well designed. This is the research design that was used to establish the change management on performance of commercial bank.

3.2 Research site and rationale

The research was carried out in Nairobi county among all the commercial banks with exception of those under receivership, this provided a sound understanding of the effects of strategic change management practices on performance of commercial banks in Nairobi county. The commercial banks in Nairobi represent the entire commercial banks in Kenya since all commercial banks headquarters are in Nairobi County.

3.3 Target Population

The total population was 126 commercial bank management staffs that operate in Nairobi County. There are 42 registered banks in Nairobi County, according to the Central Bank of Kenya as at January 2018. The respondents consists of the management employees in the banks namely; branch manager, operations manager, customer service managers, as these are the users of change and interacted with customers.

3.3 Data Collection Methods

The study employed both qualitative and quantitative processes of data gathering. Primary data was collected through questionnaires and in-depth interview. Questionnaires were the principal tool of quantitative data collection. Questionnaires had both structured and unstructured questions which aided in gathering standardized answers. Open ended questionnaires, gave the respondents a chance to express their views, experiences and attitude on the research problem, while closed ended questionnaires allowed the respondent to give precise information on the study. However, in-depth interviews were conducted between the researcher and the respondents in a confidential and secure ways using an interview guide which had identical questions.

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IV. FINDINGS & DISCUSSIONS

4.1. FINDINGS

The study sought to investigate the influence of product change on the performance of the commercial banks. In this regard, the respondents were presented with likert-type statements on a scale of 1 to 5 where: 1=Strongly Disagree; 2=Disagree; 3=Neutral; 4=Agree and; 5=Strongly Agree. The findings obtained are presented in Table 4.4.

Table 4.4 Effect of Product Change on Performance of Commercial Banks

	1 (SD)		2 (D)		3 (N)		4 (A)		5 (SA)			
Product Change	**F**	**%**	**F**	**%**	**N**	**%**	**A**	**%**	**SA**	**%**	**Total Responses**	**Weighted Mean**
1. Development of new products is essential for the growth of our bank	5	4.7	15	14.0	8	7.5	76	71.0	3	2.8	107	4
2. Our bank undertakes improvement of existing products.	74	69.2	0	0.0	2	1.9	31	29.0	0	0.0	107	2
3. Our bank is involved in improving the quality of our products.	20	18.7	46	43.0	1	0.9	28	26.2	12	11.2	107	3
4. Through product innovation, our bank has managed to provide customer friendly products.	15	14.0	19	17.8	8	7.5	65	60.7	0	0.0	107	3
5. Through product innovation, our bank has increased its product portfolio.	16	15.0	8	7.5	12	11.2	58	54.2	13	12.1	107	3
6. Our bank has invested heavily in product research and development	13	12.1	15	14.0	8	7.5	43	40.2	28	26.2	107	4
7. The bank management meets regularly to discuss on how to improve our products	74	69.2	0	0.0	2	1.9	31	29.0	0	0.0	107	2
Mean of Weighted Means												**3**

Source: Survey Data (2018)

The results shows that 73.8% of the respondents agreed that development of new products is essential for the growth of commercial bank while 18.7% of the respondents disagreed that development of new products is essential for the growth of commercial bank. This means that development of new products is essential for the growth of commercial bank. This finding agrees with those of Easingwood (2008) who found that product development gives the clearest method of creating incomes. Enhanced and fundamentally changed products are viewed as essential for long haul business development.

The results indicates that majority of the respondents 69.2% of the respondents disagreed that commercial banks undertakes improvement of existing products while only 29% of the respondents who agreed that there is improvement of existing products by commercial banks. This findings means that commercial banks do not undertakes improvement of existing products. This findings are in agreement with those of Hart, 2014) who found that product improvement and presence in an organization can be recognized by new products in the association, enhanced quality and specialized determination. It is evident that product development is essential for the prosperity of any firm, given the dynamic market condition.

The results indicated that 61.7% of the respondents disagreed that commercial bank is involved in improving the quality of products while only 37.4% of the respondents agreed that that commercial bank is involved in improving the quality of banks products. This means that commercial banks are not involved in in improving the quality of products. This finding concurs with

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those of Atalay, Anafarta and Sarvan (2013) who found that product development has huge and positive effect on firm productivity and for a critical and positive connection between non mechanical advancement and firm productivity.

The results indicated that 60.7% of the respondents agreed that through product changes, the bank has managed to provide customer friendly products while only 31.8% of the respondents disagreed that product changes in commercial bank has managed to provide customer friendly products. These findings are supported by those of Ibidunni, Iyiola and Ibidunni (2014) in their study explored the role of product change in enhancing growth of small firms in Nigeria and found that there was an important association between product change and customer friendly products.

The results indicated from 66.3% of the respondents that through product changes commercial banks has increased its product portfolio. It was also found from 22.5% of the respondents that product changes commercial banks has not increased its product portfolio. This means that through product changes commercial banks has increased its product portfolio. This findings agrees with those of Pishgar, Dezhkam, Ghanbarpoor, Shabani and Ashoori (2013) who assessed the effect of product change on customer satisfaction and customer loyalty and found that there will be always increased portfolio and efficient allocation of limited resources to maximize value requires focusing on relationship oriented customers and strong, long-lasting customer retention.

The results indicated that 66.4% of the respondents agreed that bank has invested heavily in product research and development while 26.1% disagreed that bank has invested heavily in product research and development. This means that the bank has invested heavily in product research and development. This finding agrees with those of Karanja (2014) who found that organizations have invested heavily in product research and development through the effect of strategic change on performance. The study looked at product, process, market and stimulus strategic changes. The research employed a descriptive survey design and used a census method. The study collected primary data on the variables using a questionnaire.

4.2 Discussion

This study investigating the influence of products changes on performance of commercial banks in Nairobi County. The findings revealed that products changes have a positive influence on the performance of commercial banks. This finding is supported by variation of 0. 535. There is a p-Value of 0.001 which is less than the acceptable significance level (α) and hence the null hypothesis is rejected. The influence of products changes on performance of commercial banks is also statistically significant and this justified the reason to why the null hypothesis was rejected.

V. CONCLUSIONS & RECOMMENDATIONS

5.1 Conclusions

Based on the findings of the study, it can be concluded that bank product changes influence financial performance of commercial banks in Nairobi County positively. The adoption of changes by commercial banks has a high potential of improving financial performance and hence better returns to the shareholders. The versatility of changes has made their adoption rate to be high among both the banks and their customers. It could have been challenging if the adoption was only with either the banks or the customers. Banks in Kenya have continued to perform well even when other sectors of the economy show lagged performance. This can be explained by the use of changes which have enabled banks to start making income away from traditional sources like interest, trade and asset financing. Banks have been able to make more commission income from transactions done on changes channels like; mobile phones, internet and credit cards.

5.2 RECOMMENDATIONS

Banks should continue investing in products changes because they are able to control their costs much better as compared to investment in brick and mortar or physical branches. The volume of transactions that can be processed on channels like the internet and mobile are high as compared to delivering such transactions using manual processes. This helps to minimize the cost per unit of service and hence better returns to the banks. Commercial banks should explore more ways of maximizing their utilization and returns from mobile banking and internet banking.

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