International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. VII, Issue 9, September 2019

http://ijecm.co.uk/

INFLUENCE OF PRODUCT VARIETY DIFFERENTIATION ON PERFORMANCE OF COMMERCIAL BANKS IN ELDORET TOWN, KENYA

Juliana Nasambu Murutu

Faculty of Commerce, The Catholic University of Eastern Africa, Kenya

julianasambu06@gmail.com

Meshack Kiplimo Misoi

Faculty of Commerce, The Catholic University of Eastern Africa, Kenya

Francis Omillo Okumu

Faculty of Commerce, The Catholic University of Eastern Africa, Kenya

Abstract

The study sought to fill the existing knowledge gap by establishing the influence of product variety differentiation on performance of Commercial Banks in Eldoret town? This research used ex-post-facto research design and targeted employees working in all the 27 commercial banks in Eldoret town. This included the branch managers, operations and control managers making a total of 130 respondents. A census of the study population was done. The study used semi structured questionnaire to collect primary data. The questionnaire comprised of mixture of closed-ended and open-ended items. The validity of the research instruments was measured with the aid of university lecturers and research experts while reliability was measured by Cronbach Alpha using a pilot study. The study used descriptive and inferential statistics. Descriptive statistics included frequency, percentage and mode. On the other hand simple regressions analysis was employed for purposes of prediction and testing the hypothesis of the study. The study findings indicated that all the study variables; product variety differentiation (β=0.375, t=4.436 and p=0.000) influenced performance of commercial banks in Eldoret town. The study therefore recommends that commercial banks should aim at product variety to *enhance customer satisfactions which lead to performance, should also develop strategies that aim to increase the market share in a bid to achieve competitive advantage, increase the area covered by agents and improvement of cashless banking within the country and maintain a strong reputation in the market which will make the banks stand out.*

Keywords: Product Variety, Differentiation, Product variety, User convenience, Product quality, Performance, Commercial Banks

INTRODUCTION

The wave of corporate scandals that were witnessed in the mid 1990's brought into light the need Differentiation refers to the offering of a product or service that is perceived as unique by the consumers (Barney, 2006). Globally greater competition and deregulated financial markets have contributed to the consolidation of financial institutions which have increased their ability to offer differentiated products in financial services (Fariborz, 2004). The New York based Citigroup bank have adopted user convenience product, creating an extensive network of retail affiliates compared to other financial institutions worldwide (Grosse, 2004).European banks have adopted tactics such as product differentiation. These banks typically show better performance across a number of indicators (Philipp, Arjun, Jeroen & Christel, 2016).

Product differentiation involves creating a product that is perceived unique thus making it more attractive to a particular target market as compared to others. Product differentiation highlights the differences between products or services offered by an organization as compared to competitors in order to demonstrate the unique aspects of firm's product and create a sense of value which improves the performance of the firm (Allen, Chandrasekaran, & Basuroy, 2018). The product differentiation strategy is effectively implemented when the business provides unique or superior value to the customer through product quality, features, or after-sale support and service. Over the last three decades, differentiation has been shown to involve offering product or service perceived as unique by the consumers (Barney, 2006).

In the banking context, differentiation can be achieved by the application of different variety of the product they offer. Commercial Banks can satisfy the unmet customer needs by creating a variety of products with unique features to differentiate themselves from other rivals, as well as to attract more customers and eventually achieving a better positioning in the marketplace (Pomoni, 2010).Alternatively banks can offer services that are superior to that of their competitors. Quality superiority has been found to provide substantial performance related benefits such as customer loyalty, responsiveness to demand, market share growth and productivity (Aaker, 2012). Moreover the use of user convenience differentiation is also another approach that can be adopted by Commercial Banks. Convenience is the ability to reduce consumers non-monetary costs (time, energy and effort) when purchasing or using goods and services (Chang & Polonsky, 2012). Commercial Banking can adopt mobile money to offer credit, insurance and savings services. They can offer transactional or informational services as well as payment services to their clients (Dimitriadis, Kyrezis, & Chalaris, 2018). Bank service quality is usually perceived as a critical prerequisite for satisfying and retaining valued customers (Tee, Preko, & Tee, 2018). Commercial banks can also adopt product marketing differentiation by use of good promotional techniques, well established brand communication systems and customizing or segmenting products to enhance their performance (Asiedu, 2016).

Performance

Performance is a contextual concept associated with the phenomenon being studied (Schechner, 2017). Performance is difficult to define, but it can have at least three meanings or connotations: (1) a successful outcome of an action or the action itself; (2) performance shows the ability to move, thanks to the constant efforts; (3) the word performance is the carrier of an ideology of progress, effort, always make better (Dobrin, Popescu, Popescu, & Popescu, 2012).In the context of organizational financial performance, performance is a measure of the change of the financial state of an organization, or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization (Jahanshahi, Rezaei, Nawaser, & Pitamber, 2012).

Financial performance measures the overall financial health of an organization and its ability to create value to its shareholders. Some of the financial performance indicators include but not limited to return on equity, revenue from operations, after tax profits, operating income, return on assets and cash flows. Financial services industry performance revolves around a combination of margin growth rates against set budgets, financial ratios analysis, and comparison with similar firms in the same industry (Ahmad et al., 2011). The financial statements of commercial banks commonly contain a variety of financial ratios designed to give an indication of the corporation's performance. Simply stated, much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return (Alam et al., 2011). There is a generally accepted relationship between risk and return, that is, the higher the risk the higher the expected return. Therefore, traditional measures of bank performance have measured both risks and returns.

Different factors have been used by researchers to measure commercial banks financial performance such as: shareholders' equity; liquid assets to assets; total loans to total deposits; fixed assets to total assets; total borrowed funds to total assets; reserves for loans to total assets; market concentration; the market size; labor productivity; bank portfolio composition; capital productivity, bank capitalization; financial interrelation ratio; the level of capitalization; age of the bank; per capita Gross Domestic Product (GDP), the cost to-income ratio and customer satisfaction (Ahmad et al., 2011). Financial performance of commercial banks is usually expressed as a function of internal and external determinants. The internal determinants originate from bank accounts (balance sheets and/or profit and loss accounts) and therefore could be termed micro or bank-specific determinants of performance. The external determinants are variables that are not related to bank management but reflect the economic and legal environment that affects the operation and performance of financial institutions (Alam et al., 2011).

Statement of the Problem

Performance of the bank is usually measured by profitability levels (Nkegbe & Yazidu, 2015). Therefore achieving profitability is vital to any bank (Adeusi, Kolapo & Aluko, 2014). The banking sector profitability is closely associated with the wellness of the whole economy in general (Alkhazaleh & Almsafir, 2014). The Republic of Kenya (ROK) reported that the Financial Industry contributed approximately 6.8% to the country's GDP in 2017 (ROK, 2017). It is therefore prudent that Commercial Banks in Kenya develop growth business strategies which aim at ensuring that they remain relevant and survive the competitive business environment. In Kenya, Commercial Banks have adopted product differentiation in order to achieve competitive advantage. Kireruet al, (2016) revealed that Equity Bank Limited have adopted product process differentiation. Ndugu, (2011) revealed that banks have adopted user convenience differentiation by opening several branches in various parts of the country. Product development strategy has been adopted by Ecobank Kenya as evident by Maina, (2011). Muia, (2017) found out that financial institutions in Kenya have adopted product variety differentiation. In spite of some Commercial Banks in Kenya adopting product differentiation, the bank performance on average has been erratic (Kimathi, & Mungai, 2018). Commercial banks recorded a negative growth of 8.2% in Q3'2017, compared to an average positive growth of 14.1% in Q3'2016. Profits before Tax (PBT) reduced to 16.3% in 2017 as compared to 16.6% in 2016 (Cyton, 2017). The study therefore sought to establish the reason behind this by establishing the influence of product differentiation on performance of Commercial Banks in Eldoret town, Kenya.

Research Question

i) What is the influence of product variety differentiation on performance of Commercial Banks in Eldoret town?

Research Hypothesis

$H0_1$: Product variety differentiation significantly influences performance of Commercial Banks in Eldoret Town.

LITERATURE REVIEW

Theoretical Literature Review

The theoretical review analyzed theory and concepts that provide the rationale behind product differentiation. In this case, the Porter's theory of competitive advantage was used. Porter theory (1985), highlights cost leadership, differentiation and focus as the three basic choices that firms, have adopted to dominate corporate and business competitive strategy for the last 30 years (Pretorius, 2008). According to this model, a company can choose how it wants to compete, based on the match between its type of competitive advantage and the target market pursued, as the key determinants of choice (Akan, Allen, Helms, & Sprawls, 2006). Porter (1985) argued that generic strategy model remains one of the most distinguished theories in the strategic management literature. A business can enhance customer satisfaction either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Any organization that fails to make a strategic decision to opt for one of these strategies as a means of enhancing customer satisfaction is in danger of being outplayed by its rivals.

In the context of this study, Porter theory (1985) brings out the link between product variety characteristics, product quality, user convenience, product marketing differentiation and performance of Commercial Banks in Eldoret town. Given the fact that the banking sector is a competitive industry where customers have specific needs Porter, (1985) theory is appropriate for the study. Thus, Porter theory (1985) indicates that differentiation involves developing a product or service that offers unique attributes that are valued by the customers in that the customer perceives them to be better than or different from those of competitors. Therefore bank need to differentiate itself in terms of product variety, product quality, product user convenience and product marketing. This gives them a competitive edge over other banks and is likely to improve their performance in a concentrated market.

Product Variety Differentiation and Performance of Commercial Banks

Another study was conducted by Sheikh (2015) on realization of sustainable competitive advantage through product differentiation in first community bank. Analysis of the findings showed that differentiation strategies are greatly used by Commercial Banks to remain competitive. The main challenges for effective implementation of product differentiation included; lack of skills and knowledge on how to develop product that suits the market.

Lilly and Juma (2014) did a study on the influence of strategic innovation on performance of Commercial Banks in Kenya. They revealed that continuous engagement in introduction of new products and services, upgrading of the existing systems as well as introduction of new software for business operations influence performance of Commercial Banks. New product development therefore has a greater influence to the performance of the Commercial Banks.

Maina, (2011) conducted a study on the growth strategies adopted by Ecobank Kenya Limited. Using secondary data the results showed that product development strategy has been used to improve the existing products, adding value and introducing new products within the market by the bank.

Munyiri (2014) studied competitive strategies and customer retention among Commercial Banks in Kenya. The data was collected using questionnaires. Munyiri (2014) concluded that there was a significant relationship between cost leadership strategies and customer retention. In addition, banks used low prices of the bank products to target average customers and also developed new products that met the market demands. The banks also adopted differentiation strategies by offering superior goods and services of high quality to their customers.

Kipngetich (2015) carried out a study on competitive strategies adopted by equity bank (Kenya) limited to achieve sustainable competitive advantage in Kenya. The objective of this study was to identify the competitive strategies adopted by Equity Bank (Kenya) Limited to achieve sustainable competitive advantage. The case study method was used in handling this research problem. The study utilized both primary and secondary data. The researcher used face to face interviews to collect information. Qualitative data was analyzed using content analysis. The results showed that with the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers and that bank has come up with products that are differentiated from of its competitors.

From the reviewed literature, it is evident that most of the studies have focused on realization of sustainable competitive advantage through product differentiation (Sheikh, 2015), strategic innovation (Lilly & Juma (2014), growth strategies adopted by Ecobank

Kenya Limited (Maina, 2011), competitive strategies and customer retention (Munyiri, 2014), competitive strategies adopted by equity bank (Kipngetich, 2015). These studies focused differentiation as whole rather than product differentiation. In this regard, the current study sought to bridge the identified knowledge gap by particularly investigating the influence of product variety differentiation and performance of Commercial Banks in Eldoret town, Kenya.

MATERIALS AND METHODS

The study adopted ex-post facto research design. The choice of this research approach is based on the advantages and reliability of results associated with it (Kothari, 2004). The target population for the study was all management staff working in commercial banks in Eldoret town, Kenya coming to a total of 130 respondents. This included the branch managers, operations and control managers making a total of 130 respondents. The study used census technique. The study used 5-point likert self developed questionnaires as the method data collection instruments.

Data was analyzed through descriptive statistics and inferential statistics which enabled meaningful distribution of scores or measurement using indices and statistics. The main descriptive statistical analysis that was used includes mean, percentages, standard deviation and frequencies. Simple regressions analysis was also employed for purposes of prediction and testing the hypothesis of the study.

The following regression model was used-

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y is the dependent variable (Bank performance)

α is the constant.

X_1= Product variety

€= is the error term

RESULTS AND DISCUSSION

Product Variety differentiation Findings

The researcher sought to determine the influence of product variety differentiation on performance of Commercial Banks in Eldoret town. This helped to establish the extent to which product variety affect performance of commercial banks (Table 1).

Table 1 Product Variety differentiation Findings

Product Variety Findings	N	Min	Max	Mean	SD	Variance
Commercial Banks have adopted Corporate banking and Retail banking	96	1	5	4.31	0.837	0.701
Using Biashara banking, the Commercial Banks have improved their performance	96	1	5	4.01	1.26	1.589
The bank have joined hands with the Safaricom to create mobile bank accounts	96	1	5	4.49	0.768	0.589
The bank have an options for Students account	96	1	5	4.49	0.713	0.508
The banks have joined hands with telecom providers to provide mobile based loans	96	1	5	4.47	0.725	0.525
Grand Mean = 4.12						

The findings indicates that the respondents agreed (Mean = 4.31; Std Dev = 0.837) with the statement that commercial Banks have adopted Corporate banking and Retail banking. Respondents also agreed (Mean = 4.01; Std Dev = 1.26) that their using biashara banking, the Commercial Banks have improved their performance. The findings of this study further indicates with (Mean = 4.49; Std Dev = 0.768) that the bank have joined hands with the Safaricom to create mobile bank accounts. The study also showed that with (Mean = 4.49; Std Dev =0.713), that the bank have an option for Students account. Lastly, respondents also concurred with (Mean = 4.47; Std Dev =0.725) that the banks have joined hands with telecom providers to provide mobile based loans Tentatively, the result implies that the concept of product variety differentiation was effective and can make the banking industry more efficient and effective, This was supported by a grand mean of 4.12.

This study concurs to the findings of Lilly and Juma (2014) whose findings revealed that continuous engagement in introduction of new products and services, upgrading of the existing systems as well as introduction of new software for business operations influence performance of Commercial Banks. The study is also comparable to that of Sheikh (2015) whose findings showed that differentiation strategies are greatly used by Commercial Banks to remain competitive. The main challenges for effective implementation of product differentiation included; lack of skills and knowledge on how to develop product that suits the market.

In addition, Simple regressions analysis was also employed to test the relationship between Product variety differentiation and performance of commercial banks. The results are shown in Table 2.

Table 2 Model Summary for Product Variety differentiation

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.429[a]	.184	.175	.42540

a. Predictors: (Constant), Product variety

As indicated in Table 2, R-Squared is used to evaluate the goodness of fit of a model. In regression, the R square coefficient of determination is a statistical measure of how well the regression line approximates the real data. It measures the proportion of the variation in dependent variable explained by independent variables. From the results on model summary the coefficient of determination also called the R square is 0.184. This implies that the effect of the predictor variables (Product variety,) explains 18.4% of the variations in performance of commercial banks in Eldoret town. This implies that a change in the differentiation strategies has a strong and a positive effect on performance of commercial banks. This study thus indicates that that the differences of 81.6% of the variations are as a result of other factors.

Further regression analysis was conducted to determine whether the individual regression coefficients were statistically significant. These results were presented in Table 3

Table 3 Coefficients of Product Variety differentiation.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.468	.457		5.403	.000
	Product variety	.481	.104	.429	4.602	.000

a. Dependent Variable: performance

The linear regression equation for the above statistics can be written as follows:

$y=2.468+0.429X_1$

The results showed that Product variety differentiation was positive and significant predictor of performance with (β = 0.481; ρ=0.000). Also a unit increase in Product variety differentiation will lead to 48.1% increase in performance of Commercial Banks in Eldoret Town. This implies that Product variety differentiation is an important practice that should be adopted by commercial banks in order to achieve improved performance. The study hence concluded that there was a significant relationship between Product variety differentiation and the performance of commercial banks in Eldoret town in Kenya. In addition, this study is in line with that of Maina

(2011). In his study on growth strategies adopted by Ecobank Kenya limited, showed that product development strategy has been used to improve the existing products, adding value and introducing new products within the market by the bank.

The study also concurs with that of Kipngetich (2015) on competitive strategies adopted by equity bank (Kenya) limited to achieve sustainable competitive advantage in Kenya whose objective was to identify the competitive strategies adopted by Equity Bank (Kenya) Limited to achieve sustainable competitive advantage. The findings showed that with the differentiation strategy, the unique attributes or perceptions of uniqueness and characteristics of a firm's product other than cost provide value to customers and that bank has come up with products that are differentiated from of its competitors.

CONCLUSION

Based on the findings, the study concludes that there was a clear relationship between Product quality differentiation and performance of commercial banks in Eldoret town; therefore, product, reliability, assurance, tangibility and responsiveness enhance commercial banks performance.

Recommendation with Policy and Practice

Commercial banks' range of products should be of 1st class innovation. The banks should aim at enabling customer's access their bank accounts online. As concerns the level of satisfaction, it is determined by a banks range of products, and therefore the bank should maintain a wide range of products. Therefore, commercial banks should aim at product variety differentiation to enhance customer satisfactions which lead to performance.

Commercial banks should always aim to maintain a strong reputation in the market which will make the bank stand out. To be competitive and to command a higher market share, commercial banks must undertake rapid innovations in their product quality which is a factor for performance

In relation to user convenience, Commercial banks should increase the area covered by agents and improvement of cashless banking within the country, this will increase the reach of the financial services to the people thus raising the levels of finance because a certain cliché of the population would not visit the bank branches for various reasons

Lastly, Commercial Banks should also develop strategies that aim to increase the market share in a bid to achieve competitive advantage. They should redesign its existing products that suit specific markets and consequently this will result to firms leading in terms of customer base and market expansion.

Recommendation for Further Research

The study assessed the influence of product differentiation on performance of commercial banks in Eldoret Town, Kenya. However, commercial banks in other towns of Kenya were not assessed. This limits generalization of the study findings as the results may not be replicable in these other areas, therefore it is suggested that other studies be done in other towns of Kenya. The study was also limited to the banking sector, therefore future studies should explore the influence of product differentiation on performance of other sectors other than banking sector.

REFERENCES

Aaker, D. A. (2012). Building strong brands. Simon and Schuster.

Adeusi, Kolapo & Aluko, (2014). The Relationship between Customer Satisfaction and Service Quality: a study of three Service sectors in Umeå., unpublished MBA thesis, Umeå University.

Ahmed S., (2015). Realization of Sustainable Competitive Advantage Through Product Differentiation In Commercial Banks In Kenya: A Case Study Of First Community Bank, unpublished MBA University of Nairobi.

Allen, B. J., Chandrasekaran, D., & Basuroy, S. (2018). Design Crowdsourcing: The Impact on New Product Performance of Sourcing Design Solutions from the Crowd, Journal of Marketing, 15(1), 10-16

Allen, R.S. & Helms, M.M. (2006), "Linking strategic practices and organizational performance to Porter's generic strategies", Business Process Management Journal, 12(4), 433-454.

Asiedu E (2016) A Study of use and Impact of Market Segmentation Practices on Bank Performance: With Special Reference to Commercial Banks in Colombia. J Bus Fin Aff 5:162. doi:10.4172/2167-0234.1000162

Barrett, M., E. Davidson, J. Prabhu and S.L. Vargo, (2015). Service innovation in the digital age: Key contribution and future directions. Manage. Inform. Syst. Quart, 39, 135-154.

Colwell SR, Aung M, Kanetkar V, and Holden AL, (2008). Toward a measure of service convenience: multiple-item scale development and empirical test. Journal of Services Marketing, 22 (2): 160-169

Dimitriadis, S., Kyrezis, N., & Chalaris, M. (2018). A comparison of two multivariate analysis methods for segmenting users of alternative payment means. International Journal of Bank Marketing, 36(2), 322-335.

Dobrin, C. O., Popescu, G. N., Popescu, V. A., & Popescu, C. R. (2012). The Concept of Performance in Business Organizations–Case Study on the Employee Performance in Romanian Business Organizations. In Proceedings of the International Management Conference (Vol. 6, No. 1, pp. 310-316).Faculty of Management, Academy of Economic Studies, Bucharest, Romania.

Fariborz M., (2004). Financial services: Global perspectives, Journal of Banking & Finance. 28(1), 269–276

Grosse, U. (2004). The Competitive Advantage of Foreign Languages and Cultural Knowledge. The Modern Language Journal, 88, 351–373.

Jahanshahi, A. A., Rezaei, M., Nawaser, K., & Pitamber, V. R. B. K. (2012).Analyzing the effects of electronic commerce on organizational performance: Evidence from small and medium enterprises. African Journal of Business Management, 6(22), 6486.

Kimathi, C. M., &Mungai, J. (2018). Financial Distress and Profitability of Tier Three Commercial Banks in Kenya. American Journal of Finance, 3(1), 46-66.

Kipngetich B.M., (2015) Competitive strategies adopted by equity bank (kenya) limited to achieve sustainable competitive advantage in Kenya, unpublished MBA University of Nairobi

Kireru, J., Ombui, K., & Omwenga, J. (2016). Influence of Product Differentiation Strategy In Achieving Competitive Advantage In Commercial Banks: A Case Of Equity Bank Limited. International Journal of Business & Law Research 4 (2), 40-52.

Lilly, L. &Juma, D. (2014). Influence of Strategic Innovation on Performance of Commercial Banks in Kenya: The Case of Kenya Commercial Bank in Nairobi County. European Journal of Business Management, 2(1), 336-341.

Maina, C. (2011). Growth strategies adopted by Ecobank Kenya Limited. Unpublished master thesis) University of Nairobi, Kenya.

Muia, F. (2017). Effect of Competitive Strategies on the Performance of Insurance Companies in Kenya (Doctoral Dissertation, United States International University-Africa).

Muiruri J.K., and Ngari J.M., (2014). Effects of Financial Innovations on the Financial Performance of Commercial Banks in Kenya, International Journal of Humanities and Social Science, 4(7), 51-57

Ndugu M.W., (2011). Product Differentiation and Performance Of Commercial Banks: A Case Study Of Dfcu Bank, unpublished MBA Makerere University

Philipp W., Arjun S., Jeroen C., and Christel K., (2016).From regulatory burden to strategic capability ,PWC strategy.

Pomoni, C. (2010). The Importance of Product Uniqueness as a Marketing Strategy. Accessed 05.05.2012.

Porter M.E., (1985). Competitive Strategy: Techniques for Analyzing Industries and Competitors, Free Press, New York,

Schechner, R. (2017). Performance studies: An introduction. Routledge.

Sheikh A., (2015). Realization of sustainable competitive advantage through product differentiation in Commercial Banks in Kenya: a case study of first community bank, Unpublished MBA, University Of Nairobi

Tee, D. K., Preko, A., & Tee, E. (2018). Understanding The Relationships Between Service Quality, Customer Satisfaction And Loyalty: An Investigation Of Ghana's Retail Banking Sector. British Journal of Marketing Studies, 6(2), 1-19.