

Effect of Entrepreneurial Orientation on Performance of SMEs in Ethiopia: The Mediation role of Innovation

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Abstract

Innovation and entrepreneurship go hand in hand since applying creative thinking to SMEs manufacturing firms gives the sector a competitive advantage. Thus, the purpose of this study was to investigate how entrepreneurship orientation affects the performance of small and medium-sized firms (SMEs) in Ethiopia's textile, apparel, and garment manufacturing sector. It delves deeper into the role that innovation plays as a mediator in this relationship. So, investigation used an explanatory research design and a quantitative methodology. The study's focus is on the apparel, textile, and garment sectors in Ethiopia's Oromia regional state. There are ten textile, clothing, and apparel manufacturing businesses in the entire population. To gather information from a sample of 451, the researchers used a probability sampling technique, more precisely a multi-stage clustering sampling. Based on information from a pilot study with 95 respondents, an exploratory factor analysis (EFA) was carried out to evaluate the internal consistency and reliability of the study variables. Confirmatory factor analysis (CFA) and structural equation modeling (SEM) were used to analyse the gathered data. The data outcomes show that entrepreneurship orientation and innovation have a big impact on organisational success. Nonetheless, compared to the other correlations looked at, the relationship between organisational success and entrepreneurship inclination is somewhat weaker.

Keywords: *Entrepreneurship Orientation, Innovation, Organizational Performance, SMEs, Textile Industry.*

1. BACKGROUND OF THE STUDY

Entrepreneurial orientation (EO), according to Lee et al. (2023) and Amari (2023), is a crucial element of progress in society and the economy, especially when it comes to using knowledge and tangible assets and looking ahead. Kirchoff and Phillips (1988) demarcated orientation of entrepreneur as the procedure, practice, and administrative activities that central to the creation of new businesses and entities. Entrepreneurial orientation has gained more attention globally, especially in developing economies, since it is believed to play a vital function in the creation of jobs, the reduction of poverty, and economic development in the functioning of SMEs (Ganguly et al., 2023; Khan et al., 2020; Lumpkin and Dess, 1996).

There are several EO metrics, including as risk-taking, aggressiveness, proactivity, autonomy, and invention, all of which are investigated from theoretical foundations (Karimi et al., 2021; Vallaster and Angerer, 2018). The combination of pro-activeness, innovativeness and risk-taking

constitutes a uni-dimensional tactical orientation, according to theory of Ajzen's planned behaviour (TPB), which was presented in 1985 (Al-Swidi & Mahmood, 2012; Ferreira and Coelho, 2020). The additional elements of aggressive rivalry and autonomy that Lumpkin & Dess presented in 1996 are pertinent to this (Abrehet Mehari & Prof. Rovshan Guliev, 2020; Karaev, 2023).

Because SMEs increased both domestically and internationally, which incentivized enterprises to innovate in order to achieve a lasting competitive edge, Perdana and Prasasti (2023) looked at innovation in the context of SMEs' success. Irawan et al. (2023) assert that organisations need to enhance their skills to adjust to the swiftly evolving and suddenly altering situations (Peng et al., 2021). This has the ability to bring about transformation and opportunity for all business sectors and can also play a big role in economic development (Arslan, 2020; Becerra-Vicario et al., 2023). Innovation provides small, middle, and micro-sized firms (SMEs) with opportunities and a supportive environment in terms of knowledge and assets, according to Maaodhah et al. (2021).

Utilising innovative technologies to boost SMEs' performance is common in Eastern and Horn of Africa. Additionally, small and medium-sized businesses are being forced to find creative and enhanced methods to stay in business due to competition in today's business environment (Wahyuda et al., 2023; Perdana & Prasasti, 2023; Šlogar et al., 2023).

2. STATEMENT OF PROBLEM

There are still a number of inconsistencies in the evidence, as well as theoretical, methodological, and knowledge gaps that require attention, despite the increased interest in comprehending the connection among innovation and performance among SMEs with an entrepreneurial orientation. By examining the influence of innovation dimension mediation on the performance of Ethiopian SMEs with an entrepreneurial orientation, this study seeks to close these gaps.

The outcomes of preceding studies on the connection between innovation and SME performance have been incongruous. According to some research, there is a good correlation between innovation and SME performance (Michael Nnaemeka Ajemba & Ebube Chinwe Arene, 2022; Perdana & Prasasti, 2023 Mustafa, Rehman, Zaidi, & Iqbal, 2015). Other research, however, has discovered ambiguous or even detrimental associations (Mohamed et al., 2023; Rauch, Wiklund, Lumpkin, & Frese, 2009; Mata & Aliyu, 2014). More research is necessary to fully comprehend the association among innovation and SMEs performance, particularly in the context of Ethiopian SMEs, in light of these contradicting data gaps.

By examining the mediating effect of innovation characteristics in the context of Ethiopian SMEs with an entrepreneurial orientation, this study aims to close this theoretical gap. From a methodological standpoint, earlier research has mostly used cross-sectional designs, which makes it difficult to determine causal linkages or look at how the innovation-performance relationship changes over time (Yeni, 2015; Zehir et al., 2015; Fatoki, 2012; Mahmood and Hanafi, 2013). Furthermore, few studies use longitudinal data to evaluate how innovation aspects affect the success of SMEs (Tesfa, 2023; Farooq et al., 2021). In order to close these methodological limitations and provide a more thorough analysis, this study uses a longitudinal research approach.

Regarding the particular innovation features that mediate the association among innovation and SMEs performance in Ethiopian with an entrepreneurial orientation, there is a lack of thorough understanding. By performing empirical research to determine and evaluate the mediating influence of several innovation aspects on the performance of Ethiopian SMEs, this study aims to close this knowledge gap. This study created a conceptual framework that specifically includes the mediating role of innovation dimensions in order to close the theoretical gap. The framework will offer a basis for comprehending how various aspects of innovation mediate the link between innovation and performance in Ethiopian SMEs with an entrepreneurial orientation by drawing on pertinent theoretical views.

3. OBJECTIVES

1. To inspect the consequence of Entrepreneurial orientation on SMEs performance.
2. To look at the consequence of Entrepreneurial Orientation with SMEs Innovation.
3. To inspect the effect of Innovation t on firm performance
4. To analyze the effect of Innovation mediated among EO and SMEs performance.

4. THEORETICAL LITERATURE

A. Concept of Entrepreneurial Orientation

Miller (1985) first conceptualised EO as initiative, risk-taking, and inventiveness. Two additional dimensions were later added: autonomy and competitive aggressiveness, by Lumpkin and Dess (1996). According to Kanaan-jebna et al. (2022), each of the five dimensions has a different level depending on organisational and environmental factors, but they are all crucial for EO performance associations in SMEs' performance. According to Siranesh & Mebratu (2020) & Etim, Adabu & Ogar (2017), orientation of entrepreneur is a collection of standards, guidelines, and policymaking practices that a company employs to boost its propensity for innovation, proactivity, and willingness to take risks.

Entrepreneurial Orientation Determinants

a. Autonomy

Lumpkin and Dess (1996) define autonomy as the capacity to make decisions on one's own and go forth in pursuit of fresh chances. According to Šlogar et al. (2023), efficiency and a company's independent mindset are related. The ability and willingness of an individual to pursue market possibilities independently is defined as autonomy in the literature on economic organisations. With the help of creative goods and process innovations, an organisation can swiftly and independently make decisions that open up new markets (Aroyeun et al., 2019; Bruhn et al., 2018; Adeniyi et al., 2020).

b. Competitive Aggressiveness

Competitive aggressiveness is a process of a firm openness to its rivals (Lumpkin and Dess 1996; Runyan et al., 2006; Wahyuda et al., 2023). The ability of a business to overcome obstacles quickly and surpass rivals in a competitive market is known as aggressiveness. Proactive companies are likely to be proactive in difficult situations, as shown by (Covin and Covin, 1990 & Kiyabo & Isaga, 2020). Moreover, an individual's capacity to manage fierce competition in concurrence is considered by the EO dimension of competitive aggressiveness (Miller 1983). Perdana & Prasasti (2023) define competitive aggressiveness as using creativity to outsmart competitors (Ledi & Ameza–Xemalordzo, 2023).

c. Innovativeness

It has been shown that SMEs' receptivity to innovation influences their performance by guiding their association with the theory of contingencies (Wakjira & Ibrahim, 2023). Subsequent Schumpeter's preliminary overview of the concept of innovativeness, there was a long-standing idea that innovation was restricted to core corporations or R&D department activities. Because of this, invention and creativity became important strategic assets that were safeguarded by laws and stringent oversight (Miller 1983; Susanto, 2019).

d. Pro-active

According to Aloulou (2023) & Adesoga et al. (2018), being proactive shows that a company is anticipating market demands and acting accordingly to advance a reasonable superiority over its opponents. This is followed by opportunity scanning, as suggested by Miller (1983) and Wales et al. (2016). In terms of pro-activeness, EO has been widely hailed as a key component for improving firm performance. Proactive business firms are able to capitalize on first mover advantage and dominate over market distribution channel, as demonstrated by Zahra and Covin (1995); Celikyay et al., (2022) and Beck et al., (2021).

e. Risk-taking

In the words of Siam et al. (2022), risk is the degree of unpredictability surrounding a decision's outcome (Abbaszadeh et al., 2023). When creating a novel service or good, a manager or business owner must take into account both the monetary and advertising ramifications, including the cost associated with launching the new good or service, how it ought to be marketed, and whether there currently is a demand for it (Yaskun et al., 2023). Risks are involved in the decisions that must be made regarding the new good or service (Almacena Platform, 2021).

B. Concept of Innovation

Modern research on innovation in the marketing discipline will address the term "innovation," which has different meanings in different business sectors (Hunt and Morgan, 1995; Lavoie & Main, 2022). Innovation is demarcated as a progression that originated with an conception, develops it further, and ends with implementation (Brief, 2022). According to Aloulou (2023), innovative products, services, marketing prowess, and organisational inventiveness are all factors in SMEs' success.

As a result, innovation happens when a company possesses the capacity to innovate, which is defined as the capacity to create, develop, and apply new concepts, products or services, strategies, and procedures that benefit those involved in the business (Hult et al. 2004; Sufa et al., 2022). In this regard, innovation capabilities of firms have been defined by (Tesfa, 2023; Farooq et al., 2021) as a crucial element that permits culture of innovation within an organisation, the presence of enabling activities, and the capacity to comprehend and react suitably to the outside influences of SMEs (Calantone et al. 2002; Hussain et al., 2023). Sufa et al. (2022) contended that innovation is a decision that corporations make in response to marketplace competition and effective leadership (Manickam et al., 2023) and refers to an organization's endeavour to create, manufacture, and sell novel goods for the industry through the use of information and technology (Al-Shourah, 2021).

Determinants of Innovation

a. Product Innovation

Perdana and Prasasti (2023) define innovation at product level as the introduction of a novel creation or one that has undergone significant improvement or modification in terms of features, functionalities, and ease of use (Issau et al., 2022). It also includes improvements made by a business to its technological specifications, its line of products, or other helpful characteristics. Product innovation remains one of the company's main sources of competitive advantage (Yesuf et al., 2023). This is because new product innovation can increase efficacy, which can increase efficiency and give SMEs a competitive advantage (Alhamami et al., 2023). Several studies have confirmed the correlation between a company's success and its ability to innovate new products (Alhamami et al., 2023; Patel & Patel, 2023).

b. Process innovation

In accordance with Wahyuda et al. (2023), Process innovation is defined as "improving the process of manufacture, shipment technique, or advancing operations" (Abbaszadeh et al., 2023). This can involve making substantial machinery and approach modifications as well as introducing major improvements in the software, technological advances, and instruments used in a manufacturing or delivery method business. As per Issau et al. (2022), Numerous studies, including those by Morone and Testa (2008), Abraham and Viswanadham (2021), and Essa and Ph (2021), have discovered a beneficial association among process innovation and company performance. Ersoda Aniyank (2021) came to the conclusion in the investigation they conducted that a company's functioning output, client loyalty, and economic growth could all be improved through the introduction of process innovation.

c. Marketing innovation

According to Wahyuda et al. (2023), innovation in marketing is the application of a novel strategy in marketing that entails substantial improvements to a merchandise's positioning, upward mobility, design, or cost (Abraham and Viswanadham, 2021; Essa and Ph, 2021). To put it another way, it's the submission of a novel marketing knowledge or approach that is untested and drastically different from the company's current marketing strategies (Hota, 2021).

d. Organizational Innovation

Organisational innovation, in accordance with Dessie (2021), is the use of novel organisational techniques in business operations that weren't used by the company before, such as the management of knowledge, novel leadership approaches, operations restructuring, workplace organisation, or interactions with the outside world (Borah, Iqbal & Akhtar, 2022).

In line with Abraham & Viswanadham (2021), an extremely significant factor for overall sales is organisational innovation instead of process or product innovation. In agreement, (Abbaszadeh et al., 2023) revealed that organisational innovation could support and foster strong processes for organisational learning and skills.

C. Concept of Organizational Performance

According to Abdul Adis and Jublee (2020), firm performance has grown to be an essential issue for contemporary unique executives, auditors, and entrepreneurs across numerous nations (Chelliah et al., 2023). In order to address the limitations raised by Johnson and Kaplan (1987),

the Balance Score Card (BSC) incorporates multiple perspectives, including learning and growth, internal processes, and customer satisfaction. Previously, firm performance was determined using the conventional cost or financial accounting process, which was created in the early 1900s. Financial metrics were the primary means of evaluating a company's performance before the BSC was introduced (Rafiq et al., 2020). Thus, nonfinancial factors were ignored, such as learning and development (Shi and Trinidad, 2023).

Organizational Performance Indicators

a. Financial Performance

According to Thuong & Singh (2023), one component of the BSC is the company's financial performance. When evaluating a success of SMEs in the production segment, financial performance points of view reveal a substantial beneficial association with achievement of SMEs with their approach execution by means of the application of the BSC and it incorporates money and nonfinancial indicators for SMEs (Yuliana and Kristiana, 2021).

b. Business Process

According to Thuong & Singh (2023), the Business Process additionally serves as a component of the BSC. The benefits of implementing internal business processes like the BSC consist of improvements in efficiency in operation and the effectiveness of business operations viewpoints (Alhamami et al., 2023). According to a number of examinations, a more thorough operational framework of small and medium-sized enterprises can support an organization's long-term success by incorporating and covering the entire the internal business process (Yaskun et al., 2023).

c. Learning and Growth perspectives

HR professionals and entrepreneurs have started to use more contemporary approaches that centre on the cultivation of human capital in order to gain a competitive edge in the worldwide corporate financial system (Adis and Jublee, 2020). Kaplan & Norton (1996) specified that learning and growth perspectives within SMEs is an additional component of the BSC organisational benefits that are related to the learning & development results achieved by the BSC in business industries, including business research and organisational success, SMEs boost the spirits of team members creative productivity contribution (Yuliana and Kristiana, 2021).

d. Customer Perspectives

The views of customers are a further aspect of the business supply chain (BSC), according to Thuong & Singh (2023). Rafiq et al. (2020) proposed that the viewpoint of SMEs in the BSC of customer viewpoints that reveals beneficial thoughts about their fulfilment of SMEs and the reinforces maintaining clients and encourages new client acquisition. In accordance with Osuagwu, et al., (2019), the emphasis is on how long-term product and service shelf life targets relate to SMEs' capacity to provide superior goods and services activities that aligned to SMEs' requires and preferences (Girma et al., 2022).

5. EMPIRICAL LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

a. Entrepreneurial Orientation and firm Performance

As per the Barney (2001), the outcomes of preceding investigations indicate that the success of small businesses is influenced by their entrepreneurial orientation (Mohamed et al., 2023; Rauch, Yeni, 2015; Zehir et al., 2015; Mata & Aliyu, 2014; Wiklund, Lumpkin, & Frese, 2009;). These results are consistent with the resource-based theory, which postulates that a firm's unique resources and capabilities are the source of its edge over others and outstanding accomplishment (Barney, 1991). Alhamami et al., (2023) pointed out that previous research has not focused much on examining competitive advantage's mediating function on the entrepreneurial mindset and company performance association (Shaher & Ali, 2020), despite the resource-based view (Maaodhah et al., 2021) suggesting the significant function of advantage over rivals for boosting the success of a company.

Nonetheless, some research has found that entrepreneurial orientation significantly and favourably affects a company's competitive edge (Michael Nnaemeka Ajemba & Ebube Chinwe Arene, 2022; Perdana & Prasasti, 2023). Mahmood and Hanafi (2013) discovered in a separate investigation that there is a partial mediation among the achievements of SMEs and entrepreneurial orientation (Karaev, 2023).

Furthermore, prior research has shown that advantage over rivals has a positive and significant impact on company efficiency (Sufa et al., 2022). There is a wealth of empirical data demonstrating the association among EO and firm performance (Bibi et al., 2021). According to Xie & Hanafiah (2023), there is a substantial association among the expansion of market share and the EO dimensions of pro-activeness, risk-taking, and innovativeness as well as overall EO (Alhamami et al., 2023; Karimi et al., 2021; Regan, 2021). Based on 51 empirical studies, Rauch et al. (2009) performed a statistical meta-analysis and discovered a positive association among EO and corporate expansion (Wakjira, 2023; Negeri et al., 2023; Moeuf et al., 2016).

H1: *Entrepreneurial orientation has a statistical significant effect on firm performance.*

b. Entrepreneurial Orientation and Innovation

In the opinion of Crossan & Apaydin (2010), entrepreneurship and innovation are inextricably linked because the implementation of creative thinking in SMEs manufacturing companies increases the industry's edge over competitors (Ayalu et al., 2022). Additionally, there is an ongoing connection among entrepreneurship and approaches to innovation (Alegre & Chiva, 2013) and entrepreneurship and groundbreaking discoveries (Lumpkin & Dess, 1996), which encompass the procedures of opportunity learning, assessment, and exploitation (Kinyanjui, 2022).

Since the primary goal of EO is to launch an emerging field, enter an innovative concept, establish marketplaces, or introduce new products into already-existing markets, innovation and EO go hand in hand. This is demonstrated by the fact that EO and innovation work together to achieve the accomplishments of small business units (Zhou et al., 2005; Lumpkin & Dess, 1996). Accordingly, the more innovative products SMEs use, the more competitive advantage their firm performance

has (Yaskun et al., 2023) and the more challenges their rivals will have in creating competitive solutions.

H2: *Entrepreneurial Orientation has significant association with Innovation.*

c. Innovation influence and firm Performance

The association among innovation and firm performance has been extensively researched in a number of distinct nations and industries, according to Mairesse and Robin (2009). Their statistical results are covered in the section that follows.

The current literature on innovation has yielded a number of studies that have generally found a positive association among innovation and various company performance metrics (Ledi & Ameza–Xemalordzo, 2023). These results repeatedly highlight how crucial innovation is to a company's ability to maintain and grow revenues, which in turn leads to better performance. Zhu et al. (2019) assert that MSEs require inventiveness to enhance the performance of their SMEs (Shaher & Ali, 2020). The authors' claim was based on the findings of academic research regarding the association among innovation and performance. For example, Moshi and Matotola (2023) used longitudinal data from an assortment of 378 SMEs.

Innovation has a major influence on SMEs' success, as confirmed by Kinyanjui (2022). Accordingly, studies on the relative importance of innovation by Yousif Ali (2023); Ayinaddis, 2023; and Shaher & Ali (2020) discovered an immediate and beneficial connection among innovation and various performance levels. Likewise, it was found that method and end product innovation have a constructive influence on firm performance in studies conducted by Yaskun et al. (2023) and Rosli and Sidek (2013) on the impact of innovation on the earnings of manufacturing SMEs.

H3: *Innovation has statistical noteworthy consequence on SMEs performance.*

d. Innovation Mediation association among EO and SMEs performance

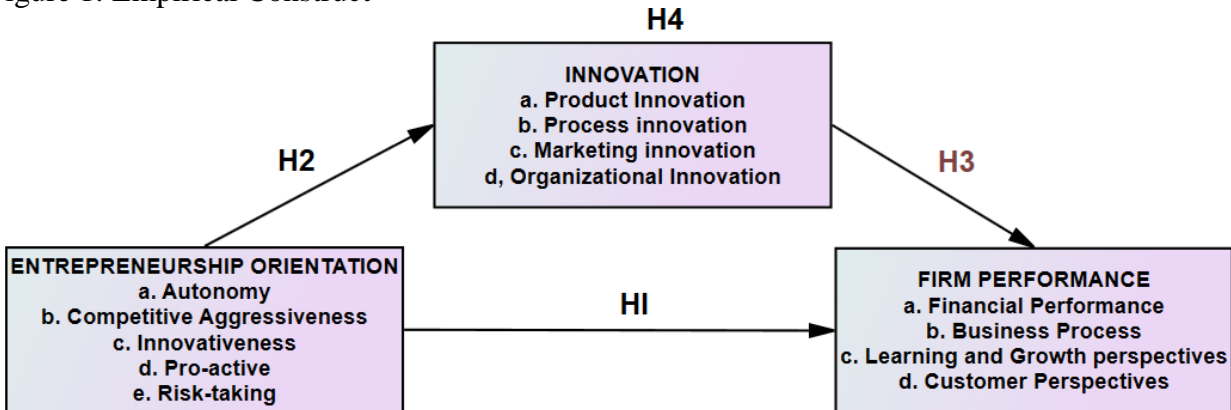
In accordance with Damanpour (1991), EO and innovation are typically associated with the firm performance of SMEs as a driver of the manufacturing industry (Alhamami et al., 2023) and the most significant industry determinant is innovation as mediated by EO and the firm performance of SMEs (Birbirsa & Kero, 2022). Rubera & Kirca (2012) posit that the reason for the positive association among innovation achievement is that the company's efficiency can achieve normal rents through revenue the mining in a short-term quasi-monopoly establish (Khairuddin et al., 2020).

Being receptive to shifts in the market and seeing new trends are essential components of an entrepreneurial mindset. By creating new goods or services that meet changing consumer demands, innovation aids SMEs in adjusting to these changes (Ayalu et al., 2022). SME performance may be enhanced by efficiently satisfying consumer requests, expanding into new market categories, and remaining relevant by adopting innovation (Alhamami et al., 2023; Patel & Patel, 2023). Businesses with an entrepreneurial mindset are driven to look for ways to increase efficiency and enhance operations. Streamlining workflows, cutting expenses, and improving operational procedures are all possible with innovation (Ledi & Ameza–Xemalordzo, 2023). SME's can improve their financial performance, increase efficiency, and streamline their

operations by implementing cutting-edge technology, processes, or business models (Alhamami et al., 2023; Karimi et al., 2021; Regan, 2021).

H4: *Innovation has a mediated among EO and firm performance.*

Figure 1: Empirical Construct



Source: Empirical Reviewed Literature (2023)

6. Research Methodology

Using quantitative scales and quantitative data analysis, the current study uses a quantitative method of study to evaluate data on variables (EO, innovation, and business performance). The researchers employed a design that explained the results and a quantitative research approach. Prior to starting field work, researchers use the 90 responses (20% of the sample size) from the pilot study as the basis for the exploratory factor exploration (EFA) to confirm the breadth of the proxies and assess the internal reliability of the study variables using the KMO test of reliability and adequate data. To evaluate the framed hypothesis, data from a representative group of 451 employees working in Ethiopia's textile industrial parks are analyzed using confirmatory factor analysis (CFA) and structural equation modeling (SEM).

Study area description and total population

In variable of the consequence of Entrepreneurship Orientation on performance of SMEs the Mediation of Innovation practices in SMEs Textile, Garment and Apparel manufacturing industry of targeted population covers textile, Garment and apparel industries located in Oromia regional state located in Finfine zuria and East Shewa, Ethiopia. According to Ethiopian Textile Industry Development Institute, out of the total 139 textiles and apparel manufacturers in Ethiopia, textile, garment and apparel manufacturers located within the vicinity of Finfine zuria are 7 and in East Shewa Adama Zuria are 3 industry, totally 10 textile, garment and apparel manufacturing industry .

However, from the aforementioned manufacturers which are located in Ethiopia. Because due to distance and budget constraints, during multi stage sampling from Ethiopia, researchers selected 10 textiles from Oromia region and East Shewa zone. From Oromia region they surveyed the Finfine area (capital city), Garment and apparel industries were selected on base of their cluster

consists of Bole Lemi Industrial Park and Adama textile Industrial Park, Garment and Apparel manufacturing industrial area as a target population.

Sampling Techniques and Sample Size

In quantitative data research the probability sampling methods and through the major types, from general to specific, to use a multi-stage clustering sampling will be used to collect data a sample from large population. For this study, 392 respondents from manufacturing Textile, Garment and Apparel industry of SMEs was suggested as sample size that was calculated by using the Yemane (1967) method.

Thus, to maximise the results' generalizability and counteract an expected inadequate reply or answered rate from between 10 and 20 percent (Lai Van Voi 2023), respondents will be selected proportionally from textile, garment and apparel manufacturing sectors (Le Danih Vinih 2023). Therefore: $n=392$, $392+15\%$ of 392 of $=451$

7. Result

Evaluation for Sampling Adequacy

To show the ordinary allocation for each variable product, investigators used the KMO test. The KMO metric evaluates whether the sample size is sufficient for factor analysis. It has a value range of 0 to 1, where values nearer 1 are more appropriate for factor analysis. The KMO value in your instance is 0.839, indicating that the sample is generally suitable for factor analysis. To ascertain whether the variables in the dataset are correlated and, thus, appropriate for factor analysis, Bartlett's test is employed. It examines the null hypothesis that the association matrix is a unique matrix by proving that there are no associations between the variables. An approximate chi-square value serves as the test statistic.

Table 1: Sampling Adequacy Test

Sampling Adequacy by Kaiser-Meyer-Olkin appraisal		.839
Test of Sphericity by Bartlett's	Likelihood	1985.056
	freedoms Degree	114
	p-unit	.000

Source: SPSS Output, 2023

The test statistic value is 1985.056. The degree of disagreement among the identity matrix and the observed association matrix is specified by this value. Greater discrepancy is suggested by higher values, which prove that the variables are correlated. The significance level, represented by the letter "Sig.," shows the likelihood that the observed chi-square value happened by accident. Since the chi-square value in this instance is statistically significant at a very low p-value (less than 0.001), the significance level is reported as.000. This implies that there is evidence to support the conclusion that the variables are correlated and to reject the null hypothesis.

Overall, based on the KMO measure and Bartlett's test, the data appears suitable for factor analysis, indicating that there are associations among the variables in the dataset.

Confirmatory examination of determinants

The researchers used confirmatory factor analysis (CFA) to assess the model's fitness using indices. The correlation between the transformational leadership, public sector performance, and employee commitment measuring items in the model was illustrated by the index values. After the CFA description was verified and all validity and reliability standards were met, analysts discovered that the measurement model for each and every dormant (latent) variable in the measurement model had been verified. Structural equation modeling, or SEM, is the process by which researchers apply the variables to the model. Figure 2 shows the researchers' starting point for external variables, which are on the far right, mediator variables in the middle, and endogenous variables on the far left.

Figure 2: Confirmatory examination of determinants



Source: Output of AMOS, 2023

To link the exogenous variable to its specific endogenous variable in Figure 2, investigators utilize a single-headed arrow on the assumption's path, followed by substrate. Applying the structural model derived from AMOS 26, as shown in figure 2, researchers estimated the weights for both

standardised as well as non-standardized regression models. The framework is statistically adjusted under the intended parameters followed a fitness test employing fit indices.

Factor loading of all residual items exceeded the required value of 0.4, as can be observed in Figure 2. This demonstrated to the investigators that the measurement model's unidimensionality had been reached. According to the researcher's results from the confirmatory factor investigation (CFA) and the examined index fitness, it was the aligned gathered at point rather than the earlier structural modeling. The following table 4 shows the average variance extracted (AVE) and achieved Composite reliability (CR) requirements for factoring all components to check discriminate validity.

Table 2: Discriminate Validity check

	CR	AVE	MSV	MaxR (H)	Organization Performance	Entrepreneurship Orientation	Innovation
Organization Performance	0.793	0.529	0.139	0.796	0.586		
Entrepreneurship Orientation	0.752	0.517	0.156	0.781	0.302	0.604	
Innovation	0.785	0.522	0.152	0.803	0.253	0.503	0.698

Source: AMOS 2023

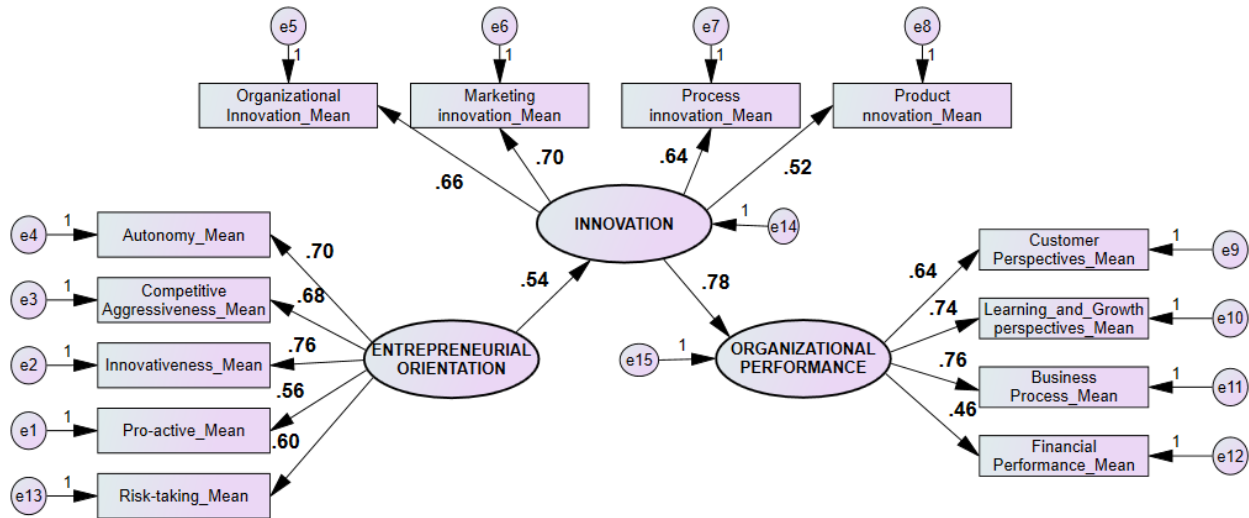
The findings of a validity check for the three constructs of innovation, entrepreneurship orientation, and organisational performance are shown in Table 4. To evaluate the validity of these constructs, the table offers a range of statistical values. Let's review each metric. The CR (Composite Reliability) metric gauges the dependability of internal consistency. The composite reliability for each construct is represented by the values in the table. As an illustration, the composite reliability for innovation is 0.785, entrepreneurship orientation is 0.752, and organisation performance is 0.793. Greater dependability is specified by higher values.

The measure of convergent validity known as AVE (Average Variance Extracted) shows how much variance the construct is able to capture. The AVE for each construct is shown by the values in the table. The AVE, for instance, is 0.529 for organisation performance, 0.517 for entrepreneurial orientation, and 0.522 for innovation. An acceptable AVE value is generally defined as 0.5 or higher. A measure of discriminant validity called maximum shared variance, or MSV, shows how much a construct shares more variance with other constructs than with itself. The MSV for each construct is represented by the values in the table. The MSV for organisation performance, for instance, is 0.139; the MSV for innovation is 0.152; and the MSV for entrepreneurial orientation is 0.156. Better discriminant validity is specified by lower values.

The highest association among a construct and any other construct in the study is represented by MaxR(H) (Maximum Association with Any Other Construct). The MaxR(H) for each construct is represented by the values in the table. The MaxR(H) for innovation is 0.803, the MaxR(H) for entrepreneurship orientation is 0.781, and the MaxR(H) for organisation performance is 0.796. Better discriminant validity is specified by lower values.

The constructs appear to have good convergent validity (AVE values above 0.5) and reliability (CR values above 0.7) overall based on the values in the table. The MSV values for each construct are less than the AVE values, indicating reasonably good discriminant validity. The relatively high association (0.604) among innovation and entrepreneurial orientation, however, is noteworthy and may point to a possible problem with the discriminant validity of each of these constructs.

Figure 3: Structure Equation Model



Source: AMOS Output, 2023

Table 3: Hypothesis Test

			Estimate	S.E.	C.R.	P	Hypothesis	Hypothesis Test
Innovation	<---	Entrepreneurship Orientation	1.583	.139	11.380	***	H2	Acknowledged
Organization Performance	<---	Innovation	.748	.172	4.353	***	H3	Acknowledged
Organization Performance	<---	Entrepreneurship Orientation	.158	.084	1.889	.084	H1	Rejected

Source: AMOS Output, 2023

The results for a structural equation model are depicted under figure 3 along with table 5 and the outcomes of hypothesis tests. The estimate of 1.583 points showed a favorable co-association among innovation and entrepreneurship orientation. The estimate's accuracy is specified by the standard error (0.139). A measure of the association ship's strength, the critical ratio (11.380) shows that the association ship is statistically significant. Three asterisks (***) usually indicate a very small p-value (e.g., $p < 0.001$), suggesting a highly significant association ship; however, the significance level is not stated. Consequently, it can be said that Hypothesis H2, according to which Entrepreneurship Orientation influences Innovation, is true.

Approximation of 0.748 points showed a satisfactory co-association amid organisational performance and innovation. The estimate's accuracy is shown by the standard error (0.172). The statistical significance of the association ship is specified by the critical ratio of 4.353. Once more, the significance level is not stated; however, the three asterisks (***) point to an extremely low p-value. Consequently, it is acknowledged that Hypothesis H3, which claims that Innovation affects Organisation Performance, is true.

The estimate of 0.158 points showed a favorable co association among organisational performance and entrepreneurial orientation. In contrast to the other association ships, the standard error (0.084) suggests a comparatively higher degree of uncertainty surrounding the estimate. The statistical significance threshold is typically exceeded by the critical ratio (1.889). The reported p-value is 0.084, indicating a higher level of significance than the standard 0.05 threshold. Thus, it can be concluded that Hypothesis H1, which posits that Entrepreneurship Orientation influences firm Performance, is not supported.

In conclusion, the findings imply that innovation and an entrepreneurial orientation both significantly improve organisational performance. In contrast to the other associations, the one among Organisation Performance and Entrepreneurship Orientation is comparatively weaker.

Model Fitness

Table 4: Fitness Indices

Indices	Manifested Value	Output
IFI	0.924	<i>Customary fit</i>
CMIN/DF	2.06	<i>Moderate fit</i>
CFI	0.923	<i>Customary fit</i>
RMSEA	0.063	<i>likelihood Considered</i>
GFI	0.959	<i>Customary fit</i>
TLI	0.929	<i>Customary fit</i>
PNFI	0.652	<i>Customary fit</i>
PCFI	0.671	<i>Customary fit</i>

Source: AMOS Output, 2023

The results of the fitness indices for a structural equation model are shown in Table 6. The model's fit to the observed data is evaluated using these indices.

In Table 6, IFI (Incremental Fit Index) value is 0.924. IFI provides an overall measure of fit by comparing the hypothesised model's fit with an independence model. In this instance, 0.924 specifies a reasonably good fit; a value closer to 1 designates a better fit. The assessment of CMIN/DF (degrees of freedom/Chi-square) is 2.06. A measure of the model's fit to the data that accounts for model complexity is called CMIN/DF. A fit of approximately 2 or less is generally regarded as satisfactory. A moderate fit is suggested in this instance by 2.06.

0.923 is the CFI (Comparative Fit Index) value. The CFI equates the fit of the proposed model with an independence model and is comparable to the IFI. In this instance, 0.923 indicates a

reasonably decent fit. The value of 0.063 is belongs to RMSEA. The difference among the population covariance matrix and the proposed model is measured by RMSEA. A better fit is specified by smaller values; generally, values less than 0.08 are regarded as acceptable. 0.063 in this instance indicates a likelihood of fit.

GFI (Goodness-of-Fit Index) value is 0.959. The model's percentage of the observed covariance that is explained is measured by the GFI. In this instance, 0.959 indicates a reasonably good fit; a value closer to 1 indicates a better fit. 0.929 is the Tucker-Lewis Index value. An additional metric called TLI contrasts the fit of the proposed model with an independence model. In this instance, 0.929 indicates a reasonably good fit; a value closer to 1 indicates a better fit.

The value of the Parsimony Normed Fit Index (PNFI) is 0.652. Models with more parameters are penalised by the PNFI measure. In this instance, 0.652 indicates a reasonably good fit; a value closer to 1 indicates a better fit. The value of the PCFI (Parsimony Comparative Fit Index) is 0.671. An additional metric that penalizes models with more parameters is PCFI. In this instance, 0.671 indicates a reasonably good fit; a value closer to 1 indicates a better fit.

In general, the model shows a reasonable fit to the observed data based on the values in table 6. A typical or fairly good fit is specified by the values of the IFI, CFI, GFI, TLI, PNFI, and PCFI. There is some opportunity for improvement in terms of model fit, as specified by the CMIN/DF value, which indicates a moderate fit. There is a chance of fit because the RMSEA value is less than the cutoff of 0.08. All things considered, the model seems to give a fair representation of the data, but more analysis and thought may be needed to guarantee a good fit.

Mediation Analysis

The findings of a mediation analysis examining the connection among innovation, entrepreneurship orientation, and SMEs firm performance are shown in Table 7. The direction, approximate (standardised) coefficients, and p-values for the determinants are shown in table 7. The direction of the association ship among the determinants is specified by the arrows in the "Direction" column. The association ship specified by the arrow "<---" is one in which the determinant on the left, SMEs performance, acts as an independent variable or predictor, and the determinant on the right, entrepreneurial orientation and innovation, acts as an intermediary or mediator.

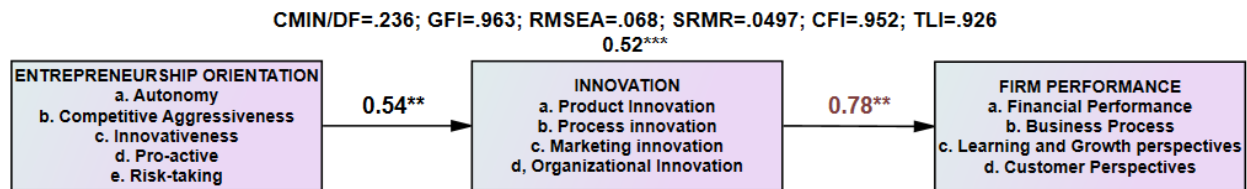


Table 5: Mediation of Innovation

	Entrepreneurship Orientation	Innovation	Organization Performance
Innovation	0.540	.000	0.000

Organization Performance	0.156	0.779	0.000
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Source: AMOS result, 2023

The findings of a mediation analysis that looked at the connections among innovation, organizational performance, and entrepreneurial orientation are shown in Table 7. The path coefficients among the variables are shown in the table. The co-association coefficient among innovation and entrepreneurial orientation is 0.540. This advocates that there is a considerable and affirmative connotation among these two variables. The co-association coefficient among Organisation Performance and Innovation is 0.779. This suggests that there is a substantial and positive co association among these variables. The co-association coefficient among Organisation Performance and Entrepreneurship Orientation is 0.156. This suggests that these variables have a positive but not statistically significant association ship.

The association ships are statistically significant at a high degree of confidence ($p < 0.001$) when the p-values in the table are represented as 0.000. It's crucial to remember that the table doesn't include the precise p-values, making it impossible to pinpoint the precise degree of significance. The table's results suggest that innovation positively impacts SMEs firm performance and that entrepreneurship orientation positively influences innovation. But there isn't a meaningful co-association found among organisation performance and entrepreneurship orientation. Rather, the findings point to innovation as a mediating factor in the association ship among organisation performance and entrepreneurial orientation.

8. DISCUSSION AND CONCLUSION

The statistical concept of mediation aids in our comprehension of the fundamental process by which an independent variable influences a dependent variable. Within the framework of this analysis, mediation pertains to the manner in which the existence of Innovation explains or mediates the association ship among Entrepreneurship Orientation and Organization Performance. To put it simply, the influence of innovation on the Ethiopian SMEs can be mediated by entrepreneurship orientation. This happens when an independent variable, entrepreneurship orientation, influences a dependent variable, organization performance, and this transmission is mediated by a third variable, innovation. The analysis in this instance points to a lack of a direct or meaningful association ship among organization performance and entrepreneurial orientation. Rather, Innovation's presence acts as a mediator.

To be more precise, Innovation is positively impacted by Entrepreneurship Orientation (coefficient = 0.540). Subsequently, Organization Performance benefits from Innovation (coefficient = 0.779). This shows that innovation acts as a conduit for the indirect impact of an entrepreneurial orientation on an organization's performance.

The hypothesis that innovation acts as a mediator among entrepreneurship orientation and the performance of Ethiopian firms is significant because it clarifies the underlying mechanisms and processes that underlie the interactions among different variables. According to this analysis, the way that an entrepreneurial orientation fosters innovation within the organisation is how it actually improves organisational performance. Researchers and practitioners can acquire insights into the

precise mechanisms that propel organisational performance and make well-informed decisions to improve performance by promoting innovation by recognising and comprehending the mediating function of innovation.

The possibility that other researchers will be able to apply the study's findings to affect the performance of SMEs' firms is what makes it so significant. Furthermore, the results of this study can be used by students as a source of information in libraries, Google Scholar, and online resources when they perform in-depth research on dissertation-related topics for upcoming studies on SMEs in Oromia, Ethiopia.

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Contribution/originality

By examining the mediating role of innovation in the relationship between Ethiopian SMEs' performance and their orientation towards entrepreneurship, these studies adds to the body of existing knowledge and guide the future researchers.

Author contributions

This research was completed by the authors in mutual cooperation. The final manuscript was read and approved by the authors.

Gada Gizachew Wakjira contribution for present research was literature review, conception and design.

Kenenisa Lemi Debela helped in drafting of the paper and revising it critically for intellectual content.

Shashi Kant contribution was analysis and interpretation of the data.

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