



# Effect of Market Orientation on Firm Performance the Mediating Role of Entrepreneurial Orientation: The Case of Small and Medium Sized Enterprise (SMEs) in Ethiopia

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**Abstract** – Market orientation is the line with increasing a global market competition of an organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and EO that indicated the prime motives behind these changes are digitization and the dynamic turbulent business environment of firms. The study aimed to examine the effect of strategic innovation on the performance of SMEs in selected Oromia regional state in Finfinne Zuria and East Shewa, Ethiopia. The target population of the study was 19,709 SMEs of firms in Bole Lemi IP cluster, number respondents provided from Sheger zuria Oromia, Ethiopia SMEs data during collected 2024. Data were drawn and collected from a sample of 390 from textile and manufacturing industry, using the quantitative, a cross-sectional and primary data collected from Textile and Apparel manufacturing industry, in Oromia Regional state selected from Bole Lemi IP cluster, located From Sheger Zuria. The study was adopted descriptive study of study the mean used to measure to located for distribution of response and dispersion of the respondents to a particular questions will be explained, CFA to testing the model which are individual, measurement and to construct SEM as the main aspect for the relationships amongst latent variables, and other indicators was designed to analysis and to evaluate the effect of Market Orientation with firm performance in SMEs that Mediated with Entrepreneurial Orientation. the standardized regression results estimate shows the direct effect of Market Orientation with performance has positively influenced with firm performance in SMEs, the direct effect of Entrepreneurial Orientation with performance has a negative effect with firm performance in SMEs, the direct effect of Market Orientation with Entrepreneurial Orientation has positively influenced in SMEs and the indirect mediation effect of Entrepreneurial Orientation between Market Orientation and Firm performance in SMEs has positively influenced Oromia regional Sate Sheger Zuria SMEs hat Alignment, Human Capital, customer insights and Tec. Capabilities has positively influenced with firm performance in SMEs in Bole Lami IP Cluster of textile and apparel manufacturing industry in the study area, respectively.

**Keywords:** Market Orientation, Entrepreneurial Orientation, Firm performance, Textile industry, Manufacturing industries, SMEs, Ethiopia.

## 1. BACKGROUND OF THE STUDY

Market orientation is the line with increasing a global market competition of an organizational culture that most effectively (Perdana & Prasasti, 2023) and efficiently creates the necessary behaviors for the creation of superior value for buyers Narver and Slater, (1990). Market Orientation have provide a substantial additional insights by showing the responsive of customer orientation to creates superior value in a business-to-business setting in industry (Khairuddin et al., 2020) and giving voice to customers, their argument lies in the development of a customer-defined proactive customer orientation that combines with a responsive



customer orientation (Chikako & Hamu, 2021). Weinstein & Pohlman, (1998) recommended, that Market orientation shows the excessive dependence on the context of business-to-business B2B approach the relationships and its applicability to business-to-consumer (B2C) settings (Wahyuda et al., 2023; Rnandes et al., 2020), the assumption of a business joint assessment of Market Orientation by the company and the customer is not realistic (Laurent, 2013), because the end of customers has shown a lack of sufficient information, and line with the assessment of the company's Market Orientation reflects the perceptions of its managers, while the value of Market Orientation has perceived by in business industry (Perdana & Prasasti, 2023) and Market orientation that theorized by MBV it is an ability to satisfy customers' needs and wants, as well as to capacitate of the firm's marketing efforts (Amit & Shoemaker, 1993), RBV it focuses in Internal resources and a capabilities of Firms and MO is Focuses in External resources in industry and mutually can complement each other in achieving a competitive advantage (Moshi & Matotola, 2023) and Customer Preferences in organization and Contingency theory to contributed MO for market growth, service growth, Customer insights and a strategic marketing initiative in organization (Weinstein & Pohlman, 1998; Ducker, 1995; Van Raji, 2004; Masson & Harris, 2005, Hult et al., 2005; Wahyuda et al., 2023).

The prime motives behind these changes are digitization and the dynamic turbulent business environment of firms (Fan et al. 2021; Wang, 2020). Moreover, the constant for the development of new technologies has led to high competition (Ali et al. 2022; Ali and Johl 2022a; Lumpkin & Pidduck, 2021). EO has been recognized that entrepreneurially-oriented and managers tend to focus more on value creation of new product development and over value appropriation of firms activities in industries Mintzberg, (1973). A new value creation is increasing the benefits or decreasing the costs of firm's product-market offering (Covin & Slevin, 1989). Benefits refer to the attractiveness of a new entry within the market (Merriam-Webster, 2023). Morris and Sexton (1996) say in contrast Costs encapsulate the principal barrier to the adoption of firms in business industry (Bin Yusoff et al. 2021; Fang et al. 2021).

Entrepreneurial Orientation is the principal unit of action within theory of RBV focuses on the internal resources and firms capabilities and it achieving a competitive advantage in business organization (Ganguly et al., 2023). TPB it perceived the subjective norms of comprise reasoned action and a behavioral control of individual and organizational Entrepreneurship strategies of the organizations of SMEs. DC it carried out in an ongoing process managing marketing, Changing Promotion system, to evaluate a profit performance and to build a business strategy based on customer need in business organization (Kirstinae et al., 2023). Diffusion innovation theory Rogers, (1995) it describes a of an innovativeness theory of Entrepreneurial Orientation dimension that explain how new ideas, products spread with social systems and it helps a design of effective strategic communication in business industry (Ngo, 2023) and Contingency theory a market initiatives in company and a less aggressive and less costly approach in organization and a strategic of new value creation in industry (Wales et al., 2023). EO describes a technologies that broadly as a practical application of knowledge in ways that make it possible to create new products, to exploit new markets (Chelliah et al., 2023; Isichei et al. 2020) use new ways of organizing, incorporate a raw materials or to use a new processes to meet a customer needs in industries (Covin & Slevin, 1991).

Moreover, the constant for the development of new technologies has led to high competition (Ali et al. 2022; Ali and Johl 2022a; Lumpkin & Pidduck, 2021). EO has been recognized that entrepreneurially-oriented and managers tend to focus more on value creation of new product development and over value appropriation of firms activities in industries Mintzberg, (1973). A new value creation is increasing the benefits or decreasing the costs of firm's product-market offering (Covin & Slevin, 1989). Benefits refer to the attractiveness of a new



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## 2. STATEMENT OF THE PROBLEM

Market orientation has attracted as a professional and scholarly interests as a driver of firm performance in SMEs and the outcome of this study (Chandler et al., 2021) said that the consistent findings of previous research studies of Market Orientation it theorized by Market based View, Narver and Slater, (1990) and (Birbirs & Kero, 2022). The study found a positive and significant relationship between Market Orientation and firm performance (Wakjira, 2023b). The results also suggest that the relationship between MO and firm performance is stronger for small and medium-sized enterprises compared to large firms, Customer orientation, and Competitor Orientation has a strong relationship with Firms Performance in SMEs (Chiguvi, 2023). Conversely IFC has a low correlation and the research has not yet investigated the impact of Supplier Orientation on firm performance in SMEs (Brounscheidel and Suresh 2009; Schulze et al., 2022) says in today market orientation environment with firm performance depends on their supplier orientation doesn't produce and deliver their market strategies in SMEs (Fakhreddin & Foroudi, 2022) address this gap and further respond to the call for research to examine the Market Orientation outside of firm boundaries and within the context of Supplier Orientation practice has highly important for the achievements of industry (Karaev & Mercan, 2023).

Entrepreneurial Orientation study was undertaken by (Perdana & Prasasti, 2023; Badival et al., 2023) suggested that 279 SMEs in the Netherlands to determine the relationship between innovativeness, pro-activeness and risk-taking and performance of firms and it established that there is a positive relationship between combined measures of EO and a business performance of SMEs (Rezaei & Ortt, 2018) and the most studies agree with this and that a positive relationship between uni-dimensional Entrepreneurial orientation and a business performance of SMEs in other research studies have established a non-linear relationship of some study theorized only Contingency theory, KBV and Diffusion innovation of the study in his findings the three dimensions of EO namely innovativeness, pro-activeness, and risk-taking may not all have positive relationships with performance in some firm industry (Tang, 2012; Alhamami et al., 2023). Notably smaller firms did not exhibit the same positive relationships (Hakeem & Ph, 2023) it suggested that the study in 1,668 SMEs in nine countries from different industries in Europe revealed that innovativeness and pro-activeness showed positive relationships while risk-taking exhibited a negative relationship between dimension of EO high contribution in SMEs, the remaining add two dimensions of EO in industry is namely Autonomy and Risk-taking variables has a positive relationship with firm performance in SMEs (Chiguvi, 2023).

In the current dynamic world small enterprises is identified as the engine of growth, and playing a significant role in economic growth, innovation, employment generation and poverty reduction. A report from government of Ethiopia in small and medium sized enterprise corporation (2021/22) point outs small enterprises in Ethiopia were not functioning as planned (Michael Nnaemeka Ajemba & Ebube Chinwe Arene, 2022). They planned to be a means to transformation but they were challenged by internal (they have no understanding of how to produce the quality of product and services, they have no awareness to get used to know about SMEs, lack of better understanding and study concepts of MO and about EO in SMEs, Most of SMEs work in informal sectors which force them to have some constraints in their performance compared to large companies in industry, lack of entrepreneurship quality, weak record keeping and finance management, lack of working in cooperative and lack of experience and experience sharing between and among themselves)



(Birbirs & Kero, 2022) and external challenges (lack of access to capital, poor infrastructure, lack of marketing resource allocation, lack of working premises and lack of market linkage).

Therefore, most of the researchers focus mainly on Market Orientation three dimensions of Market Orientation (Customer orientation, Competitors orientation and IFC), and the three Entrepreneurial Orientation dimensions (Innovativeness, Risk-taking and Pro-activeness). Due to such reason, this study examined all four dimensions of Market Orientation (Customer orientation, Competitors orientation, IFC and Supplier orientation) and EO mediated to examined all five dimensions (Autonomy, Competitive aggressiveness, Innovativeness, Risk-taking and Pro-activeness) of (EO) over its effect on Organizational performance by taking in case of Small-Medium-sized Enterprise (SMEs), Ethiopia.

### 3. OBJECTIVES OF THE STUDY

- To assess Market Orientation has a direct effect with firm Performance in SMEs.
- To analysis an Entrepreneurial Orientation has a direct effect with firm Performance in SMEs.
- To determine Market Orientation has a positive direct Effect with Entrepreneurial Orientation in SMEs.
- To examine an Entrepreneurial Orientation mediated the indirect relationship between Market Orientation and firm Performance in SMEs.

### 4. LITERATURE REVIEW OF THE STUDY

#### 4.1 Relationship between Market Orientation with Firm Performance

Some authors (Hta, 2021; Fentie & Devi, 2021; Kohli & Jaworski, 1990) argued that market orientation consists of three behavioral marketing view perspectives Customer orientation, Competitors orientation, and IFC of the business functions and three decision-making perspectives criteria of Intelligence Generation, Intelligence Dissemination and Responsiveness functions of long-term focus and the profit motive in administrative organization in SMES (Chelliah et al., 2023; Alhamami et al., 2023) argued that the most effective behaviors to create value for customers and in this way to create the most effective behaviors, and it defines an organizational culture that improves Organizational performance of Manufacturing industries are appropriated and related (Slater & Narver, 2000; Farida & Setiawan, 2022). Narver and Slater (1992) also base their market orientation studies in dimensions of MO like Customer orientation to produce products and services that will create superior value for customers, sufficient information should be collected about them (Sikandar et al., 2022), Competitive orientation that the company must understand its current and future competitors' strengths and weaknesses and strategies (Onditi, 2020). IFC of the business resources are used in a coordinated way to create the best value for the customer (Panarina, 2023), and Supplier Orientation means customer ultimately understand of one's target require target customer to create continuously the superior value (Varadarajan, 2020) and the similarity between the strategies company Market Orientation dimensions organizational culture and behavioral perspectives that improves Organizational performance in SMEs (Alabsy, 2021) and Manufacturing industries are Measured by four component dimensions are Customer Orientation, Competitor orientation, inter-functional coordination and Supplier orientation to manufacture and deliver their integrated components (Adeniyi et al., 2020) and ultimately implement their customer-centric initiatives in manufacturing industries of SMEs (Weingarten et. al, 2012; Wahyuda et al., 2023; Rnandes et al., 2020) and company praised for its market orientation by further three dimensions doesn't deliver any of



its products (Arfiana Dewi 2020; Dwi Kartikasari, 2021) the company relies exclusively on supplier orientation as to handle its manufacturing and help it deliver value to its customers (Karaev, 2023; Duran & Castillo, 2023).

**HI:** Market orientation has a direct relationship with Organizational performance in SMEs

**a.** Customer orientation is one of the dimensions of Market Orientation Kiani et al., (2019) that enhancing the Capabilities of the Organizations to the better understanding of customer needs and available of technological options for competitive market. It is described as an organization's understanding of customer demands and possession of capacity to continually create superior products and services that will add value to the customers (Neneh, 2018; Narver & Slater, 1990) argued earlier, previous manufacturing firms. Multiple linear regression analysis is used to test the research hypotheses (Jenatabadi, 2015). The study found a positive and significant relationship between Market Orientation and firm performance (Wakjira, 2023b).

**b.** Competitor Orientation Narver and Slater, (1990) says an organizational Competitor Orientation: a salesperson must understand the current strengths and weaknesses as well as the long-term capabilities and strategies of existing and potential competitors (Xie & Hanafiah, 2023). Competitor orientation in a modern competitive environment does not only monitor competitors' marketing, but also examines competitive advantages and competitors' business performance (Vorhies *et al.*, 2011), said the competitive orientation in organizational performance is measured by Multinational Competitive an organizational knowledge can be transfer a leverage knowledge and to share the best practice from different markets it improve their product services in organization, Self-development Competitive it refers a measurements that related to diverse a personality, motivational and adaptive behaviors in company, Hyper Competitive Attitude a busines corners of an individual needs to compete, and win at any cost that maintaining and enhancing a self- worth in industry, Anxiety Competitive it is an organizational negative emotional response and stress of a company in the performance related situation is perceived and treating in organization (Chandler et al., 2021).

**c.** Inter functional coordination is the degree of coordination and collaboration in the company Gatignon and Xuereb (2006). Leron and Baconguis (2021) argued that the Communication sharing, information resources, integration and collaboration of different functional areas or departments and in the earlier work of the famous (Narver and Slater 2016; Fite and Lemi, 2021) says the coordination utilization of company resources in creating superior value for target customers (Makhloufi et al., 2021; Saleh et al., 2021; Wasim et al., 2022).

Furthermore, the offering of new product or technology requires inter-functional collaboration with the purpose of solving market and technical issues that will lead to achieving high speed and performance (Alhakimi & Mahmoud, 2020). Importantly, previous studies have equally argued that organizations with enhanced interfaces between research and development and marketing departments are able to achieve their technological capacity efficiently than their competitors through identification of SMEs performance measured by Company Culture it shared a value of organizational goal, practices and attitudes and it characteristics in organization, Optative arrangements it arrange the future action to express in organization & Leadership style it providing a direction that implementing a strategic plan, action and the implementation in SMEs (Lekmat et al., 2018 ; Wakjira, G. G. 2023d).

**d.** Supplier orientation Celikyay et al., (2022) argued that Supplier orientation on the other hand, are stakeholders that have the potential to be positively or negatively affected by interactions with the company of Business perspectives of SMEs (Yelmi et al., 2021) in their study and in Market orientation dimensions supplier orientation, in internal integration in any industries must have the willingness to integrate capabilities through data system, and the process internally and externally before it engaged in meaningful external integration in industry (Hanif et al., 2020). Supplier integration it leads to the supplier data improvements in



terms of cost and quality while delivering products services to customer and management of suppliers are strategically (Negeri, 2023). Customer integration with performance of wholesale companies are positively and it improving the extent to which the industry ensures customer integration can be a great potential and to improve the industry's firm performance (Mago & Mohan, 2021), and Information integration it refers to the free cost sharing accurately and timely sharing of business information across the members of the supply chain which is a key success factor for an organization in SMEs (Chege & Otieno, 2020).

#### 4.2 Relationship between EO and firm performance

An Entrepreneurial Orientation in a firms level of EO which captures an organizational strategies to take a decision making practices, a managerial philosophies & organizational behaviors that are EO in nature Barney, (2001) suggested the findings from past studies that shows that EO that influences the performance of SMEs (Mohamed et al., 2023; Lumpkin, & Frese, 2009 Fatoki, 2012; Mahmood & Hanafi, 2013; Mata & Aliyu, 2014; Rauch, Wiklund, 2009; Zehir et al., 2015 and Yeni, 2015). The research findings have in agreement with the resource-based theory, in which suggests that an organizational competitive advantage (Khan et al., 2020), and superior performance that emanate from the firm specific resources, and capabilities (Barney, 1991). (Mutuku et al., 2022) suggested that despite the importance of competitive advantage in promoting firm performance of SMEs as suggested in the resource-based view theory (Maaodhah et al., 2021), in past studies it has not paid much attention in studying, and its mediating effect on the EO with firm performance SMEs relationship (Shaher & Ali, 2020).

However, some studies has observed the positive, and significant influence of EO of competitive advantage (Mustafa, Rehman, Zaidi, & Iqbal, 2015; Michael & Ebube, 2022; Perdana & Prasasti, 2023). In another study that found that EO Mediated a partial relationship between EO with firms performance of SMEs (Karaev, 2023).

**H2:** Entrepreneurial orientation has a direct relationship with firm performance in SMEs

**a.** Autonomy; it enables both opportunity-seeking and advantage-seeking behaviors Ireland, Hit, & Simon, (2003) and it creating a competitive advantage by using EO initiatives to pursued an opportunities in organization (Stevenson& Jarillo, 1990), and it needed to achieve such results in organization with a strong relationship with EO culture practice that aimed to be fostering an autonomy in an organizational behaviors (Kiyabo & Isaga, 2020), and to create a value creation that stimulates a company outcome in SMEs performance (Deutschman,2004). Autonomy it represents with in organization the freedom to develop an entrepreneurial idea and through completion, required a new idea to fruition and it able to more effectively and investigate a champion of new idea in organization, (Lumpkin & Dess, 1996; Anderson,2000; Jagggar, 1983; Guttman, 1987; Freedom et. al., 1997; Velamen & Piper 2014 and Jams& tyler, 2022) an individual's independent action and self-direction in search of a new opportunity (Šlogar et al., 2023).

**b.** Competitive Aggressiveness; represents directly challenged in competitors and trying to avoid them and it includes a marketing quality and a production capacity in SMEs (Runyan et al., 2006; Lumpkin & Dess 1996; Smart and Cant 1994; Antonic & Hisrich,2004; Patric and Kairo, 2022; Wahyuda et al., 2023). and it measured with Opportunity lead of a qualified lead that is converted in to a potential sales of activities that purchases system in organization, and Side way growth in SMEs customer and people will prefer to lean with a vertical side to develop a personal and Organizational achievements in SMEs. A business firm's degree of responsiveness to its rivals described aggressiveness as a firm's proclivity to straightaway challenge its market competitors and to surpass the rivals. (Covin and Covin 1990) exhibited that high performing firms are likely to be more aggressive in a hostile environment (Kiyabo & Isaga, 2020).



**c.** Innovativeness; to provide and perused a creativity and experimentation to build the existing skill of the organization and the incremental improvements of SMEs and it aimed to develop a new market, services, and process of SMEs in manufacturing industry of SMEs, (Rogers, 1962; Porter & Kramer, 1979; Lawrence, 2004; Moffitt, 2007). Innovativeness is measured by Experimentation of a scientific procedure, ability, specialty to determine an organizational goal in SMEs (Lustrilanang et al., 2023) and a creativity to use an organizational idea, imagination to create something inventiveness in SMEs. A resistance to change to adapt a new circumstances or ways of doing things in organization and to performing an initial introduction of the notion (Susanto, 2019; Dele-ijagbulu, 2020; Wakjira & Ibrahim, 2023), it longs to assumed that innovation exclusively applied to internal companies or R&D department activities making creativity and innovation valuable strategic resources guarded by rigorous management and statutory protections (Miller 1983; Susanto, 2019) and firm's open innovation is shown to affect its performance through the contingency theory. For instance, (Maaodhah et al., 2021) found a positive relationship between open innovation and firm performance. (Celikyay et al., 2022) found a positive relationship between open innovation and firm performance (Faiz et al., 2015).

**d.** Pro-active; it helps to a pervasive phenomenon to face the problem and challenges people can consciously change in their social, and in economic environment in SMEs. Pro-activeness to anticipate and act on future need rather than reacting in organization and to adopt an opportunity seeking perspective in organization (Miller, 1983; Post Man, 1960; Baddely, 1990; Anderson, 2000 and Chandler, 1989) and it demonstrates a firm's anticipatory action in the future market demand to gain competitive advantages over its market competitors (Adesoga et al., 2018) followed by opportunity scanning (Aloulou, 2023; Wales et al., 2016). According to Celikyay et al., (2022), proactive business firms are able to capitalize first mover lead and dominate over market distribution channel, (Beck et al., 2021) and EO in term of pro-activeness has been widely touted as a fundamental ingredient for enhancing firm performance. Using information from SMEs, performance the results obtained indicated that while EO had a significant positive association with SME performance employment and sales performance, most SMEs show a moderate level of EO (Yesuf et al., 2023).

**e.** Risk-Taking: The willingness to take a risky with action in the hope of voluntary choices in industry and outcome to change and to desire a result of action in SMEs and Risk-Taking to preferred and engaged in hold rather than an action and it suggested entrepreneurial do not perceived their action as risky and mostly to take action only after using plan and forecasting to reduce the uncertainty (Marston & King, 2006; William, 2001, Tulloch & Lupton, 2003; Carton et. al., 2008 and Simon et.al., 2000; Irawan et al., 2023).

If the product is priced wrong the consumer will either not buy it or the company will not produce a profit (Tesfa, 2023; Farooq et al., 2021); if there is no demand in the market for the product or service (Susanto, 2019; Dele-ijagbulu, 2020), the financial and time elements spent on development and research would be disadvantaged. In product development one should also consider if a product under development has deficiencies that cannot be resolved easily; this is considered an undesired outcome and risk-taking practice are measured by Motivation an internal organizational systems that propels an individuals to engage and a goal directed behavior forces to explain a certain behavior at a particular time in organization (Almacena Platform, 2021). Control and Reflexivity a cognitive knowledge and role in an individual to adapt continuously changing an organizational environment in SMEs (Bibi et al., 2021).

### 4.3 Relationship between Market orientations with Entrepreneurial Orientation

The relationship between Mo and EO correlated, but a distinct constructs of MO reflects the degree to which a firms stratetegic planning in SMEs is driven by customer and compitition intelligence (Mesfin & Youtang,



2022), and EO reflects the degree to which firms growth objectives that driven by the identification and by the exploitation of market opportunities in SMEs (Spilling 1996, Ball 2005; Benito et al., 2019) argued that the organization are continually seeking out new opportunities and they need to have an entrepreneurial orientation they are willing to undertake new activities (Giri et al., 2021; Dele-ijagbulu, 2020; Adam and Fuzi, 2022).

Today, market orientation has been the focus of many studies and review articles (Rahimi, 2021). Market orientation involves the pursuit of current opportunities (Abrehet, 2022), while entrepreneurial orientation is more focused on future opportunities (Frisby, 2005; D et al., 2021). Many studies have confirmed that these two concepts affect each other (Hota, 2021). A majority of research at the organizational level focuses on market orientation leading to dynamic and continuous strategic planning by effectively measuring market orientation (Ahmed et al., 2021) says the growth of entrepreneurial companies requires that they be focused on market demands (Lekmat et al., 2018). Entrepreneurial orientation improves a company's ability to understand and recognize market opportunities before its competitors, thus gaining a competitive advantage (Takele & Ph, 2021).

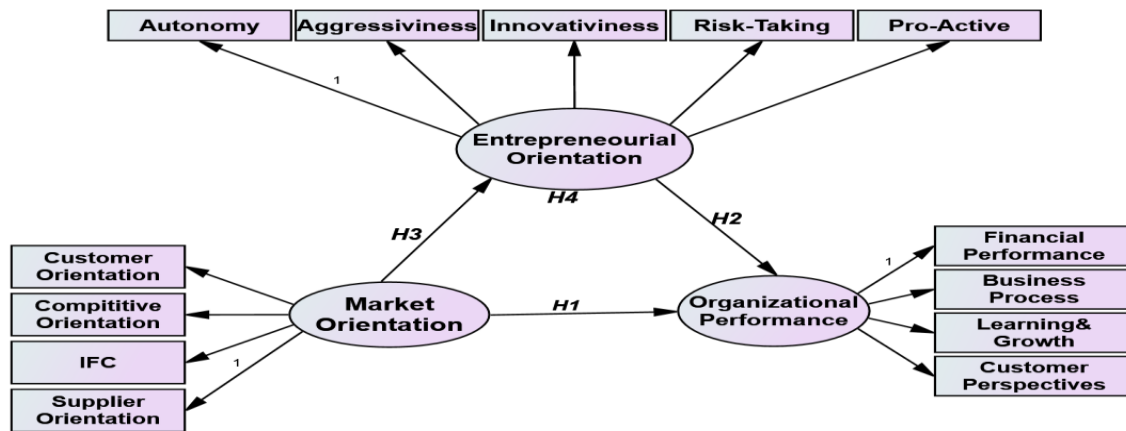
**H3:** Market orientation has a positive effect with Entrepreneurial Orientation in SMEs

#### **4.4 The Mediating Effect of EO between MO and firm performance**

Many studies examined the relationship between Entrepreneurial Orientation and Market Orientation (Miles & Arnold, 1991; Morris & Paul, 1987) says that contributed the efforts to arrive the orientation of corporate customer's image and EO helps the strategies to change (Qifa & Marunda, 2020) to assert the velocity to adapt with change and to provide an opportunity for the sustainability of SMEs. (Hussain & Ali, 2016) argues that the relationship between MO and EO are the complementary way but a distinct constructs and both constructs interact and the results in new products SMEs performance (Giri et al., 2021; Mugogo, 2020). In a similar vein, Kwak *et al.*, (2013) suggested that the opinion of the basic theme of the interactive effect that EO creates such market organizational culture to accelerate, motivate the innovative and the creativity of the organizational members of SMEs. Similarly, Market Orientation tries the main as such a culture through tools, and the procedures necessary for fostering the subject culture of the firm.

The relationship between EO with the performance of SMEs becomes a visible when it interacts with Market Orientation practices (Koponen & Julkunen, 2022), and in a recent study trend that conducted by (Amin et al., 2016) determined that the effect of MO relationship with EO and the performance of SMEs in Malaysia that found that MO mediates this relationship determination in SMEs (Mohammed, 2021). In addition, another recent study will conducted by Vega-Vázquez et al. (2016) in 80 hotels sector in services industry in Spain that provided that EO in individually capacitate it may not be yield a superior performance (Barney, et al., 2001; Abbaszadeh et al., 2023; Šlogar et al., 2023) unless and other wise MO act as mediated in the relationship between EO and SMEs performance (Li et al., 2020) argued that the adoption of EO results is improved in human capital knowledge for a firm because it deals a changing situation as an opportunity while MO helps a firm to link it with marketplace (Makhloufi et al., 2021). The outcome derived from combining EO and MO results in greater firm performance and sustainable competitive advantage (Mulgeta et al., 2021).

**H4:** EO has mediates the indirect relationship between Market orientation and Firm performance



**Fig -1:** Conceptual Frame Work of the Study

## 5. METHODOLOGY AND DATA ANALYSES

### 5.1 Study Design

The study adopted descriptive and explanatory designs with the arrangement of primary data collection via, a cross-sectional data design followed by a quantitative research approach. The major purpose of descriptive research, as the term implies, is to describe the characteristics of a population or phenomenon demographic information, while explanatory and inferential research design allows studying the relationship between independent and dependent variables it allows Correlation and Regression data analyses. It is a crucial to use explanatory design to examine the effect of strategic innovation with firm performance (Pescaroli et al., 2020). The strategy of inquiry in the study adopted a quantitative data gathering approach and it involves a numbers to exists in survey and experimental research through collecting and analyzing data from the selected sample (Ryan, 2018).

### 5.2 Sampling Frame

The sampling frame is closely related to the effect of Market Orientation on Organizational performance the mediating role of EO in SMEs manufacturing industry in Textile and garment sector in Oromia regional state Sheger Zuria zone, Ethiopia are the sampling frame respondents of the population (Suleiman & Usman, 2020).

The criteria of this selected area were based on high density of manufacturing industry for 390 Employees and Workers of textile, garment and apparel industry will be the targeted population of the study area.

Therefore, researcher has randomly selected SMEs Manufacturing industry of textile, apparel and garment industry for the purpose of this study. addressed to the cluster of Bole Lemi Industrial parks (IP) Respectively, Bole Lemi Industrial parks issued of Such company is Ever a top Sportswear textile PLC, Top new Ethiopian Garment and textile PLC, Ashton Textile Manufacturing PLC, Vests Garment & Textile PLC, Jay, jay garment and textile Manufacturing PLC, Shangtex garment and textile PLC and Saints Ethiopian textile production PLC.

### 5.3 Data and Sampling techniques



In quantitative data research the probability sampling method has and through the major types, from general to specific, to use a multi-stage clustering sampling was used to collect data a sample from population from large, Geographically spread group of people of area of survey (Gritha Bhandari 2023) and stratified sampling methods the total populations will be dividend in to homogeneous groups of data survey will be used during study types, in the first stage, selected region was selected conveniently, in second stage Manufacturing industry area or zone in the region as representative of the SMEs in Sheger zuria, Oromia, Ethiopia was selected (Hall et al. 2013).

Accordingly, Sheger Zuria bole Lemi IP cluster of Manufacturing industry of textile and Apparel industry will be targeted for sample size representative (Ayyagari et al., 2011; Lee et al., 2015). The selection criteria of this area were based on high density of manufacturing industry of Textile and Apparel industry will be location in Oromia, Ethiopia. For this study, 390 respondents of Employee or workers from manufacturing of Textile and Apparel industry of SMEs was targeted as sample size that will be determined by using the following known Yemane (1967) formula calculated as follows whereas:

n =Preferred the sample size,

N =Target population

e = Margin of error at 5% (standard value of 0.0025) for 95% confidence level.

The sample size will be determined as follows of given the total population of (16,111).

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{(16,111)}{1 + (0.0025)^2} = 390$$

### Variables measurements of the study

The choice of suitable explanatory independent variable of Market Orientation and dependent variable of firm performance and Mediating variable of Entrepreneurial Orientation their measurement are an essential issue that needs to be dealt with in specifying an empirical model of the study.

### 5.4 Dependent Variable of Firm Performance

Firm performance has become a significant concern for today's diverse business owners, managers, and accountants in many countries (Chelliah et al., 2023), it stated that a firm's performance indicates an organisations' capacity and willingness to achieve the outcomes that it has previously established, it measure Financial performance it helps a businesses to determine their profits and financial goals effectively for the indicators variables of Financial Efficiency, Financial Profitability and Financial Liquidity, Business Process for the functionality of business operations, perspectives, reworks reductions in operational costs, Learning and Growth it imperative to provide achieving the successful industry implementation of industry and Customer Perspectives it provide add value for customers perspectives of business of SMEs.

### 5.5 Independent Variable of Market Orientation

Market orientation (MO) is the line with increasing a global market competition of an organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers, it Measured by, Customer Orientation it helps for better understanding of customer needs and



available of technological options for the indicators of Customer Retentions, Quality Service and Collaboration, Competitive Orientation a Company understands for short and long term strengthens and weakness capabilities and strategies for its potential competitors of SMEs, IFC for the Communication & sharing information, resources, overall integration and functional area of SMEs and Supplier Orientation it helps industry activity of organizing supplier relationships to achieve organizational goal of SMEs.

## 5.6 Mediating Variable of EO

It refers to a strategic company posture that captures that the specific process, practices & activities that enable company to create high value that engaging in entrepreneurial endeavors in SMEs and contributing to an increased the distribution of firms performance outcome in industry (Michael, 2020), it is Measured by Autonomy for advancing ethical behaviors and for professional change in SMEs, Competitive aggressiveness for proclivity to straightaway challenge its market competitors and to surpass the rivals in SMEs, Innovativeness it plays a key role for novelty product line and process& increase profit share & satisfaction of SMEs, Pro-active it helps to a pervasive phenomenon to face the problem and challenges people can consciously change in their social, and in economic environment in SMEs and Risk-Taking the willingness to take a risky with action in the hope of voluntary choices in industry and outcome to change and to desire a result of action in SMEs.

## 5.7 Methods of Data Analyses

For quantitative statistics data the survey was using descriptive analyses measure and to reveal Central tendency and dispersion (Sekaran and Bougle,2009) in this study the mean used to measure to located for distribution of response and dispersion of the respondents to a particular questions will be explained by the distribution of data is symmetrical of data set that measures of variability are usually the variance and standard deviation of the response to be investigated in the variability of a data set (Haftor & Climent Costa, 2023). It also helps to spot errors and outliers, makes it possible to see relationships between variables, and paves the way for further statistical analysis of the data set and the mean score below 3.39 will be considered as low; the mean score from 3.40 up to 3.79 as moderate and mean score above 3.8 as high as illustrated by Comparison bases of mean of score of five point likert scale instrument are examined for irregularities of data set will be analysed (Matsuno, 2019).

For Confirmatory factor analysis (CFA), for Structural Equation Modeling (SEM) to analyse, Firstly, we ought to ascertain the MI for each item, and then delete the highest, after deletion the highest value we have to examine the text output for the second model. Thus, change the model and repeat the analysis, the model fit Chi-square will be decreased to achieve p-value and to fit the model (Ayalu et al., 2022). In addition, GFI, CFI and will be increased and RMSEA will be dropped. There are three types of CFA to testing the model which are individual, measurement, and structural model. Firstly, CFA for individual measures of each the construct such as (independents variables). Secondly, CFA for endogenous variables (dependent variables) and mediating effect with dependent variable (Wodajo et al., 2020). Thirdly, CFA for three structural models are hypothesis model (all exogenous and endogenous variables), underpinning theory (original theory), and generating model (all exogenous and endogenous variables). Goodness of fit is "the degree to which the actual or observed input matrix (Covariance or correlations) is predicted by the estimated model" (Hair et al., 2006, p. 580). According to Bollen (1989), the  $\chi^2$  likelihood ratio test, the Standardized Root Mean Residual (SRMR), the Goodness-of-Fit Index (GFI, CFI, and IFI) are the most frequently achieved measures.

The SEM is a very popular multivariate approach (Wambugu & Njoroge, 2022). The first step is the model conceptualization, which handles constructed hypothesis (based on theory) as the main aspect for the relationships amongst latent variables, and other indicators. During this step, the model is developed in

accordance to theory and empirical findings. The model should reflect the latent variables through any measured indicator (Al et al., 2023). The path diagram development is the second step. It is deployed to achieve uncomplicated hypothesis visualization resulting from model conceptualization (Raifman et al., 2022). Thus, model specification (generating model) is the third step in which it deals with the development of the measurement and structural design of the research problem. Causal relationship found in the latent variables should be discussed during the specification of the structural model (Arif et al., 2021). a direct effect is the effect variables have on one another in a direct relationship, in this study there are ten direct effects as mentioned earlier and to make sure that all paths in the model whether supported or rejected we should be certain with recommendation values of (C.R and P-value). the mediating effect only can happen when there are three variables (independent variable is perceived behavior control (PBC), mediator variable is revisit intention (INT), and dependent variable is actual visit behavior (ACT), we can calculate the result of mediating effect during estimate each variable from output of analysis (Ugwu et al., 2021).

Therefore, if the indirect effect (PBC→INT→ ACT) is more than direct effect (PBC → ACT) and all paths are significant, then it considered as full mediator. In contrast, if indirect effect is less than direct effect, it is not considered a mediator.

### 5.8 Reliability and validity tests of a construct

In this study, to test the reliability of the constructs, Cronbach's alpha was used. One of the most commonly used indicators of internal consistency is Cronbach's alpha coefficient (Juile, 2005). Reliability can be measured with Cronbach's coefficient alpha which should surpass the .70 threshold (Nunnally, 1978, Field, 2013). High Cronbach's alphas refer to patterns of high inter-correlations among the items in a scale, indicating that they constitute a coherent whole in measuring a construct. However, other scholars (Slater, 1995; Sekaran, 2000; Muhammed, 2010) have suggested that Cronbach's alpha as low as .60 are acceptable for hypothesis testing. Moreover, inter item to total correlation values 0.3 or greater is acceptable for data analysis that indicates of the degree (strength) to which each item correlates with the total score (Julie, 2005). In the current study the Cronbach alpha coefficient of all constructs are greater than 0.7 except extra cluster ties 0.607 which exceed the 0.60 minimum threshold and acceptable. This shows almost all constructs of current studies have good the internal consistency (inter--correlations) scale with the exception of few extra cluster ties are acceptable for hypothesis testing. Furthermore, to obtain Unidimensionality of constructs , we checked the inter-item correlation for all the scale items by using the confirmatory factor analysis; the values of item to total correlation of all items are greater than 0.3 here indicated that the items have strong inter-correlation with their constructs and then factor analysis is appropriate (Juile,2005; Field,2013).

**Table -1:** Construct Reliability and Validity

Constructs	No. of Items	Item to Total Correlation	Cronbach Alpha (Reliability)
Market orientation	19		0.824
Customer Orientation	5	.694	0.707
Competitors Orientation	5	.585	0,753
IFC	4	.671	0.743
Supplier Orientation	5	.654	0.765

Entrepreneurial Orientation	16		0.889
Autonomy	5	.558	0.760
Aggressiveness	4	.630	0.743
Innovativeness	5	.619	0.818
Pro-Active	4	.760	0.794
Risk-Taking	4	.569	0.872
Firm Performance	8		0.895

## 6. DATA ANALYSES AND INTERPRETATION

### 6.1 Descriptive Statistic data analyses

The Descriptive analysis of data of all about summarizing the responses of participants in average mean, frequency data and tabulation or any other form of the statistics. In this study, from Employee and workers of Small and Medium Sized Enterprise the collected data was entered, and reported using SPSS V.25. The mean value and the standard deviation of each factors is analyzed and presented in data set.

According to Kothari (2004) for a deceptive to calculate a data set, the mean is the central average value of a discrete set of population numbers and specifically the sum of the mean values is divided by the number of population values. Standard Deviation in data set is a number how it used measurements for a group is spread out from the average mean in data set for the expected value of data set, and a low St. dev. means that most of the numbers are close to the average and, a high standard deviation in that the numbers are more spread out.

**Table -2:** Descriptive Statistic of data analyses: from Field survey (2024)

<b>Descriptive Statistics</b>			
Indicators		Mean	Std. Dev
Items	N	Stat.	Stat.
Market Orientation (MO)		3.6428	
Customer Orientation	390	3.6605	
We constantly monitor our level to Commitment and Orientation to serving customer needs	390	3.8462	.74975
Our strategy for achieving competitive advantage is based on understanding about customer needs	390	3.7615	.73827
Our strategies are driven by our beliefs about how we can generating greater value for customers	390	3.4436	.80608
We focus a lot of attention to after sales services	390	3.7103	.83844
Our Employees understand the need of their Clint	390	3.5410	.82824



Competitor Orientation	390	3.6796	
Our salespeople regularly share information within our organ's concerning competitors' strategies	390	3.5231	.56298
Our employees often share the information about our competitors with the other	390	3.6821	.66606
Our sales employees regularly share the information within our Company about competitors strategies	390	3.6928	.72519
Company about competitors strategies	390	3.7641	.80534
Our top management often discusses the strengths and strategies of company competitors	390	3.7359	.73648
IFC	390	3.6314	
Employees from different functional area are share information about customers and competitors regularly	390	3.5744	.72655
We openly Communicate about successful customer encounter across all functions	390	3.6667	.69476
All managers understand how everyone in the organizations can contributed in creating service value	390	3.5768	.64884
Is Research, development and marketing departments are able to achieve their technological capacity are efficiently in your company	390	3.7077	.66006
Supplier Orientation	390	3.5972	
Your customer ultimately understand of one's target require target customer to create continuously the superior value	390	3.5103	.83844
The environment your firm depend on their suppliers to produce and deliver their product and services	390	3.4410	.82824
Cooperate with its suppliers and strategic alignment regarding outsourcing choices in the supply chain in your company	390	3.5538	.68094
Collaborative efforts to combine strategic and operational capabilities within and between companies	390	3.7538	.71104
The Supplier integration it leads to the supplier data improvements in terms of cost and quality while delivering products services to customer	390	3.6897	.88802
Entrepreneurial Orientation		3.6247	
Autonomy	390	3.6147	
Employees in my firm are given freedom and independence in doing their work, without depending on the owners or manager's	390	3.5103	.83844



direction			
In this firm, the owner/Manager (rather than employee initiative play major role in identifying and selecting the entrepreneurial opportunities this firm pursues	390	3.7410	.82824
The owner/Manager of this firm believes that the best result occurs when employees, as an individuals or a team, are able to decide for themselves what business opportunities to pursue	390	3.7538	.68094
In this firm the individuals and/or teams perusing business opportunities have to obtain approval from their manager before making decisions	390	3.4538	.72104
In general owner or manager believes that employees will work efficiently when they decide on their own target	390	3.5538	.71104
Competitive Aggressiveness	390	3.6660	
This firm avoids a confrontation with the competitors and let them act	390	3.6821	.66606
In general, our business takes a bold and aggressive approach when competing	390	3.7821	.72519
Our business computes intensely in the future industry	390	3.6641	.80534
The degree of responsiveness to its rivals described aggressiveness as a firm's proclivity to straightaway challenge its market	390	3.5359	.73648
Innovativeness	390	3.6103	
This firm prefers to design its own unique new methods of production rather than adopting the methods of the other firms	390	3.6667	.69476
In the last three years this firm has marked number of new line of products or service	390	3.5669	.64884
This firm prefers to design its own unique new methods of production rather than adopting the methods of the other firms	390	3.7077	.66006
The owner or manager of the firm favor their own original approach to solve problem rather than imitating methods that other firms have used for solving their problems	390	3.5051	.72681
R&D department activities making creativity and innovation valuable strategic resources in your Company	390	3.6051	.76085
Pro-active	390	3.6352	
In dealing with competitors, this firm typically initiates action to which compotators then respond	390	3.7974	.71613
In dealing with competitors, my firm is often the first business to	390	3.6026	.75100

introduce the first product/service			
The owner or manager of the firm has a strong tendency to follow the leader in introducing new product or ideas	390	3.5744	.72655
The anticipatory action in the future market demand to gain competitive advantages over its market competitors	390	3.5667	.69476
Risk-Taking	390	3.5991	
When confirmed with decision making situations involving uncertainty, this firm typically adopt causation to minimize the probability of making costly decisions compared with other firms	390	3.4974	.71613
The top manager of this firm have a strong proclivity for high risk projects with chance of very high rate of return, rather than low risk projects with Normal rate of return	390	3.7641	.80534
Employees in this firm are encouraged to take calculated risk with new ideas	390	3.5359	.73648
The perceived in their action as risky and mostly to take action only after using plan and forecasting to reduce the uncertainty	390	3.5350	.74646
Firm Performance (FP)	390	3.6426	
Our enterprise is constantly seeking suitable planning to increase profits	390	3.5103	.83844
There is an analysis for optimal finance in our enterprise	390	3.5410	.82824
Sales processes are effective within our enterprise	390	3.5538	.68094
Our enterprise has continuous belief and invests in its people.	390	3.7538	.71104
Our enterprise is willing to support and invest in its employees to adapt to future challenges.	390	3.6897	.88802
Employees are satisfied with their professional development in our Enterprise	390	3.8872	.87310
Our enterprise strives to improve its market share	390	3.5231	.56298
Customers are satisfied with the current business solution	390	3.6821	.66606
Valid N (list wise)	390		

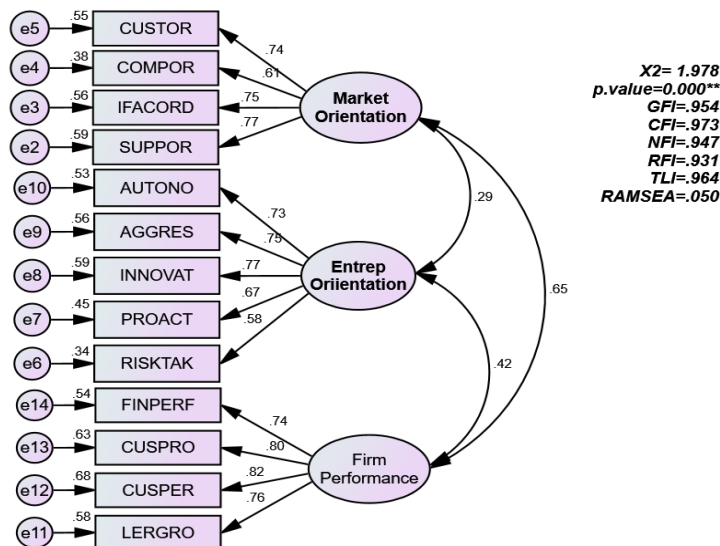
In this study the summary of Descriptive Statics result shown all Variables were conducted based on a 5-point Likert Scale. Respondents agreed that the effect of Market Orientation on Firm Performance in SMEs; The Mediation role of Entrepreneurial Orientation of Textile and Apparel manufacturing industry assessments result to high (Mean = 3.6428) is Market Orientation practice, the next high average value mean (3.6426) value output result Firm Performance practice, and the third Entrepreneurial Orientation (3.6247) and the high measurement Variable result of Market Orientation indicator is Competitor Orientation (3.6796), the next

highest measurement MO indicator is Customer Orientation (3.6605), the lowest average indicators is supplier orientation with value of (3.5972) to contribute Market Orientation. Thus, it has critical for any enterprise in today can be committed and all predict variables of MO were perceived and a strong factors that affect the performance of SMEs in Oromia Regional state Sheger Zuria SMEs, in Ethiopia. The EO indicator is Competitive Aggressiveness (3.6660), the next highest measurement EO indicator is Pro-Active (3.6352), the lowest average indicators is Risk-Taking with value of (3.5915) to contribute EO in Oromia Regional state Sheger Zuria SMEs, in Ethiopia. Thus, it has critical for any Sector enterprise today to be committed and all measurement variables of were perceived a strong factors that affect the performance of SMEs, and the data has collected from Oromia Regional State Sheger Zuria Textile Garment and Apparel Manufacturing industry from cluster of Bole Lemi Industrial parks issued of Such company is Ever a top Sportswear textile PLC, Top new Ethiopian Garment and textile PLC, Ashton Textile Manufacturing PLC, Vests Garment & Textile PLC, Jay, jay garment and textile Manufacturing PLC, Shangtex garment and textile PLC and Saints Ethiopian textile production PLC.

Because, they have dissatisfied but rather tend to take challenges work activities, and engage in improving Textile Garment and Apparel Manufacturing industry of SMEs Performance, and business activities in enterprise (Meyer& Allen 2019).

### 6.2 Confirmatory Factor analyses (CFA)

The measurement model represents the degree to which the indicator (item) variables capture the essence of the latent factor (Hamzeh et al., 2023). Moreover, a valid measurement model is the model which meets the requirements of psychometric soundness both reliability and validity of measures and constructs (Abigail et al., 2023). The purpose of testing reliability and validity of measurement is to assure multiple items measure the hypothesized latent variables but not others. It is accomplished primarily through CFA (Byrne, 2001).



**Fig -2:** CFA Measurement Variable data analyses: From Field Survey (2024)

**Table -3:** Construct Reliability and Validity table of statistics: from Field survey (2024)

<b>Construct</b>	<b>indicators</b>	<b>Loadings</b>	<b>Alpha</b>	<b>C.R</b>	<b>AVE</b>
Market Orientation	SUPPOR	.543	.823	.842	.542
	IFACORD	.635			
	COMPOR	.680			
	CUSTOR	.579			
Entrepreneurial Orientation	RISKTAK	.534	.874	.878	.568
	PROACT	.564			
	INNOVAT	.594			
	AGGRES	.449			
	AUTONO	.641			
Firm Performance	LERGRO	.546	.896	.898	.643
	CUSPER	.677			
	CUSPRO	.564			
	FINPERF	.595			

### 6.3 Composite Reliability, Convergent Validity, Discriminant Validity

CR coefficient is another measure of internal reliability and CR provides a robust measure of reliability by taking into account the contribution of each latent factor to each item and each item’s error”. In addition, Stark weather (2012) points out that “CR provides a robust measure of reliability by taking into account the contribution of each latent factor to each item and each item’s error (Ali et al., 2022). Interpreted the same as Cronbrah alpha, Malhotra (2010, p. 733) suggests that “the minimum accepted CR values should be 0.70”. The CR estimates reported in will be calculated using the formula, whereby CR is as a square of the summation of the factor loadings divided by the sum of the square of the summation of the factor loadings and the summation of error variances (Bewick, Cheek & Ball 2000). The formula is illustrated in the following manner:

Convergent Validity Their average variance extracted (AVE) for X with indicators  $x_1, x_2, \dots, x_n$  is Thus, compelling demonstration of convergent validity would be an AVE of 0.5 or above (Nunnally 1993; Gounaris and Dimitriadis, 2003). The details of the current studies’ results are provided in table 4 below. According to this data the AVE of all latent variables are greater than 0.5 (AVEs>0.5) that shows the convergent validity is good (Gounaris and Dimitriadis, 2013). In other word, there is no violation of convergent validity for this data generally, by loading factors and AVE the convergent validity assumption is confirmed. All predicted constructs’ factor loadings are significant and greater than 0.5 and the Average Variance Extracted (AVE) of MO that close to 0.5 and indicates that approximately good convergent validity assumption is achieved (Adula & Kant, 2023).

The discriminant validity of this study, Average variance extracted is used. The details of the current studies’ results are provided in table 5 below. We assessed the discriminant validity of each construct by AMOS. The values of all of the average variance extracted are greater than all corresponding

square of correlations. According to this data, the discriminate validity is good (Baran, 2019). In other word, there is no violation of discrimination validity. In general, the overall evidence suggests the existence of discriminant validity Multicollinearity exists if there is a high correlation between independent variables when regressed against each other i.e. the correlation coefficients are below the level considered to be serious/harmful, which is generally accepted as 0.80 or higher as harmful (Field,2015).

**Table -4:** Model fit indices table of statistics: from Field survey (2024)

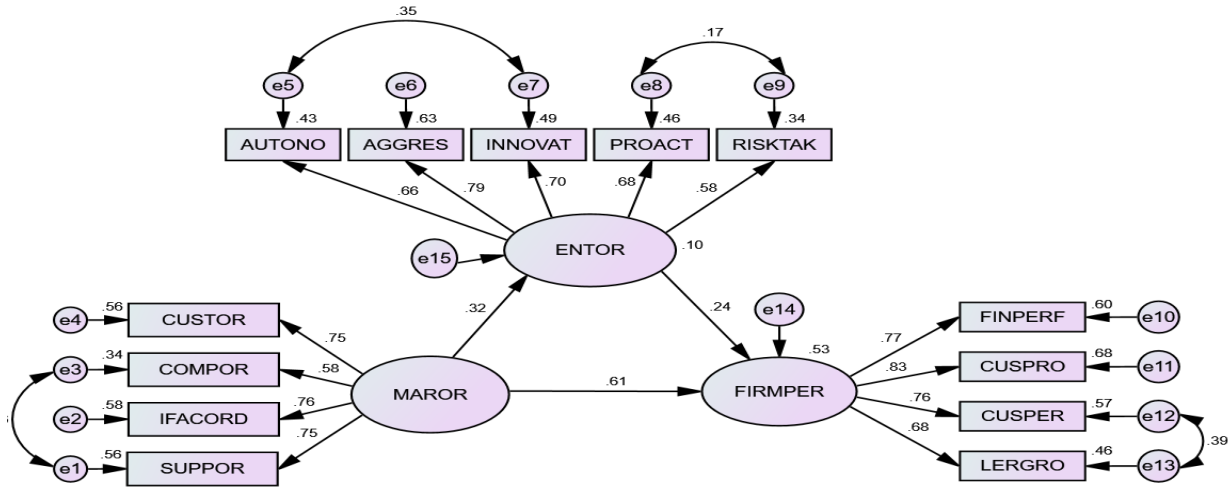
Model	Indices	Criterion	Result	Decision
CMN	Chi-square	Low	116.683	Normally Fit
	Df	< 3	59	Normally Fit
	(P- value)	< .05	.000**	Normally Fit
	Normed chi-square $\chi^2$	< .20	1.978	Normally Fit
RMR & GFI	Root Mean Square error	< .05	.058	Normally Fit
	Goodness of fit index	> .90	.954	Normally Fit
	Adjusted goodness of fit index	> .90	.929	Normally Fit
Baseline Comparison	Normed fit index (NFI)	> .90	.947	Normally Fit
	Relative fit index( RFI)	< .90	.931	Normally Fit
	Incremental fit index (IFI)	>.90	.973	Normally Fit
	Tucker kwis index (TLI)	>.95	.964	Normally Fit
	comparative fit index (CFI)	>.95	.973	Normally Fit
	PGFI	<.80	.618	Normally Fit
RAMSEA	RAMSEA	< .05	.050	Normally Fit

Goodness of fit is "the degree to which the actual or observed input matrix (Covariance or correlations) is predicted by the estimated model" (Hair et al., 2006, p. 580). According to Bollen (1989), the  $\chi^2$  likelihood ratio test, the Standardized Root Mean Residual (SRMR), the Goodness-of-Fit Index (GFI, CFI, and IFI) are the most frequently achieved measures. The following sections provide an overview of each of the achieved measures to explain the decisions obtained with regards to the models (Wakjira, 2023a). The  $\chi^2$  likelihood ratio test, which is highly important a "badness-of-fit" test, is the most identified and apparent measure correlated with CFA (Chikako & Hamu, 2021). The proposed model does not meet the requirements of the collected data very precisely if the p-value of  $\chi^2$  is significant (i.e., <0.05), whereas it meets the demands of the collected data if p-value is >0.05 is achieved. According to Byrne (2001), there is progressing debate on whether a model that has a significant  $\chi^2$  statistic must into consideration as valid and measuring data through using SEM usually takes place by, deploying goodness-of-fit (GOF) measures. The CFA contains important functions that may be deployed (Chen, 2021).

### 6.5 Structural Equation Modeling (SEM)

Structural equation modeling (SEM) is considered a family of statistic models that seem for explaining the relationship amongst multiple variables (Hair et al., 2006). The SEM has developed to be one of the well-

known aspects in selecting a research methodology for investigating issues related to social and behavioural sciences.



**Fig -3:** Structural Equation Modeling Variable data analyses: From Field Survey (2024)

**7. TESTING HYPOTHESES**

**Table -5:** Unstandardized Regression weight table of statistics: from Field survey (2024)

Variables			Estimate	S.E.	C.R.	P	decision
EO	<--	Market Orientation	.312	.065	4.165	***	Accepted
Firm Performance	<--	Market Orientation	.709	.077	9.202	***	Accepted
Firm Performance	<--	EO	.287	.067	4.322	***	Accepted
Firm Performance	<--	EO <-- MO	.101	.041	2.660	***	Accepted

**H1:** Market orientation has a direct relationship with Organizational performance in SMEs has significantly accepted

**H2:** Entrepreneurial orientation has a direct relationship with firm performance in SMEs has significantly accepted

**H3:** Market orientation has a positive effect with Entrepreneurial Orientation in SMEs has significantly accepted

**H4:** EO has mediates the indirect relationship between Market orientation and Firm performance in SMEs has significantly accepted

Similarly, from the standardized regression results estimate shows, the indirect (mediated) effect of competitive oriented on product innovative success is .23. That is, due to the indirect (mediated) effect of competitive oriented on product innovative success, when competitive oriented goes up by 1, product innovative success goes up by 0.23. This is in addition to any direct (unmediated) effect that competitive oriented may have on product innovative success.



The total (direct and indirect) effect of competitive oriented on product innovative success is .50. That is, due to both direct (unmediated) and indirect (mediated) effects of competitive oriented on product innovative success, when competitive oriented goes up by 1, product innovative success goes up by 0.50. All results of the test of mediation effect using SEM have significant correlations between competitive oriented, market orientation (mediating variable), and the product innovative success. This finding supported by the recommendation of (Hair et al. 2010).

Further, the results showed the index ratio of 48% with partial mediation effect of market orientation, suggesting that without market orientation, competitive oriented could influence product innovative success in SMEs. This statement is far from (Hair et al.; 2010, Eugenie, John and Laura, 2016) who stated that in case of full mediation, the predictor variable loses its power to influence the dependent variable except through a mediator. Despite a full mediation, the index of mediation indicated that product innovative success received only 48% of the indirect effect from competitive oriented through MO, leaving 52% unaccounted for. Therefore, it

can be presumed that the balance of 52% may be accounted for by other mediating factors not considered in this study that necessitate further investigation.

Here after MO considered as mediator the effect of competitive oriented on product innovative success still exist but in smaller magnitude, therefore, potentially, market orientation partially mediates the path between competitive oriented and product innovative success. Therefore, hypothesis4 is supported. In general, all of the hypothesizes were accepted.

## 8. CONCLUSION

In this study, the empirical investigation of strategic innovation that affect with firm performance in small and medium sized manufacturing industry was conducted using cross-sectional and primary data collected from 392 small and medium sized manufacturing industries in selected in Oromia regional state two selected zone of Finfinne zuria and East Shewa zone, Ethiopia. The outputs and the results of multiple linear regression analysis revealed that industry in strategic innovation was a positive significant effect in explaining with firm performance in SMEs in two selected zone of Finfinne zuria and East Shewa zone of study area. The result of the investigation also shows that Strategic alignment, Human Capital, Customer insights, and Technological Capabilities was positively and significantly related with firm performance in SMEs, while Customer insights has found to have highly a strong positive beta effect with dependent variable performance of firm followed by Strategic alignment, Human Capital and Technological Capabilities, respectively.

However, a medium statistical relationship was reported between Strategic alignment and the performance of SMEs than other variables. Human Capital and technological Capabilities has Strong relationship with Firm Performance, and Customer insight has Very-strong relationship with Firm performance has respectively and as strategic innovation has increases with firm performance, is expected and supported. Hence, the industries which have a strong strategic innovation orientation towards Strategic alignment, Human Capital and Technological Capabilities have better performance in textile and apparel manufacturing industry in the study area.

## 9. LIMITATIONS AND IDEAS FOR FUTURE RESEARCH

A future line of investigation could be carried out by acquiring secondary data sources as a performance indicator. This study used for the study a cross-sectional and primary data to measure firm performance in



SMEs and as such the absence of objective Marketing, Business, Profitability and performance measures could be a huge limitation. However, it should be noted that the scholars that agree and the self-assessment of firm performance is highly relevant, especially when in the study of secondary data are unreachable in study. Further studies could also be conducted by incorporating several mediating variables and moderating variables, and interlinking other types of innovation with micro, small, Medium and Large Size manufacturing Organizational performance and in other public Sectors, Private Banks in Ethiopia.

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