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NEW PRODUCTS DEVELOPMENT AND PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

The study examined the influence of new products development on profitability of deposit money banks in Nigeria. It also assessed the influence of new products development on customers' satisfaction and patronage. The study reviewed banks new products in existence and how they could be judiciously channelled in order to enhance earnings capacity of banks in Nigeria. The study was undertaken using a total of one hundred and fifty (n=150) bank managers and customers of the five selected banks out of which one hundred and ninety (190) were properly filled, returned and accordingly analysed using regression analysis. The result of the study showed that there was a significant influence of new products development on bank profitability and customers' satisfaction with increased patronage and deposit base. The study concluded that profit should not only be seen as an overriding motive in formulating new products development strategy but based upon customers' satisfaction with potential long run profitability and overall financial performance.

Keyword: *New Products Development, Performance, Customer Satisfaction, Patronage Profitability*

INTRODUCTIONS

The banking industry in general has experienced some profound changes in recent times, as innovations in technology and the inexorable forces driving globalization continue to create both opportunities for growth and challenges for banks to remain profitable in this increasingly competitive environment (Allen, F. and Santomero, A. 2001). In a highly turbulent environment, a successful innovation creating a unique competitive position can give a bank a competitive advantage and lead to a superior performance. This can only be maintained by ceaseless innovation in improvement of the product and the process. Batiz-Lazo and Woldesenbet, (2006) advanced the view that financial innovations or new products are used by banks as formidable strategic variables to outstrip the competition and have become an essential means for the bank to improve performance and to maintain its effectiveness on the market. If the process of innovation continues and new technologies or products are introduced overtime, innovative banks can continue to earn high profit on various new or improved products. The performance of banking system especially when considering new products is measured not only by the number of variety of services produced but more importantly by the speed, efficiency and safety with which those services are provided as well as the ability of the new products to meet customers' needs and facilitate their satisfaction whilst improving deposit mobilization strength and financial performance. The relevant aspects of technological change include innovations that reduce costs related to the collection, storage, processing, and transmission of information, as well as innovations that transform the means by which customers access bank services. Automated teller machines (ATMs), mobile banking, internet banking, and e-money as being among the significant innovations affecting the banking distribution system that influence banking performance (Berger and Mester, 2003). Client relation management systems, bank management technologies, and various other technologies are among the major changes in internal banking systems that also have exercised a positive influence on banking performance and profitability (Humphrey, et al (2006). (Roberts and Amit, 2003) hold the view that innovation has generated a wide interest as a research subject in social sciences with a particular focus on the relationship between innovation and competitive advantage. Financial innovation is an important key of financial development transmission channels. Thus, analysis of the impact of product development or financial innovation on banks' performance has become increasingly important with the recent changes in banking activity (Ebrahim and Hussain, 2010).

LITERATURE REVIEW

Globally, financial institutions are not immune from financial crisis. The legacy of the financial and economic crisis is still severely impacting banks performance across the world. Banks are still subject to significant uncertainty and their customers' trust and loyalty is at an all-time low. In response, many banks have focused intently on cost management. However, new market paradigms show that cost reduction alone is not enough (Josiah and Nancy, 2012). Lack of economic growth is questioning the viability of certain business models in some markets. In addition, a broader intervention by the public sector with a huge wave of regulatory reforms, requirements for greater capital reserves along with restrictions on funding will lead to a new, lower level of profitability by constraining balance sheets. Further, drastically reduced customer loyalty, and a new technological ecosystem and competitive threats, all serve to increase the strength of the headwinds confronting all banks. (Abir,M. and Chokri, M., 2010). Banks need to rebuild profitability and reboot shareholder value by driving, growth in their core businesses through innovative products and services, attracting and retaining customers, optimizing pricing, managing risks effectively, and all while continuing to cut costs. The recent Central Bank of Nigeria (CBN) mandate to banks operating in Nigeria to concentrate on core banking functions rather than the universal banking concept and the entry of new banks has further tightened completion among banks. As competition has gotten stiffer, banks which had hitherto offered homogenous products and services have had to pay more attention to customers' needs and desires which are naturally insatiable. This has led to the need for new products and services to be developed. The new products arose to challenge all other previous ones. These new products now hold the key to achieving organizational goals, evaluating profitability of deposit money banks and delivering customer's desired satisfaction more effectively and efficiently (Yildirim,H. S.and Phillippatos, G. C,2007). Banks now develop new products that they feel will confer them an added advantage. The major areas where the banks have concentrated their product offerings are reducing cost of banking, gender and age group segmentation. Examples include Zero COT business financials accounts, Pink account targeted at women, Retirement Savings accounts for senior citizens and so on. They have also opened up new electronic channels such as mobile banking, internet banking, point of sales transactions (POS), automated teller machines (ATMs) and so on aim at banking convenience. The rationale for the introduction of all these new products and services by deposit money banks in Nigeria is to assist in improving their share of the market and subsequently their profitability performance.

Technology Acceptance Model

Theories and models used in studies related to the innovations, acceptance and use of new technology are many. For instance, focusing on the technological issues (Davis, 1989) advances the Technology Acceptance Model (TAM). This model relates the individuals' behavioural intentions and his/her information and communication technology (ICT) use. It is suggested that, the actual behaviour of a person is determined by his behavioural intention to use, which is in turn influenced by user's attitude toward and perceived usefulness of the technology. However attitude and perceived usefulness are both determined by ease of use. Adopting the TAM model requires the understanding of end-users requirements regarding usefulness and user friendliness (Demirguc-Kunt, A. and Huizinga, H. 2002). From this model, usefulness and user friendliness affect users' attitudes towards any service. Davis, (1993), thus suggested that it is important to value user requirements based on perceived usefulness and the user friendliness of the technology rather than other objective measure. Critiques of this model are directed to its inclination to the technological/technical aspects of the technology in question ignoring other factors such as social aspect of the users. In practice, constraints such as limited ability, time, environmental or organizational limits and unconscious habits will limit the freedom to act. Wang, et al.(2003) were interested to identify the factors that determine acceptance of internet banking by the users. According to the Technology Acceptance Model (TAM), perceived ease of use and perceived usefulness constructs are believed to be fundamental in determining the acceptance and use of various information technologies. These beliefs may not fully explain the user's behaviour toward newly emerging IT, such as internet banking. Using the TAM as a theoretical framework, Wang et al. (2003) introduces "perceived credibility" as a new factor that reflects the user's security and privacy concerns in the acceptance of internet banking (Wang et al.,2003). Also, TAM could be used in predicting the intention of users to adopt internet banking and the effect of computer selfefficacy on behavioural intention through perceived ease of use, perceived usefulness, and perceived credibility (Berger, A. N. and Mester, L. J. 2003).

New Products in Banking Operation

New bank products are those products that were hitherto not on offer as part of bank services. They are usually specialized services or a hybrid form of the conventional products that banks offer. They get introduced newly into banking services by ingenuity of one bank or the other in its bid to expand customer base. Industry experts hold the opinion that such services keep the competition keen and ensure that customers get improved services (DeYoung, R. Lang, W. and Nolle, D. 2007). The turn of the new millennium saw the introduction of so many electronic driven products such as POS machine, ATM cards, e-transact, corporate i-banking into the Nigerian banking industry. This greatly improved services and boosted bank patronage leading to an increase in the number of banks and also an expansion of the coverage of the existing banks. With the competition keen, banks had to resort to innovating new products to keep current customers and attract prospective. Some newly developed products in Nigeria banking system include Zero-COT Current Account, Fixed COT Account and Gender accounts to mention a few. Deposit money banks in Nigeria will perform better if they satisfy their Customer's need through the introduction of innovative products. Therefore, in applying the new products, banks would produce what the customers want and by so doing, increase their profitability profile. Several authors have stated the need for all banks to adopt new products in their various transactional phases. Most Commercial banks in Nigeria do not really grasp or embrace the new products until they are driven to it by circumstance like, sales decline, slow growth and changing of buying patterns by customers (CBN, 2001).

Financial Performance

Performance measurement and reporting is now widespread across the private and public sector of many developed developing countries (Williams, 2003). The common tool that is used for this process, key performance indicators (KPIs), has been argued to provide intelligence in the form of useful information about a public and private organization's performance (Milne, A.2006). Key performance indicators are viewed as a good management device and a tool that makes sense. The fact that KPIs tend to be quantitative has helped to promote objectiveness and rationality. The importance of performance measurement is that it enables the public see and understands the results of organisational programs and performance. The development of a country depends mainly on existence of efficient and effective banking system. Goddard, J.,Molyneux, P. and Wilson, J. (2004) state that commercial banks represent the core of the credit for any national economy. In turn, the credit is the engine that put in motion the financial flows that determine economic growth and a nation. As a result, any efficiency in the activities of commercial banks has special implications on the entire economy. The management of every commercial bank must establish a system for assessing investment performance which suits its circumstances and needs and this evaluation must be done at consecutive intervals to ensure the achievement of the Bank's investment objectives and to know the general direction of the behaviour of investment activity in the past and therefore predict the future. Profitability offers clues about the ability of the bank to undertake risks and to expand its activity. The main indicators used in the appreciation of the bank financial performance are: Return on equity,(ROE) Return on assets (ROA) and Net profit Margin (NPM) (Porter, 2004). The indicators are submitted to observation along a period of time in order to detect the tendencies of profitability. The analysis of various performance indicators usually shows the changes of the policies and strategies of banks and or of its business environment.

METHODOLOGY

Survey method was adopted to collect data for analysis. The target population of this study was the selected deposit money banks in Nigeria where a census survey was carried out on banking institutions which comprised licensed commercial banks. The study made use of both primary and secondary data. The primary data was obtained through a structured questionnaire. The organization was the unit of analysis and the target respondents were managers and customers of selected banks. The secondary data was obtained through a review of financial statements where the Return on assets (ROA) and Return on equity (ROE) were obtained as financial indicators of firm performance. The bank managers responded to the section of the profitability performance while the bank customers responded to the section on the customers' satisfaction and patronage. Simple regression analysis was used to establish the nature and magnitude of the relationship between new products development and performance of deposit money banks. Descriptive statistics such as frequencies and percentages were computed for organizational data and multiple choice questions in order to describe the main characteristics of the variables of interest in the study. Mean scores were computed for Likert type of questions. SPSS regression software was used for analysis. Data was presented in form of tables.

DATA ANALYSIS AND DISCUSSION OF RESULTS

This study sought to establish the impact of new products development on performance of deposit money banks. The tests were carried out using simple regression analysis at 5% significance level (a=0.005).To test the hypotheses, it was necessary to compute composite scores for variables that had several measures. In this regard, composite scores were calculated to represent the responses to the various attributes that defined bank performance. Similarly, composite scores were calculated to represent the responses to the various attributes that defined new products development which were used as input to the evaluation. The outline and the results from the evaluation were as presented below:

Ho_1: New products development has no significant impact on bank profitability

This hypothesis was tested by regressing new products development on firm financial performance guided by the equation $Y=\beta o+\beta_1X$ where X represented new products development and Y denoted financial firm performance. The results of the regression are represented in table 1 below

Table 1: Regression results for the impact of new products development on financial firm performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.869[a]	.755	.753	.23739

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	24.637	1	24.637	437.170	.000[b]
	Residual	8.002	142	.056		
	Total	32.639	143			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.655	.039		16.967	.000
	New Products Development	.319	.015	.869	20.909	.000

Predictors: (Constant): new products development
Dependent Variable: bank profitability

The results presented in table1 indicate that the impact of new products development on financial indicators was positive and significant ($F=437.170$, $p<0.05$). From the table, 75.5% of the variation in bank financial performance was explained by variation in new products development. It also suggested that new products development accounted for 75.5% of the variation in performance of deposit money bank. (R square =0.755, $p<0.05$), β was also statistically significant ($\beta=0.319$, $t=20.909$, $p<0.05$). The probability value of the first hypothesis tested showed 0.000 which was less than 0.05 ($p<0.05$). The p-value is statistically significant and therefore the null hypothesis is rejected. Overall regression results presented in table 1 indicate that new products development has a significant impact on financial firm performance. The hypothesis that says new products development has no significant impact on bank performance is rejected. The hypothesis that new products development has significant impact on bank performance was therefore confirmed for financial indicators of firm performance.

Ho_2: New products development has no significant impact on customers' satisfaction and patronage

The regression model used was similar to the one used for financial indicators as the dependable variable. The impact of new products development on customers' satisfaction and patronage was tested and the results were as presented in table 2 below.

Table 2: Regression results for impact of new products development on non- financial firm performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.932[a]	.869	.868	.39157

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	144.450	1	144.450	942.106	.000[b]
	Residual	21.772	142	.153		
	Total	166.222	143			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.434	.064		6.821	.000
	New Products	.772	.025	.932	30.694	.000

Predictors: (Constant) new products development
Dependent Variable: customer's satisfaction and patronage

The results presented in table 2 show that the impact of new products on non-financial firm performance was positive and significant ($F=945.106$, $p< 0.05$). From the table, 86.9% of the variation in the non-financial firm performance was explained by variation in new products development (R square=0.869, $p< 0.05$). $\beta =0.772$. $t=30.694$, $p< 0.05$). Overall regression results presented in table 2 indicate that new products development has significant impact on non-financial firm performance. The hypothesis that new products development has no significant impact on customers' satisfaction and patronage is rejected and alternative hypothesis that new products development has significant impact on customers' satisfaction and patronage is confirmed for non-financial indicators of firm performance.

CONCLUSION AND RECOMMENDATIONS

The study revealed that banks' profitability performance and customers' satisfaction and patronage have increased. Introduction of special accounts have influenced increase in customers' patronage and deposit base of banks. The major conclusion from the results of the study is that new products development is critical and important in sustaining a strong and viable banking system in Nigeria. With new products development customers' satisfaction/patronage deposit mobilization would increase which in turn will translates into increased earnings and profitability. The major issue of product innovation has been the area of creating awareness which usually arises from the cost of advertising. Deposit money banks should increase their Research and Development (R&D) funding in order to develop more products that can confer advantage in the competitive market. Banks should further intensify efforts to identify new market opportunities to develop appropriate products to meet the challenging needs and wants of customers. They should ensure that the quality of their products meet the expectation of their customers in local and international markets since their product quality is a strong and significant factor in the firm's marketing strategy and performance. Banks should also organize regular and continuous training for their staff so as to improve their marketing skills to enable them increase sales and new products. The Banking Regulatory and Supervisory agencies must intensify their efforts to protect the interest of customers and stakeholders especially in the areas of costs to users and compliance with existing privacy laws that govern the handling of customer information. Finally, new products development is an essential condition in a competitive environment like Nigeria among deposit money banks. Hence product innovation should strategically carry out and well administered in order not to rock the existence and viability of banks in Nigeria.

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