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The Influence of innovations on SACCOs Financial Performance in Mbeya Region - Tanzania

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Abstract
Similar to other sub-Saharan African countries, most of Tanzania's Savings and Credit Cooperative Societies (SACCOS) have not performed well financially. These democratic self-help groups are having financial difficulties. Therefore, it was crucial that this study look at the connection between Mbeya SACCOS financial success and innovation in Tanzania. Out of the 105 SACCOS that are registered and operational in the Mbeya region, 83 were chosen at random to serve as the study's sample. The study used positivist philosophy and a logical method to create hypotheses from the Social Innovation Theory. The data was analyzed using structural equation modeling. The study came to the conclusion that, social innovation conceptual claim is correct, there is a substantial positive association between innovation and SACCO's financial performance. The Social Innovation Hypothesis still needs more empirical research in a variety of international economic sectors to support its claims.

Keywords: *SACCOS: Innovation; Product innovation; Marketing innovation; Process innovation; organization innovation*

Introduction

The performance and survival of a company in today's fast-paced business environment are heavily dependent on innovation, based on the findings of some theoretical and empirical researchers (Anning-Dorson, 2018; YuSheng & Ibrahim, 2020; Silwal, 2022; Fernández-Portillo et al., 2022). Therefore, in order for a company to succeed in this dynamic business world of today, it must adopt an innovative culture that encourages creativity and research, giving it a competitive advantage and long-term performance (Anning-Dorson, 2018; Asiedu et al., 2020; YuSheng & Ibrahim, 2020). Innovation is an effort by a firm to become more competitive and improve performance by copying or inverting superior processes, procedures, behaviors, customs, approaches, or systems. (Morris et al., 2014; Nuruzzaman et al., 2019). Innovation can take many various forms in a firm; for example, product, process, marketing and organization innovation (Rajapathirana et al., 2018; Nuruzzaman et al., 2019). The process of developing a new product or enhancing an old one to creatively satisfy the needs of consumers is known as product innovation; Implementing a new or significantly enhanced production or delivery method that involves major adjustments to methods, tools, and/or software is known as process innovation; Implementing a new marketing strategy that involves major adjustments to a product's packaging, design, placement, promotion,

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or price is known as a marketing innovation; System and organization functioning is the main focus of organizational innovation (Rajapathirana et al., 2018; Nuruzzaman et al., 2019; Asiedu et al., 2020). Innovation can boost output through employee engagement, technology adoption, and risk mitigation; it can also quicken market expansion through improved product design and customer satisfaction. (Rajapathirana et al., 2018; Nuruzzaman et al., 2019; Asiedu et al., 2020). A company's performance is determined by how well it meets its financial and non-financial objectives, which enhances employee turnover, market share, customer satisfaction, and long-term profitability (Rajapathirana et al., 2018; Arias-Pérez et al., 2022; Fernández-Portillo et al., 2022).

A key element of a company's performance is its financial performance, which is defined as its capacity to manage and control its resources, respond appropriately to opportunities and environmental threats, increase revenue, and grow profitably in a sustainable manner (Xue et al., 2020; Hutahayan, 2020). The financial performance of the company is typically assessed using ratios such as liquidity, capital adequacy, leverage, profitability, and solvency (Fatihudin, 2018; Xue et al., 2020).

The financial performance of most of Tanzania's Savings and Credit Cooperative Societies (SACCOS) is not impressive (Said et al., 2019; Towo et al., 2022; Towo, 2023; TCDC, 2023). The situations are similar to those in other sub-Saharan African nations (Kyazze et al., 2020; WOCCU, 2020). SACCOS are democratic self-help cooperative enterprises voluntarily formed and governed by members with a common bond for the easy provision of financial services (TCDC, 2023; Towo et al., 2022). These democratic self-help cooperative enterprises' primary goal is to provide financial inclusion to social groups that are not part of the mainstream banking industry (Said et al., 2019; Kyazze et al., 2020; Ozili, 2021). Only 2,034 of the 6,178 SACCOS that have been registered are now operating; the remaining SACCOS are dormant and untraceable (TCDC, 2023). Since 2010, Tanzania's SACCOS growth has been slow; many SACCOS have closed (becoming dormant and untraceable), and over 60% of newly registered SACCOS fail, causing large losses to their members (Towo et al., 2022; TCDC, 2022; 2023; WOCCU, 2022; Shkeily & Abdullah, 2021). Likewise, empirical evidence demonstrates the poor financial performance of Tanzanian SACCOS, with a financial leverage ratio of 17% below the 25% required by Section 48 of the Tanzania SACCOS Regulation of 2019, an average capital-to-asset ratio of 9% below the 10% mandated by SASR, and a return on equity (ROE) below Tanzania's treasury bills return. (WOCCU, 2020; Towo et al., 2022; Towo, 2023). Among the factors cited as contributing to SACCOS's inadequate financial performance in the majority of

emerging economies are a lack of innovation and poor governance (Nyangarika & Bundala, 2020; Kumkit et al., 2023; Messabia et al., 2023; Otache et al., 2023).

Social innovation theory scholars suggest that innovation can lead to a company's long-term financial success and that there is a connection between financial performance and innovation in businesses. (Anheier, 2019; Hu et al., 2020; Martins et al., 2022; Adro & Fernandes, 2022). Therefore, by integrating social innovation into their commercial plans, corporations can improve their financial performance (Anheier, 2019; Hu et al., 2020; Martins et al., 2022). Social innovations are new practices that are introduced into the business with the goal of enhancing existing practices to address issues or challenges; these practices may be technology-based or governance-based innovations (Anheier, 2019; Hu et al., 2020). According to Frontiers of Social Innovation Theory, there aren't as many empirical studies to back up the theoretical literature's suggestion that innovation, governance, and financial performance in a firm are associated. (Janik et al., 2021; Martins et al., 2022; Bataglin & Kruglianskas, 2022). Furthermore, there is a significant gap in the literature on social innovation theory in Africa; more research is needed to build and broaden the theory with additional empirical work from this part of the globe (Littlewood et al., 2022; Janik et al., 2021; Martins et al., 2022; Bataglin & Kruglianskas, 2022).

Literature Review

Theoretical Framework

The theory of social innovation has its roots in the hypothetical sociology works of early pioneer Gabriel Tarde in the 19th century (Tarde 1899; Howaldt et al., 2015). Tarde defined social innovation as a shift in socio-cultural dimensions brought about by imitation from an individual or from a group of individuals; at this point in the theory's development, only socio-cultural variables (beliefs, language, regulations, values, norms, lifestyles, and artifacts) were covered (Zapf, 1989; Howaldt et al., 2015). Throughout the 20th century, the theory has evolved to incorporate perspectives from various disciplines and fields, such as technology and economics (Flikkema et al., 2007; Westeren, 2012; Howaldt et al., 2015).

Recently, the theory of social innovation has become more widely accepted and studied in a wider range of areas, such as economics, governance, public-private partnerships, technology, environment, management, laws, social entrepreneurship, and social finance (Logue, 2019; Audretsch et al., 2022; Adro & Fernandes, 2022). Furthermore, the scope of the social innovation theory has broadened to encompass additional

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variables such as governance, public policy, institutional structure, innovation, the legal environment (laws and regulations), and socio-cultural factors (Logue, 2019; Audretsch et al., 2022; Adro & Fernandes, 2022). Scholars in the field of social innovation theory have proposed a relationship between corporate governance, innovation, and a company's financial performance (Anheier, 2019; Hu et al., 2020; Martins et al., 2022; Adro & Fernandes, 2022). Consequently, the present study has incorporated innovation as its variable.

The social innovation theory has the following strengths that can affect how well an organization performs: It can lower expenses, lower risks, and improve products and services, which gives the business new revenue streams and improves its financial performance (Hu et al., 2020; Hermundsdottir & Aspelund, 2022). On the contrary, social innovation theory has weaknesses, such as the possibility that social innovation projects will need a huge initial investment and won't make immediate financial returns (Ab Rahman et al., 2021).

Less empirical research supports the theoretical literature's contention that a firm's financial performance, innovation, and governance are related (Anheier, 2019; Hu et al., 2020; Janik et al., 2021; Martins et al., 2022). Furthermore, there is a significant gap in the literature on social innovation theory in Africa; further research is needed to build and broaden the theory with additional empirical work from this part of the globe (Littlewood et al., 2022).

Empirical Literature and Development of Hypothesis

Innovation and Financial Performance

When an enterprise is innovative, it may more readily and effectively address market demands by offering sustainable solutions, which leads to strong financial performance (Hanaysha et al., 2022; Buccieri et al., 2021). Most businesses will look to innovate in order to boost their financial performance (Anning-Dorson, 2018; Silwal, 2022; Fernández-Portillo et al., 2022). The empirical study studying the American pharmaceutical industry found that innovative firms have sustained superior profitability (Roberts, 1999; Xin et al., 2008). According to Jeong and Chung (2023), SMEs with marketing innovation have enjoyed competitive advantages, hence positive financial performance. Cho and Pucik (2005) study of 1000 Fortune companies established that innovation was positively associated with companies' growth in profitability. Also, it is established that companies with innovation capacity and innovative initiative are more likely to address market needs and challenges and offer the most reliable solutions than their peers, resulting in better

financial performance (Jeong and Chung, 2023; Anning-Dorson, 2018; Buccieri et al., 2021; Silwal, 2022; Fernández-Portillo et al., 2022). Overall, most studies suggest that companies that are successfully innovative tend to enjoy higher revenue growth, profit margins, and return on investment than their peers (Jeong and Chung, 2023; Anning-Dorson, 2018; Buccieri et al., 2021; Silwal, 2022; Fernández-Portillo et al., 2022). Product, process, marketing, and technology innovation have all had a favorable impact on a firm's financial performance, according to a study that evaluated the impact of innovations on internet service providers' financial performance in Kenya (Ekuam, 2019).

Product Innovation and Financial Performance

It is empirically found in transition economies, a company's performance gains from product innovation (Ramadani et al, 2019). Stoneman and Bartoloni, (2018), argued that product innovation considerably and favorably influences a company's financial success both now and in the future. Additionally, empirical data from Indonesia shows that product innovation has a positive, considerable impact on the financial success of firms (Agustia et al, 2022). Product innovation has all had a favorable impact on a firm's financial performance, according to a study that evaluated the impact of innovations on internet service providers' financial performance in Kenya (Ekuam, 2019). Based on the above arguments existing in the literature, the primary hypothesis is presented as:

H_1 There is a strong positive relationship between product innovation and SACCOS's financial performance in Tanzania

Process Innovation and Financial Performance

Therrien et al. (2011) claim that process innovation increases financial performance by lowering average total costs and improving productive efficiency. The financial performance of SACCOs in Meru County was positively correlated with processes innovation (Ngui, 2018). The study conducted in Kenya by Ekuam (2019) assessed how process innovations affected the fi nancial performance of internet service providers and found that these innovations had a positive impact o n a firm's financial performance. Based on the above arguments existing in the literature, the second hypothesis is presented as:

H_2 There is a strong positive relationship between process innovation and SACCOS's financial performance in Tanzania

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2.2.1.2 Marketing Innovation and Financial Performance

According to Cytonn Investments (2019), companies should prioritize innovative business strategies that can mitigate potential risks and ultimately enhance their financial performance. Most scholars concur that companies that achieve success need to keep up-to-date knowledge of the market and consistently execute creative marketing campaigns (Tang et al., 2021; Peng et at, 2021). The company's financial performance can be enhanced by the effective application of marketing innovations, which can result in notable increases in profitability (Tang et al., 2021; Peng et at, 2021). While the majority of empirical research has supported the idea that innovations have a beneficial impact on financial success, some findings have proved contradictory (YuSheng & Ibrahim, 2020). Based on the above arguments existing in the literature, the third hypothesis is presented as:

H_3 There is a strong positive relationship between Marketing innovation and SACCOS's financial performance in Tanzania

2.2.1.2 Organizational Innovation and Financial Performance

Organizational innovation is one of the most crucial strategies for achieving sustainability and financial success in the twenty-first century and is necessary for a business to continue operating (Ameen at el, 2020). Additionally, their analysis of how organizational innovation affected Dubai Ports World's financial performance came to the conclusion that organizational innovation positively affects financial performance (Ameen at el, 2020). Based on the above arguments existing in the literature, the fourth hypothesis is presented as:

H_4 There is a strong positive relationship between Organizational innovation and SACCOS's financial performance in Tanzania

Conceptual Framework

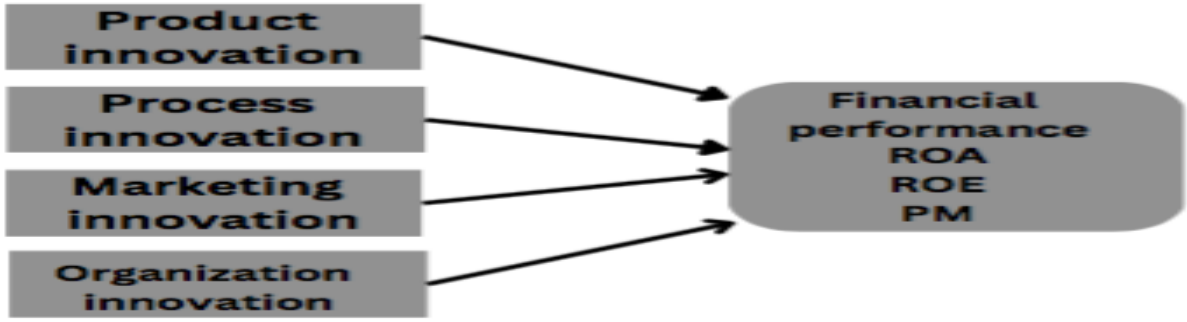

Fig 2.1 Conceptual Diagram

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Methodology

Data gathering and sampling techniques

There are 105 registered active SACCOS in the Mbeya region (TCDC, 2023). The districts in the region were used to cluster the targeted population, and 83 SACCOS were chosen at random from the cluster to serve as the study's sample (Saunders et al., 2019). The study used a deductive approach and positivism philosophy to develop hypotheses from the Social Innovation Theory in order to test the theory's explanation of reality, which is that a company can improve its products and services, reduce risks, and lower expenses by integrating social innovation into its commercial plans (Hu et al., 2020; Hermundsdottir & Aspelund, 2022). This creates new revenue streams for the company and boosts its financial performance (Anheier, 2019; Hu et al., 2020; Martins et al., 2022; Adro & Fernandes, 2022).

Data were gathered using structured questionnaire tools, verified for authenticity and completeness, then organized and categorized to meet the study's goals. The responses were coded using symbols and numbers to enable efficient sorting according to the variables. Similar to this, the Likert scale's pre-coded data score was entered into structural equation modeling (SEM) and subsequently examined to produce the data needed for this study.

Variables and Measurements

Innovation, a variable derived from Innovation theory, was used in this study as a independent variable. Process, product/service, organizational, and marketing innovation are the metrics used for assessing innovation, which is an independent variable in this study, derived from the Social Innovation Theory (Hu et al., 2020). The dependent variable in this study is financial performance, which is measured by return on equity and return on assets (Mushafiq et al., 2023; Diana & Maria, 2020).

Construct Validity and Reliability

Every indicator has an acceptable level of reliability. The Cronbach's alpha values for financial performance, Marketing innovation, organization innovation, process innovation and product innovation are 0.866, 0.729, 0.710and 0.744, respectively. The measures' composite reliability is 0.966 for financial performance, 0.739 for Marketing innovation, 0.787 for organization innovation, 0.713 for process innovation and 0.794 for product innovation above the required minimum level of 0.700. As a general rule, the average variance extracted (AVE) for financial performance, Marketing innovation, organization innovation, process innovation and product innovation are above 0.500; coefficients required for construct

validity (Aburumman et al., 2022; Hair et al., 2019). This is clear and demonstrates a high degree of reliability and internal consistency.

Table. 2: Construct, latent valuables reliability and validity

Constructs & sub-variables	**Code**		**Measure of Validity and Reliability**		
Innovation	**IN**	**Construct (Detectors)**	**Outer loadings**	**Cronbach's alpha**	**AVE**
Product Innovation	IN_1	Our company offers new products as result of innovation.	0.855	0.744	0.793
	IN_2	Our business has been continually improving its products as a result of innovation.	0.925		
Process innovation	IN_3	Innovation has led to improvements in our business operation strategies.	0.889	0.710	0.775
	IN_4	Our company has been tapping new inventions in its process.	0.871		
Marketing innovation	IN_5	Innovation has enhanced our business's marketing strategies.	0.904	0.739	0.786
	IN_6	Our business's market share is growing as a result of innovation.	0.869		
Organizational innovation	IN_7	Our company's administration has been enhanced by innovation.	0.911	0.786	0.824
	IN_8	Our business has been employing innovative ideas in its management	0.904		
Financial performance	**FP**		**Outer loadings**	**Cronbach's alpha**	**AVE**
	FP_1	Return on Equity (ROE)	0.733	0.866	0.792
	FP_2	Return on Assets (ROA)	0.947		
	FP_3	Profit Margin (PM)	0.971		

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Findings and Discussions

Demographic Findings

Unit of Inquiry

The unit of inquiry consists of individual employees of the company (the unit of analysis) who answer questionnaires given to respondents (a sample of saccos from the Mbeya region). Out of the 83 respondents in the sample, 33 were female (or 41 percent) and 50 were male (or 59 percent). All respondents were adult respondents; those between the ages of 18 and 30 (young adults) equaled 13 percent; those between the ages of 31 and 45 (middle-aged adults) equaled 45 percent; and those above 45 (older people) equaled 26 percent. The education level of the respondents was as follows: two (2.4%) had a secondary education, 26 (31%), 47 (57%) had a diploma level, and eight (9.6%) had a degree. Experience with the company where they presently work: 18 years (22%), 62 years (76%), and 3 years (2%).

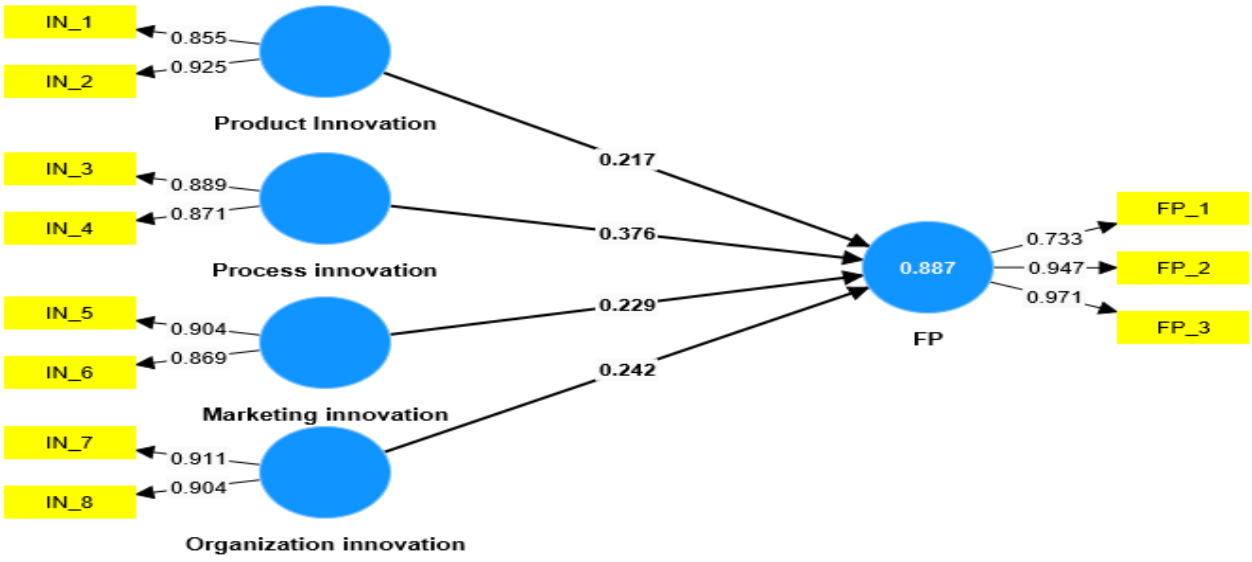
Unit of Analysis

The entities that serve as the study's frame of reference or the entity under investigation as a whole are known as the unit of analysis. The age distribution of saccos in these findings was as follows:

One - to - Nine years	Ten - to- twenty years	Above twenty years
20	41	22
24%	49%	27%

4.2 Hypothesis test

Figure: 1 PLS-SEM path model



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Based on social innovation theory scholars' proposals that there is a connection between innovation, and a company's financial performance, the above path model with latent variables was created (Anheier, 2019; Hu et al., 2020; Martins et al., 2022; Adro & Fernandes, 2022). The above PLS-SEM model route was made researchers to runs from left to right. The dependent latent variable is located on the right side of the route model and the independent latent variables are located on the left. Path model outer-loading is a regression coefficient that measures how strongly latent variables (IN_1 to 8 and PF_1 to 3 are related.

Model Assessment

With loading regression coefficient over 0.700 thresholds, all observable indicators were well loaded into the PLS-SEM model, suggesting that all indicators have a reasonable degree of reliability. R^2 value 0.887 0r 88.7 percent a good indication that model fit and consistency, endogenous latent variables has impacted (contributed well to) the independent latent variable; where by R^2 and Q^2 value ≥ 0.35 indicating large effect (Aburumman et al., 2022; Hair et al., 2019; Hair & Alamer, 2022; Chua, 2023).

The model's Cronbach's alpha values are within the acceptable coefficients ranging from 0.700 to 0.900. The measures' composite reliability are above the required minimum level of 0.700 also the average variance extracted (AVE) are above the required minimum level of 0.500 which is a rule of thumb. This is evident and shows a high level of internal consistency and dependability. Consequently, the observed indicators in the route model mentioned above accurately represented the latent variables (Aburumman et al., 2022; Hair et al., 2019).

Figure: 2 Direct relation Hypothesis Test results

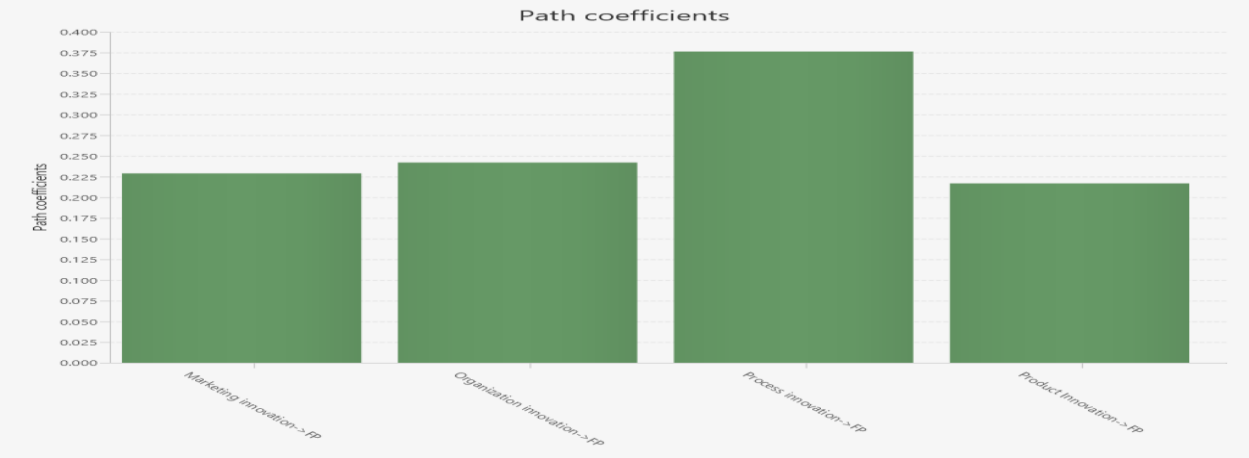

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Table: 2 hypothesis Test results

Mean, STDEV, T values, p values, Confidence intervals, Confidence intervals bias corrected					
	Original sample (O)	**Sample mean (M)**	**Standard deviation (STDEV)**	**T statistics (|O/STDEV|)**	**P values**
Marketing innovation -> FP	0.229	0.228	0.087	2.623	0.009
Organization innovation -> FP	0.242	0.242	0.078	3.113	0.002
Process innovation -> FP	0.376	0.374	0.072	5.234	0.000
Product Innovation -> FP	0.217	0.221	0.108	2.003	0.045

The PLS-SEM Path Model (Figure 1) illustrates a diagrammatic representation of an algorithm designed to test conceptual myths regarding the relationship between innovation and financial performance. Though a limited number of empirical studies have provided evidence supporting this relationship (Anheier, 2019; Hu et al., 2020; Jelimo, 2020; Martins et al., 2022; Adro & Fernandes, 2022).

By applying PLS-SEM, the study established a link between the indicators of the exogenous constructs (innovation) and the endogenous variable financial performance). Construct in PLS path models were connected and using R2 values, and P value was assessed to determine the relationship between the constructs.

The PLS-SEM standardized regression coefficients (R2 values), which were used to quantify the relationship between the exogenous and endogenous components, are represented by the number on the route and that shown in the circles of the endogenous latent variables on the diagram (Figure1).

H_1 – was highly supported by the standardized regression coefficients, which showed that the relationship was strong with The path coefficient (β values of 0.217) more than 0.100 and *P* value of 0.045 less than the upper limit for the 0.05 (Hair et al., 2022; Chua, 2023). Consistent with Jelimo, (2020) findings, research indicates a robust correlation between product innovation and financial performance.

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Table: 3 Hypothesis Test results summary

Hypothesis	**Path**	**Path coefficients (β)**	**Comment**	**P (Q2) value** P≤0.05	**Comment**
Hypothesis is supported when		**β > 0.1**		P≤0.05	
H_1 There is a strong positive relationship between product innovation and financial performance in Tanzania	**Product Innovation -> FP**	0.217	Path accepted	**0.045**	Hypothesis accepted
H_2 There is a strong positive relationship between process innovation and SACCOS's financial performance in Tanzania	**Process innovation -> FP**	0.376	Path accepted	**0.000**	Hypothesis accepted
H_3 There is a strong positive relationship between Marketing innovation and SACCOS's financial performance in Tanzania	**Marketing innovation -> FP**	0.229	Path not accepted	**0.009**	Hypothesis accepted
H_4 There is a strong positive relationship between Organizational innovation and SACCOS's financial performance in Tanzania	**Organization innovation -> FP**	0.242	Path accepted	**0.002**	Hypothesis accepted

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H_2 – The path coefficients (β values of 0.376) more than 0.100 and *P* value of 0.000 less than the upper limit for the 0.05 (Aburumman et al., 2022; Hair et al., 2019; Hair & Alamer, 2022; Chua, 2023). It indicate strong relationship between process innovation and financial performance Consistent with Jelimo, (2020), Hu et al. (2020), findings, research indicates a robust correlation between process innovation and financial performance.

H_3 – PLS-SEM model also supported the 3rd hypothesis by the indicating standardized path coefficients, (β values of 0.217) more than 0.100 and *P* value of 0.009 less than the upper limit for the 0.05 (Hair et al., 2022; Chua, 2023). Consistent with Jelimo, (2020), Hu et al. (2020) Peng et al., (2021) concluding strong correlation between Marketing innovation and financial performance to exit.

H_4 – The path coefficients (β values of 0.242) more than 0.100 and *P* value of 0.002 less than the upper limit for the 0.05 (Aburumman et al., 2022; Hair et al., 2019; Hair & Alamer, 2022; Chua, 2023). It indicates strong relationship between organization innovation and financial performance Consistent with Jelimo, (2020), findings, and research indicates a robust correlation between process innovation and financial performance.

Conclusions and Recommendations

The research has determined that the Social Innovation theory claim is true, and that there is a significant positive correlation between innovation and the financial Performance of Savings and Credit Cooperative Societies (SACCOS).

However, it should be clear that all businesses worldwide could benefit from this study, as it focused on microfinance institutions in Tanzania's tiny Mbeya region. More empirical research in various sectors of the economy and around the world is needed, in my opinion, to support the Social Innovation theory's assertions, as the theory is still dynamic and complicated and financial performance varies not only between nations but also between industries.

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