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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 8, Iss. 2, pp 588 – 598. June 23, 2021. www.strategicjournals.com, ©Strategic Journals

PROCESS INNOVATION AND CUSTOMER RETENTION OF SMEs IN SELECTED LGAs IN OYO STATE, NIGERIA

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Accepted: June 21, 2021

ABSTRACT

Small and medium scale enterprises (SMEs) are seeking for ways to improve their performance, satisfy stakeholders and contribute significantly to national growth and development. The issue of process innovation and customer retention has continued to remain a contemporary discourse over time as it has been identified that in order to attain the highest competitive advantage, achieve sustainability and satisfy stakeholders, SMEs must adopt best practices regarding peculiar innovation strategies to positively influence performance. The study investigated the effect of process innovation and customer retention of SMEs in selected Local Government Areas (LGAs) in Oyo State, Nigeria. The study adopted survey research design which focused on SMEs in selected LGAs. The population of the study consisted of owners/managers of SMEs in selected LGAs in Oyo State, Nigeria. The population was 581 SMEs and study adopted total enumeration sampling technique because the population was adequate enough for the study. The study used an adapted questionnaire which was administered to respondents. 413 questionnaires were deemed useable indicating a response rate of 71.1% while the instrument was validated and the data gathered was analyzed using descriptive statistics and simple linear regression analysis. The findings of the study revealed that process innovation have a significant effect on customer retention of SMEs in selected LGAs in Oyo State, Nigeria (Adj. R^2 = 0.333, F (1,411) = 453.118, $p< 0.05$) indicating that process innovation had a positive and significant effect on customer retention of SMEs. The study concluded that innovation management technique particularly process innovation was a catalyst to ensure superior performance among SMEs especially in retaining their customers. The study recommended that owners/managers of SMEs should allocate their firm specific resources and capabilities for continuous performance.

Keywords: *Competitive Advantage, Customer Retention, Innovation Management Technique, Performance, Process Innovation, Small and Medium Scale Enterprise, Sustainability.*

CITATION: Makinde, O. G., Akinlabi, H. B., & Olujobi I. O. (2021). Process innovation and customer retention of SMEs in selected LGAs in Oyo State, Nigeria. *The Strategic Journal of Business & Change Management,* 8 (2), 588 – 598.

INTRODUCTION

Small and Medium Scale Enterprises (SMEs) all over the world have been known to contribute significantly to the development of their economies. Their role in national and economic development cannot be overemphasized as they constitute a significant driving force of industrial growth and development of their countries. Globally, competitiveness of any country depends on the stages of development as indicated by the global competitive index. In this dynamic era of globalization, SMEs play a pivotal role in the development of economies which in turn makes it competitive globally (Taiwo, Falohun, & Agwu, 2016). SMEs contribute significantly towards economic development through employment generation, aiding in generation of revenue, communities having access to affordable goods and services at lower costs (WBCSD, 2006); Furthermore, by working closely with SMEs, large corporations can develop a new customer base that may not be accessible to the traditional distribution network of these corporations (Allah & Fouad, 2013). Likewise Ogbe (2019) indicated that SMEs help in provision of goods and services, job opportunities, wealth creation, poverty alleviation and utilization of local resources. Hence they are vital to the development of economies.

In a bid to improve performance, several approaches have been adopted by SMEs. One of such is through innovation. According to OECD (2005) innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace environment and external relations. The focus of innovation management is to allow the firms respond to external factors such as customers, suppliers, competition, globalization etc. or internal factors such as production, technical division, sales etc. and its creative efforts to introduce new ideas and processes or products (Sharlin, Kelly, & Kranzberg, 1981). Therefore the application of innovation focusing on SMEs brings an impact on the ability to adopt the best strategy in order to bring out about desired results regarding performance. By adopting innovation strategies such as process innovation quality products are put out, costs are reduced and SMEs can grow and expand. OECD (2005) noted that through innovative steps in place there is a higher chance at survival and sustainability. Hence, the role of innovation is crucial to create a competitive advantage (Distanont & Khongmalai, 2018).

The difficulty associated with innovation driven activities has led to managerial problems in the performance of some SMEs. This occurs because either management is not aware of such difficulties or do not have adequate knowledge to overcome the difficulties (George, McGahan, & Prabhu, 2012; Dapice, 2015). Likewise there are external and internal barriers which have to be given priority in order to fashion means in identification and solving those barriers. Also not adopting and implementing best practices concerning innovative strategies is another challenge for SMEs (Parnell, Lester, & Long, 2015).

LITERATURE REVIEW

Conceptual Review

Innovation Management

Innovation is considered one of the main sources for enterprise growth. The adoption of innovation results in the use of a product, service, or practice new to the individual, team, or organization (Damanpour & Wischnevsky, 2006). Innovation management helps an organization grasp an opportunity by using dynamic capabilities which in turn improve firm performance (Goffin, Ahlstom, Bianchi, & Richtner, 2019). In the present global competitive and intelligent era, innovation is becoming more relevant, due to three major trends mainly: concentrated international competition, disjointed and challenging markets and swiftly changing technologies. Birkinshaw, Hamel and Mol (2008) defined innovation as the generation and implementation of a management practice, process, structure, or technique that is new to the state of the art and is intended to further organizational goals. OECD (2005) also defined innovation as the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace environment and external relations.

Whereas many typologies of innovation have been proposed, three have been examined frequently: (1) product/service versus process innovations (Abernathy & Utterback, 1975), (2) technological versus administrative/managerial innovations (Kimberly & Evanisko, 1981) and (3) radical versus incremental innovations (Cardinal, 2001). This study focuses on the adoption of process innovation new to an organization particularly SMEs. Under process innovation, the parameters examined include the following; market research, connection to target customers, access to new technology, costing methodology, technique of ideas development, formal procedures to protect copyright, provision of adequate manpower, infrastructure among others.

Process Innovation

Process innovation occurs when an organization solves an existing problem or performs an existing business process in a radically different way that generates something highly beneficial to those who perform the process, those who rely on the process or both. Cuming (1998) defined it as process of re-engineering and improving internal operations of a business process. According to 2005 Oslo Manual, process innovation is the implementation of a new or significantly improved production or delivery methods. This includes significant changes in techniques, equipment and or software. Process innovation can generate value to either internal customers, including employees or the actual organization itself, or it can create value to external customers, including business partners, end users or actual consumers (Storey, 2000). The result must be significant with respect to the level of production volume, the quality of the products (goods or services) or the costs of production and distribution.

Values stemming from process innovation include reducing the time it takes to manufacture a product or perform a service; increasing the number of products produced or services provided within a time frame; and reducing the costs per product produced or service provided. Additionally, process innovation can generate significant gains in product quality and service levels. Overall, an individual organization needs to see a significant increase in some of its key performance indicators (KPIs) to be a true process innovation (Gallouj & Weinstein, 1997). According to Silvestre and Nieto (2014) the innovation process involves a set of activities that contribute to the increase in the capacity to produce new goods and services (product innovations) or to implement new forms of production (process innovations).

Performance

Performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard, Devinney, Yip and Johnson (2009) organizational performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets, return on investment, etc.); (b) product market performance (sales, market share, etc.); and (c) shareholder return (total shareholder return, economic value added, etc.). Machuki and Aosa (2011) observed that, organizational performance indicates the effectiveness of an organization. Various indicators such as effectiveness, efficiency, financial viability and relevance to stakeholders can be used to measure organizational performance although other studies have considered numerous variations in performance measures (Lenz, 1981).

Fuentes, Montes and Fernandez (2006) argue that performance assessment can be structured around seven areas. The seven areas are effectiveness, productivity, quality, customer satisfaction, efficiency, innovation and financial durability. Balanced Scorecard (Kaplan & Norton, 1992) presents yet another approach. Kaplan and Norton suggest that performance measures should be multidimensional in nature covering both financial and non-financial measures. They developed four perspectives: financial, customer, internal processes, and innovation. Kaplan and Norton (1992) argue that one of the most important strengths of the Balanced Scorecard is that each unit in the organization develops its own specific or unique measures that capture the unit's strategy, beside common measures that are employed for all units. But among other limitations and like in most approaches to performance measurement, not all stakeholders are included in the BSC. In particular, suppliers and public authorities which can be decisive for many organizations (Norreklit, 2003).

Customer Retention

Customer retention refers to the set of activities and actions organizations take so as to mitigate customer defection. The goal of customer retention programs is to help companies retain as many customers as possible, often through customer loyalty and brand loyalty initiatives. Morgan and Hunt (1994) define it as all marketing activities directed towards establishing, developing and maintaining successful relationships exchanges. Alshurideh (2013) defines customer retention as all marketing plans and actions that seek to retain both existing and new customer's base by establishing, maintaining and maximizing mutual long term benefits that strengthen and extend the joint relationship between two parties. High customer retention means customers of the product or business tend to return to, continue to buy or in some other way not defect to another product or business, or to non-use entirely.

Creating customer loyalty puts customer value rather than maximizing profits and shareholder value at the center of business strategy. The key differentiation in a competitive environment is often the delivery of a consistently high standard of customer service. Furthermore in the emerging world of customer success, retention is a major objective (Gupta & Zeithaml, 2006). Customer retention is characterized as the quantity of customers, or percentage of total customers, whose detailed involvement with a firm, its items, or its services (ratings) surpasses indicated satisfaction objectives (Rust & Zahorik, 1993). Companies that shift their focus to customer retention often find it to be a more efficient and effective process because they are advertising to customers who already have expressed an interest in the products and are engaged with the brand, making it easier to capitalize on their experiences and interactions with the company.

More importantly, companies are finding that customer profitability tends to increase over the life of a retained customer, so employing customer retention strategies is a worthwhile use of company resources. Some successful customer retention strategies and techniques are outlined as follows (Galetto, 2015); Set customer expectations: set customer expectations early and a little lower than you can provide to eliminate uncertainty about the level of your service and ensure you always deliver on your promises. Become the customers' trusted advisor: you need to be the expert in your particular field, so that you can gain customers' trust and build customer loyalty. Use relationships to build trust: build relationships with customers in a way that fosters trust. Do this through shared values and fostering customer relationships. Take a proactive approach to customer service: implement anticipatory service so that you can eliminate problems before they occur. Use social media to build relationships: use LinkedIn, Twitter, Facebook and other social media outlets available to connect and communicate with customers and give them a space for sharing experiences with your company so they can become brand ambassadors. Go the extra mile: going above and beyond will build strong relationships with customers and build long-term loyalty by paying attention to their needs and issues. Make it personal: personalized service improves customer experience and is something customers are expecting and demanding. Make their experience personal to strengthen the bond with your brand (Galetto, 2015). A highly satisfied customer stays loyal longer, buys more as the company introduces new products and upgrades existing products, talks favorably about the company and its product.

Theoretical Review

This study is anchored on Resource Based Theory (RBT). This theory postulates that the possession of strategic resources provides a firm with a golden opportunity to develop competitive advantage over its rivals. A founding father of this theory is Barney (1991). His work 'Firm Resources and Sustained Competitive advantage' is widely used as a pivotal work in the emergence of the theory. The theory focuses managerial attention on SMEs internal resources in an effort to identify those assets, capabilities and competencies with the potential to deliver superior competitive advantage (Barney, 1991). Resources according to Barney (1991) can be broadly defined to include assets, organizational processes, firm attributes, information or knowledge controlled by the firm which can be used to conceive of and implement their strategies. In the same vein, resources may include appropriate access to funds, materials, facilities, knowledge, information, sufficient time to produce and the availability of training (Amabile, 1997), brand names, technological abilities, efficient procedures (Spanos & Lioukas, 2001). It is also important to have sufficient resources for innovative problem solving. The resources and capabilities of SMEs are the primary considerations in formulation of its strategy; they are the main constants upon which SMEs can establish its identity and build its strategy, and they are primary sources of organization's profitability.

Some criticisms have trailed this theory. Such include some schools of thought arguing that it is tautological (Bromiley & Fleming, 2002; Collins & Montegomery, 2008). Madhani (2010) posit that the lack of clarity about core aspects of the RBT impede the development of the theory and fruitful debate. Also he suggested that the nature of advantages in organizations should be firm based and complex and as such, qualitative and field based methodologies are much appropriate rather than the quantitative research methods. In addition it is perhaps difficult to find a resource that fits all of Barney's VRIN criteria. The failure to consider factors surrounding resources is another criticism. That is because the assumption is that they simply exist rather than a critical investigation of how key capabilities are acquired or developed.

Empirical Review

Researchers have used methodologies, survey design and methods of analysis such as multiple regression, structural equation modelling, simple liner regression as well as correlation analysis in conducting studies on process innovation and customer retention (Adepoju, Olomu, & Akinwale, 2017; Baber, 2020; Bersali & Geurmat, 2014; Kyei & Bayoh, 2017; Mutuku & Wambua, 2019; Olomu, 2019). The findings of Adepoju et al, 2017 which was done using least square method of multiple regression sampling reported a positive relationship between process innovation and customer retention among manufacturers in Nigeria. The result of this study is in line with Baber (2020) who also found that process innovation had a positive relationship with customer retention of FinTech banks in Malaysia. He further recommended that adding different process innovation such as the payments, advisory and compliance section has significant effect on customer retention by retaining the confidence and trust of existing customers. He also postulated that FinTech firms should join relevant association to add value to their firms.

Similarly this aligns with the findings of Bersali and Geurmat (2014) who reported a positive and significant relationship between the variables in the Ghanaian telecommunication industry. They revealed that firms who want to retain customers should invest in process innovation and market innovation in the long run. This finding is in congruence with the findings of Kyei and Bayoh (2017). They discovered a positive relationship between process innovation and customer retention further stating that process innovation coupled with service and marketing innovation were key determinants to retaining customers and gaining new ones. This finding also aligns with the findings of Mutuku and Wambua (2019) who similarly revealed a positive relationship between process innovation and customer retention. Olomu (2019) showed a positive relationship between the variables among manufacturing firms in Nigeria. He further noted that the choice of automation technologies, investment level and firm size are crucial in determining the customer retention performance of firms. Further studies were recommended for different findings using other parameters.

However other scholars such as keiningham, Cooil, Askoy, Andreassen and Weiner (2007) posited that customers make purchases from several places and also look for alternatives by trying out different places and hence making it hard to retain customers. Based on these mixed reviews, the study hypothesize that

$H_{0:}$ Process Innovation does not have significant effect on customer retention of SMEs in selected LGAs in Oyo state, Nigeria.

Literature Gap

Different studies have been undertaken on innovation management on SME performance under different construct (Afriyie, Du, & Ibn Musah, 2019; Fitriati, Purwana, & Buchdadi, 2020). However not many studies have emerged on the effect of innovation management on SME performance in reference to process innovation and its effect on customer retention in Nigeria. Other studies primarily focused on a section of innovation at the detriment of other types (Azar & Clabuschi, 2016). Therefore focusing on specific innovations strategies may not allow SMEs to grasp, adopt and successfully implement other types and understand its effect on performance. To this end, this leaves a gap that need to be given attention to in the aspect of process innovation and customer retention of SMEs in selected LGAs in Oyo State, Nigeria.

METHODOLOGY

This study employed survey research design. This research design was selected because it is used to describe an existing condition by the means of primary data collection. The adoption of this design was in line with previous works of scholars (Okeke, 2010; Al-Mahayreh & Abdel-Qader, 2015). The population of this study was 581 owners/managers of SMEs registered with the Nigerian Directory in selected LGAs in Oyo state, Nigeria. The selected local governments were Ibadan Central, Ibadan North East, Ibadan North West, Ibadan South West, Ibadan South East, Ido, Egbeda and Akinyele LGAs. Total enumeration was adopted because the population was adequate enough for the study. An adapted questionnaire was used as the research instrument for collecting data. Process innovation was the independent variable while the dependent variable was customer retention used to measure SME performance. The questionnaires were validated and tested for their reliability while Cronbach's Alpha ranged between 0.71 and 0.93. A 6 Point Likert system was adopted as this gives room for choice, better data and groupings that are easier to understand, analyze and discuss. The rating scale consisted of 6 = very high, 5 = high, 4 = moderately high, 3 = moderately low, 2 = low and 1 = very low. The model specified was represented as follows;

PIN = f (CR) …………………Regression Equation 1

By converting equation 1 to econometrics form, we have:

$CR = \alpha_0 + \beta_1 PIN + \mu_i$

Where:

CR = Customer retention

α_0 = Constant term

β_1 = Coefficients of Explanatory Variables

PIN = Process Innovation

μ_i = Error term

In line with this study it was our expectation that process innovation would positively affect performance among SMEs. This was mathematically expressed as follows: $\beta_1 > 0$

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

RESULTS AND DISCUSSION

Five hundred and eighty one (581) copies of questionnaires were administered to owners/managers of SMEs in selected LGAs in Oyo State, Nigeria. Four hundred and thirty six (436) questionnaires were retrieved from the field representing 71.1% response rate while one hundred and sixty eight (168) questionnaires were incomplete, unreturned and deemed not usable. The result of the analysis was as shown in table 1 below:

Table 1: Regression of Process Innovation on Customer Retention

Model	*B*	*t*	Sig.	R^2	Adj. R^2	F(df)	ANOVA(Sig)
(Constant)	6.123	6.189	0.000	0.334	0.333	206.420 (1,411)	0.000[b]
Product Innovation	0.651	14.367	0.000				

a) Dependent Variable: Customer Retention

b) Predictors: (Constant), Process Innovation

Source: Researcher's Field Results (2021)

Table 1 presented the result of the simple linear regression analysis of the effect of process innovation on customer retention of SMES in selected LGAs in Oyo State, Nigeria. The result presented showed that process innovation had a moderate positive and significant effect on customer retention of SMES in selected LGAs in Oyo State, Nigeria ($\beta = 0.651$, $t = 14.367$, $p<0.05$). Furthermore, the result indicated that process innovation showed Adj. R^2 for the regression model at 0.333 indicating that process innovation only explained 33.3% of the changes in customer retention among SMEs. The result of the study showed the overall model to be statistically significant (F (1,411) = 206.420, p<0.05). The regression model used to explain the variation in customer retention due to the effect of process innovation can be stated as follows:

CR = 6.123 + 0.651 PIN…………. Eqn. i

Where:

CR = Customer Retention

PIN = Process Innovation

The regression model above showed that when process innovation is at a constant zero, customer retention would be 6.123, implying that without process innovation, customer retention of SMEs would be positive at 6.123. The coefficient of process innovation was 0.651 which indicated that one unit change in process innovation results in 0.651 units increase customer retention of SMEs in Oyo State, Nigeria. This implied that an increase in process innovation will subsequently increase customer retention. Based on the result, the null hypothesis (Ho) which states that process innovation has no significant effect on customer retention of SMEs in selected LGAs in Oyo state Nigeria was rejected.

Discussion

The result showed that process innovation had a moderate positive and significant effect on customer retention of SMEs in selected LGAs in Oyo State, Nigeria indicating that an increase in process innovation will increase customer retention of SMEs. This result is in congruence with other studies based on the same construct. In agreement with this finding, Adepoju, Olomu, and Akinwale, (2017) reported a positive relationship between process innovation and customer retention especially in manufacturing companies. They discovered that process innovation through the use of technology resulted in a significant impact on performance of manufacturing firms in Nigeria. Similarly, Kyei and Bayoh, (2017) reported in their study that a positive relationship exists between process innovation and customer retention, according to them, process innovation coupled with service and marketing innovation were key determinants to retaining new customers and

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gaining new ones. Furthermore, this study aligns with Geurmat (2014) who revealed that there was a significant relationship between the variables. He further recommended that firms who want to achieve optimal performance should invest in process innovation coupled with marketing innovation. Through the application of process innovation in day to day activities it is discovered that customers are retained while giving room for gaining new ones. In agreement with the findings of this study, Barber (2020) in his study on the FinTech sector discovered that adding different process innovation techniques such as online payments, advisory and compliance section has significant effect on customer retention while recommending joining relevant association in order to add value to their performance. This result compliments previous study of Olomu (2019) who revealed a positive relationship between process innovation and customer retention. The study further noted that the choice of automation technologies, investment level and firm size are crucial in determining the customer retention performance of the industry.

CONCLUSION AND RECOMMENDATION

The study concluded that innovation improves the performance of Small and Medium Scale Enterprises in Oyo State, Nigeria. In addition process innovation had a moderate positive and significant effect on customer retention of SMEs. Based on the findings of this study, the researchers recommended that SME owners/managers should adopt and successfully implement innovation through process innovation techniques in order to boost performance and further contribute to the growth and development of the Nigerian economy.

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