

The Effect of Product Development Strategies on the Corporate Performance of Locally Owned Commercial Banks in Kenya

^{*1}Josephine Wangui W.

Wanguijosephine41@gmail.com

²Dr. Julius Kahuthia M

jkahuthia@spu.ac.ke

³Dr, Wanjiku N. Kinyanjui

wanjiku@spu.ac.ke

Publication Date: September 2025

Abstract

The study established that product development strategies significantly enhance the corporate performance of locally owned commercial banks in Kenya. Findings revealed that introducing new products and continuously improving existing ones positively influenced customer satisfaction, competitiveness, and overall financial performance. Product development was highlighted as a key driver of innovation, enabling banks to respond effectively to dynamic customer needs and market shifts. The study recommends that banks should regularly review and update their product portfolios, ensuring alignment with evolving customer preferences and technological trends. By leveraging product development, banks can strengthen resilience, sustain growth, and maintain competitiveness in the increasingly dynamic financial environment.

Keywords: *Growth Strategies, Corporate Performance, Product Development, Market Development, Market Penetration, Diversification*

1.1 Introduction

The fluctuating performance of the global banking sector underscores the growing importance of product development as a strategic response to dynamic market conditions. As profitability and growth patterns remain unpredictable (Robin et al., 2018; McKinsey, 2021), banks increasingly rely on innovative financial products to sustain competitiveness and meet evolving customer demands. The uneven resilience of banks across regions, as observed by the International Monetary Fund (2020) further illustrates the necessity for diversified and adaptable product portfolios tailored to specific market contexts. Product development not only supports profitability

but also strengthens resilience by enabling banks to adjust offerings in response to economic shocks, technological advancements, and shifting consumer behavior. Consequently, it emerges as a critical lever for performance stability and long-term growth in the banking industry.

From a strategic management perspective, product development involves deliberate investments in research and innovation to create products that meet evolving customer preferences. Firms may achieve this through internal research and development, acquisition of rights to produce another company's product, rebranding and reselling external products, or through collaborative product development with strategic partners (Pidun, 2019b). These approaches allow firms to diversify their offerings while leveraging existing market knowledge and distribution networks. In the banking industry, product development typically takes the form of introducing innovative financial products and services, such as mobile banking platforms, digital loan products, and specialized savings or investment packages tailored to diverse customer segments (Kotler, Keller, Goodman, & Hansen, 2021).

Empirical evidence suggests that effective product development strategies can significantly improve corporate performance. By offering differentiated products, firms are better positioned to retain customers, attract new ones, and increase sales volumes (Kotler et al., 2021). In financial services, continuous product innovation is strongly linked to higher customer satisfaction, improved operational efficiency, and long-term profitability. However, the application of product development as a driver of performance in banking has not been without challenges. Many locally owned banks in Kenya have struggled to design and implement innovative products that compete effectively with those offered by multinational banks and fintech firms.

Limitations such as inadequate research and development capabilities, limited technological infrastructure, and high operational costs often constrain the scope of product innovation. Furthermore, while the literature underscores the importance of product development, empirical studies within the Kenyan banking context remain scarce and fragmented. For instance, previous research has tended to examine product development in isolation or outside the banking sector (e.g., Muchele, 2019; Mwangi, 2019), thereby limiting the generalizability of findings to commercial banks.

A notable gap also exists in terms of methodological approaches. Much of the existing evidence is descriptive, focusing on product development practices rather than systematically testing their direct influence on organizational performance outcomes. Moreover, earlier studies do not adequately account for the recent structural and technological shifts, including the rise of mobile money, digital banking platforms, and increased competition from fintech disruptors. These contextual dynamics warrant fresh empirical investigations into how product development strategies affect the corporate performance of banks operating in volatile and highly competitive environments such as Kenya.

Given these gaps, the present study examines the effect of product development on the corporate performance of locally owned commercial banks in Kenya. By assessing the role of product innovation within the framework of Ansoff's Growth Matrix, the study contributes both conceptually and empirically to the literature on growth strategies. Practically, it provides banking managers with evidence-based insights on how product development initiatives can be leveraged to enhance profitability, improve customer outreach, and strengthen resilience against competition.

2.1 Literature Review

The Resource-Based View (RBV) posits that firm performance is anchored in unique internal resources that are valuable, rare, inimitable, and non-substitutable (Barney & Clark, 2007; Nagano, 2019). Product development, which draws on innovation, knowledge, and customer insights, exemplifies such resources. Unlike tangible assets, these capabilities are difficult for competitors to replicate, thereby sustaining competitive advantage (Chumphong et al., 2020). The Dynamic Capabilities Theory complements RBV by emphasizing a firm's ability to reconfigure and renew resources in response to environmental changes (Teece et al., 1997). Product development reflects dynamic capabilities as firms must adapt to customer needs and market volatility through continuous innovation (Ferreira et al., 2020; Zhou et al., 2019).

2.2 Empirical Literature Review

Extant studies affirm a positive link between product development and performance across diverse contexts.

- Mugambi and Oduor (2023) showed that product development enhances performance in commercial banks in Nairobi, particularly through improved customer service.
- Sande (2019) confirmed positive effects in Kenyan public universities, though the study now appears dated.
- Wanjiru, Muathe, and Kinyua (2019) found product development to be a key driver of manufacturing firm performance in Nairobi.
- Abdulla (2023) observed similar benefits in Mandera County SACCOs but excluded market penetration, highlighting a conceptual gap.
- Abolarinwa et al. (2020) reported improved return on equity and return on assets in Nigerian manufacturing firms due to product development.
- Maithya (2021) confirmed similar effects in Kenya's telecommunication sector, underscoring the role of dynamic capabilities.
- Muchele (2019) found positive results in Kenyan food manufacturers but raised methodological concerns due to sole reliance on primary data.
- Mwangi (2019) reported that five-star hotels in Nairobi benefit significantly from product development, although the study excluded market development.

Collectively, these findings suggest product development is strongly associated with profitability, customer satisfaction, and long-term competitiveness.

2.3 Research Gaps

Despite the positive evidence, gaps persist:

- **Methodological:** Some studies relied exclusively on primary data (Muchele, 2019), while others overlooked the importance of using both financial and non-financial performance indicators (Mugambi & Oduor, 2023).
- **Contextual:** Findings from older studies (e.g., Sande, 2019; Mwangi, 2019) may not fully reflect today's dynamic business environment.
- **Conceptual:** Some investigations considered only selected growth strategies, omitting elements such as market penetration (Abdulla, 2023), thereby limiting comprehensiveness.

2.4 Conceptual Framework

In this study, product development is operationalized through four dimensions:

1. Introduction of new products,
2. Integration of customer feedback,
3. Product quality control, and
4. Customer-centric innovation.

Corporate performance is assessed using profitability (return on assets) and customer outreach (growth in membership). Grounded in RBV and Dynamic Capabilities Theory, the framework assumes that banks can achieve sustainable competitive advantage by leveraging intangible resources and continuously innovating their product portfolios to meet evolving customer needs.

3.1 Research Methodology

This study adopted a descriptive survey design to examine the influence of product development and other growth strategies on the performance of locally owned commercial banks in Kenya. The design was appropriate for capturing managers' perspectives and quantifying relationships among study variables (Creswell & Creswell, 2017). The target population comprised 21 locally owned commercial banks, with 105 senior managers (marketing, finance, operations, credit, and customer relations) purposively selected as respondents due to their involvement in strategy formulation. A census approach was employed, covering all banks and respondents to ensure comprehensive representation (Mugenda & Mugenda, 2003).

Data was collected from both primary and secondary sources. Primary data was gathered using a semi-structured questionnaire, while secondary data came from audited financial and strategic reports. Instrument validity was ensured through expert review and piloting, while reliability was confirmed with a Cronbach's Alpha of 0.773, exceeding the 0.70 benchmark (Gliem & Gliem, 2003). Questionnaires were administered using the drop-off, pick-up (DOPU) method to maximize response rates. Quantitative data was analyzed using SPSS v.26, employing descriptive statistics and multiple regression to assess the effect of product development (X_1) and related strategies on performance (Y): Qualitative responses were subjected to thematic content analysis. Ethical approval was obtained from relevant authorities, with assurances of confidentiality, anonymity, and voluntary participation.

4.1 Results

4.2 Descriptive Analysis

The study assessed product development as a key growth strategy among locally owned commercial banks in Kenya. Descriptive statistics ($M = 3.60$, $SD = 0.31$) indicated that product development practices were largely implemented. Specifically, banks conducted regular market surveys to capture evolving customer needs ($M = 3.54$, $SD = 0.30$), designed products tailored to customer preferences ($M = 3.68$, $SD = 0.21$), and factored customer feedback into product and service design ($M = 3.85$, $SD = 0.31$). However, the presence of dedicated quality control departments was only moderate ($M = 3.33$, $SD = 0.43$). Regarding new product activity, nearly half of the banks (47.44%) introduced between 5 and 10 products during 2017–2023, while 24.36% launched more than 10 products in the same period. Product review and improvement was less aggressive: 53.85% of banks improved fewer than 5 products, 33.33% improved between 5 and 10, and only 12.82% improved more than 10 products.

4.3 Reliability Analysis

Product development items showed high reliability, with Cronbach's Alpha = .897, exceeding the 0.70 threshold and confirming internal consistency.

4.4 Correlation Analysis

Pearson correlation results revealed a strong positive relationship between product development and performance of banks ($r = .801$, $p = .001$). This suggests that enhanced product development activities are associated with improved bank outcomes.

4.5 Regression Analysis

Multiple regression results confirmed the significant predictive power of product development. The coefficient for product development was $\beta = 0.657$, $p = .032$, indicating that a unit improvement in product development practices leads to a 0.657-unit increase in performance. This effect was both positive and statistically significant.

4.6 Discussion of the Findings

Overall, the findings establish that product development significantly and positively influences the performance of locally owned commercial banks in Kenya. Banks actively engage in market surveys, product tailoring, and customer feedback integration, but quality assurance mechanisms remain underdeveloped. The results are consistent with prior studies (e.g., Muchele, 2019; Mwangi, 2019; Wanjiru, Muathe, & Kinyua, 2019; Mugambi & Oduor, 2023; Abdulla, 2023; Abolarinwa et al., 2020; Maithya, 2021), all of which affirm the central role of product innovation in driving corporate performance.

The study found that product development was largely implemented by locally owned commercial banks in Kenya. Multiple regression analysis revealed that product development had a positive and statistically significant effect on corporate performance. Pearson correlation analysis further confirmed a very strong, positive, and significant relationship between product development and performance.

During the review period (2017–2023), banks introduced a substantial number of new products. However, only a few were modified to meet dynamic market needs, reflecting a greater emphasis on launching rather than improving products. Banks frequently conducted market surveys to understand customer needs, designed products that addressed customer preferences, and incorporated customer feedback into service design. Nevertheless, banks were only moderately effective in establishing quality control mechanisms, leaving a gap in ensuring product and service standards.

5.1 Conclusions

The study concludes that product development is a critical determinant of bank performance. Enhancing product innovation, tailoring products to customer needs, and integrating feedback contribute positively to profitability and outreach. Conversely, reduced investment in product development would lead to performance decline. These findings reinforce theoretical positions from the Resource-Based View and Dynamic Capabilities Theory, which highlight product innovation as a source of sustainable competitive advantage.

6.1 Recommendations

Despite significant adoption, the study highlights areas needing improvement:

- Regular product reviews should be institutionalized to ensure that offerings remain relevant to evolving customer preferences.
- Continuous market surveys must be strengthened to track dynamic consumer needs.
- Banks should establish dedicated quality control departments to guarantee service standards and product consistency.
- Greater emphasis is needed on product modification and improvement, not just new product launches, to sustain long-term competitiveness.

The findings contribute to the strategic management literature by empirically confirming that product development drives both financial (profitability) and non-financial (customer outreach) performance in locally owned banks. While earlier studies in Kenya focused on customer service or non-financial metrics, this study demonstrates that product innovation directly enhances profitability when measured through Return on Assets. It further validates theoretical frameworks such as the Resource-Based View and Dynamic Capabilities Theory, providing robust evidence for product development as a cornerstone of competitive strategy in banking.

Future research should broaden the scope to include foreign-owned banks for comparative analysis, extend the time frame beyond seven years, and incorporate emerging variables such as digital transformation, innovation capacity, and regulatory changes. Methodologically, longitudinal studies and case studies could yield deeper insights into how product development shapes long-term corporate outcomes.

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