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The Influence of Innovation on the Growth of Small and Medium Enterprises (SMEs): A Case of Wood and Steel Furniture Manufacturing in Dodoma City, Tanzania

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Abstract

This study examines the impact of innovation on the growth of small and medium enterprises (SMEs) in Tanzania, specifically within the wood and steel furniture manufacturing sector in Dodoma City. Utilizing a quantitative research design, the study tested hypotheses concerning the effects of product innovation, process innovation, and management innovation on SME growth. Data were collected from 91 registered manufacturing firms, providing a representative sample of the local SME landscape. The analysis employed descriptive statistics, factor analysis, Analysis of Variance (ANOVA), and both simple and multiple regression analyses. Results demonstrated a positive correlation between innovation and SME growth. Notably, demographic insights revealed that approximately 51.6% of carpentry entrepreneurs had only basic education, which impacted their management innovation capabilities. Additionally, the majority of these businesses were male-owned and classified as small based on employee numbers. These findings highlight important policy implications regarding the relevance of innovation theories and the Resource-Based View (RBV) in the Tanzanian context. The study concludes with recommendations aimed at strengthening the innovation capacities of SMEs to promote sustainable growth and enhance their competitiveness in the market.

Keywords: SME growth, Product innovation, Process innovation, Management innovation

JEL Classification: L6, R11

1. Introduction

Tanzania, like many countries, is experiencing rapid growth in entrepreneurship across various sectors, from social media and online advertising to manufacturing (Cooney, 2012). In this dynamic landscape, creativity and innovation are crucial for meeting the evolving demands of consumers (Gabriel, 2017). As markets shift quickly and competitors adapt rapidly, small businesses must remain agile to maintain their competitive edge (Rexhepi, 2014). The organizational and managerial flexibility inherent in small and medium enterprises (SMEs) enables them to identify and seize new opportunities more swiftly than larger firms (Brinckmann, & Bausch, 2011).

However, despite the potential for innovation to drive growth, Tanzania's SMEs face significant challenges due to limited innovative capabilities. The Resource-Based View

(RBV) theory posits that a firm's resources and capabilities are fundamental to achieving competitive advantage and growth. In this context, innovation emerges as a critical resource that can enhance the capabilities of SMEs, allowing them to adapt and thrive in a competitive environment. As the global economy continues to evolve, the growth of Tanzanian SMEs heavily relies on their stage of innovation development. Globally, innovation is recognized as a cornerstone of enterprise growth, contributing to job creation, technological advancement, and overall economic progress (Ionica, 2013; Schumpeter, 1934; Birch, 1987). Enhanced innovative capabilities in SMEs lead to the production of quality goods and services, essential for market competitiveness (Martin & Namusonge, 2014).

Despite this recognition, the specific relationship between innovation and SME growth in Tanzania, particularly in the wood and steel furniture manufacturing sector, remains underexplored. Previous studies have established a connection between innovation and SME performance (Ionica, 2013; Love & Roper, 2013). However, the direct impact of innovation on growth within this sub-sector has not been well-documented. The existing literature has highlighted the general link between innovation and SME performance, but the specific effects on growth within the wood and steel furniture manufacturing sub-sector in Tanzania are still not fully explored. This gap in the literature calls for further research to understand how innovation directly influences growth of SME's in Tanzania's Wood and Steel furniture industry, applying the Resource-Based View to analyze the implications of innovation as a critical driver for economic development. Addressing this gap will provide valuable insights for both scholars and industry stakeholders. The need for a focused study on this area is therefore critical for informing policy and practice.

2. Literature Review

The influence of innovation on SME productivity growth was brought to attention by Goldman Sachs, the Enterprise Research Centre (ERC) and the British Business Bank (BBB) in their co published report going by the heading the *Unlocking UK Productivity Repor*.

Report reveal that survival rates are higher for SMEs that adopted innovation than for those that did not innovate with respect to the market demandⁱ. Change implementation that is brought about by innovation; tis suggest that SMEs survival and growth is highly determined by how a business is innovative.

Innovation - The term innovation refers to the creative change and this change maybe in the form of new product, service, newfound material, new market opportunity or newly reorganized business enterprise (Nandan, 2007). It is also referred to as the process of taking a creative idea of an entrepreneur and turning it into a product or process that can be used or sold or is the process of taking a creative idea and turning it into a useful(marketable) product, service or method of production (Coulter, 2006). It involves applying focused strategies to new ideas and new insights to create a product or a service that satisfies customers' needs or solves their problems (Thomas and Scarborough, 1996).

Product Innovation -According to Phillip Kotler, a product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. Such product may be physical objects, services, persons, places, organizations and ideas (Kotler, 2012). It is referred to as the establishment of totally new product from new materials or the modification of present products to meet customer satisfaction (Rosli & Sidek, 2013).

Schumpeter (1934) argued that product innovation is the introduction of a new good or quality thereof in the market; a product that consumers have not been in contact previously (Martin & Namusonge, 2014).

Process Innovation - Process innovation is referred to as the implementation of a new or significantly improved production or delivery method including significant changes in techniques, equipment or softwareⁱⁱ. Process innovation is the use or introduction of a new technology or technique for doing something that helps an organization remain competitive and meet customer demands.

Management Innovation - Management innovation is defined as "the invention and implementation of a management practice, process, structure, or technique that is new to the state of the art and is intended to further organizational goals" (Birkinshaw, Hamel, & Mol, 2008). Management innovation is also referred to as a "difference in the form, quality, or state over time of the management activities in an business organization, where the change is a new or unique departure from the past (Birkinshaw et al., 2008). Management innovation transforms the way managers do their business activities, what they do, and they do so to improve organizational performance. According to Hamel (2006), management innovations meet the following criterion; a) they were very new at the time, b) a distinct departure from previous management practices, c) providing a competitive advantage on the pioneering company, and lastly d) are lasting, being found in some form in organizations today. Innovation drives business growth and helps organizations stay ahead of their competitors.

Conceptual Framework

The conceptual framework presented in Figure-1 elucidates the relationships between SMEs growth (the dependent variable) and three essential types of innovation activities: product innovation, process innovation, and management innovation (the independent variables). This framework highlights how these distinct forms of innovation interact to influence the overall growth and performance of small and medium-sized enterprises.



Figure 1: Conceptual Framework Source: Author's Compilation

Based on the conceptual framework illustrated in Figure-1, there exists a clear relationship between the dependent variable—SMEs growth—and the independent variables of product innovation, process innovation, and management innovation. Product innovation directly and positively influences SMEs growth by enabling firms to create new products or enhance existing ones. This capability not only helps capture emerging market opportunities but also

stimulates consumer demand, ultimately leading to increased sales and revenue. Vivarelli (2015) underscores that product innovation is instrumental in fostering the creation of new sectors and jobs, which is especially vital for SMEs that typically depend on niche markets for their expansion. Moreover, research by Crespi and Tacsir (2011) and Lima and da Silva Müller (2017) indicates that the introduction of innovative products is associated with increased hiring, further solidifying the connection between product innovation and overall firm growth.

Process innovation positively contributes to SMEs growth by enhancing operational efficiency and reducing costs. By streamlining workflows and improving productivity, process innovations allow SMEs to allocate resources more effectively, thereby maximizing profit margins. This efficiency gain not only reduces operational expenses but also frees up capital for reinvestment in growth initiatives, which is crucial for the sustainability of SMEs. According to Tidd and Bessant (2014), firms that embrace process innovations are better equipped to adapt to changing market conditions, which enhances their competitiveness. Additionally, research by D'Este and Iammarino (2010) highlights that organizations implementing process innovations experience increased flexibility and responsiveness, ultimately driving growth. This synergy between process innovation and strategic resource allocation underscores the vital role of operational improvements in fostering the long-term success of SMEs.

Management innovation plays a critical role in facilitating SMEs growth by fostering a culture of creativity and adaptability. Effective management practices enable organizations to harness employee skills and drive innovation across all levels. According to Hamel (2006), management innovation enhances organizational effectiveness, which is vital for SMEs that often face resource constraints. By implementing innovative management strategies, SMEs can improve decision-making processes and increase their responsiveness to market demands, thus promoting growth.

Generally, the integration of product, process, and management innovations creates a synergistic effect that significantly enhances SMEs growth. By innovating across these dimensions, organizations improve both operational and financial performance while increasing their adaptability to changing market conditions. This holistic approach is vital for SMEs aiming to maintain competitive advantages and achieve long-term growth in a dynamic environment. The interplay between these innovation types and SMEs growth underscores the crucial role of innovation in driving firm performance. Ultimately, fostering innovation is key to building resilience in the marketplace.

3. Methodology

Research Design

This study utilized a cross-sectional survey approach to investigate the relationships between innovation and SMEs growth. In term of the population of the study, according to the Dodoma City Municipal Trade Office, there are 397 furniture-making industries in the region, including 195 wood furniture manufacturing industries, of which 58 (29.7%) are registered with the Dodoma City Council. Additionally, there are 202 welding workshops, with 60 (29.7%) registered. A probability sampling procedure was employed, using Slovin's formula

to determine sample size, a sample size of 191 furniture manufacturing companies (SMEs) (100 registered and 91 unregistered) owners were selected for the study.

Data Collection Method

Primary data were collected through structured questionnaire. The researcher adopted selfadministered questionnaire approach to SME owners in Dodoma City. The researcher visited respondents to their offices, informed about the study's purpose, and thereafter asked their consent to participate in the study by responding the questions. The questionnaire was designed to capture their responses regarding various aspects of innovation and its impact on growth.

Data Analysis Method

Factor analysis was conducted to determine internal consistency of the variables to allow only closely related factors be analyzed. Factor loading were determined and all variables with factor loading at least greater or equal to 0.7 were taken for analysis, otherwise were dropped. Multiple Linear Regression Analysis was conducted to examine the relationship between SMEs growth and the independent variables: product innovation, process innovation, and management innovation. This quantitative analysis was based on the multiple regression model adapted from previous research (Maradana *et al.*, 2017; Ngugi *et al.*, 2013). The regression model can be represented as follows:

 $Y = \beta 0 + \beta 1 ProdInn + \beta 2 ProcInn + \beta 3 Mgt + \mu \dots 1$

Whereby, Y represents SMEs growth, $\beta 0$ is the constant (coefficient of intercept), $\beta 1 - \beta 3$ are the regression coefficients for product, process, and management innovation, respectively. The term μ accounts for other forms of innovation or variables that may influence SMEs growth but are not included in the model.

Measurement of Variables

Product innovation was assessed through indicators such as the introduction of new goods, quality improvements, new designs, and the use of novel materials or components (Kozludzhova, 2023). Process innovation was measured by the extent of changes in techniques, equipment, tools, and delivery methods (Rura-Polley, 2023). Management innovation was evaluated based on the processes that govern SME owners' conduct, including new organizational methods, leadership styles, and ways to motivate workers to foster innovation (Kraśnicka, *et al.*, 2016). Respondents rated the influence of these innovations on SMEs growth using a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The dependent variable, SMEs growth, was measured through total assets, employment growth, and capital growth, using a three-level Likert scale: 1 (decreased), 2 (remained the same), and 3 (increased) (Karabulut, 2015). These variables were adopted from various studies as indicated above.

Validity and Reliability

Data collected were tested for reliability using Cronbach reliability test. Cronbach's alpha is a measure of internal consistency, how closely related a set of items are as a group from questionnaires. Reliability of the measure was observed by taking measurement Cronbach $\alpha > 0.7$ and to ensure there is validity of the questionnaire, we used pre-determined instruments to measure the variable such a way that we had no reason to conduct a pilot study to test the

questionnaire. The study done in Turkey on the Effects of Innovation Types on Performance of Manufacturing Firms in Turkey (Karabulut, 2015) and the study on Entrepreneurship and the growth of SMEs in the furniture industry in Tanzania (Isaga, 2012). Therefore, scale and items to be included in the variables were taken for those studies to ensure validity and reliability and therefore threw us no need to test the variables and scales.

4. Results

This study provides valuable insights into the demographic characteristics and their influence on the growth of small and medium enterprises (SMEs) within the wood and steel subsector. This study specifically examines how product, process, and management innovation affect employment growth, capital growth, and asset growth within these SMEs.

Demographic Characteristics of Respondents

This section presents a comprehensive overview of the demographic characteristics of respondents involved in the study examining the influence of innovation on the growth of small and medium enterprises (SMEs) within the wood and steel furniture manufacturing sector in Dodoma City, Tanzania. Understanding these demographic factors is essential as they can significantly impact the entrepreneurial landscape and the capacity for innovation (Isaga, 2012). The following are demographic characteristics of the respondent engaged in this study:

Characteristics	Category	Frequency	Percentage
Gender			
	Male	90	98.9
	Female	1	1.1
Age			
	20 – 40 Years (Youth)	58	63.8
	41-55 Years (Middle Age)	33	36.2
Education			
	Primary education	47	51.6
	Secondary Education	14	15.4
	Diploma Education	8	8.8
	Vocation Training	22	24.2
Marital Status			
	Married	86	94.5
	Never Married	5	5.5

Table 1: Demographic Characteristics of Respondents

Source: Author's Computation

Based on the findings from Table 1, the findings depict a pronounced gender disparity among the respondents, with 98.9% identifying as male and only 1.1% as female. This overwhelming predominance of male entrepreneurs highlights a gender imbalance in the wood and steel furniture manufacturing sector. Research has consistently shown that such imbalances can stem from cultural and societal factors that discourage female participation in specific industries (Akanji, 2016). The low representation of women suggests a need for targeted initiatives to promote gender inclusivity, as diverse entrepreneurial teams have been shown to enhance creativity and innovation (Eisenhardt& Schoonhoven, 1990).

In terms of age distribution, Table 1 shows that 63.8% of respondents fall within the youth category (20–40 years), while 36.2% are classified as middle-aged (41–55 years). The prominence of youth in this sector indicates a potential for dynamic and innovative practices, as younger entrepreneurs often exhibit a greater willingness to embrace change and adopt new technologies (Kolvereid, 1996). This trend aligns with the literature suggesting that youth entrepreneurship is vital for economic growth and innovation (Rath & Bickerstaff, 2006). However, it is also crucial to support middle-aged entrepreneurs, who bring valuable experience and stability to the sector.

According to Table 1 above, the educational background of respondents reveals that 51.6% have completed primary education, while 15.4% have attained secondary education. Notably, 24.2% have completed vocational training, and only 1.1% hold a diploma. This distribution suggests a significant reliance on basic education, which may limit the entrepreneurs' capacity for innovation. Previous studies have shown that higher educational attainment is positively correlated with business performance and innovative capacity (Davidsson & Honig, 2003; Utsch & Rauch, 2000). The predominance of vocational training among respondents is promising, as it indicates an emphasis on practical skills, but it underscores the need for programs that enhance formal education and management training to foster more significant innovation outcomes (Kuratko & Hodgetts, 2004).

The marital status of respondents further illustrates the demographic landscape, as Table 1 shows that with 94.5% being married and 5.5% never married. This high percentage of married entrepreneurs may reflect a greater sense of responsibility and commitment to their businesses, as married individuals often face familial obligations that can drive entrepreneurial efforts (Carter & Williams, 2003). The implications of marital status on business growth and innovation are noteworthy, as married entrepreneurs may possess increased motivation to ensure the success of their ventures for the sake of their families.

Generally, the demographic characteristics of respondents in this study highlight important trends that can influence the growth of SMEs in the wood and steel furniture manufacturing sector. Addressing the gender imbalance, enhancing educational opportunities, and recognizing the motivations linked to marital status are critical components in fostering an environment conducive to innovation and growth within this sector.

Factor Analysis Results

Factor analysis was used to measure internal consistence with each other and reduce items to the number, which are seen measuring the same thing. Items with factor loading less than 0.7 were considered measuring different things and therefore eliminated in the summation as shown in Table 2.

Table 2 presents the results of the factor analysis for items measuring the independent variables related to innovation in small and medium enterprises (SMEs). The analysis reveals three primary categories: Product Innovation, Process Innovation, and Management Innovation.

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	Table 2: Factor	Analysis fo	or Items Measurin	ng Independent	Variables
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Items	Factor loading	Cronbach α
Product Innovation	1	0.867
P5. I have high-tech tools and equipment used for product manufactured by	0.856	
firm	0.850	
P1. I have introduced of new model /improved products manufactured in the	0.800	
firm	0.809	
P4. I have new receive new product ideas from customers and accommodate	0.901	
to our firm	0.801	
P2. I have quality product innovated and manufactured in the market	0.798	
P3.I have manufactured products from new raw materials	0.781	
Process Innovation		0.769
Pr5. I have made improvement in the control of cost in production process	0.965	
Pr1. I have introduced novel /changes in techniques in production of	0.055	
furniture	0.955	
Pr3.I have improved value chain in the Physical Distribution Management	0.025	
(PDM) and recorded.	0.835	
Pr4.I have changes in manufacturing methods through introduction of new		
machinery	0.786	
Pr2. I have new modern equipment/tools that aid manufacturing	0.767	
Management Innovaton		0.750
M1. I have intranet, database training and practices to improve knowledge	0.798	
share		
M2. Loutsourcing Le purchasing recruiting technological support	0.768	
consulting not used in our firm	01700	
M3 I motivate innovative worker by adding salaries	0.232	
M4. I have provide support to innovate idea from the worker	0.830	
Source: Authon's Computation	0.050	

Source: Author's Computation

The Product Innovation category exhibits a high overall factor loading of 0.867, indicating a strong interrelationship among its items. Notably, access to high-tech tools and equipment (0.856) emphasizes the importance of advanced technology in product development, consistent with Tidd and Bessant's (2013) assertion that technological capabilities enhance innovation. Additionally, the introduction of new models and improved products (0.809) and the ability to gather new product ideas from customers (0.801) highlight the necessity of responding to market needs, as underscored by von Hippel (2005). Overall, these strong factor loadings underscore that product innovation is a critical driver of growth within the studied SMEs.

In the Process Innovation category, the factor loading of 0.769 indicates substantial reliability. Items related to the control of production costs (0.965) and the introduction of novel techniques (0.955) reflect the essential role of effective cost management and innovative production methods in enhancing operational efficiency. Damanpour and Gopalakrishnan (2001) affirm that such innovations are pivotal for sustained competitiveness. Furthermore, improvements in the value chain (0.835) emphasize the importance of optimizing supply chains, aligning with Porter's (1985) concept of competitive advantage through operational excellence. The findings suggest that a strong focus on process innovations is foundational for the growth of SMEs in this sector.

The Management Innovation category has a lower overall factor loading of 0.750, indicating some variability among its items. Key elements include knowledge sharing practices (0.798) and support for innovative ideas from workers (0.830), both of which highlight the necessity of effective management practices to foster an innovative culture. This aligns with Nonaka and Takeuchi's (1995) work on the significance of knowledge management for driving innovation. However, the item concerning motivation through salary increases (0.232) demonstrates a notably low factor loading, suggesting that financial incentives alone may not significantly enhance innovation among employees. This finding resonates with Amabile's (1996) research, which indicates that intrinsic motivation often proves more effective in fostering a creative work environment.

Generally, the factor analysis results underscore the critical roles of both product and process innovations in driving the growth of SMEs within the wood and steel furniture manufacturing sector. While the importance of management innovation is acknowledged, its lower consistency suggests a need for more robust management practices to effectively support innovation. By concentrating on enhancing product and process innovations, while developing more effective management strategies, SMEs can create a more conducive environment for sustainable growth and competitive advantage.

Regression Results

Results for Innovation and Employment Growth

The regression analysis presented in Table 3 provides insights into the influence of various types of innovation—product, management, and process—on employment growth within small and medium enterprises (SMEs) in the wood and steel furniture manufacturing sector of Dodoma City, Tanzania as shown in Table 3.

Madal	Unstandardized Coefficients		Standardized Coefficients		
Widdei	В	Std. Error	Beta	t	Sig.
(Constant)	5.305	0.752		7.054	0.000
Product Innovation	0.064	0.024	0.237	2.621	0.010
Management Innovation	0.153	0.063	0.277	2.439	0.017
Process Innovation	0.104	0.047	0.248	2.224	0.029
F	13.887				
Sig.	0.000				
R	0.569				
R Square	0.324				

Table 3: Regression Results for Innovation and Employment Growth

Source: Author's Computation

The model demonstrates a moderate overall correlation with an R value of 0.569, indicating that innovation is a significant factor influencing employment outcomes in this context. The R2 value of 0.324 suggests that approximately 32.4% of the variance in employment growth can be explained by the independent variables included in the model, aligning with findings from previous research that emphasizes the importance of innovation in driving economic performance (Aghion *et al.*, 2005).

The ANOVA results further confirm the significance of the regression model, with a p-value of 0.000. This indicates that the model significantly explains variations in employment growth at a high level of confidence, reinforcing the notion that innovation serves as a crucial driver

of job creation in SMEs (Chuang & Lee, 2016). The sum of squares for regression is notably larger than that for residuals, indicating that the independent variables account for a meaningful portion of the total variance in employment growth.

Examining the coefficients for each independent variable reveals that product innovation has a statistically significant positive effect on employment growth, with an unstandardized coefficient of 0.064 and a p-value of 0.010. This suggests that for each unit increase in product innovation, employment growth increases by approximately 6.4%. This finding is consistent with Schumpeter's (1934) theory of innovation, which posits that new products not only attract customers but also necessitate increased labor to support their production and marketing.

Management innovation also shows a significant positive influence, with a coefficient of 0.153 and a p-value of 0.017. This result underscores the importance of effective management practices in fostering an innovative culture that can lead to job creation, as supported by studies highlighting the role of managerial capabilities in enhancing organizational performance (Bessant & Tidd, 2011). The impact of process innovation is similarly significant, with a coefficient of 0.104 and a p-value of 0.029. This finding suggests that improvements in production processes can also contribute to employment growth, echoing the views of Damanpour (1991), who noted that process innovations are essential for enhancing efficiency and competitiveness in SMEs.

Generally, the regression analysis underscores the importance of different types of innovation in driving employment growth within SMEs in Dodoma City's wood and steel furniture manufacturing sector. The significant relationships identified between employment growth and the three forms of innovation reinforce the notion that fostering an innovative environment is critical for the sustainability and growth of SMEs. These findings contribute to the broader understanding of how innovation serves as a catalyst for economic development, particularly in emerging markets.

Results for Innovation and Asset Growth

The regression analysis outlined in the summary for innovation and asset growth reveals critical insights into how various forms of innovation impact the growth of assets in small and medium enterprises (SMEs) within the wood and steel furniture manufacturing sector in Dodoma City as shown in Table 4.

According to Table 4, the model exhibits a correlation coefficient (R) of 0.575, indicating a moderate relationship between innovation and asset growth. The R² value of 0.331 suggests that approximately 33.1% of the variation in asset growth can be attributed to the independent variables included in the analysis. This finding aligns with the literature that underscores the role of innovation as a key driver of asset accumulation and overall firm growth (Zhang *et al.*, 2016).

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Tał	ole 4:	R	egression	Results	for	Innovation	and A	Asset	Growth
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	Unstandardized Coefficients		Standardized Coefficients		
Model	В	Std. Error	Beta	t	Sig.
(Constant)	5.737	.838		6.847	.000
Product Innovation	.148	.027	.491	5.454	.000
Management Innovation	.047	.070	.075	.666	.507
Process Innovation	.080	.052	.171	1.540	.127
F	14.336				
Sig.	.000 ^b				
R	0.575				
R Square	0.331				

Source: Author's Computation

The ANOVA results further bolster the significance of the regression model, with an Fstatistic of 14.336 and a corresponding p-value of 0.000. This indicates that the model is statistically significant, confirming that innovation is an essential factor contributing to asset growth in SMEs. The sum of squares for regression is notably larger than that for residuals, illustrating that the independent variables meaningfully account for the total variance observed in asset growth (Hair et al., 2014).

When examining the coefficients of the independent variables, product innovation emerges as a significant predictor of asset growth, with an unstandardized coefficient of 0.148 and a p-value of 0.000. This implies that a one-unit increase in product innovation correlates with a 14.8% increase in asset growth, emphasizing the importance of developing new and improved products to enhance firm value and resources. This finding is consistent with the innovation diffusion theory, which posits that successful product innovations can lead to greater market share and revenue generation (Rogers, 2003).

In contrast, while management innovation and process innovation were included in the analysis, they did not show statistically significant effects on asset growth, with p-values of 0.507 and 0.127, respectively. The lack of significance for management innovation suggests that, despite its recognized importance in facilitating organizational effectiveness (Bessant & Tidd, 2011), it may not directly impact asset growth in this specific context. Similarly, the non-significant impact of process innovation may reflect industry-specific challenges that hinder its effectiveness in asset accumulation. These insights highlight the complexity of the relationships among different types of innovation and firm performance, underscoring the necessity for SMEs to strategically align their innovation efforts with their growth objectives.

Generally, the regression analysis provides compelling evidence that product innovation plays a vital role in driving asset growth among SMEs in Dodoma City's furniture manufacturing sector. While management and process innovations are essential for long-term competitiveness, their immediate impact on asset accumulation may require further exploration. These findings contribute to the broader discourse on innovation as a crucial driver of SME growth, particularly in developing economies where resource allocation and strategic planning can significantly influence outcomes.

5. Conclusion and Recommendations

The regression analysis elucidates the critical role of product innovation in driving asset growth among small and medium enterprises (SMEs) in Dodoma City's wood and steel furniture manufacturing sector. With an R2R^2R2 value indicating that approximately 33.1% of the variance in asset growth can be attributed to the independent variables, the findings affirm that innovation is a key factor influencing financial stability and growth potential in these enterprises. The statistical significance of product innovation reinforces existing literature that underscores the importance of innovative practices as essential for business success in competitive markets.

To enhance the innovative capabilities of SMEs, it is crucial for local and national governments to implement supportive policies. This includes creating an enabling environment that encourages innovation through access to financial resources, training, and advanced technologies. Establishing innovation hubs and providing grants or incentives specifically for product development can stimulate creativity and investment in innovative practices. Additionally, promoting collaborations between educational institutions and SMEs can facilitate skill development and technology transfer, ensuring that the workforce is equipped to support innovative initiatives.

SMEs in Dodoma City should prioritize product innovation as a strategic avenue for driving asset growth. Investment in research and development is essential to create new and improved products that align with market demands. Furthermore, cultivating a culture of innovation within organizations can enhance employee engagement and motivation, ultimately leading to more creative solutions. While management and process innovations are vital for long-term viability, firms must recognize the immediate benefits that product innovation can yield, allowing them to establish a competitive advantage in a rapidly evolving market landscape.

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