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Innovation, Customers Satisfaction and Retention in Commercial Banks in the Buea Municipality

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***Abstract*—** With increasing competition in the banking market, most businesses seek to attain a competitive position through innovation in the market by focusing on customer satisfaction and retention. In this light, this study was out to examine the effect of innovation on customer satisfaction and retention in commercial banks in the Buea Municipality. To this effect, a survey design was adopted for the investigation that gave room for the collection of primary data from 384 customers of commercial banks in Buea. These customers were selected randomly and the data obtained was analysed using a series of multiple regressions. The results of this study showed that process, market and organisational innovations all had significant effects on customer satisfaction while product innovation had an insignificant effect. Also, the results illustrated the fact that innovation in terms of product, process, market and organisational innovations all had significant effects on customer retention. Finally, this study's results demonstrated the fact that that process, market and organisational innovations all had significant effects on customer satisfaction and retention as a collapsed variable while product innovation had an insignificant effect.

***Keywords*—** Innovation, Customer Satisfaction and Customer Retention.

1. INTRODUCTION

Facing increasing competition in the market, most businesses seek to attain a competitive position in the market. To achieve this goal, most companies realized that customer satisfaction and retention was the focal point to concentrate. One of the strategies of achieving customer's satisfaction and retention is continuous innovation. Innovations and changes to business models are demanded to be more efficient and effective. Schumpeter (1934) advanced that innovation has to do with any new policy that an entrepreneur undertakes to reduce the overall cost of production or increase the demand for his product. Innovation means to create a new product or make and implement a new process; the main purpose of innovation is to gain sustainable competitive edge or improve the efficiency of the organisation and to get customer satisfaction (Barton, 2018).

Zafar & Naveed (2014)claimed that when a company makes an innovative product, customer satisfaction is achieved and the loyalty of the customers also increases towards their products there by leading to retention. In this light, the value of the innovated product in the view of customer is enhanced. Innovation is a crucial element in the success of companies in a competitive environment through their satisfaction (Wang et al., 2016). Nowadays the companies adopting innovation use internal and external technology resources to empower their businesses. In the words of (Diaw & Asare, 2018)customer satisfaction and retention are incredibly important for growing a sustainable business in an extensively competitive environment. Marketers are becoming more aware that it is more cost effective to make sure customers never get on the exit path to competitors in the first place and are implementing retention strategies (preemptive and proactive).

In recent years, the standing importance of innovation has been on the rise because consumers demand assorted or varied products of producers increasingly. Shane & Ulrich (2004)demonstrated that after introduction of an innovative product, it increases its features, the customer achieves these characteristics and value of the customer maximizes. When he or she is satisfied from the product they buy more products. Moreover, innovation maintains and expand the spot or position of a company in the market (Baldassarre et al., 2017). Innovation powers the business model of a company and enables the company gain values from not only its own business, but also the businesses of other companies by using key assets, resources or opportunities (Galloway et al., 2017). Dibie et al. (2019)ascertained that organizations should be passionate about incorporating specific qualities that delivers satisfaction to their customers through dynamic innovation so as to keep attracting, retaining customers and increasing market share new customers. As attested by Yuni, Sumitro and Abd

(2021), innovations in product can increase customer satisfaction and make customers commit to a brand (retention). Both technological and non-technological innovations have the ability to affect both external and internal effectiveness as new customers needs are met (Samuelsson, 2023).

Cameroon operates many businesses that focus on activities running from primary through secondary and tertiary activities. Tertiary activities have to do with the provision of services such as banks. The competition between commercial banks in Cameroon has been increasing for last few years making the retention of customers by banks a difficult mission. These banks compete with one another for customers and market share in order to survive. In the Buea Municipality these banks get success through customer satisfaction through continuously innovating their services rendered to their customers in order to satisfy and retain them.

Despite the numerous recompenses or benefits/pluses of innovation, most customers of some commercial banks in the Buea Municipality are still unsatisfied by their bank services so switch to other banks (making their retention a very serious issue). Most researchers in order to contribute knowledge in this area focus on innovation and customers satisfaction. So, this study is out to investigate the effect of innovation on customer satisfaction and customer retention in commercial banks in the Buea Municipality.

2. LITERATURE REVIEW

2.1 Conceptual Literature

Innovation

As viewed by Yuhan (2009), innovation is the foundation or presentation of value. When the word innovation is used, it captures creation of something new by an organisation that satisfy its customers and increases the market share. Innovation take account the formation of an idea as well as the adoption and execution of new ideas in processes, products and services. In the words of Pan & Zinkhan (2006), innovation is used for strategic orientation toward customer satisfaction, loyalty, and to gain market potential that increase the market share of the company. With motivation drawn from Diaw and Asare (2018), innovation in this study is captured in terms of product, process, market and organizational innovation.

Customers Satisfaction and Retention

Customer satisfaction is a business term which ascertain that the product which a company supplied to its customers is satisfying them (Naveed et al., 2013). Furthermost researchers agree that customer satisfaction refers to an attitude or evaluation formed by a customer comparing pre-purchase expectations of what they would receive from the product or service to their subjective perceptions of the performance they actually did receive (Pishgar-Komleh et al., 2013). The evaluative nature of customer's satisfaction specifies whether a product, trademark or store can meet expectations (Zain & Saidu, 2016).

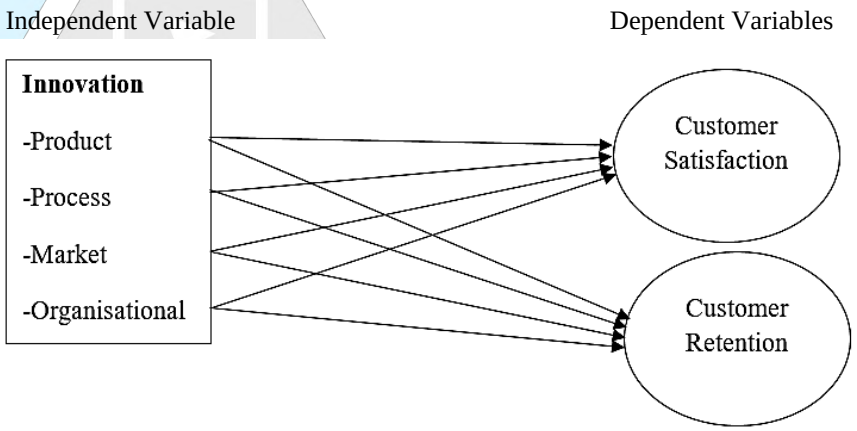

Figure 1: *Link between Innovation, Customer Satisfaction and Customer Retention*
Source: Author (2023) as Adapted from Diaw and Asare (2018)

Figure 1 shows the link that exist between innovation, customers satisfaction and customer retention. Innovation is captured with product innovation, process innovation, market innovation and organisational innovation as related to customers' satisfaction and retention.

2.2 Empirical Literature

Samuelsson (2023) studied innovation and effectiveness in Sweden and found out that both technological and non-technological innovations affected external and internal effectiveness as new customers' needs are met. Yuni, Sumitro and Abd (2021) conducted a study on the effect of product innovation on customers satisfaction and loyalty and concluded that innovations in product can increase customer satisfaction and make customers commit to a brand (retention). (2019) carried out a study to examine the effect of service innovation on customer satisfaction Indihome internet provider in Central Java through corporate reputation as variable intervening. The findings of this study revealed that innovation service is important in building corporate reputation offered to customers. (Diaw & Asare, 2018)examined the effect of innovation on customer satisfaction and customer retention in the telecommunication industry in Ghana: customers' perspectives. Data were collected using questionnaire from 150 customers of MTN, Vodafone, Tigo-Airtel, Glo, and Expresso. The data was analyzed and a significant positive relationship was found between innovation and customer satisfaction and retention.

Daragahi (2017)conducted a study on the Impact of Innovation on Customer Satisfaction: A Study of the Cosmetics Producer in Tehran. The simple random sampling method was used to select 387 customers of cosmetics. The results indicated that innovation in product presentation had a positive effect on the satisfaction of customers consuming cosmetics. Naveed et al. (2013)investigated the impact of innovation on customer satisfaction and brand loyalty: a case study of student of Faisalabad Pakistan. Data was collected through questionnaire from 85 university students, received questionnaires were tested through simple linear regression and correlation for appropriate findings. The results described the significant relationship of innovation with customer satisfaction and brand loyalty.

With literature fully reviewed, it could be established that most of the studies on innovation, customer satisfaction and retention were conducted in the developed world (Naveed et al., 2014; Daragahi, 2017; Kurniawan et al., 2019; Yuni, Sumitro & Abd, 2021; Samuelsson, 2023) with just one in Africa (Diaw & Asare, 2018)

3. METHODOLOGY

This paper adopted a survey research design. This research design was selected for this study as it helped to gather data from a sample of the population which was customer satisfaction of commercial banks in the Buea Municipality. This study made use of only the primary source of data collected through the uses of self-administered questionnaires. The population of this study was unknown as it constituted customers of Ecobank, NFC Bank, BICCEC Bank, Atlantic Bank, UBA Bank and Atlantic Bank. A sample size of 384 customers were selected as a sample size for an unknown population as per the sample size determination Table by Krejcie and Morgan (1970).

Estimation Technique

Both the descriptive and inferential statistics were used in the analysis of the data collected using SPSS analytical tool. Inferentially, the Ordinary Least Square regression was used for the estimation where a series of multiple regression were done as per the models presented in equations 2, 4 and 6.

In this light, through a multiple regression, innovation (independent variable) was regressed on customer satisfaction (dependent variable 1) and in order to test for its significance. That is, multiple independent variables PIN, PROS, MIN and OIN (product, process, market and organizational innovations respectively) on a dependent variable (customer satisfaction). This is expressed in equation 2.

Y_1 = Customer Satisfaction

$Y_1 = f(PIN, PROS, MIN \& OIN)$ …….……. (1)

$Y_{1i} = \beta_{0i} + \beta_1 PIN_i + \beta_2 PROS_i + \beta_3 MIN_i + \beta_4 OIN_i + \mu_i$…….……..…. (2)

Secondly, innovation (independent variable) was regressed on customer retention (dependent variable 2) and in order to test for its significance. This implies regressing multiple independent variables PIN, PROS, MIN and OIN (product, process, market and organizational innovations respectively) on a dependent variable (customer retention). This relationship is expressed in equation 4.

Y_2 = Customer Retention
Y_2 = f (PIN, PROS, MIN & OIN) ……..……..(3)
$Y_{2i} = \beta_{0i} + \beta_1 PIN_i + \beta_2 PROS_i + \beta_3 MIN_i + \beta_4 OIN_i + \mu_i$ ……..……..……..…… (4)

Finally, innovation was regressed on both customer satisfaction and customer retention as one main dependent variable. For this to be done, the scores of customer satisfaction and customer retention were averaged (to obtain Y_3 which is a collapsed variable). This implies innovation in terms of product, process, market and organizational innovations demoted as PIN, PROS, MIN and OIN respectively was regressed on customer satisfaction and retention as a collapsed variable (Y_3) as illustrated by equation 6.

Collapsed Variable (Y_3) = {Customer Satisfaction (Y_1) + Customer Retention (Y_2)}
Y_3 = f (PIN, PROS, MIN & OIN) ……..……..(5)
$Y_{3i} = \beta_{0i} + \beta_1 PIN_i + \beta_2 PROS_i + \beta_3 MIN_i + \beta_4 OIN_i + \mu_i$ ……..……,…..(6)
Where, β_0 is the constant term, β_1, β_2, β_3 and β_4 are the parameters to be investigated while μ is the error term.

A Priori Expectation
$\beta_0 \neq 0$, $\beta_1 > 0$, $\beta_2 > 0$, $\beta_3 > 0$ and $\beta_4 > 0$. The expectation here is that all the variables of the independent variable (innovation) are positively related to dependent variables (customer satisfaction and customer retention).

4. RESULTS

4.1 The Effect of Innovation on Customer Satisfaction

$Y_{1i} = \beta_{0i} + \beta_1 PIN_i + \beta_2 PROS_i + \beta_3 MIN_i + \beta_4 OIN_i + \mu_i$ ……..…..(2)

Table 1: *Innovation on Customers Satisfaction*

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	Std. Error	Beta		
(Constant)	8.615*	.801		10.801	.000
Product Innovation	.092	.075	.087	1.239	.216
Process Innovation	-0.396*	.081	-0.243	-4.922	.000
Market Innovation	.501*	.093	.347	5.404	.000
Organisational Innovation	.275*	.075	.268	3.645	.000
R	.564				
R-square	.318				
Adjusted R^2	.311				
F(4,379)	44.245				
Sig	.000[b]				
(*) 1% Level of Significance					
a. Dependent Variable: Customer Satisfaction					
b. Predictors: (Constant), Product Innovation (PIN), Process Innovation (PROS), Market Innovation (MIN) and Organisational Innovation (OIN)					

Based on the regression results presented in Table 1, there is a positive (0.092) but insignificant effect of product innovation on customer satisfaction. There is a negative (-0.396) but significant effect of process innovation on customer satisfaction. That is, a unit increase in process innovation leads to a 0.396 unit fall in the level of customer's satisfaction. In this same light, a positive (0.501) and significant effect could be observed between market innovation and customer satisfaction. This implies a unit increase in market innovation will lead to a 0.501-unit increase in customer's satisfaction. The results of market innovation are significant at 1% level of significance (P-value < 0.01). Same goes for organisational innovation that indicates a positive (0.275) and significant effect on customer satisfaction. Specifically, a unit increase in organisational innovation leads to a 0.275-unit increase in the level of customer's satisfaction and these results are significant at 1% level of significance (P-value < 0.01).

The ANOVA results illustrate the fact that the regression equation in the model fits the data. Results show that F (4, 379) = 44.245, P-value of 0.000b is less than 0.01. This indicates that the overall regression model statistically predicts the outcome variable (i.e., it is a good fit for the data). The value of the adjusted R square is 0.311; which indicates that 31.1% changes in customer satisfaction is accounted for by the inclusive variables (product, process, market and organisational innovations) while 68.9% changes are accounted for by the error term. The significant part of these results are in line with the work of Naveed et al. (2014) who investigated the impact of innovation on customer satisfaction and brand loyalty: a case study of student of Faisalabad Pakistan.

As the results indicated the significant relationship of innovation with customer satisfaction and brand loyalty. Also, these results contradict the results of Daragahi (2017) who conducted a study on the impact of innovation on customer satisfaction: A study of the cosmetics producer in Tehran. The results indicated that innovation in product presentation had a positive effect on the satisfaction of customers consuming cosmetics.

4.2 The Effect of Innovation on Customer Retention

$Y_{2i} = \beta_{0i} + \beta_1 PIN_i + \beta_2 PROS_i + \beta_3 MIN_i + \beta_4 OIN_i + \mu_i$ ……………………………….…….(4)

Table 2: *Innovation on Customers Retention*

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	Std. Error	Beta		
(Constant)	-0.719	.804		-0.894	.372
Product Innovation	-0.197*	.075	-0.152	-2.638	.009
Process Innovation	.308*	.081	.153	3.809	.000
Market Innovation	.611*	.093	.343	6.564	.000
Organisational Innovation	.615*	.076	.487	8.129	.000
R	.740				
R-square	.547				
Adjusted R^2	.543				
F(4,379)	114.598				
Sig	$.000^b$				
(*) 1% Level of Significance **a. Dependent Variable: Customer Retention**					
b. Predictors: (Constant), Product Innovation (PIN), Process Innovation (PROS), Market Innovation (MIN) and Organisational Innovation (OIN)					

Going bay the results presented in Table 2 as an outcome of equation (4), it indicates the fact that there is a negative (-0.197) but significant effect of product innovation on customer retention. That is, a unit increase in product innovation leads to a 0.197 units fall in the level of customer retention at 1% level of significance. There is a positive (0.308) and significant effect of process innovation on customer retention. That is, a unit increase in process innovation leads to a 0.308-unit increase in the level of customer's retention at 1% level of significance. In this same light, a positive (0.611) and significant effect was established between market innovation and customer retention. This implies a unit increase in market innovation will lead to a 0.611-unit increase in customer's retention. The results of market innovation are significant at 1% level of significance (P-value < 0.01). Same is the case of organisational innovation that indicates a positive (0.615) and significant effect on customer retention. Specifically, a unit increase in organisational innovation leads to a 0.615-unit increase in the level of customer's satisfaction and these results are significant at 1% level of significance (P-value < 0.01).

In line with the ANOVA results, the model fits the data. Results show that F (4, 379) = 114.598, P-value of 0.000b is less than 0.01(1% level of significance). This indicates that the overall regression model statistically predicts the outcome variable (i.e., it is a good fit for the data). The value of the adjusted R square is 0.543; which is very good. This value implies up to 54.3% changes in customer retention is accounted for by the inclusive

variables (product, process, market and organisational innovations) while just 45.7% changes are accounted for by the error term. The significant part of these results are in line with the work of Asante and Bayoh (2017) who investigated the effect of innovation on customer retention in the Ghanaian Telecommunication Industry. The results showed that innovation had a positive effect on customer retention.

4.3 The Effect of Innovation on Customer Satisfaction and Retention

$Y_{3i} = \beta_{0i} + \beta_1 PIN_i + \beta_2 PROS_i + \beta_3 MIN_i + \beta_4 OIN_i + \mu_i$ ……..…….(6)

Table 3: *Innovation on Customers Satisfaction and Retention*

Model	**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
	B	Std. Error	Beta		
(Constant)	8.292*	.888		9.336	.000
Product Innovation	-0.006	.083	-0.004	-0.076	.940
Process Innovation	-0.243*	.089	-0.111	-2.716	.007
Market Innovation	.806*	.103	.416	7.842	.000
Organisational Innovation	.582*	.084	.424	6.965	.000
R	.730				
R-square	.533				
Adjusted R2	.528				
F(4,379)	108.186				
Sig	.000b				
(*) 1% Level of Significance **a. Dependent Variable: Customer Satisfaction and Retention**					
b. Predictors: (Constant), Product Innovation (PIN), Process Innovation (PROS), Market Innovation (MIN) and Organisational Innovation (OIN)					

As a result of analysis done based on equation (6), the coefficient of product innovation is negative (-0.006) and insignificant. That is, a unit increase in product innovation leads to a 0.006 units fall in the level of customer satisfaction and retention as a collapsed variable. There is a negative (-0.243) but significant effect of process innovation on customer satisfaction and retention (collapsed variable). That is, a unit increase in process innovation leads to a 0.243-unit decrease in the level of customer's retention at 1% level of significance. In this same light, a positive (0.806) and significant effect was established between market innovation and collapsed customer satisfaction and retention. This implies a unit increase in market innovation will lead to a 0.806-unit increase in collapsed customer satisfaction and retention.

The results of market innovation are significant at 1% level of significance (P-value < 0.01). The case of organisational innovation indicate a positive (0.582) and significant effect on combined customer satisfaction and retention. To be more specific, a unit increase in organisational innovation leads to a 0.582-unit increase in the level of customer satisfaction and retention (collapsed variable) and these results are significant at 1% level of significance (P-value < 0.01).

The ANOVA results in Table 3 indicate that the model fits the data. Results show that F (4, 379) = 108.186, P-value of 0.000b is less than 0.01(1% level of significance). This indicates that the overall regression model statistically predicts the outcome variable (i.e., it is a good fit for the data). The value of the adjusted R square is 0.528; which is very good.

This value implies up to 52.8% changes in customer satisfaction and retention is accounted for by the inclusive variables (product, process, market and organisational innovations) while just 47.2% changes are accounted for by the error term. These results are in line with the work of Diaw & Asare (2018) examined the effect of innovation on customer satisfaction and customer retention in the telecommunication industry in Ghana: customers' perspectives. The data was analyzed and a significant positive relationship was found between innovation and customer satisfaction and retention.

5. CONCLUSION

This study was out to investigate the effect of innovation on customers' satisfaction and customer retention of commercial banks in the Buea Municipality. The researchers proceeded by evaluating the effect of innovation on customer satisfaction. The result of this investigation illustrated the fact that process, market and organisational innovations all have significant effects on customer satisfaction while product innovation had an insignificant effect. Also, the research investigated the effect of innovation on customer retention and found out that innovation in terms of product, process, market and organisational all had significant effects on customer retention. Finally, the researcher assessed the effect of innovation on customer satisfaction and retention as a collapsed variable and the results indicated that process, market and organisational innovations all have significant effects on customer satisfaction and retention while product innovation had an insignificant effect.

6. RECOMMENDATIONS

In line with the conclusion, this paper presents the following recommendations; Firstly, the management of commercial banks should take in to consideration process, market and organiSational innovations as they were found to have significant effects on customer satisfaction. Special attention and investment should be given to product innovation so that in the future it might also lead to the desired results of improving the level of customer satisfaction. Secondly, with focus on customer retention, innovation in terms of product, process, market and organiSational innovations should be retained as strong determinants of customer retention. In this light, the management of commercial banks should bear in mind that when it comes to determining the level of customer satisfaction and retention, innovation should be paid full attention.

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