AN ANALYSIS OF THE IMPACT OF LIQUIDITY CONSTRAINTS ON NEW FINANCIAL PRODUCT DEVELOPMENT: CASE OF ZB BANK

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Abstract

The study investigated the impact of liquidity constraints on development of new financial products in commercial banks. The descriptive research design was adopted and a case study of ZB Bank employed. A census sampling technique was adopted and questionnaires and interviews were self-administered by the researchers. Research outcomes proved that liquidity constraints are a major impediment to firm`s innovativeness. Financial project innovations are either not started, delayed or abandoned, but mostly the distribution and delivery of developed services for financial products are highly affected. The results of this study have contributed to existing literature in revealing that financial regulation tends to be another constraint for commercial banks discouraging product innovations. Rapid technological changes seem to fuel the need for new software and hardware for new product development thus necessitating the employment of a skilled workforce for new product development. Furthermore, customer demands are changing on a daily basis due to rapid changes in information technology thus making customer maintenance difficult for commercial banks. Based on the data gathered, the researchers concluded that there is a negative impact on new financial product development due to liquidity constraints. In such constrained times, we recommend that commercial banks should emphasize more the best technique suitable for successful new product development or invest their available funds in the development thereof.

Keywords: Indigenous Banks, Liquidity, Financial Products, Commercial Banks

1. INTRODUCTION

Many organisations are venturing into innovation and, specifically, new product development to seclude themselves from recession and put them back into growth (Silva, 2011). In such cases, this requires companies to strengthen and reorganise their product innovation capabilities. Most managers of different organisations, mainly in developing countries, often mention financial constraints as the core impediment to their investment, their internationalization efforts plus growth. New product development may have led market participants into believing that they could, on a lasting basis, evade financial constraints and rely on the liabilities allotted by other institutions to satisfy their liquidity needs (Bervas, 2011). Empirical studies have shown that financial frictions have a negative effect on the propensity of organisations to innovate (Savignac, 2008; Blanchard et al., 2012). Furthermore, some literature highlights how the different types of constraints impede innovation, especially financial constraints which importantly can result in macroeconomic consequences (D'Este et al., 2012; Segarra et al., 2013). Bervas (2011) indicates that financial constraints are critical in that they may be pointers to the reinforcement of other obstacles to innovation. Given the uncertainty and challenges in the current financial market, it is important to analyse the impact of liquidity constraints in order to successfully develop new products. This research focuses on the impacts of financial constraints in the development of new financial products from the period of 2012 up to 2015. It also aims to quantify the regulatory constraints that commercial banks were encountering in developing new successful products. The study's motive was therefore to investigate the impact of liquidity constraints on development of new financial products in commercial banks. The study was guided by the following research questions: What are the impacts of liquidity constraints on new financial product development for commercial banks? What are the challenges of New Product Development (NPD) and Techniques in promoting successful new product development? The paper was structured as follows: Background of the study, literature review, and methodology of the study, data presentation, interpretation and discussion then conclusion plus recommendations.

2. BACKGROUND OF THE STUDY

A commercial bank in Zimbabwe, ZB Bank Limited (from now on referred to as ZB), has a commercial and an investment banking arm respectively. It offers a wide array of products such as savings accounts, funeral cover, bank assurance, premium finance et cetera. As a result of financial constraints, the company has faced various drawbacks in its innovative processes (ZB Audited Financial Statements; 2012, 2013, 2014). According to the Reserve Bank of Zimbabwe (RBZ) Annual Supervisory reports, financial constraints have been due to the nature of cash deposits being short term; high levels of non-performing loans; financial sanctions impeding financial flows and also low trading levels of the interbank market. More so, the retrenchment process which was carried out in late 2014 and early 2015 has withdrawn a large amount of funds from the entity. (Financial Statements, 2014, 2015).

The ZB Bank launched the informal trader loan facility to the tune of 1 million dollars (www.zbfh.com, https://twitter.com/zbbank1). The product offers financial services to informal traders at cheaper charges. Due to liquidity constraints, the company had to cut some of the facilities offered under this product, such as, Enjoy Now Pay Later loans (Financial Statements; 2013). In 2012 ZB bank became a Super Ecocash Agent because of its wide coverage of branches across the nation offering agent to agent cash transfers. However, in 2014, the mobile banking agent to agent cash transfers were ceased due to liquidity constraints. This financial product was luring a great deal of funds out of the entity and the bank could not avail them. The ZB Bank embarked on full paperless banking in 2013 (Financial Statements; 2013). According to the chairman`s report (2014), the full implementation of the product is yet to be completed due to the need of new system development which requires heavy financing. The instant ATM card implementation is still in progress. The card processing is not `instant` yet as the processing cannot be done at branch level due to a lack of required equipment. Smart connect, a loan facility product to finance the purchase of IT gadgets, was introduced in 2014 and as is in 2015, the product has received less attention (www.zb.co.zw). Home improvement facility is also not at its best as the company is not able to offer huge amounts of money to clients. ZB Agency Banking which was targeted to have fully flooded the economy two years after its introduction has been slowed down because the required agents need specialised equipment which has to be provided by the bank and, because of financial constraints, the bank is not in a position to finance that.

2.1. Literature Review

New financial product development is defined by (Dewati; 2015) as the introduction of new financial instruments in more radical and sophisticated financial markets. Dewati (2015) further suggests that the presence of new financial products can rally allocation of resources, reduce growth instability, enable firms to have a financial structure that is quite stable and smoothen household consumption. However, in the context of the presence of financial constraints, firms are highly incapacitated to carry out their new product innovations (Segarra et al, 2013). Bowen et al. (2010) define financial constraints as the incapacity of a firm to obtain the necessary financial resources to enable them to fund their investment and growth. In support Aas et al. (2011) suggest that a firm is said to be financially unconstrained if it has the ability to implement its innovation projects at optimal scale, and is financially constrained if it is not capable of doing so owing to a shortage in funding.

Financial constraints may represent a severe hindrance to firms' innovativeness (Bowen et al., 2014, Segarra et al 2013). Segarra et al (2013) are of the view that financial frictions are an important constraint to innovation, hampering firms from upgrading and implementing innovations to decrease the gap between these firms and the technological frontier. There is a solid impeding effect of financial constraints on research and development (Almeida and Campello, 2002). Due to lack of access to funds, some innovation projects are prone to not being started may have to be deferred or abandoned. In a supporting view Mancusi and Vezuli (2010) report that there is a significantly negative impact on the probability to implement research and development activities due to the existence of financial constraints. The impact of research and development on productivity at the firm level curtails the execution of newly acquired knowledge and technological innovations into new products; reductions in cost of producing existing products or services; enhancement of existing products and production processes (Imeson and Pugh, 2012).

However, tighter liquidity constraints improve firms' innovation efficiency (Almeida et al 2002, Segarra et al.2013). Almeida et al (2002) argue that organisations with extra free cash flow are less likely to invest their excess funds in negative innovative projects due to agency complications. Firms that are more financially constrained have lesser free cash flow hence they are more likely to take optimal investment decisions. This disciplinary benefit of liquidity constraints is principally important to innovation related investment such as research and development (Balaceanu, 2011). Li (2009) suggests that the relationship between liquidity constraints and innovation efficiency could go in either direction.

Literature underlines evaluation of the impact of liquidity constraints on investment in research of a new product, but leaves out the impact on the final output in the distribution and delivery of the product. In the case of ZB Bank, products are mainly affected at the distribution stage, but after a successful launch, for example, the informal trader savings account comes into play (Press Statement by S.K Chiganze, ZB Head Corporate Banking).

3. RESEARCH METHODOLOGY

When conducting this study, the researchers embraced the mixed approach, that is, they integrated qualitative with quantitative approaches. D escriptive research design requires the collection of information about dominant conditions or circumstances for the purpose of description and interpretation. The researchers in this study selected a population of respondents they believed to have acquired knowledge of the banking sector financial product development. The population comprised of personnel from ZB Internal Audit department, ZB Bank officials and ZB Marketers.

Table 1. Population and Sample Size

Departments	***Population***	***Sample size***
Internal Audit	15	15
Branch Officials	10	10
Marketing	5	5
Total	**30**	**30**

Data collection tools used included questionnaires and telephonic interviews. Microsoft Excel was also used to electronically ascribe percentages to data that was taken in account when analysing the results. Measures of central tendency, especially the mode that represents the frequently recurring score, was also calculated when analysing the data, as recommended by Jones and Bartlett (2010).

4. DATA PRESENTATION AND ANALYSIS

Response Rate: Question 1

Impacts of liquidity constraints on new financial product development for commercial banks:

Question 1 sought to establish whether liquidity constraints have an impact on the development of new financial products or not. The outcomes are presented in table 2 and discussed below.

Table 2. Impacts of liquidity constraints on new product development

Impact	***Strongly Agree***	***Agree***	***Uncertain***	***Disagree***	***Strongly Disagree***		***Total***
Responses	9	11	3	0	0		23
% Responses	39%	48%	13%	0%	0%		100
Aggregate		87%	13%			0%	100

From the table above 9 out of 23 (39%) strongly agreed, 11 out of 23 (48%) agreed, 3 out of 23 (23%) were uncertain, and none strongly disagreed nor disagreed with the idea that liquidity constraints affect commercial banks in new product development. This indicates that the majority (20 out of 23 [87%]) agreed and, therefore, liquidity constraints in commercial banks do affect new product development. This aligns with Seggarra et al (2013) who postulate that there is a strong impeding effect on financial product development due to a firm being illiquid. Three of 23 (13%) respondents were uncertain, pointing to the fact that they were not sure whether liquidity constraints affect new product development or not. This is in line with Li (2009) who shows that liquidity constraints' impact could go in either direction, either impeding innovation or improving innovative efficiency. None of the 23 respondents disagreed, meaning that there is no support for Almeida et al (2013) who hold that liquidity constraints result in innovative efficiency.

Overall, the mode of central tendency (representing the most frequent response) in accordance with Jones and Bartlett (2010) was calculated at 81% which signifies that the impact of financial constraints is quite strong against new product development. This supports Mancusi and Vezuli (2010) who report that a lack of funds pose a severe hindrance to firms' innovativeness.

Response Rate Question 2 Benefits new product development

Question 2 aimed at collecting information on whether commercial banks and their clients benefit from new financial product development (NFPD) or not. Respondents` responses are depicted in the table below:

Table 3. Benefits of NFPD

BENEFITS	*SA*	*A*	*U*	*D*	*S D*	*Total*
Increased product quality	7	10	4	1	1	23
Revenue Growth	6	10	6	1	0	23
Competitive Advantage	9	9	3	2	0	23
Cost Reduction	3	7	8	5	0	23
Enables risk management	4	7	7	4	1	23

Increased Product Quality

Table 4 below shows the response rate regarding new product development benefitting commercial banks and their clients in terms of improved quality or not.

Table 4. Improved Quality

BENEFITS	*SA*	*A*	*U*	*D*	*S D*	*Total*
Increased product quality	7	10	4	1	1	23
Percentage Responses	30%	44%	17%	4%	4%	100%
Aggregate		74%	18%		8%	100%

The table above indicates that 7 out of 23 (30%) respondents strongly agree, 10 out of 23 (43%) agree, 4 out of 23 (17%) are uncertain, 1 out of 23(4%) disagrees and 1 out 23 (4%) strongly disagrees that NFPD benefit banks and their customers in terms of improved quality. Analytically, it can be said that 17 of 23 (74%) research participants agree and support Berger (2013) who is of the view that introducing new financial product improves quality and the variety of banking products. Four out of 23 (18%) are neutral and are in agreement with Carlson and Mitchner (2005) who postulate that introducing a new product in the financial market does not guarantee improved quality as some products in the financial market fail due to poor quality. Two respondents of 23 (8%) disagreed so echoed Morrison and Foester's view (2012) that new financial products may be too complex and that such complexity leads to customer dissatisfaction and no improved quality .

The central tendency mode of the data collected is 74%, that is, the frequently occurring outcome indicates that the introduction of new financial products is beneficial and can result in the improvement of product quality. This supports Berger's research (2013).

4.3.1. Revenue Growth

Table 5 below illustrates the study participants` continuum of agreement versus disagreement in terms of revenue growth as a benefit associated with new financial product development.

Table 5. Revenue Growth

BENEFITS	*SA*	*A*	*U*	*D*	*S D*	*Total*
Revenue Growth	6	10	6	1	0	23
Percentage Responses	26%	44%	26%	4%	o%	100%
Aggregate		70 %	26%		4 %	100%

As illustrated in the table above, 6 out 23 (26%) strongly agree, 10 out of 23 (44%) agree, 6 out of 23 (26%) are uncertain, 1 out of 23(4%) disagrees and none disagree with the idea that revenue growth is achieved through new financial product development. This shows that 16 out of 23 respondents (70%) agree that new product development results in increased revenue for commercial banks. This aligns with the findings of Bowen et al (2010) who purported that there is a positive impact on revenue growth after product innovations. Brunner (2013) opined that the impact of NFPD on revenue growth is uncertain as there is a probability that the product might fail thus resulting in a loss for a firm. This could lead to a decrease in revenues. On the other hand, the products might prosper leading to increased revenues for the innovative firm - 6 of 23 (26%) responses from the study population fell into this uncertain category. One of 23 respondents (4%) was in disagreement, thus supporting Verma (2010) who suggested that impacts will be negative.

The central tendency mode of the research findings, 70%, postulates the most popular response as mentioned by Jones and Batlet (2010) that new financial product development results in revenue growth for the innovating firm.

Table 6. Competitive Advantage

BENEFITS	*SA*	*A*	*U*	*D*	*S D*	*Total*
Competitive Advantage	9	9	3	2	0	23
Percentage Responses	39%	39%	13%	9%	0%	100%
Aggregate		78%	13%		9%	100%

As per research findings, 9 out of 23 (39%) strongly agreed and 9 out of 23 (39%) agreed, 3 out of 23(13%) were uncertain, 2 out of 23 (9%) disagreed that financial product development results in competitive advantage. This, therefore, means that of the 23 respondents, 18 (78 %) agree that new product development brings about competitive advantage. Three out of 23 (13%) were uncertain and align with Woldie et al (2008) who stands uncertain in saying that it is one thing to innovate and another for the acceptability of the product; therefore in NFPD competitive advantage remains uncertain. Nine percent disagreed and those results, therefore, align with Ebarefimia's (2014).

The central tendency mode of the findings is 78%, indicative of a strong relationship between competitive advantage and new product development. This concurs with Kindstroem (2010).

Table 7. Cost Reduction

BENEFITS	*SA*	*A*	*U*	*D*	*S D*	*Total*
Cost Reduction	3	7	8	5	0	23
Percentage Responses	13%	30%	35%	22%	0%	100%
Aggregate		43%	35%		22%	100%

In relation to cost reduction, 3 out of 23 (13%) strongly agreed, 7 out of 23 (30%) agreed, 8 out of 23 (35%) were uncertain, 5 out of 23 (22%) disagreed and none strongly disagreed that it is a benefit associated with new product development. This implies that 10 of 23 (43%) are in agreement that NFPD reduces costs to both the commercial banks and their clients. This supports Chavan (2013) who opined that NFPD brings about reduction in cost for availing and using financial products. Eight of 23 respondents (35%) were neutral and 5 of 23 (22%) disagreed, thus aligning with Ledgerwood who claims that in other parts, some financial services may be costly to use, mainly in developing countries. For example, connection devices for internet banking might be costly for other customers and, in particular, some new financial products require heavy investment from the commercial banks. For instance, investment in ATMs (automotive machines) is costly.

These findings give a central tendency mode of 43% which indicates the most common response as stipulated by Sundar (2012) showing that the majority of the study participants agreed with Chavan (2013) that new financial products bring about a reduction in costs for both commercial banks and their clients.

Table 8. Risk Management

BENEFITS	*SA*	*A*	*U*	*D*	*S D*	*Total*
Enables risk management	4	7	7	4	1	23
Percentage Responses	18%	30%	30%	18%	4%	100%
Aggregate		48%	30%		22%	100%

In accordance with the study results of the 23 respondents, 4 (18%) strongly agreed, 7(30%) agreed, 7(30%) were uncertain, 4(18%) disagreed and 1(4%) strongly disagreed that new product development enables risk management. Thus 11 of 23 (48 %) were in agreement with Imeson and Pugh (2012) and 7 of 23 (30%) of those who were uncertain agreed with Sundar (2012) who is of the view that new products may be there to eliminate certain risk, but can also bring about their own risks. Five of 23 (22%) disagreed, thus aligning with Gabriel`s (2010) view.

A mode of 48% was obtained, postulating that NPD improves risk management in commercial banks as held by Imeson and Pugh (2012) who suggest that NPD in the banking industry brings about tools for risk hedging.

Response Rate Question 3: Challenges of NPD

The aim behind question 3 was to gather information on the challenges of new product development. The following are the research findings:

Table 9. Challenges of New Product Development

CHALLENGE	*Very High*	*High*	*Moderate*	*Low*	*Very Low*	*Total*
Technological Advancement	7	13	1	1	1	23
Lack of Skilled Workforce	1	9	7	6	1	23
Lack of Savings	1	11	9	1	1	23
Poor Financial Markets	2	9	8	2	1	23
Competition	7	9	4	2	1	23

Table 10. Technological Advancement

CHALLENGE	*Very High*	*High*	*Moderate*	*Low*	*Very Low*	*Total*
Technological Advancement	7	8	5	3	0	23
Percentage Responses	30%	35%	22%	13%	0%	100%
Aggregate		65%	22%		13%	100%

Research results proved that 7 out of 23 (30%) regarded the impact of technology on NPD as being very high, 8 out of 23 (35%) regarded it as high, 5 out of 23 (22%) regarded it as moderate, 3 out of 23 (13%) as low and none regarded the impact of technological advancement as being very low. Thus of the majority of the study population, 15 of 23 (65%), regarded technological advancement as highly affecting innovation as in accordance with Savignac (2008) who stipulates that firms face higher difficulties because of rapidly changing technology. Five out of 23 (22%) regarded the impact on technological advancement as neither low nor high. The mode, being 65% of the frequently occurring results, indicated that the impact of technological advancement on NPD in the banking industry is very high. Hunt (2013) postulates that adapting to change is the prime factor contributing to the problems of new product development.

Table 11. Lack of Skilled Workforce

CHALLENGE	*Very High*	*High*	*Moderate*	*Low*	*Very Low*	*Total*
Lack of Skilled Workforce	2	9	7	5	0%	23
Percentage Responses	9%	39%	30%	22%	0%	100%
Aggregate		48%	30%	22%		100%

One out of 23 (9%) were of the view that the lack of skilled workforce impacted NPD very highly; 39% as high; 7 out of 23 (30%) as moderate; 5 out of 23(22%) as low and 0% as very low. On aggregate, 9 of 23 (48%) accepted that there is a high impact of technological advancements on NPD for the commercial banks. Seven of 23 gave a moderate out result and 5 of 23 proved that the impact is very low. Research outcomes gave a mode of 48% supporting Li (2009) who alluded that a skilled workforce is a major input when designing new products and thus according to Storey et al, (2009) the success of financial product development is also determined by the expert skills within the organisations.

Table 12. Lack of Savings

CHALLENGE	*Very High*	*High*	*Moderate*	*Low*	*Very Low*	*Total*
Lack of Savings	7	6	6	2	2	23
Percentage Responses	30%	26%	26%	9%	9%	100%
Aggregate	56%		26%	18%		100%

Out of the 23 respondents, 7 (30%) regarded the lack of savings as having a very high impact on NPD; 6 (26%) as being high, 6 (26%) as being moderate, 2 (9%) as being low and 2 (9%) as being very low. Thus, those who were of the opinion that a lack of savings has a high impact on NPD constituted 56 % of the respondents (13 of 23). This finding supported Seggarra et al (2013) where as those [26% (6 of 23)] who felt that the impact was moderate and those who considered the impact as being low [18% (4 of 23)], aligned with Aas et al (2010) who state that deposit savings belong to the clients and can be withdrawn at any time, therefore banking institutions should only put absolute reliance on them to the extent of fees charged. The challenge of a lack of savings data produced a mode of 56%, indicating that the most popular score concurred with Segarra et al (2013) who mentioned that low domestic savings give rise to liquidity problems, thus hampering the development of new financial products.

Table 13. Poor financial markets

CHALLENGE	*Very High*	*High*	*Moderate*	*Low*	*Very Low*	*Total*
Poor Financial Markets	8	8	7	0	0	23
Percentage Responses	35%	35%	30%	0%	0%	100%
Aggregate		70%	30%		0%	100%

Concerning the impact of poor financial markets, from a total of the 23 respondents, 8 (35%) regarded the impact as being very high, 8 (35%) regarded it as being high, 7 (30%) regarded it as being moderate, none as being either low or very low. In total, 16 out of 23 (70%) agreed that poor financial markets have a high impact on NPD in commercial banks, and 7 out of 23 (30%) are neutral and none disagreed (0%). Collected data provided a mode of 70% meaning that the majority of the respondents were in agreement around the impact of poor financial markets.

Table 14. Competition

CHALLENGE	*Very High*	*High*	*Moderate*	*Low*	*Very Low*	*Total*
Competition	5	8	8	2	0	23
Percentage Responses	21%	35%	35%	9%	0%	100%
Aggregate	56%		35%	9%		100%

The table above narrates that, out of 23 respondents 5(21%) considered competition to have a very high impact on the NPD of commercial banks, 8 (35%) considered it a high impact, 8 (35%) a moderate impact, 2(9%) considered it a low impact and none a very low impact. Generally, 13 of 2 (56%) considered the impact as high, 8 of 23 (35%) as moderate and 2 of 23 (9%) as low. The mode obtained was 56% and according to Verman (2010) high levels of competitive pressures lead to reduction on returns from new products. This reason thus contributes to commercial banks feeling discouraged from innovating,

Response Rate Question 4a)

Techniques in promoting successful new product development

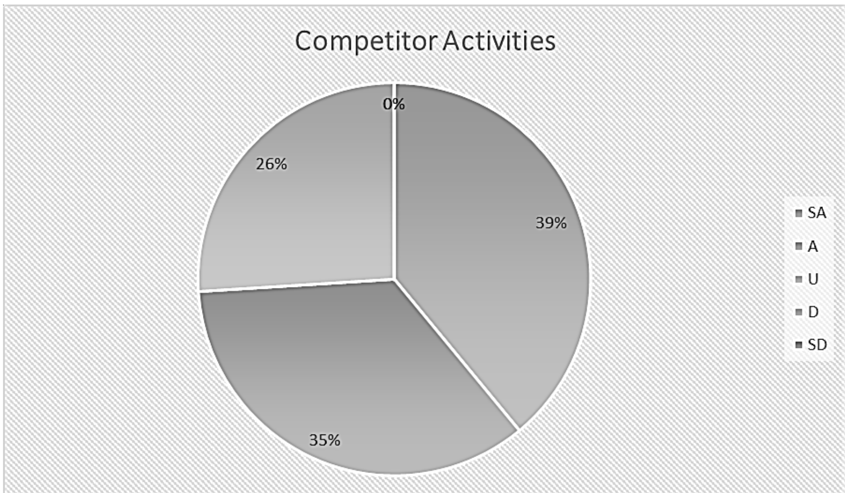
The reason behind question 4a was to elicit information on the techniques to be emphasized strongly when promoting successful NPD in commercial banks. Results are shown in the table.

Table 15. Proposed Techniques

Proposed Technique	*SA*	*A*	*U*	*D*	*SD*	*Total*
New Product Strategy	7	10	5	1	0	23
Customer Feedback	7	10	6	0	0	23
Competitor Activities	9	8	6	0	0	23
Product Launch	8	9	3	3	0	23

4.5.3. Competitor Activities

Figure 1. Competitor Activities



Nine out of 23 (39%) strongly agreed, 8 out of 25(35%) agreed and 6 out of 23 (26%) were uncertain whether checking on competitors' activities was essential for successful NPD in the banking industry. On aggregate, 74% agreed 26% were neutral. The calculated mode of 74% alluded to the greater majority of the population feeling that checking on competitors was vital to success.

4.5.4. Product Launch

Figure 2. Product Launch

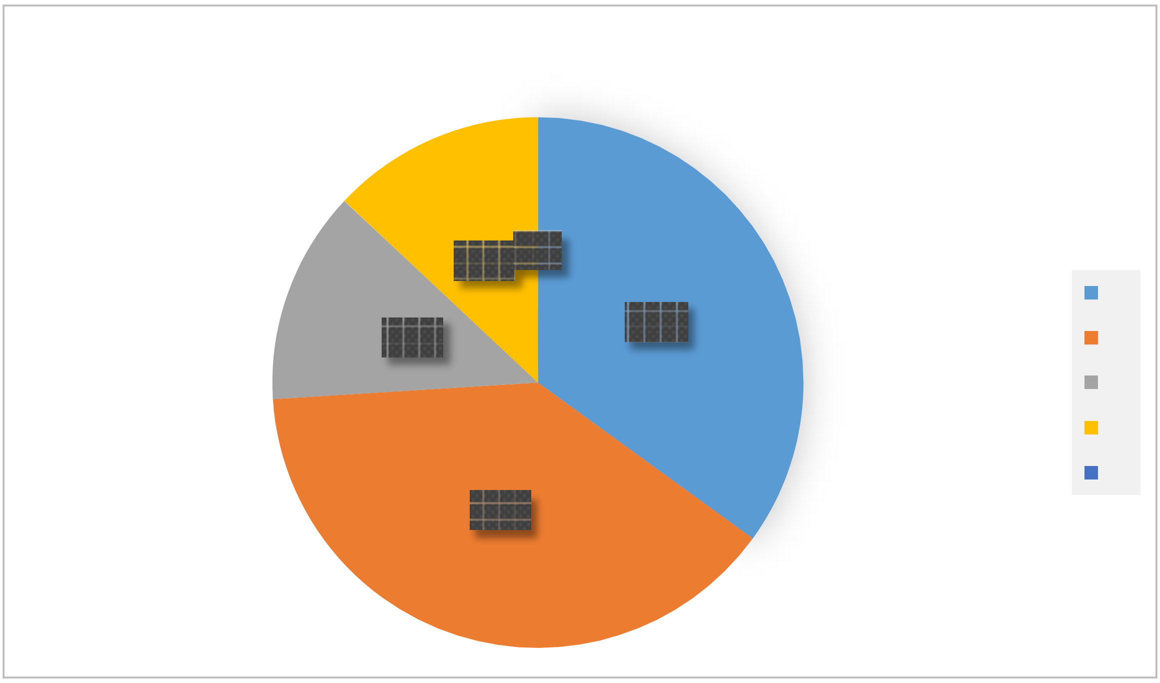


Table 4.5.4 above stipulated that from a total of 23 respondents, 8 (35%) strongly agreed, 9 (39%) agreed. Three (13%) were uncertain and 3 (13%) disagreed that aggressive product launching is an essential technique to address successful NPD in commercial banks. Generalised, 74% responses were in agreement, 13% responses were uncertain and 13% responses were in disagreement of the efficacy of the above mentioned technique. The majority of the research respondents agreed, thus giving a mode of 74%. These findings back those of Balaceanu (2011) who in his analysis pointed out that financial services need an aggressive launch in order to gather enough momentum so as to attract potential customers.

Response Rate Question 4 (b)

Question 4b required the respondents to state their opinions of what they thought were determiners of NFPD best practice. The following were the responses obtained:

- Eight of the 23 respondents opined that responding to customer feedback is the number one contributing factor towards attaining NFPD success. A good understanding of customer needs should be obtained and products that best satisfy those needs should be provided.
- Four of the 23 respondents believed that for a new product to be successful, innovators should gather deep information concerning the market and its participants. There is thus need for extensive market research.
- Three of the 23 respondents mentioned focus on competitor activities as best for successful NFPD. A new product should aim to outdo a competitor`s product whilst maintain existing clients.
- Two of the 23 respondents cited mass marketing as the best technique for successful NFPD.
- Two of the 23 respondents named creating an innovative culture within the firm as the best practice. They believe rewarding innovative thinking results in successful ideas being posed.
- Two of the 23 respondents made mention of New Product Strategy as the best technique alluding to the idea that new products being introduced should be justified.
- One of the 23 respondents cited increased use of technology as best for advertising newly developed products. Another respondent pointed out the need for commercial banks to base their assessments of introducing new products on the liquidity challenges facing Zimbabwe.

Response Rate Question 5

Question 5 aimed at obtaining information on the effects of regulation on NFPD in commercial banks. The following was the elicited information.

Table 16. Effect of Financial Regulation

Financial Regulation	*SA*	*A*	*U*	*D*	*SD*	*Total*
Minimum Capital Requirements	4	6	5	6	2	23
Minimum Liquidity standards	5	10	5	3	0	23
Supervisory regulations	7	7	4	4	0	23

Table 17. Minimum Capital Requirements

Financial Regulation	*SA*	*A*	*U*	*D*	*S D*	*Total*
Minimum Capital Requirements	4	6	5	6	2	23
Percentage Response	17%	26%	22%	26%	9%	100%
Aggregate	43%		22%		35%	100%

The majority of the study participants were in agreement with the fact that minimum capital requirements affect NFPD. Four out of 23 (17%) strongly agreed, 6 out of 23 (26%) agreed giving a total agreement of 43% supporting Savignac (2010) who indicated that an increase in minimum capital requirement increases costs capital to the borrowers, thus leading to diverging time and monies from innovation. Five out of 23 (22%) were uncertain whereas 6 out of 23 (26%) disagreed and 2 out of 23 (9%) strongly disagreed, giving a total disagreement rate of 35%. Results achieved bring about a mode of 43% and this supports Segara et al. (2013).

Table 18. Minimum Liquidity Standards

Financial Regulation	*SA*	*A*	*U*	*D*	*SD*	*Total*
Minimum Liquidity standards	5	10	5	3	0	23
Percentage Response	22%	43%	22%	13%	0%	100%
Aggregate		65%	22%		13%	100%

In accordance with the research results, 5 of 23 (22%) strongly agreed, 10 of 23 (43%) agreed, 5 of 23 (22%) were uncertain, 3 of 23 (13%) disagreed that minimum liquidity standards which are set by financial regulators affect NFPD. Thus 15 of 23 (65%) agreed. Segarra et al (2013) are of the view that financial regulation improves market innovation because banking institutions will constantly strive to improve their liquidity position, in line with 3 of 23 respondents who were in disagreement with the question. As per research outcomes the calculated mode of 65% indicated that the majority agreed on financial regulation of minimum liquidity standards.

Table 19. Supervisory Regulations

Financial Regulation	*SA*	*A*	*U*	*D*	*SD*	*Total*
Supervisory regulations	7	7	4	4	1	23
Percentage Response	30%	30%	18%	18%	4%	100%
Aggregate		60%	18%		22%	100%

Research results revealed that 7 out of 23 (30%) respondents strongly agreed, 7 out of 23 (30%) agreed, 4 of 23 (18%) were uncertain, 4 out of 23 (18%) disagreed and one strongly disagreed that supervisory regulations affect NFPD in commercial banks. On aggregate, 14 of 23 (60%) agreed with Watanganase (2012) who indicated that supervisory restrictions may result in strict supervisors being put in place thus restricting NFPD. Five of 23 (22%) were in disagreement together with the NCCR Working paper (2012) which argues that supervisory regulations aid in reducing risk in NFPD. Thus the majority of the research population (60%) supports Watanganase (2012), who purports that supervisory regulations affect NFPD.

4.8. Interview Responses

How are financial constraints affecting commercial banks in developing new financial products?

The first respondent mentioned that financial products require heavy investment in research and development and if limited financial resources are availed to the research and development team, it does hinder innovation. This supports Mancusi and Vezuli (2010) who are of the view that there is a significantly negative impact on the probability to implement research and development activities in the presence of financial constraints. They also pointed out that once a new financial product is developed, there is need for onward funding of the product so when the organisation is facing financial constraints, the new product development is just delayed.

The other respondent clarified that almost all financial products involve exchange of cash between the bank and the clients. Thus for new products to be developed, there should be concomitant funds availabe to clients and clients should also be liquid enough to transact with the bank. Thus launching a new financial product requires heavy financing to enable continuous distribution to the clients. If no such finances are available to the bank, the process reverts to the research and development stage where either the innovation project is either not started, delayed/postponed or abandoned as reported by Li (2009).

The interview respondents' views shared in the preceding two paragraphs were in agreement and are backed by 20 of 23 (87%) questionnaire respondents who aligned with the views held by Seggara et al (2013).

What are the benefits associated with the development of new financial products in developing countries?

The first respondent mentioned quite a number of benefits that are associated with new product development, including competitive advantage as the company`s reputation increases {18 of 23 (78%) questionnaire respondents had support this}; cost reduction {(10 of 23 (43%) questionnaire respondents were in support, for example, paperless banking; improved risk management {11 of 23(43%) questionnaire respondents were in support}; increased profits{16 of 23(70%) respondents were in support} and improved quality{17 out of 23 (74%) questionnaire respondents were in support}. The main advantage that the principal auditor mentioned is the survival and growth of a firm. He mentioned that for a firm to survive and grow, it needs to develop new products by being techno-smart and keeping apace with technology so that the services of the bank will not be outdated as compared to other competitors' products in the market. The interviewee emphasised that, without product development, in the long run the firm would eventually close down as suggested by Dotzel et al (2013).

Agreeing with the first respondent, the second respondent also mentioned the similar benefits of new product development alluded to by the first respondent. These included reduced costs of availing products to the clients; improved quality {17 out of 23 (74%) respondents were in support}; speed of banking transactions; an increase in the customer base leading to revenue growth {16 of 23(70%) respondents were in support} and profitability of the firm. Moreover, new product development aided efficient allocation of resources and it also increased the number of financial instruments in the financial market thus broadening the menu of financial products available to market participants. Once the customer base increased, the organisation would experience an increment in the market share and thus gain competitive advantage {18 of 23 (78%) respondents supported this view}.

The interviewed respondents were in agreement with the majority of the questionnaire respondents concluding that the aforementioned benefits do accrue to an organisation as a result of NFPD.

What are the challenges being faced by banks in promoting new product development?

Respondent number one said that, besides liquidity constraints, other challenges facing commercial banks in developing new financial products included a lack of appropriate manpower to foot the bill of research and development expertise required [11 of 23 (48%) questionnaire respondents were in agreement]; the size of the domestic market with many clients being highly price-sensitive; the rapid technological changes [15 of 23 (65%) questionnaire respondents being in agreement]; plus failure to understand customer needs as customer demands changed on a daily basis. Instability of the financial market was also a major challenge: there was a low aggregate demand for many banking options in the presence of high, formal unemployment, which entailed low deposit savings [13 out of 23(56%) questionnaire respondents were in agreement].

In response to the question, the second respondent made mention of challenges facing commercial banks in new product development. These challenges included rapid technological advances which in turn stimulate customer demands to change on a regular basis. The current financial domestic market is relatively small inducing excess competition where clients change from one financial service provider to another. Lack of savings reduces liquidity available in the bank thus limiting the amount of free cash available to direct at new product development. More so, low aggregate demand has hampered innovation as there is less formal employment.

The responses given by the interview respondents aligned with the majority of the questionnaire respondents.

What is the best practice in developing new successful products?

The first interviewee was of the opinion that to achieve successful new product development, a commercial bank should first understand the needs of the customers and work towards achieving the satisfaction of such needs. This view was supported by 17 of 23 (74%) of the questionnaire respondents. Clients' feedback should be central in new product development as the satisfaction of a customer leads to a wider customer base through word of mouth by the customer. This drawing of more clients could result in new products becoming successful. The respondent also pointed out that understanding competitors' activities is also key to successful new product development, supported by 17 of 23 (74%) of the questionnaire respondents also. It is easier for commercial bank clients to switch from one financial service provider to another once they are dissatisfied or find a better quality offering from other banks. Thus newly developed products should be able to enable proper maintenance of customers.

Respondent two opined that there is a positive relationship between successful product development and new product strategy. Top management together with the research and development team should set out the new product strategy that shows the new product objectives and efforts toward the new product's development and introduction. This approach is supported by 17 of 23 (74%) of the questionnaire's respondents. New product development should be justified and more time should be invested to assess the viability of introducing the product to the market. The product, thus, when introduced to the market, will have a high impact and meet the expectations of the clients and the innovating firm. This respondent added that a heavy aggressive launch of the product should be mastered in order to attract as many customers for the product as possible, as purported by 17 of 23 (74%) respondents to the questionnaire also.

The first respondent concurred with the views of Savignac (2008) whereas the second interview respondent aligned with the views of Baleceanu (2010). The interview results indicated that respondents aligned themselves alongside of the majority of the questionnaire respondents so the strategies mentioned above should be effective in promoting NFPD.

What are the effects of financial regulation on new financial product development?

In response, respondent one stipulated that regulation reforms have placed restrictions on revenue sources. Regulations restrict some intermediary activities and banks are discouraged from innovating. Some regulatory requirements are costly and by implementing them, banks end up incurring extra cost. Further, stricter, supervision regulations may be too hard for them and thus banks end up not developing new products, due to failure to comply. Financial regulators may also constrain operating conditions, institute rules for disclosures, and control protocols for new products. Certification of newly developed products by the supervisory or government agency is one of the highly intense and expensive aspects in the development process as indicated by Watanganase (2012).

The second respondent said that in an attempt to protect commercial bank clients, regulators tend to set price ceilings for financial products. This, on the other hand, affects the innovative banks in that the costs incurred in developing that certain product will not tally with the related revenue thus it is better not to develop than to make losses or slighter revenues. Implementation of some regulatory reforms is costly thus diverting time and money from innovation.

Both respondents agreed that financial regulation has a negative effect on NFPD in the banking institutions. They thus were in line with Watanganase (2012), who was also backed by 10 questionnaire respondents of the 23 (43%), 15 respondents (65%) and 14 respondents (60%) respectively who agreed in the questionnaires on the various regulation types in the questionnaires.

5. CONCLUSION

This study presented and analysed the outcomes of the research data collected on the impact of liquidity constraints on new financial product development, the benefits and challenges associated with developing new financial products and also the impact of financial regulation on NFPD. The study concluded that liquidity constraints are a major obstacle hampering the ZB Bank in new financial product development thus hindering research and development and the distribution and delivery of new financial products. Furthermore, the study concluded that financial regulation tends to be another constraint on commercial banks, thus discouraging product innovations. Also rapid technological changes seem to fuel up the need for new software and hardware for new product development thus necessitating skilled workforce to be employed for new product development. The only limitation of this research was that it restricted itself to only one bank. Whether these results can be generalised remains to be seen.

6. MAJOR FINDINGS

- Liquidity constraints are a major obstacle hampering ZB Bank in new financial product development, thus hindering research and development and the distribution and delivery of new financial products.
- Financial regulation tends to be another constraint for commercial banks discouraging product innovations.
- Rapid technological changes seem to fuel up the need for new software and hardware for new product development, thus also necessitating a skilled workforce to be employed for new product development.
- Customer demands are changing on a daily basis due to rapid changes in information technology making customer maintenance difficult for commercial banks.
- Competitive pressures leads to reduction in new product returns.
- Benefits of NFPD include revenue growth; competitive advantage; improved quality and reduced costs for commercial banks and their clients; increased customer base and market share and improved risk management.
- In promoting successful new product development, commercial banks promote an innovative culture within their system, centralise customer feedback, and focus on competitor activities, massive marketing and aggressive product launching.

7. RECOMMENDATIONS

A research and development (R&D) team should be created within an organisation that invests more time in research in order to obtain adequate information. They can also source new ideas concerning new products so that the products will be successful when they are introduced to the market. The R&D team should gig deep into the customer needs so that when the available resources are directed towards NFPD, those needs will be addressed.

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