Innovation as a Strategic Tool for Customer Retention among Small and Medium Enterprises in Kano State

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ABSTRACT

This study investigates innovation as a strategic tool for customer retention among small and medium enterprises (SMEs) in Kano State, Nigeria. The objectives were to examine the effect of product innovation, assess the influence of service innovation, and evaluate the impact of process innovation on customer retention. Employing a survey research design, primary quantitative data were collected from 387 owners and managers of SMEs across manufacturing, trading, and service sectors. Multiple regression analysis revealed that all three innovation dimensions positively and significantly affect customer retention ($p < 0.001$), collectively explaining 52.4% of the variance, with service innovation exhibiting the strongest effect ($\beta = 0.346$), followed by product innovation ($\beta = 0.337$) and process innovation ($\beta = 0.209$). These findings shows innovation's multidimensional role in enhancing customer loyalty in resource-constrained settings. Recommendations include prioritizing service and product innovations, investing in process improvements, and advocating for government and industry support through training, financing, and technology access to bolster SME innovation capabilities and long-term customer retention.

I. INTRODUCTION

Customer retention is a critical factor for business sustainability worldwide, as increasing retention rates by just 5% can boost profits by 25-95%. Globally, SMEs represent about 90% of businesses and over 50% of employment, yet they face high churn due to competitive pressures. In Africa, SMEs encounter additional challenges like infrastructure deficits and economic volatility, contributing to retention difficulties. In Nigeria, with over 39 million MSMEs as of recent estimates, more than 95% of SMEs fail within their first five years, often linked to poor customer retention amid issues like finding customers and market demand shortages (Bing et al., 2024; Li et al., 2023). Studies highlight that service innovation and technology adoption significantly enhance loyalty in emerging markets, including African contexts (Awuku et al., 2023; Ayinaddis, 2023).

Innovation plays a pivotal role among SMEs globally, driving competitiveness and growth, though adoption rates remain low in developing regions. In Nigeria, SMEs contribute substantially to employment and GDP, but innovation practices are emerging as catalysts for performance, particularly in states like Anambra and Ogun (Okoli et al., 2024; Shodiya et al., 2024). Research shows that product and process innovations positively influence customer satisfaction and behavioral intentions in Nigerian industries such as brewing and quick-service restaurants (Aniuga & Ogba, 2021; Chukwunwem & Ndubueze, 2021). Similarly, brand and service innovations foster retention in sectors like soft drinks and banking (Christian et al., (2024) Ololade 2024.).

Innovation serves as a strategic tool for enhancing customer experience and loyalty, with evidence from Nigeria indicating that process innovation improves organizational performance while service innovation boosts satisfaction (Iherobiem & Sanusi, 2023; Ekeke & Uboegbulam, n.d.). Interactive and supportive innovations mediate value creation leading to retention (Fatima et al., 2021), and organizational agility through innovation aids customer retention in medium-scale businesses (Mgbemena et al., 2024). In various Nigerian contexts, marketing intelligence and CRM innovations further strengthen retention outcomes (Al-Hashem, 2022; Guerola-Navarro et al., 2021).

Despite these insights, many SMEs in Nigeria, including those in Kano State a major commercial hub struggle with limited innovation adoption amid high failure rates and retention challenges. A notable gap exists in exploring how innovation strategically addresses customer retention specifically among SMEs in this region (Ejibenam et al., 2021; Olugbenga et al., 2024). It is based on this background that the study examines innovation as a strategic tool for customer retention among small and medium enterprises in Kano State.

1.1 Statement of the Problem

In an ideal business environment, small and medium enterprises (SMEs) leverage innovation as a core strategic tool to foster customer loyalty and retention, thereby ensuring sustainable growth and competitiveness. Innovation in products, services, and processes enables SMEs to meet evolving customer needs, build trust, and differentiate themselves in competitive markets (Guerola-Navarro et al., 2021). This approach not only enhances customer satisfaction but also drives repeat patronage and long-term relationships, as evidenced in various sectors where innovative practices have strengthened brand loyalty (Bing et al., 2024). In Nigeria, SMEs constitute about 96% of businesses and contribute approximately 48% to the national GDP while employing 84% of the workforce, underscoring their pivotal role in economic development. Kano State, with its vibrant commercial landscape, hosts a significant concentration of these enterprises, making innovation critical for their survival and prosperity.

However, the current situation reveals that many SMEs in Kano State struggle with low customer retention due to limited adoption of innovative strategies, resulting in stagnant growth and high churn rates. Despite the potential of innovation to act as a differentiator, SMEs often rely on traditional methods, leading to customer dissatisfaction and loss to competitors (Li et al., 2023). Studies indicate that non-innovative SMEs experience up to a 20% drop in customer retention, compounded by challenges like infrastructure deficits and economic pressures. In Nigeria, where SMEs face high failure rates with reports suggesting up to 80% collapsing within five years poor customer retention exacerbates vulnerability, particularly in regions like Kano with intense market competition (Awuku et al., 2023). This is reflected in declining patronage and reduced profitability among local SMEs.

If the current situation persists without strategic intervention through innovation, SMEs in Kano State risk widespread closures, increased unemployment, and diminished contributions to the local economy. Persistent low retention could lead to further erosion of market share, with customers shifting to more innovative competitors or larger firms, ultimately stifling economic diversification and growth in the region (Mgbemena et al., 2024). With Nigeria already losing millions of SMEs in recent years due to similar challenges, unchecked trends would perpetuate poverty and hinder the sector's potential to drive job creation and GDP growth.

Previous studies have explored aspects of innovation and customer retention, but gaps remain in contextual application to SMEs in Kano State. For instance, Agatha (2022) examined innovation and technology as strategies for retention in banking, while Awuku et al. (2023) and Ayinaddis (2023) focused on service innovation's influence on loyalty in telecommunications and emerging economies, respectively, highlighting positive links but in non-SME or non-Nigerian contexts. Aniuga and Ogba (2021) investigated product innovation and satisfaction in the brewery industry, and Christian et al. (2024) assessed brand innovation in soft drinks, both in Nigeria but limited to specific sectors without addressing process innovation or Kano-specific dynamics. Similarly, Li et al. (2023) linked technology innovation to retention post-pandemic in Chinese SMEs, revealing gaps in African settings. These works often overlook the integrated effects of product, service, and process innovations on retention among general SMEs in northern Nigeria. To fill this gap, the present study examines these dimensions specifically among SMEs in Kano State, aligning with objectives to assess product, service, and process innovations' impacts.

It is against this backdrop that the study seeks to investigate innovation as a strategic tool for customer retention among small and medium enterprises in Kano State.

1.2 Hypotheses

H_{01}: Product innovation has no significant effect on customer retention among SMEs in Kano State.

H_{02}: Service innovation has no significant influence on customer retention among SMEs in Kano State.

H_{03}: Process innovation has no significant impact on customer retention among SMEs in Kano State.

II. LITERATURE REVIEW

2.1 Customer Retention

Customer retention is a core concept in marketing and strategic management, defined as an organization's ability to sustain long-term purchasing relationships with existing customers. It is widely recognized as more cost-effective than customer acquisition, with acquisition costs being five to seven times higher than retention efforts (Ejibenam et al., 2021). Bing et al. (2024) frame customer retention as a result of brand loyalty, characterized by repeated purchases, resistance to competitors, and advocacy behaviors. Theoretical underpinnings include relationship marketing, which views retention as stemming from trust, commitment, and mutual value creation (Cardoso et al., 2022), alongside service quality and customer satisfaction, where effective customer relationship management practices enhance retention via improved satisfaction (Cavaliere et al., 2021; Naini et al., 2022).

Customer satisfaction acts as a key driver of retention, mediating the impact of product and service quality on loyalty, though it is not sufficient alone due to influences like switching costs and perceived value (Mishra and Singh, 2023). More recently, customer experience has gained prominence, encompassing the entire customer journey and benefiting from marketing intelligence and technologies such as AI, IoT, and big data to boost retention (Al-Hashem, 2022; Rane, 2023). For small and medium enterprises (SMEs), retention involves distinct challenges and advantages, relying on personalized service, organizational agility to address customer needs swiftly

(Mgbemena et al., 2024), and customer empowerment strategies that foster greater control and loyalty (Kataria et al., 2023).

2.2 Innovation in the SME Context

Innovation is a multifaceted concept involving the generation and application of novel ideas, products, services, processes, or business models to create value for organizations and stakeholders. In the SME context, it serves as a vital mechanism for competitive differentiation against larger firms, acting as a performance catalyst by enabling unique value propositions rooted in the resource-based view of inimitable capabilities (Okoli et al., 2024). The literature categorizes innovation into types: product innovation for new or improved goods with enhanced features (Somalua et al., 2022); service innovation for better offerings and interactions (Nwachukwu & Vu, 2022); process innovation for efficient methods (Iherobiem & Sanusi, 2023); and marketing innovation for novel strategies in design, pricing, or promotion.

Innovation strongly impacts firm performance, particularly customer loyalty and retention, by improving brand image, satisfaction, and relationships through marketing and service innovations (Tunç, 2022; Woo et al., 2021). For resource-constrained SMEs, customer involvement and co-creation drive innovation that aligns with market needs and fosters ownership, aiding retention (Perpetual and Oghenevwayere, 2025). Innovation capability depends on internal elements like entrepreneurial orientation, culture, human capital, and technology (Agatha, 2022), as well as external factors such as competition, market changes, finance, and support, all crucial for strategies linking innovation to retention.

2.3 Product Innovation

Product innovation serves as a vital strategic mechanism for customer retention by enabling organizations to address evolving customer needs, enhance satisfaction, create switching barriers, and foster emotional brand connections in competitive markets. It strengthens the value proposition through superior or improved offerings that deliver greater perceived value, as evidenced by Christian et al. (2024), who demonstrate that innovative product strategies in soft drink firms significantly sustain customer relationships via differentiation and adaptation to changing preferences. Theoretically, this linkage operates through elevated customer satisfaction from better-aligned product attributes (Aniuga and Ogba, 2021), increased switching costs due to unique features, and heightened quality dimensions such as durability, reliability, and performance that directly boost satisfaction and loyalty (Naini et al., 2022). Furthermore, product innovation drives engagement and emotional attachment by creating delightful, memorable experiences that enhance perceived value and long-term loyalty (Somalua et al., 2022). For resource-constrained SMEs, prioritizing quality-focused incremental innovations over radical developments proves particularly effective, though the overall impact varies by industry dynamics (e.g., requiring continuous innovation in fast-paced sectors versus incremental improvements in stable ones) and customer segments' preferences for novelty versus consistency.

2.4 Service Innovation

Service innovation serves as a key driver of customer retention by developing new or enhanced service concepts, processes, interactions, and technologies that elevate the customer experience, create superior value, and differentiate offerings in competitive markets, with Ayinaddis (2023) showing its significant impact on satisfaction and loyalty in Ethiopian telecom. This relationship

functions through interconnected mechanisms, including value co-creation and customer participation that foster deeper connections and reduce attrition via convenience, effort reduction, and personalization (Fatima et al., 2021), alongside quality enhancements in dimensions like reliability, responsiveness, assurance, empathy, and tangibles that build loyalty, particularly effective for SMEs leveraging close relationships and flexibility (Ololade, 2024). Across industries, continuous improvements, new features, and technology adoption strengthen retention, as evidenced in telecommunications (Awuku et al., 2023) and Vietnamese retail banking (Nguyen et al., 2024), while also boosting satisfaction and behavioral intentions such as revisits and recommendations in quick-service restaurants (Ekeke and Uboegbulam, n.d.) and microfinance (Shodiya et al., 2024). For SMEs, service innovation offers an accessible strategy via low-cost process tweaks, training, and feedback integration, yielding high retention returns through satisfaction and loyalty (Simanjuntak and Margono, 2022).

2.5 Process Innovation

Process innovation represents a crucial yet often understated dimension of innovation strategy for customer retention, involving enhancements in production or service delivery methods that indirectly bolster loyalty through improved quality consistency, efficiency, cost reductions, faster delivery, and heightened responsiveness, as illustrated by Iherobiem and Sanusi (2023) in Nigerian manufacturing firms where such improvements elevate organizational capabilities supporting satisfaction and retention. This linkage manifests through multiple mechanisms: enhanced value propositions via lower prices, superior quality, or quicker delivery that deter switching (Li et al., 2023); greater consistency in experiences that fosters trust and reduces attrition risks, especially vital for resource-limited SMEs; streamlined operations enabling responsive, personalized service and better customer interactions (Guerola-Navarro et al., 2021); and technology integration such as automation, real-time tracking, and omnichannel seamless experiences that meets modern expectations and levels the competitive field for SMEs (Agatha, 2022). Additionally, process innovations indirectly drive retention by boosting employee satisfaction, simplifying workflows, and empowering staff for superior service delivery, thereby creating customer delight (Mishra and Singh, 2023).

2.6 Theoretical Framework

This study employs multiple theoretical perspectives to examine the relationship between innovation and customer retention among SMEs. The primary foundation is the Resource-Based View (RBV), which argues that sustainable competitive advantage stems from valuable, rare, inimitable, and non-substitutable resources and capabilities (Barney, 1991). Innovation capabilities, including product, service, and process innovations, are viewed as strategic resources that allow SMEs to deliver superior customer value and adapt to changing needs, thereby fostering customer retention.

Complementing the RBV, Dynamic Capabilities Theory highlights the need for organizations to integrate and reconfigure competencies in rapidly changing environments, making it relevant for SMEs leveraging innovation to sustain customer relationships (Mgbemena et al., 2024). Service-Dominant Logic further emphasizes value co-creation through provider-customer interactions, suggesting that innovations enhancing these interactions strengthen retention (Fatima et al., 2021). Additionally, Customer Relationship Management theory underscores systematic management of customer interactions, with innovative practices and technologies improving responsiveness and retention outcomes (Cavaliere et al., 2021).

2.7 Empirical Review

The empirical literature provides substantial evidence regarding the relationships between innovation dimensions and customer retention across various contexts. Christian et al. (2024) investigate brand innovation strategies and customer retention among soft drink firms in South-East Nigeria, finding that innovative branding and product strategies contribute to sustained customer relationships. While focused on larger firms, this research provides insights into innovation-retention dynamics in the Nigerian market that may be applicable to SMEs. Similarly, Aniuga and Ogba (2021) examine product innovation and customer satisfaction among Nigerian Breweries customers, establishing that innovation significantly influences satisfaction, which is a critical antecedent of retention. Service innovation research provides robust evidence of its effects on customer-related outcomes. Nwachukwu and Vu (2022) examine service innovation, marketing innovation, and customer satisfaction, finding that both innovation types positively influence satisfaction, with competitive intensity serving as a moderating factor. This research suggests that the effectiveness of service innovation for customer retention may vary based on market conditions, which is an important consideration for SMEs operating in competitive environments like Kano State. Additionally, Awuku et al. (2023) provide evidence from the telecommunications industry in Ghana demonstrating that service innovation practices contribute to customer loyalty, further supporting the innovation-retention linkage.

Tunç (2022) examines the impact of marketing innovation on customer loyalty, finding that brand image and customer satisfaction mediate this relationship. Similarly, Simanjuntak and Margono (2022) analyze the effects of service innovation on customer loyalty with satisfaction as an intervening variable, confirming the mediating role of satisfaction. These studies suggest that innovation affects retention indirectly through its impact on customer perceptions and satisfaction, highlighting the importance of understanding these intermediate mechanisms. Li et al. (2023) examine technology innovation, customer retention, and firm performance among Chinese SMEs in the post-pandemic era, finding that technology-based innovations contribute significantly to both retention and overall performance. Rane (2023) further explores how artificial intelligence, Internet of Things, and big data technologies can enhance customer satisfaction, engagement, and retention, suggesting that emerging technologies offer new opportunities for innovation-based retention strategies.

Kataria et al. (2023) examine the relationship between customer empowerment, customer retention, and firm performance, finding that innovation and customer satisfaction mediate these relationships. This research highlights that innovation contributes to retention not only through improved products and services but also through enhanced customer empowerment and engagement. For SMEs seeking to build stronger customer relationships, innovations that give customers greater control and involvement may be particularly effective.

III. METHODOLOGY

This study utilizes a survey research design to gather primary quantitative data from small and medium enterprises (SMEs) in Kano State, Nigeria. This approach is suitable as it facilitates the collection of standardized data on innovation practices and customer retention from a representative sample, aligning with Creswell's (2014) recommendations. The target population includes formally registered SMEs across manufacturing, trading, and services sectors, with an estimated size exceeding 15,000 based on data from SMEDAN and the Kano State Ministry of

Commerce and Industry. The study limits inclusion to SMEs operational for at least three years to allow observable patterns in innovation and retention.

Sample size is determined using Krejcie and Morgan's (1970) table, yielding 375 respondents for a population of 15,000 at 95% confidence level and 5% margin of error. To mitigate non-response, 450 questionnaires are distributed. Data collection involves personal administration by trained research assistants targeting owner-managers or senior staff knowledgeable in the areas. The process spans six weeks to cover various locations in Kano State, enhancing response rates and quality. Analysis uses SPSS for descriptive statistics (means, standard deviations, frequencies, percentages) to profile data, and multiple regression to examine relationships between innovation dimensions and customer retention, evaluating direction, magnitude, and controlling confounders.

IV. RESULTS

4.1 Response Rate and Demographic Characteristics

Of the 450 questionnaires distributed to SMEs across Kano State, 412 were returned, representing a response rate of 91.6%. After data screening to identify incomplete or inconsistent responses, 387 questionnaires were deemed suitable for analysis, yielding an effective response rate of 86.0%. According to established research standards, a response rate exceeding 70% is considered excellent and supports the reliability of findings (Mugenda & Mugenda, 2016).

Table 1: Demographic Characteristics of Respondents and Enterprises

Demographic Variable	Category	Frequency	Percentage (%)
Business Sector	Manufacturing	124	32.0
	Trading	156	40.3
	Services	107	27.7
	Total	387	100
Business Age	3-5 years	142	36.7
	6-10 years	153	39.5
	Above 10 years	92	23.8
	Total	387	100
Number of Employees	1-9 (Micro)	168	43.4
	10-49 (Small)	154	39.8
	50-199 (Medium)	65	16.8
	Total	387	100
Form of Ownership	Sole Proprietorship	246	63.6
	Partnership	89	23.0
	Limited Company	52	13.4
	Total	387	100
Respondent Position	Owner/Manager	267	69.0
	Manager	78	20.2
	Senior Staff	42	10.8
	Total	387	100
Respondent Gender	Male	298	77.0
	Female	89	23.0
	Total	387	100
Respondent Education	Primary/Secondary	87	22.5
	Diploma/NCE	134	34.6
	Bachelor's Degree	121	31.3
	Postgraduate	45	11.6
	Total	387	100

Table 1 presents the demographic characteristics of respondents and their enterprises. The sample distribution across business sectors shows that trading enterprises constitute the largest proportion (40.3%), followed by manufacturing (32.0%) and services (27.7%). This distribution reflects the economic structure of Kano State, where trading activities dominate the SME landscape. Regarding business age, the majority of enterprises have been operating for 6-10 years (39.5%), followed by 3-5 years (36.7%) and above 10 years (23.8%), indicating that most sampled enterprises have sufficient operational experience to have developed innovation practices and customer retention patterns.

The enterprise size distribution shows that micro enterprises (1-9 employees) constitute 43.4% of the sample, small enterprises (10-49 employees) represent 39.8%, and medium enterprises (50-199 employees) account for 16.8%. This distribution is consistent with national SME statistics indicating that micro and small enterprises dominate the sector. The predominance of sole proprietorships (63.6%) among ownership forms is typical of the Nigerian SME sector, followed by partnerships (23.0%) and limited companies (13.4%).

Respondent characteristics indicate that the majority are owner-managers (69.0%), ensuring that responses reflect direct knowledge of both innovation activities and customer retention outcomes. The gender distribution shows male dominance (77.0%), which is consistent with overall entrepreneurship patterns in Northern Nigeria. Educational qualifications are moderately distributed, with the majority holding diplomas (34.6%) or bachelor's degrees (31.3%), suggesting adequate capacity to understand and implement innovation practices.

4.2 Descriptive Statistics of Study Variables

Table 2: Descriptive Statistics of Innovation Dimensions and Customer Retention

Variable	Mean	Std. Deviation	Minimum	Maximum
Product Innovation	3.42	0.87	1.20	5.00
Service Innovation	3.58	0.79	1.40	5.00
Process Innovation	3.31	0.92	1.00	5.00
Customer Retention	3.67	0.74	1.60	5.00

Table 2 presents the descriptive statistics for the study variables. All variables demonstrate mean scores above the midpoint of 3.0, indicating generally positive levels of innovation practices and customer retention among sampled SMEs. Service innovation records the highest mean score (3.58) among innovation dimensions, suggesting that SMEs in Kano State place greater emphasis on service improvements compared to product or process innovations. Customer retention shows a mean score of 3.67, indicating moderately high customer retention levels among the sampled enterprises. Standard deviations ranging from 0.74 to 0.92 suggest reasonable variation in responses across enterprises.

4.3 Hypothesis Testing

The study tests three hypotheses examining the relationships between innovation dimensions and customer retention. Multiple regression analysis is employed to assess these relationships simultaneously while controlling for potential confounding effects.

Hypotheses:

H_{01}: Product innovation has no significant effect on customer retention among SMEs in Kano State.

H_{02}: Service innovation has no significant influence on customer retention among SMEs in Kano State.

H_{03}: Process innovation has no significant impact on customer retention among SMEs in Kano State.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.724	0.524	0.520	0.513	1.876

a. Predictors: (Constant), Product Innovation, Service Innovation, Process Innovation

b. Dependent Variable: Customer Retention

The model summary in Table 3 reveals that the three innovation dimensions collectively explain 52.4% ($R^2 = 0.524$) of the variance in customer retention among SMEs in Kano State. The adjusted R-square of 0.520 confirms this explanatory power when accounting for the number of predictors. The R value of 0.724 indicates a strong positive relationship between the combined innovation dimensions and customer retention. The Durbin-Watson statistic of 1.876 falls within the acceptable range of 1.5-2.5, indicating no significant autocorrelation and confirming model appropriateness.

Table 4: ANOVA Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	110.847	3	36.949	140.526	0.000
Residual	100.672	383	0.263		
Total	211.519	386			

a. Predictors: (Constant), Product Innovation, Service Innovation, Process Innovation

b. Dependent Variable: Customer Retention

The ANOVA results in Table 4 demonstrate that the overall regression model is statistically significant ($F = 140.526$, $p < 0.001$). This indicates that the three innovation dimensions collectively have a significant effect on customer retention among SMEs in Kano State. The significant F-statistic confirms that the model provides a better fit to the data than a model with no predictors.

Table 5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	0.892	0.147		6.068	0.000
Product Innovation	0.287	0.047	0.337	6.106	0.000
Service Innovation	0.324	0.051	0.346	6.353	0.000
Process Innovation	0.168	0.043	0.209	3.907	0.000

a. Dependent Variable: Customer Retention

Table 5 presents the regression coefficients for the innovation-retention relationships. All three innovation dimensions show positive and statistically significant effects on customer retention at the $p < 0.001$ level, leading to the rejection of all three null hypotheses.

The unstandardized coefficient of 0.287 indicates that a one-unit increase in product innovation is associated with a 0.287 increase in customer retention, holding other variables constant. The standardized beta of 0.337 indicates that product innovation makes a moderately strong contribution to customer retention. The t-value of 6.106 and significance level of 0.000 confirm that product innovation has a significant positive effect on customer retention among SMEs in Kano State, thus rejecting H_1.

Service innovation demonstrates the strongest effect on customer retention among the three innovation dimensions, with an unstandardized coefficient of 0.324 and a standardized beta of 0.346. This indicates that a one-unit increase in service innovation corresponds to a 0.324 increase in customer retention. The t-value of 6.353 and significance level of 0.000 provide strong evidence that service innovation significantly influences customer retention, thus rejecting H2.

Process innovation shows a positive and significant effect on customer retention, with an unstandardized coefficient of 0.168 and a standardized beta of 0.209. While this effect is smaller than those of product and service innovation, it remains statistically significant ($t = 3.907$, $p < 0.001$), confirming that process innovation has a significant impact on customer retention and rejecting H3.

4.4 Discussion of Findings

The study findings reveal that all three innovation dimensions; product innovation, service innovation, and process innovation significantly and positively affect customer retention among SMEs in Kano State. These findings contribute to the growing body of evidence supporting innovation as a strategic tool for maintaining customer relationships in competitive market environments. The significant positive effect of product innovation on customer retention aligns with previous research in the Nigerian context and beyond. Christian et al. (2024) similarly found that brand innovation strategies contribute to customer retention among soft drink firms in Nigeria, supporting the present findings. Furthermore, the results are consistent with Aniuga and Ogba (2021), who established that product innovation significantly influences customer satisfaction in the Nigerian brewery industry, which serves as a precursor to retention. The standardized beta coefficient of 0.337 indicates that product innovation makes a substantial contribution to explaining customer retention variance, underscoring its strategic importance for SMEs seeking to maintain loyal customer bases. The finding that service innovation has the strongest effect on customer retention among the three innovation dimensions is particularly noteworthy. This result corroborates the findings of Ayinaddis (2023), who demonstrated that service innovation significantly influences customer satisfaction and loyalty intention in the Ethiopian telecom sector. Similarly, Awuku et al. (2023) found that service innovation practices enhance customer loyalty in the telecommunications industry. The prominence of service innovation in driving customer retention may reflect the increasing importance of service quality and customer experience in contemporary markets, where customers evaluate not only what they receive but also how they receive it. Nguyen et al. (2024) provide further support for this finding through their research on Vietnamese retail banks, confirming the significant impact of service innovation on both satisfaction and loyalty.

The significant but relatively smaller effect of process innovation on customer retention is consistent with the understanding that process improvements often influence customer outcomes indirectly through enhanced efficiency and quality consistency. Iherobiem and Sanusi (2023) emphasized process innovation as a strategic tool for organizational performance enhancement,

which subsequently contributes to customer satisfaction and retention. While customers may not directly observe process innovations, they experience their outcomes through improved quality, faster delivery, and more responsive service. Li et al. (2023) support this interpretation by demonstrating that technology innovation, including process improvements, contributes to business continuity and customer retention in challenging business environments. The collective explanatory power of the three innovation dimensions ($R^2 = 0.524$) indicates that innovation practices account for more than half of the variance in customer retention among Kano State SMEs. This substantial explanatory power underscores the strategic importance of innovation for customer retention and suggests that SMEs investing in innovation are likely to achieve significantly better retention outcomes. The findings align with Takemeyang (2025), who concluded that innovation plays a crucial role in enhancing customer satisfaction and retention in African banking contexts. However, the remaining unexplained variance (47.6%) suggests that other factors also influence customer retention among SMEs. These may include factors such as pricing strategies, relationship management practices, customer service quality, and external market conditions. Cavaliere et al. (2021) highlight the importance of customer relationship management practices for retention, while Kataria et al. (2023) emphasize customer empowerment as an additional factor contributing to retention outcomes.

5.1 Conclusion

This study examined innovation as a strategic tool for customer retention among small and medium enterprises in Kano State, focusing on the effects of product innovation, service innovation, and process innovation. The findings demonstrate that all three innovation dimensions significantly and positively affect customer retention, collectively explaining 52.4% of the variance in retention outcomes. Service innovation emerged as the strongest predictor of customer retention, followed by product innovation and process innovation. The study contributes to the existing literature by providing empirical evidence of the innovation-retention relationship in the Nigerian SME context, particularly within Kano State. The findings support the resource-based view perspective that innovation capabilities constitute valuable strategic resources that enable SMEs to create superior customer value and maintain competitive advantage. Furthermore, the results highlight the multidimensional nature of innovation and its varied effects on customer retention, suggesting that SMEs should pursue comprehensive innovation strategies that address product, service, and process dimensions simultaneously. The practical implications of this study are significant for SME owners, managers, and policymakers in Kano State. For business practitioners, the findings underscore the importance of investing in innovation as a means of sustaining customer relationships and enhancing business viability. For policymakers, the results highlight the need to support SME innovation capabilities through appropriate interventions including access to finance, technology, and training.

5.2 Recommendations

Based on the study findings, the following recommendations are proposed:

i. SME owners and managers should prioritize service innovation initiatives, as this dimension demonstrates the strongest effect on customer retention. Investments in improving service delivery processes, customer interaction methods, and service personalization are likely to yield significant returns in terms of customer loyalty and retention.
ii. Product innovation efforts should focus on enhancing product quality, features, and value proposition to meet evolving customer needs. SMEs should regularly assess customer

preferences and market trends to identify opportunities for meaningful product improvements that strengthen customer relationships.

iii. Process innovation should not be neglected despite its relatively smaller direct effect on customer retention. Investments in operational efficiency, quality consistency, and delivery improvements contribute to overall customer satisfaction and enable SMEs to compete effectively on value.

iv. Government agencies such as SMEDAN and the Kano State Ministry of Commerce should develop programs that support SME innovation capabilities through training, financing, and technology access initiatives.

v. SME associations and industry groups should facilitate knowledge sharing and collaborative learning among member enterprises regarding innovation practices and their implementation for customer retention.

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