EFFECT OF NEW PRODUCT DEVELOPMENT ON CUSTOMER SERVICE QUALITY IN COMMERCIAL BANKS IN NAIROBI COUNTY

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ABSTRACT

This study set out to establish the effects of new product development on customer service quality in commercial banks in Nairobi County. The study was anchored on total quality management theory. This study adopted a cross sectional survey design targeting 164 senior customer service executives from the commercial banks in Nairobi County, Kenya and census was adopted. Questionnaire was administered to the respondents to collect primary data that was a piloted prior to data collection to determine validity and reliability. The findings were analyzed through Statistical Packages for Social Sciences using means, standard deviation and regression analysis and presented through tables and figures. The study established that new product development positively influenced service quality. The study concludes that new product development significantly enhanced service quality. The study recommends that product development managers of the commercial banks operating in Kenya should invest more resources in development of new products so as to enhance customer service quality. The top management team of the commercial banks operating in Kenya should focus more on new product development when deciding on the overall strategy of enhancing customer service quality.

Key Words: New Product Development and Customer Service Quality

INTRODUCTION

Due to intense competition as a result of globalization, advancing technologies and changes in consumer needs and wants, organizations have adopted selective strategies aimed at attracting and retaining customers. These strategies are concentrated on improving the customer service quality and experience (Balaji R. 2006). The environment in which organizations operate has also forced them to adopt strategies that will enable them survive in the market. Consumers all over the world have become more quality conscious; hence there has been an increased customer demand for higher quality services. Service operations worldwide in the banking sector, insurance and other financial institutions like Savings and Credit Co-Operative (SACCOs) and Micro-finance institutions (MFIs) are affected by this new wave of quality awareness and emphasis (Lee, 2004). Therefore, service-based organizations have been compelled to provide excellent services to their customers in order to have sustainable competitive advantage, especially in the current trend of trade liberalization and globalization. Trends affecting organizations include globalization, regulation and supervision, demographic factors and technological innovations (Keasey, 2003). The privatization of organizations is high on the agenda in many countries as the influence of government wanes; competitive relationship in the financial sector and in the banking industry particularly will undergo considerable change. This has forced organizations to implement new strategies so as to fit in the global market as well as gain competitive advantage.

Customers love innovation and new products that are unique. Therefore, it is very important for organizations to formulate strategies which will help them to either improve on the existing products or develop new products as preferred by the customers. This will help them keep the existing customers, or acquire new customers who prefer the unique products. Knowing the customer preferences calls for organizational research strategies. This helps organizations to keep up with the ever-changing customer preferences. Invention strategies come with improved information technology and employees training and it helps to improve organizational efficiency in terms of employees' work performance or overall effectiveness in organizational decision making, information dispatch and response management. Therefore, this study will concentrate on New Product Development, Consumer Research, Information and Communication Technology, and Employee Training because they define or, rather, they are the backbone of service delivery.
Quality customer service is a series of activities designed to enhance customer satisfaction (Dabholkar, 2015). Effective strategies will lead to improved quality service delivery to customers in the organization hence improved performance in terms of revenue growth and expanded market share. **Reliability, responsiveness, tangibles, assurance,** and **empathy** encompass quality aspects of banking services from customer point of view (Kotler, 2007). To develop effective positioning strategies, managers need insights into how the various attributes of a service are valued by the current and prospective customers within that segment (Dhar, 2015).
The banking industry in Kenya is governed by the Companies Act, the Banking Act, the Central Bank of Kenya Act and various prudential guidelines issued by the Central Bank of Kenya (CBK). A bank is defined as a company, which carries on or proposes to carry on, banking business in Kenya and includes Co-operative bank of Kenya but does not include the Central Bank of Kenya. Currently there are 41 licensed commercial banks in Kenya. The sector remains highly concentrated with 9 of the 41 banks controlling 74% of total assets in the sector. A number of banks have closed some branches as part of their cost and business rationalization measures and strategy.

Statement of the Problem

The link between the effects and the strategies adopted by commercial banks to manage customer service delivered by commercial banks has not been achieved leading to difficulties in establishing if their effectiveness or their formulation and implementation is the problem hence the need for this study.

Objective

establish the effects of new product development on customer service quality in commercial banks in Nairobi County.

Literature Review

Theoretical Foundation of the Study

Total Quality Management (TQM) Theory

study will be anchored on Total Quality Management theory and other sub theories. The theory is applied by competitive organizations in managing service quality in the dynamic business environment (Christopher & Lovelock, 1996). TQM theory grew out of existing organizational management theories, in part, as a response to the problems in those theories. Edwards Deming and Joseph Juran are most responsible for the development of TQM. The theory holds that "performance is enhanced by designing products and services to meet or exceed customer expectation by empowering workers to find and eliminate all factors that undermine product or service." Johnson and Scholes (2002) indicated that TQM promotes organizational effectiveness through; promoting stakeholder satisfaction, pursuing continuous improvement; and fostering proactive leadership.

TQM theory holds that "quality can only be defined by those who receive the product or service, including stakeholders." Accordingly, organizational managers should engage their staff in identifying the organization's internal and external stakeholders and by determining the criteria that each uses to judge the organization to be successful. This process suggests that the effective competitive organization is one that satisfies the expectations. Quality is a complex phenomenon based on perception by individuals with different perspectives on products and services. These perceptions have been built up through the past experience of individuals and consumption in various contexts. Consequently, quality encapsulates time and other contextual dimensions that add to the complexity of what is essentially a subjective evaluation of the quality of good and/or service by the consumer (Johnson & Scholes, 2002).

Strategies for managing customer service quality needs to consider this inherent complexity and build complexity into its models. Any single paradigm provides a too narrow view to capture complexity, and the multi-faceted nature of reality (Akinboboye, 2007). Due to factors such as intangibility and perishability managing quality in service settings is much more challenging than managing quality in product markets, (Afsar, 2011). The complexity of managing service quality in this type of service is further increased if there is continuous change in the external environment due to intense competition and changing customer needs (Johnson & Scholes, 2002).

This theory is relevant in explaining the use of information technology and communication to increase customer service quality. The use of ICT can enhance service quality by improving service quality in terms of efficiency and timeliness in service delivery.

New Product Development and Customer Service Quality

product development is the complete process of bringing new products to the market, there are two parallel paths involved in new product development process one path involves idea generation, product design, and detail engineering the other path involves market research and market analysis. Quality is known as the customers' judgements about the new product's overall performances (Zeithaml, Bitner 2000). In order to have good new product development, an organization needs to define and communicate their mission to the members. This is so because it can influence the quality-related values, behavior and reaction of the employees about the change. As a result, the quality of a new product can influence an organization's image, customer loyalty, the attractiveness of the products, product market share and profitability (Cooper, Schindler, 2003). Hence, the importance of new product development management in an organization cannot be denied.

New product development connected with customer needs and expectations differs across the marketing, engineering, and industrial design literatures. Different terms are used for voice of customers like needs, wants, requirements and specs. For example, in their review of the product development literature Krishnan and Ulrich (2013) indicate that an attractive representation of a product is important, which they consider to also include customer needs, customer requirements, product specifications. Even customers themselves often use these terms interchangeably. Customer needs are also context dependent particularly with respect to usage (where and how the product is used), consumer (who will use the product) and market (what competing products are available in the market).

According to Otemba (2012), product extension is one of the measures of new product development. Product extension is the use of an established product brand name for a new item in the same product category. Product extensions occur when a company introduces additional items in the same product category under the same brand name such as new flavors, forms, colors, added ingredients, package sizes. This is as opposed to brand extension which is a new product in a totally different product category. Line extension occurs when the company lengthens its product line beyond its current range. The company can extend its product line down-market stretch, up-market stretch, or both ways. When developing new product, it is important to have a clear distribution channel so that the best product or service don't fails. Delivery is seen as part of the product influencing customer satisfaction.

Conceptual Framework

New product development

- Product extension
- New distribution channels
- Attractive representation of a product

Customer service quality in commercial banks

- Reliability
- Responsiveness
- Tangibles
- Assurance
- Empathy

Independent variable **Dependent Variable**

RESEARCH METHODOLOGY

This study adopted a cross sectional survey design that explored the organizational strategies and their effect on customer service quality in organizations. The research design, therefore, was seen as a conceptual structure within the research conducted with an intention to explore new knowledge to a recent study. Both qualitative and quantitative data was obtained for comparison purposes. From the information at the Kenya Bankers Association KBA of 2018 each bank has four senior management staff in charge of customer service. Thus, the total population was 164 senior customer service executives from the commercial banks in Nairobi County, Kenya. The population therefore can be seen as the large group for which a researcher can draw a representative sample for the case of collecting information relevant to the study being conducted.

Table 1: Target Population

Position	Population Size
CEOs	41
Customer service department heads	41
Customer Service Managers	41
Branch Customer Service	41
Total	**164**

Bryman and Bell (2015), indicate that whenever the population is small of less than 200 members who are unique and having unique characteristics then applying a census where all members are picked for the study is ideal. Therefore, all the 164 senior customer service staffs were included in this study.

Table 2: Sample Size

Position	Population Size	Sample Size
CEOs	41	41
Customer service department heads	41	41
Customer Service Managers	41	41
Branch Customer Service	41	41
Sample Size		**164**

Primary data was collected from respondents using questionnaires as instruments of data collection. Structured questionnaires with both open and closed ended questions were used to collect data. Questionnaire was preferred as instruments of data collection because they provided an opportunity of collecting information without interference of the researcher, they helped to collect sensitive information and information could be kept for future references. It also allows respondents sufficient time on items that require consultation before responding. The questionnaires were serialized to differentiate those to be filled by different categories of respondents. In order to establish the content validity of a measuring instrument, the researcher identified the overall content to be represented. Items were randomly chosen from this content that will accurately represent the information in all areas. Quality management consultants and Lecturers of Egerton University were used to identify the content of the instrument.

To analyze is to search and identify meaningful patterns in data. Borg and Gall (2003) points out that, analysis means categorizing, ordering, manipulating and summarizing of data to obtain answers to research questions. The data collected in the research was edited, coded, classified on the basis of similarity and then tabulated. Being a descriptive study, descriptive and inferential statistics such frequency distributions, percentages, and frequency tables were used to summarize and relate variables which were attained from the administered questionnaires. Descriptive and inferential statistics were chosen because they made it possible to show the distribution or the count of individual scores in the population for a specific variable.

RESULTS AND FINDINGS

The total questionnaires administered to respondents were 164 and 115 of them were dully filled and returned to the researcher. This represented a response rate of 70.1%.This response rate was adequate and concurred with Mugenda and Mugenda (2003) who argued that a response rate of above 70% is good for presentation of the findings. In relation to the years of experience, 37.4% of the respondents had worked in their organizations for 6-10 years, 35.7% had worked for less than 1 year, 15.7% for over 10 years and 11.3% for 1-5 years. This means that the participants had generally worked in the banking industry for relatively longer periods of time and thus they were knowledgeable on issues revolving around organizational strategies and service quality. On educational qualifications, 46.1% of the respondents were graduates, 34.8% had undergraduate level of education, 10.4% had masters and 8.7% had diplomas. This means that the respondents of the study were educated and could probably understand the issues revolving around organizational strategies as sought by the study.

New Product Development

Table 3 gives a summary of the descriptive statistics on new product development.

Table 1: New Product Development

	n	Mean	Std. Dev
New product development gives an edge among competition	115	3.81	.695
New product development leads to market penetration	115	3.74	.792
New product development minimizes customer attrition	115	3.66	.877
New product development helps meet customer wants and needs	115	3.80	.847
New product development leads to improved quality	115	3.67	.832
Overall Score		**3.74**	**0.809**

The overall results in Table 3 indicate a mean of 3.74; this implies that respondents agreed that their institutions did practice new product development as part of their organizational strategies. In other words, there was development of new products in the studied organizations. As shared by Zeithaml (1988), this new product development is the complete process of bringing new products to the market, there are two parallel paths involved in new product development process one path involves idea generation, product design, and detail engineering the other path involves market research and market analysis.

In order to make inferences and test the formulated hypotheses, regression analysis was adopted with the findings as indicated in the subsequent sections.

New Product Development and Customer Service Quality

The first hypothesis of the study was H_{01}: New product development has no significant effect on customer service quality in commercial banks. Table 4 is a summary of the regression results aimed at testing this hypothesis:

Table 4: New Product Development and Customer Service Quality

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	3.448	1.384		2.491	.014
New Product Development	.838	.073	.732	11.413	.000

From Table 4, the p-value is given as 0.000, which is less than 0.05. This means that new product development was significant in affecting customer service quality. Thus, the study rejects hypothesis $\boldsymbol{H_{01}}$. The result is supported by Krishnan and Ulrich (2013) who indicated that an attractive representation of a product is important, which they consider to also include customer needs, customer requirements, and product specifications.

CONCLUSION AND RECOMMENDATION

Conclusion

New product development is an essential strategy for any firm that wishes to survive in the increasingly turbulent environment. It is no doubt that commercial banks in Kenya have learnt and appreciated the needs for new product development in order to provide quality services to their customers. Notable is the fact that the adoption of new product development has significantly contributed towards customer service quality of Kenyan commercial banks.

From the descriptive statistics, the study concludes that commercial banks in Nairobi County have embraced new product development as part of their strategies. From the results determined through regression analysis, the study concludes that new product development has a significant effect on customer service quality of commercial banks in Nairobi County

Recommendations of the Study

New product development was found to have a significant effect on customer service quality. Based on this finding, the study recommends that the product development managers of the commercial banks operating in Kenya should invest more resources in development of new products so as to enhance customer service quality.

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