



Effect of Market Innovation on the Performance of Small and Medium Enterprises in Tanzania

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Abstract: The study assessed the effect of market innovation on the performance of Small and Medium Enterprises in Tanzania. The study, informed by the Schumpeterian Theory of Innovation, analysed the impact of various facets of market innovation, namely digital marketing, packaging, promotion and advertising, on the performance of SMEs. The study employed a cross-sectional research design as it enables the collection and analysis of data at a single point in time to determine the statistical relationships between variables. The study took place in Dar es Salaam, specifically in the Temeke District, and included a sample of 277 owners and managers of SMEs. Data was gathered via a structured questionnaire and examined through multiple regression analysis to ascertain the degree of influence each independent variable exerted on the dependent variable. To ensure validity, the study used a standardised and previously validated measurement tool. Pilot testing and internal consistency checks of the instrument confirmed the required reliability. The results showed that digital marketing ($B=0.238$, $p=0.000$), packaging ($B=0.309$, $p=0.000$), promotion ($B=0.200$, $p=0.000$) and advertising ($B=0.101$, $p=0.000$) all had a positive and significant effect on the performance of SMEs. These findings corroborate the Schumpeterian's view that innovation propels competitive advantage and economic expansion. The study finds that market innovation improves the performance of SMEs in Tanzania. The study provided several recommendations.

Keywords: SMEs; market innovation; SMEs; Performance.

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Introduction

Market innovation has been found to be a major driver of competitive advantage and market expansion in Africa, where Small and Medium Enterprises (SMEs) make up around 90% of all businesses and are essential to economic development (African Development Bank, 2023). SMEs can now access regional and global markets more easily due to the quick development of digital marketing and e-commerce platforms throughout

the continent (Mutalemwa, 2022). African SMEs that innovate in the market are better equipped to handle obstacles like market fragmentation, restricted financial access and infrastructure limitations. This capacity for marketing innovation improves the overall performance by increasing customer reach and engagement as well as the operational efficiency (Mwaura et al., 2023).

A number of factors, such as the regulatory environment, managerial abilities, technology

adoption and financial accessibility affect the performance of SMEs. Access to financing is still a major obstacle since SMEs' capacity to grow and successfully compete is frequently hampered by a lack of funding options (Beck & Demircuc-Kunt, 2006). Because skilled managers are able to make well-informed decisions that promote efficiency and growth, managerial abilities like financial management and strategic planning are also very important (Kinyua, 2020). The adoption of technology has also become crucial for expanding market reach and productivity but many SMEs encounter obstacles to digital transformation because of limitations in financial and technical expertise (Muller et al., 2022). Moreover, market innovation has emerged as a key component of SME expansion in Tanzania, particularly as the nation embraces digital transformation (Mungai et al., 2023).

The Tanzanian government's push for digital inclusion has supported market innovation by letting small and medium-sized businesses make new products that are focused on customers and use digital advertising, which has improved their performance (Ndungu & Mumba, 2022). Yet Tanzanian SMEs still face a number of challenges that make it hard for them to reach their full potential for market innovation. For example, they don't have easy access to the latest digital tools and market insights (Mbura & Mtaturu, 2022). Many SMEs in Tanzania are slow to adopt new marketing strategies because they don't have enough resources, good access to technology and they don't know what's going on in the market (Muller et al., 2022). A survey by the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) in 2021 found that only 35% of SMEs used new marketing methods. This lack of new ideas was directly related to lower performance metrics, like sales growth and customer retention rates (Tanzania Chamber of Commerce, Industry and Agriculture, 2023). SMEs that used market innovation made 20% more money than those that didn't (Kihombo, 2023).

This big difference shows how important it is for SMEs to come up with new ways to market themselves in order to perform better. There remains a considerable knowledge deficit in both literature and practice concerning the determinants of low adoption rates of market innovation among Tanzanian SMEs. In addition to hurting the performance of SMEs, bad market innovation strategies put their long-term survival and economic

contribution at risk. To develop targeted interventions and policies that bolster this vital sector, it is essential to understand the impact of market innovation on the performance of SMEs in Tanzania.

Innovation is very important for small businesses to grow and stay competitive, which is why it is an important area for studying. Businesses that use new ideas in marketing, operations or service delivery are better able to deal with changing customer needs, new technologies and market trends in the business world that is becoming more dynamic and competitive (Schumpeter, 1934; OECD, 2023) For SMEs in Dar es Salaam, which is Tanzania's economic and commercial centre, innovation is a way to find new market opportunities and make operations more efficient (United Republic of Tanzania, 2021). The city's lively entrepreneurial ecosystem, which includes both formal and informal businesses, offers both challenges and opportunities that require creative and flexible strategies for survival and growth (Ngugi & Karina, 2022).

It has been demonstrated that market innovation increases SMEs' market reach and profitability (OECD, 2022). Although SMEs face obstacles like restricted market access, low levels of technological advancement and intense competition, SMEs in Tanzania play a significant role in employment and economic development (Mkuna & Katunzi, 2021). Market innovation can help Tanzanian SMEs overcome potential challenges by enabling them to better meet customer needs, differentiate themselves from competitors and capitalize on new market opportunities (Mungai et al., 2023).

Although multiple studies in Tanzania have examined individual innovation dimensions, such as digital marketing (Mushi, 2024), product innovation (Mrosso et al., 2024) or promotion-mix tools (Samwely & Swallehe, 2022), there is scant empirical work that investigated simultaneously the combined effect of digital marketing, packaging, promotion and advertisement on SME performance in the Tanzanian context. For instance, packaging-focused research (Nzumile, 2020) and promotion-focused research (Samwely & Swallehe, 2022) fall short of studying these elements as an integrated market-innovation strategy. Therefore, this study fills the existing gap in the literature by providing empirical evidence on the integrated role of these market innovation strategies in enhancing SME performance.

Literature Review

This section reviews literature related to the study. The literature review section has been arranged into theoretical literature review and empirical literature review.

Theoretical Literature Review

This study is guided by the Schumpeter theory of innovation. This theory was formulated by an Austrian economist Joseph A. Schumpeter, who underscored the pivotal role of innovation, including market innovation, in driving the economic development and competitive advantage. Schumpeter (1934) argued that innovation, defined as the introduction of new products, processes, markets or organizational forms, is the primary mechanism by which economic growth and industrial change occur. The theory assumes that businesses are not simply passive participants in the economy but act as agents of change, introducing new methods that disrupt existing market dynamics (Parayil, 2009; Marchenko, 2022). Schumpeter (1934) identified five types of innovation, among which market innovation (introducing new marketing approaches and strategies to meet consumer demands better) stands out as critical for creating economic value and competitive differentiation (Schumpeter, 1939). The author postulated that market innovation empowers firms to achieve “creative destruction,” whereby old methods are displaced by more effective and efficient practices, leading to market restructuring. The theory assumes that firms that lead in innovation enjoy temporary monopoly profits and higher market share until competitors imitate or exceed their strategies (Schumpeter, 1942; Fagerberg, 2003).

In this study, Schumpeter’s theory offers a fundamental framework for understanding how market innovation can enhance performance and competitive positioning for smaller enterprises. SMEs often have limited resources, which makes it hard for them to compete with bigger companies, using traditional methods. Schumpeter's focus on market innovation fits with the fact that SMEs need to come up with new ways to market themselves in order to get a foothold in the market (Kamberidou, 2020; Lecerf, 2012). By using new marketing methods like digital and social media marketing, SMEs can get around problems with location and money, reach more customers and get people more involved (Gamage et al., 2022). Schumpeter believed that innovation is both a way to get around

structural problems and a way to shake up the market. This study uses these theoretical ideas to frame market innovation as a strategic tool that helps SMEs become more resilient, stand out from the competition, and grow in a way that is sustainable in competitive and resource-limited environments.

Empirical Literature Review

A number of studies have been conducted on the effect of market innovation on the performance of small and medium enterprises in different parts of the world. For example, Maldonado et al. (2018) conducted a study to look at how technology capabilities affect the quality of small companies (SMEs) in the Mexico's growing economy and regional growth. The study established that marketing development has a positive and significant impact on the corporate return of SMEs. Furthermore, Yelmi et al. (2021) evaluated how well SMEs performed in Nigeria and the effect of marketing innovation. According to the study's findings, marketing innovation significantly and favourably impacted the performance of SMEs in Nigeria.

Moreover, Sanjeevan (2017) looked on how marketing innovation affected the performance of SMEs in Oluyole Local Government, Nigeria. The study mainly focuses on the dependent variables of business performance in terms of profitability, market share, return on investment and expansion and independent variables (Product, Promotion, Place, Price packaging, design, placement, product promotion and pricing strategy). Product, place, price, packaging and after-sales service were discovered to be highly significant independent and combined indicators of business performance. However, the study found that marketing innovation has no substantial positive impact on firm performance.

Similarly, Issau et al. (2022) evaluated the impact of innovation orientation factors on the performance of manufacturing SMEs in Ghana. The outcome demonstrated that market innovation strongly predicted the success of SMEs. Nyachwaya (2017) researched how the success of soapstone small and medium-sized businesses in Kisii County, Kenya, was impacted by marketing innovation. According to the study's findings, the impact was shown in the growth of items that customers considered more dependable than those of competitors, the expansion of the product line and the resulting

revenue. In Nigeria, Adamua et al. (2020) examined how marketing innovation affected the success of SMEs. Results show that marketing innovation tactics have a favorable impact on the productivity of small and medium-sized businesses.

Methodology

This section provides details of the methodology adopted in conducting this study. The section includes research design, population and sampling, data collection methods, data analysis and ethical considerations.

Design

This study utilized a cross-sectional research design, appropriate for collecting data from a substantial population at a singular moment to analyze statistical relationships among variables. A cross-sectional design is consistent with studies that seek to assess the present state of phenomena. Saunders et al. (2016) assert that cross-sectional designs are suitable for analyzing relationships between variables through survey data, without the need to alter conditions or establish temporal sequences.

Population and Sampling

The study's population was SMEs in Temeke, Tanzania, which served as the study's unit of analysis. The unit of inquiry was 897 managers or owners of the SMEs. The study was conducted in this area because it is one of the rapidly growing industrial hubs in the country, hosting a significant number of small and medium manufacturing enterprises (Mfilinge, 2021). This makes it an ideal location to assess how market innovation impacts the enterprise performance in a competitive and dynamic business environment. Additionally, Temeke's diverse business landscape and strategic location near key transportation networks provide unique insights into the challenges and opportunities faced by SMMEs in adopting innovative market strategies. Sample size was computed based on a sample size formula by Yamane (1967) as follows:

$$n = N / (1 + Ne^2)$$

Where;

N = Population Size = 897,

n = Sample Size and

e = Error term = 5% (0.05)

the sampling was computed as follows:

$$\begin{aligned} n &= 897 / (1 + 897 \times 0.05^2) \\ &= 897 / 3.2425 \\ &= 277 \end{aligned}$$

Therefore, the sample size of the study was 277 respondents.

Instruments

Data was collected using a closed and open-ended questionnaire, which was self-administered to 277 owners/managers of SMEs. Before the actual data collection, the study administered a pilot study to test the tool's suitability. The questionnaire had six sections where section one collected the demographic information of the respondents. Variables were evaluated using 5-point Likert scales. The responses were in the form of agreement, with 1 indicating strongly disagree and 5 indicating strongly agree, with the neutral option between the options.

Data Analysis

The researchers first cleaned and checked the missing entries and inconsistencies before entering the data into the Statistical Package for Social Sciences for analysis. Descriptive statistics computed the respondents' demographic information. Multiple regression analysis determined the strength and direction of the relationships between the independent and dependent variables.

Validity and Reliability

The study used a scale from previous studies that had been tested and was widely accepted (Hair et al., 2019). Content validity was established by consulting subject matter experts and reviewing relevant literature to confirm that all dimensions of market innovation were comprehensively covered (Creswell & Creswell, 2018). To ensure reliability, the variables were measured using a standardized and previously validated tool. The tool had been tested in similar research settings before, which shows that it is reliable and stable.

Ethical Considerations

Privacy and confidentiality of participants were strictly protected. Before collecting data, participants gave their informed consent. They were fully informed about the study's purpose, possible risks and benefits to make sure they were willing to take part. The researchers acted ethically by not letting any bias or conflict of interest affect the results, which kept the research objective and credible. They made sure that data was accurate.

Findings and Discussion

This section presents and discusses the findings of the study.

Demographic Characteristics

Table 1 shows that 42.9% (n=119) were located at Changombe, 29.9% (n=83) were from Mbagala while 27% (n=75) were from Kurasini. In terms of business experience, 44.7% (n=124) of the respondents had

been in operation for seven years or more, 29.6% (n=82) had the experience of four to six years, 14.1% (n=39) had the experience of three years and 11.6% (n=32) had the experience of less than a year. This indicates that a bigger portion of the respondents had garnered adequate experience (Coad et al., 2013).

Table 1: Respondents' Demographic Characteristics

Variable	Category	Frequency	Percentage
Location of Business	Changombe	119	42.9%
	Kurasini	75	27.1%
	Mbagala	83	29.9%
	Total	277	100
Business Experience	Less than a Year	32	11.6%
	1 – 3 Years	39	14.1%
	4 – 6 Years	82	29.6%
	7 Years and Above	124	44.7%
	Total	277	100
Amount of Capital	Up to 5 million shillings	22	7.9%
	5 – 200 million shillings	74	26.7%
	200 – 800 million shillings	95	34.3%
	Above 800 million shillings	86	31.1%
	Total	277	100
Number of Employees	1 – 4 Employees	85	30.7%
	5 – 49 Employees	145	52.3%
	50 – 99 Employees	47	17.0%
	Total	277	100

Table 2: Multiple Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.868 ^a	0.753	0.749	0.36652

Amount of capital affects the business ability to innovate and make strategic decisions (Bishop & Megicks, 2002). Therefore, it was necessary to establish the amount of capital experienced by the respondents. Table 1 shows that 34.3% (n=95) of the respondents indicated the capital between TZS 200 and 800 million, 31.1% (n=86) indicated the capital of above TZS 800 million, 26.7% (n=74) registered the capital between TZS 5 and 200 million and 7.9% (n=22) had the capital of up to five million shillings. This means that a bigger portion of the respondents considered their companies to have enough money to invest in new technologies and innovation processes, which can make them more productive and competitive (Ayyagari et al., 2011).

With regards to number of employees in the organizations, 52.3% (n=145) of the respondents indicated five to 49 employees, 30.7% (n=85) had 1 to 4 employees, and 17.1% (n=47) had 50–99 employees. The prevalence of small to medium-sized enterprises signifies a balanced framework that fosters adaptability, creativity and expedited

integration of innovation (Newman et al., 2021; Mwangi, 2020).

Multiple Regression Model Summary

An 86.8% (R=0.868) correlation was found in the multiple regression between the dependent variable (SME performance) and the four independent variables (digital marketing, packaging, promotion and advertisement). Moreover, 75.3% of the variation in SME performance was explained by the four predictors (R²=0.753) as observed in Table 2.

Multiple Regression Coefficients

Multiple regression coefficients in Table 3 show that digital marketing significantly and positively affects the SMEs' performance with a regression coefficient of 0.238 and a p-value of 0.000. This shows that a unit increase in digital marketing leads to 0.238 units increase in the SMEs performance. Recent research underscores the impact of digital marketing on the performance of SMEs. For instance, a study by Jabeen et al. (2023) found that SMEs leveraging social media platforms witnessed a 30% increase in customer interactions and a

corresponding boost in revenue, highlighting the effectiveness of targeted online marketing efforts.

Table 3 further indicates that packaging has a significant positive effect on the SMEs' performance with a regression coefficient of 0.309, indicating that a unit increase in packaging leads to 0.309 units increase in SMEs' performance. The p-value of 0.000 indicates that the relationship is significant. Similarly, the role of effective packaging has gained attention as a critical factor in influencing consumer purchasing decisions. Research by Makhmudova and Kim (2023) demonstrated that well-designed packaging significantly enhanced perceived product value, leading to higher sales for SMEs in the food sector.

In addition, Table 3 indicates that promotion significantly affect the SMEs' performance, positively. A regression coefficient of 0.200 and a p-value of 0.000 indicates that a unit increase in promotions significantly leads to 0.2 units increase in the SMEs' performance. Similarly, promotional campaigns have been empirically linked to improved performance metrics. For example, Nyang'aya et al. (2022) revealed that SMEs utilizing promotional strategies, such as discounts and loyalty programs, experienced a notable increase in customer retention and repeat purchases, contributing to overall financial growth.

Table 3: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	Beta		
(Constant)	0.675	0.135		4.994	0.000
Digital Marketing	0.238	0.028	0.324	8.571	0.000
Packaging	0.309	0.029	0.393	10.658	0.000
Promotion	0.200	0.028	0.287	7.278	0.000
Advertisement	0.101	0.029	0.126	3.491	0.001

Finally, the effect of advertisements on the SMEs' performance was assessed. The findings show a positive and significant effect of advertisement on the SMEs performance with a regression coefficient of 0.101 and a p-value of 0.001. This suggests that a unit increase in advertisement leads to 0.101 units increase in the SMEs' performance. Empirical evidence supports the positive effect of advertisement on SMEs' performance. For instance, Al-Dmour et al. (2022) found that strategic advertisement campaigns significantly enhanced SMEs' market visibility and sales performance. Similarly, Nyaga and Mutua (2021) reported that digital advertising positively affects SMEs' customer acquisition.

Conclusion and Recommendations

The study concludes that digital marketing is essential in improving the performance of SMEs by providing access to more customers, better interaction and faster sales processes. The study shows the necessity for SMEs to adopt digital tools and platforms as a strategic initiative to maintain growth in the dynamic business landscape. The positive effect of packaging on performance shows how important it is for product differentiation and customer attraction. Since promotional activities

increase visibility and customer loyalty, SMEs can reach the right people more effectively by strategically allocating their advertising resources. Therefore, marketing-related skills like digital engagement, packaging innovation, targeted promotion and advertising are all important factors for the success of SMEs.

SMEs can improve their brand identity and competitiveness by using packaging that is new and attractive. They need to use well-planned and consistent marketing strategies to stay strong in the market. The fact that advertising has a positive effect makes it even more important for raising brand awareness and establishing new markets. While SMEs need to deepen their use of digital marketing tools, strengthen online branding and adopt e-commerce platforms, policymakers need to expand affordable digital infrastructure. There is a need for practical training programs to build essential marketing skills. Firms should invest in innovative, attractive and environmentally friendly packaging, supported by financial incentives and technical assistance that make modern packaging technologies more accessible. SMEs need to run focused and consistent promotional campaigns with government and industry bodies enhancing market

access through exhibitions and awareness initiatives. Finally, advertising resources should be directed toward the most effective channels, backed by routine performance reviews.

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