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The Influence of Organizational Agility on Customer Retention in Medium Scale Businesses in Nigeria

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Abstract

Firms that operate in the informal sector in most developing countries, are technologically backward, with low levels of human resource skills, weak management systems and entrepreneurial capabilities, unavailability of appropriate and timely information, insufficient use of information technology, poor product quality and standardization, and unfriendly environmental production processes. This has impeded their ability to take on suitable organizational forms. This research sought to ascertain if there is a significant relationship between organisational agility and customer retention in medium scale enterprises in the north-central zone of Nigeria. To achieve this objective, the variables were operationalized and a model specified. The study adopted descriptive survey research design. Data were gathered from primary source and the study hypothesis was tested using the Multiple Regression Technique. From the result of the regression analysis, organizational agility was found to have positive and significant relationship with customer retention in medium scale enterprises in North- Central Nigeria. Based on these findings, the study recommended that enterprises should exploit the resources that generate their present value while also exploring new opportunities to adapt it to changing markets.

Keywords: Agility, Adaptability, Retention, Business Environment

JEL Classification: M10, M19

Introduction

Trends that are extremely erratic and unpredictable are forcing executives to reconsider conventional business arrangements. Technological advancements and heightened competition in terms of price, quality, and service have compelled businesses to find innovative approaches to both completing and organizing their backlog of work (Hernaus, 2018). Unexpected events, which can occur inside or outside of an organization and can have various dimensions, including type, time, place, frequency, and duration, are typically dealt with by organizations. Organizations need to be equipped to handle all of these unexpected manifestations in order to thrive in unpredictable circumstances and promote future success. According to Valikangas (2010), companies with inventive minds and adaptable cultures do well in uncertain settings. According to Eniola & Ektebang (2014), innovative goods, manufacturing methods, and markets, as well as the restructuring of an established company to adapt to rapidly advancing technology, are characteristics of entrepreneurial enterprises.

Problem Statement

The difficulties faced by Nigeria's small and medium-sized businesses are typically linked to a number of economic factors and issues that broadly define the country's economy. These factors and issues include the country's high unemployment rate, high rate of poverty, low capacity for industrialization, inadequate funding, inadequate infrastructure, and an unstable business climate. On the other hand, Oviawe (2010) makes the case for better economic development and entrepreneurship through appropriate and targeted education. From an inward-looking perspective, Baig (2007) asserts that in many developing nations, small and medium-sized enterprises (SMEs) operating in the informal sector are technologically dated, possessing low levels of human resource expertise, inadequate management systems, and limited entrepreneurial potential. They also lack access to timely and relevant information, utilize information technology insufficiently, produce subpar and inconsistent products, and use unfriendly production methods that harm the environment. This supports the study's underlying hypothesis, which holds that although these businesses have difficulties due to the external business environment, their incapacity to manage their own resources and competences may be a greater issue.

Study Objective

In light of this, the purpose of this study is to determine whether organizational agility and customer retention are significantly correlated while making the following hypothesis:

Hypothesis

$H_{1:}$ Organisational Agility has a significant influene on Customer Retention in the studied enterprises.

Organization Agility

The capacity to react swiftly to unforeseen developments is referred to as agility (Erande & Verma, 2008). It is the capacity of an organization to respond swiftly and efficiently to a drastically changing environment. Agility is defined differently by different people, but it is generally associated with quickness, fast thinking, teamwork, and shared objectives. According to Sanadgol (2014), agility is the capacity to react quickly to changes in the environment and seize opportunities as they arise. Agility, according to Raschke & David (2005), is the capacity to actively alter and/or reorganize a business process, selecting from a variety of business process capabilities to balance the needs of the company. The ability of an organization to accelerate the tasks on the critical path is referred to as agility, and as such, it signifies the organization's competitive advantage (Arteta & Giachetti, 2004). According to Gartner (2006), agility is the organization's capacity to recognize or initiate environmental change and adapt quickly and effectively to it. The focus is on the organization as a whole, not on its individual components. Sahota (2013) further on this by saying that adapting to change necessitates having an agile mentality. Using Agile methods concentrates on small-scale process enhancements that don't interfere with the functioning of the company structure. Organizational management must realize that while the organization cannot be nimble on its own, its people resources may (Wendler, 2014). Achieving organizational agility is thought to be crucial for preserving one's competitive edge in the face of change (Dalvi, 2013). Holbeche (2015) organized her approach around strategic agility, which is the capacity to continuously modify and adapt strategic direction in core activities as a function of strategic ambitions and changing circumstances. This allows for the creation of not only new products but also new business models and creative ways to create value in complex and rapidly changing conditions. This approach serves as a conceptual framework for defining the essential elements of organizational agility.

Concerns about change, uncertainty, and unpredictability in the workplace are growing across organizations. According to Esmaeil & Mohammadhossei (2018), the organization needs a variety of special qualities in order to meet these demands. The four characteristics outlined are considered the basis for maintaining and developing agility: Responsiveness, which is the capacity to identify changes and react to them quickly. This includes forecasting and reacting to changes quickly; Flexibility which comprises flexibility in production volume, flexibility in shape and product model, and flexibility in human resources, and characterizes the capacity to create, deliver products, and satisfy various goals utilizing available resources; Speed, which is the capacity to complete tasks in the least amount of time, include the prompt introduction of new goods and services to the market, the completion of tasks in a brief amount of time, and the prompt and efficient delivery of goods and services; Competence which encompasses a wide range of skills that guarantee the effectiveness of operations to meet organizational goals, includes having a strategic perspective, the appropriate technology, high-quality products, qualified personnel, the efficacy and efficiency of operations, internal and external cooperation, cost effectiveness, and the launch of new products.

Hasanpour & Labadi (2016) posit that human capital is thought to be an organization's most valuable asset since it has the ability to convert other production inputs and serve as a foundation for innovation. Putting money into human resources can boost employees' ability to produce, which will ultimately enhance organizational performance. Six dimensions were identified by Allied Consultants Europe (2010) as leadership and management, innovation, structure, strategy, learning and change, and culture. These dimensions are used to assess an organization's level of agility. Aghina, Smet, and Weerda (2015) claim that the core of true organizational agility is the capacity to be both dynamic and stable. They continued by identifying organizational structure, governance, and processes as the three main areas inside an organization where it is crucial to strike a balance between the innate tensions of stability and flexibility.

Customer Retention

According to Jeng and Bailey (2012), customer retention refers to a customer's involvement in a contract—which can be both formal and informal—through repeated transactions. The strategic goal of attempting to sustain long-term ties with clients is customer retention. According to Gerpott, Rams, and Schindler (2001), customer retention is seen as a crucial aspect in preserving the business relationship between a provider and a customer. It is a gauge of customer loyalty based on how well a company does at keeping its current clientele. Customer retention can however also refer to the number of clients who stick with the service provider throughout a predetermined time frame, such a year (Dawes, 2009).

It has been suggested that long-term customer lifetime value is directly impacted by customer retention. This is a more profitable strategy for businesses looking to protect themselves from market shrinkage brought on by a contracting economy or to pursue growth and sustainability (Gee, Coates, & Nicholson, 2008). These days, retaining clients is crucial to a flourishing company. Today, retaining customers is a critical component of determining a company's success. Markets are becoming more competitive every day, which could lead to a reduction in a company's customer loyalty. Consequently, businesses are coming up with innovative ways to improve client retention (Lin & Wu, 2011). According to Wei and Chiu (2002), as client retention boosts revenues and results in significant cost savings, it is a prevalent worry for many sectors and a critical issue for sustainability in today's constrained market place. Fluss (2010) points out that other businesses are constantly looking to steal clients by offering better deals. The goal of the customer life cycle is to acquire, hold, and retain customers over time. Clients go up a value ladder from suspects to prospects to first-time clients to majority clients, and they can even become partners or advocates. According to Athanasopoulou (2009), companies must establish enduring relationships with their clients in order to cultivate a devoted clientele and boost revenue. Customer repeat purchases is essential to a business's ability to survive (Stanny, Anderson, & Nowak, 2001). Due to their greater openness to the company's new services, current clients are more valuable than prospective new ones.

Acquiring a new client is more expensive than keeping an existing one, and loyal consumers are more likely to recommend you to others and are less price sensitive, so you can charge higher pricing. Because it increases profitability, businesses want to keep their current clientele over seeking out new ones (Edward & Sahadev, 2011). According to studies conducted by Daneshfar, Roshani, and Sabzali (2016) and Ha, Nguyen, Nguyen, and Anh (2018), customer satisfaction has an impact on customer retention. Four factors have been used to quantify client retention, according to study by Maxham (2000): loyalty to the company, good word-of-mouth, repeat purchase intentions, and overall firm satisfaction. A statistically significant association between quality commitment, trust and satisfaction, customer retention, and future product use was established in a recent study by Lin and Wu (2011). According to Robert-Lombard and Du (2012), trust and commitment are positively correlated with cooperative behavior, which is crucial for the development and upkeep of long-term client connections as well as relationship marketing success. The longer the relationship, the happier the customer. The corporation stands to gain more money the longer this continues. A variety of factors account for the effect of longevity on earnings. Firstly, the expense of gaining a new customer is only incurred at the beginning of the relationship. This implies that this expense is reduced the longer a customer stays. Second, it's common for loyal customers to be less sensitive to pricing, allowing for greater charges. Third, satisfied, long-term clients are likely to offer free word-of-mouth recommendations for advertising. Finally, loyal customers are probably going to buy more stuff.

Theoretical Framework

Teece and Pisano (1994) proposed the Dynamic Capability framework (DCT), which serves as the foundational framework for this investigation. The link between resource modification and corporate benefit is the central emphasis of DCT. According to the theory, businesses that can respond quickly and adaptably to innovation and simultaneously manage their unique capabilities in order to efficiently coordinate and redistribute internal and external competencies will have a competitive advantage. It is the capacity to quickly and nimbly adapt to shifting market conditions in order to create new kinds of competitive advantage (Gizawi, 2014). The term "dynamic capability" refers to a company's capacity to combine, develop, and rearrange internal and external competencies in response to quickly evolving circumstances. The three primary components of the dynamic capabilities hypothesis are adaptive capabilities, absorptive capabilities, and innovative skills. These components serve as the foundation for the study's focus on organizational agility. The capacity of a business to recognize and seize emerging markets is known as adaptive capability. The ability of a company to identify the value of fresh, outside knowledge, absorb it, and use it for business purposes is known as absorptive capability. According to Wang and Ahmed (2004), innovative competence is the capacity to create new goods and/or markets by coordinating inventive behaviors and processes with a strategic innovative orientation. The ability of an organization to adjust its product-market scope, react quickly to changing market conditions, monitor consumers and competitors, scan the market information, and respond to external opportunities are all examples of its agility.

Empirical Review

A review of existing empirical literature on the revealed that studies on organizational agility examined the subject matter against variables such as organizational performance, output, and business longevity. For instance, in a Jordanian information technology company, Alhadid (2016) investigated the impact of organizational agility on performance. A questionnaire that was created and sent to personnel in middle and senior management was used to collect data. Utilizing basic regression analysis, the researcher calculated the effect of organizational agility on organizational performance. The outcome demonstrated a positive association between organizational success and organizational agility.

This research however examined the interaction between the organisational agility and customer retention in entrepreneurial firms in the north-central zone of Nigeria. Speed, competence, and flexibility were adopted as operational measures of organisational agility.

Research Method

In order to gather and analyze data for the purpose of drawing conclusions and ideas from an existing situation without manipulating it in any way, this study used a descriptive survey research design. The medium-sized businesses in north-central Nigeria, made up the study population. As per the collaborative study conducted by SMEDAN and the National Bureau of Statistics in 2021, there are 243 medium-sized manufacturing enterprises located in the six (6) states of the north-central zone of Nigeria and the federal capital territory.

Validity of the Instrument

Kaiser-Meyer-Olkin (KMo) measure of sampling adequacy was adopted for a post-field test. Its purpose was to determine the strength of the partial correlation between variables. The Kaiser-Meyer-Olkin measure of sampling adequacy values were 0.630, 0.742,0.727, and 0.546.

Reliability of the Instrument

This study adopted the use of Cronbach's Alpha coefficient for reliability test at 5% level of significance. The reliability test indicates that the instrument measured the characteristics and behaviour within the test at alpha values of 0.63, 0.94, 0.65, and 0.70.

Method of Data Analysis

The study employed the use of multiple regression analysis in the analysis of data obtained to establish the extent to which the indices of agility affect the retention of customers. The nature of the research model which presents one dependent variable against multiple numbers of independent variable factors made multiple regression analysis suitable for use.

Estimation of Study Variables

Variables of the fourth objective are customer retention(Y) as the dependent variable and agility(X) as the independent variable captured by speed(X_1), competence(X_2), and flexibility(X_3).

Model Specification

$Y = a_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \mu$

Where:

Y= Customer Retention

x_1= Speed

x_2= Competence

x_3= Flexibility

μ = the error term

Operational Definitions of Variables

Speed describes the pace at which an organization successfully organizes and finances its response to a significant change or issue in the environment is referred to as speed. Competence describes the ability to possess the necessary knowledge, discernment, strength, or skill for a certain task or in a given area. Flexibility is the capacity and readiness to adjust to changes, especially in terms of what gets done and how.

Data Presentation and Analysis

Data Presentation

Table 1: Return Rate of the Respondents

Questionnaire Copies Administered	Questionnaire Copies not Returned	Questionnaire Copies Returned	Percentage (%)
243	3	240	100

Source: Field Survey, 2021

Data Analysis

The mean and standard deviation of the model variables were computed.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y	240	1.00	5.00	2.5542	.96659
x1	240	1.00	5.00	2.3167	1.07449
x2	240	1.00	5.00	2.3500	1.07189
x3	240	1.00	5.00	2.5750	1.36705
Valid N (listwise)	240				

Source: SPSS version 20.00

Test of Hypothesis

Decision Rule: Accept the alternate hypothesis if p-value < 0.05

Regression Result for Hypothesis

H_1: Organisational Agility has a significant relationship with customer retention in the selected enterprises.

Customer Retention Equation

Dependent Variable: Customer Retention

Method: Ordinary Least Square

Table 3: Results of Customer Retention Equation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	.583	.058	10.093	.000
Speed	.193	.146	1.324	.187
Competence	.693	.132	5.260	.000
Flexibility	-.040	.052	-.775	.439

Source: Extract from SPSS Ver. 20

Adjusted R^2 = 0.858

Prob (F-Statistic) = 0.000

Result Summary

The regression analysis result reveals that the model is fit for the study as the f-statistics is significant at 0.000 level of significance. This implies that all the variables used in the model are fit and are correlated. While speed and flexibility were found to be statistically insignificant with P-values greater than 5%, competence was found to have significant relationship with customer retention. While speed and competence were found to have a positive relationship with customer retention, flexibility was found to have a negative relationship with customer retention in medium scale firms in North- Central Nigeria. The Adjusted R-squared (R^2) value of 0.858 indicates that 85.8% variation in the dependent variable can be explained by variation in the independent variables and 14% can be explained by other factors not noted in the regression model but captured as the error term. The result indicates that organizational agility has a positive and significant relationship with customer retention. We therefore accept the alternate hypothesis that organizational agility has significant relationship with customer retention in medium scale firms in North-Central Nigeria.

Finding

The result of the analysis indicates that organizational agility has a positive and significant relationship with customer retention in medium scale enterprises in North- Central Nigeria. The findings are consistent with the findings of Alhadid (2016) which aver that there is a positive correlation between the organization agility and organizational performance. This result depicts that while these organizations may take into cognizance the value of timing with regards to product delivery, product modifications, and service methods, there is a lot left undone in this regard and as such, the effect of these are yet to be felt in their performances.

Conclusion

From the findings, organization agility has a positive and significant relationship with customer retention in medium scale firms in North Central Nigeria through the deployment of speed, competence, and flexibility. The flexibility of organizational systems to allow for changes to be readily made to match the environment's volatility is therefore imperative.

Recommendation

Managers of these enterprises should create ambidextrous organisational forms that will allow the enterprises to efficiently manage current and future strategies. This, the enterprises can do by exploiting the resources that generate their present value while also exploring new opportunities to adapt it to changing markets. This will help the organisation to engage in sufficient exploitation to ensure their current viability and, at the same time, engage in exploration to ensure its future viability.

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