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# Justification Assessment of (SEM) of Market Orientation Practice on Firm Performance, the Mediating Role of Innovation Practice: The Case of (SMES), Manufacturing Textile Industries of Ethiopia

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Abstract – The aim of this study constructed MO practice, Innovation practice, and firm performance of Manufacturing Industrial area of Textile and Garment industry PLC. in Ethiopia, data using a Quantitative Regression analyses, and to discuss the concepts of Structural Equation modeling factor data to be analysis, to construct Composite Reliability, Convergent Validity and to Confirm (SEM), and to Maintain Regression Weights be a Direct influence & indirect influence, data indexed of mediation result to be providing based on our perspective on certain analysis, and the overall the mediating variable data analysis to be interpreting the Regression group Weights analyses in a model that includes, Correlation and Model Fit Indices a Market Orientation like Customer, Competitor, IFC and Supplier Orientation that affect Firm Performance a Mediating influence of Innovation practice to Construct Product, Process, Marketing and Organizational Innovation that affect Firm Performance of Textile Manufacturing industries of SMEs, and data analyses to construct SEM, and to investigate with SPSS V.25 that uses data to Construct SEM to use AMOS V.23, the finding of study area using Market orientation practice, Innovation with Firm performance of Manufacturing industry has a positive and significant relationship and effect with Firm performance, using 442 sample respondents in Small and medium Enterprise, in Manufacturing Textile Industries, in Ethiopia.

**Keywords:** Market Orientation practice, Innovation practice, Firm Performance, and Manufacturing Industries, textile industries, Ethiopia.

#### 1. INTRODUCTION

SMEs studies investigated the effect of Market Orientation mediated SMEs innovation practice with Manufacturing industries of SMEs Business economic development, productivity, growth, and Firm performance improvement (Ayinaddis, 2022; Dessie et al., 2022; Gebreeyesus, 2011; Gunday et al., 2011; Issau et al., 2021; Prifti & Alimehmeti, 2017) said these studies have revealed that innovation is a key factor for economic business development, and it including the firms performance SMEs manufacturing industry improvement. However, various studies revealed that some dimensions of the innovation types are negatively and positively associated with some dimensions of firm's performance and firm productivity (Galbreath et al., 2020).



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

For instance, Karabulut (2015) SMEs study shows that marketing innovation has negatively associated with learning, and firm's growth performance (Felipe and Germen, 2021). Some studies argued that non-technological innovations and market orientation practice and organizational performance have no clear result for their positive and significant effect association. For instance, Ukpabio et. al., (2019), Atalay et. al., (2013), and Cassiman et. al., (2008) studies on the effect of Market orientation and action on a firm's performance revealed that product, and Product and process innovation has a significant and positive impact on firm performance of SMEs (Ashraf et al., 2021).

Therefore, most of the previous empirical studies typically tended to focus on spatial distribution, opportunity, and growth of SMEs, and to highlight the global novelty of the study seeks to examine the research gap in the contribution of MSEs Manufacturing industries, based on the above research gap and from the reviewed literature the researcher will be conducted this study, to assess the effects of Market Orientation with Organizational performance through mediating role of Innovation practice has a limited studies to be made to assess SMEs for the Contributions that towards to sustainable growth in Micro-Small and Medium Sized Enterprise (SMEs), Ethiopia.

## 1.1 Justifications for the Investigation Study

The literature is scarce in the study area that will be investigated the effects of market orientation that mediated with Entrepreneurial Orientation and innovation and their effect on Organizational performance of SMEs.

Firstly, Market Orientation is the way of thinking that aligns your business goals with customer goals (Mariluz and sampalo, 2022), companies understand that the business thrive unless it consistently improves customer focus (Al-Murad 2021) that contributed the efforts to arrive the orientation of corporate image to its ability to obtain sympathy from costumer providing what the costumer want optimal hence of customer satisfaction that manifested in SMEs industries, and (Najla and Mohammed 2022).

Secondly, Entrepreneurial Orientation that mediated the importance that overcoming the speed of market decision and market strategies to change, assert the velocity to adapt with change and to provide an opportunity for the sustainability of SMEs (Chen et al., 2023) that want to survive in world by competition technology change and recurring crises of SMEs industries and shape their decision-making process to perused the firm opportunities and to create customer value of SMEs (Kahil and Bilal, 2021).

Thirdly, Innovations that mediated to helps that to provides them with the essential knowledge, and information necessary to strengths of their completive position, and increases their chance for future prosperity of SMEs industries, and (Shepherd and Patzelt, 2022) said a fast-changing environment with social, and economy of abrupt changes makes an indisputable capacity for firms, and to improve the firm performance of SMEs by moving towards a sustainable growth of manufacturing industries (Presutti, and Odorici, (2019).

Fourth, Small-Medium Enterprises have acknowledged to be a vibrant and innovative source of new ideas to identify the opportunities that larger business center may not realize to offer an employments, (Gomez-Salgado et al., 2021), create, wealth, enhance economic growth, social needs, and a potentiality to provide the ideal environment for enabling entrepreneurs and optimally exercise their innovative talents, and to attain their personal and professional goals of SMEs business industries of firm (Khana, Talibb & Kowangc, 2020), and the main essence to choice this study will be a great contribution in various industries of SMEs (Mpandare



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

& Li, 2020) that operates a competitive environment with increased risk an inability to forecast in the current unstable economy to move the prosperity need society of the nation (Mashavira et al., 2021).

The main reasons for selecting topic in SMEs industry area is:-

- The industry will be misleading of customer research, and actions contribute problems with developing successful market in orientation plan, (hernandez-sanchez et al., 2020), often market research reveals what customer wants, it doesn't bear out when it comes from their spending habits (Wang et al., 2020)
- The sector will be lack of resource & time availability management support (Parida and Pradhan, 2016), lack of rewards work discretion, and knowledge process of firm has the main problems in firm of industry (Shezadi et al., 2020)
- The firms will be the Lack of Creation, Market Expansion, to identify lack of resource and the shortages of metrics and the competition of resource in the organizations (Mufti et al., 2020).
- The firms need to maximize the substantial opportunities that presented by the dramatic institutional transformation being seen in developing by economy, socially and technologically rapid change, (Simon and Kamuri, 2021).
- The sector to be given special attention by gov't and a means of poverty reduction in developing countries
- The sector is a quick solution for unemployment problem of firms (Corral and Zubielqui 2022).
- The sector can be growing time to time in Ethiopia, Especially in Centeral parts of Ethiopia, to increase the number of graduates from technical, and vocational school (Mebratu, 2020).

Therefore, the researcher will be dedicated to evaluating the level of implementation of Market Orientation that affects Organizational performances that mediated Entrepreneurial Orientation and Innovation in manufacturing industry of SMEs Oromia, Ethiopia.

## 1.2 Investigation Framework

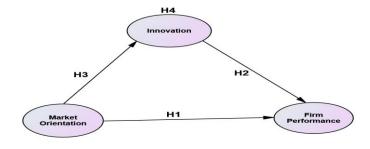


Fig -1: Investigation framework AMOS, (2023)



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

#### 2. INVESTIGATOR METHODOLOGY

The researcher began data collection by securing support letters from the Academic program Directorate office, from Bule Hora University, addressed to Bole Lemi, and Adama Industrial parks Respectively, Bole Lemi Industrial parks issued support letters to seven Textile manufacturing industries that are operating in the industrial park and Such company is Ever a top Sportswear textile PLC, Top new Ethiopian Garment and textile PLC, Ashton Textile Manufacturing PLC, Vests Garment and Textile PLC, Jay, jay garment and textile Manufacturing PLC, Shangtex garment and textile PLC and Saints Ethiopian textile production PLC. Similarly, from Adama industrial park gave a support letter to the researcher to reach four textile Manufacturing Industries, which are operating in the park, Such as King Dome Garment and textile PLC, sunshine garment and textile PLC, Antex Textile PLC, and Jotun Garment, and textile Manufacturing PLC.

To selection the criteria of this area were based on high density of small to medium enterprise location in Oromia, Ethiopia (Worku Gadisa Sufa, Zerihun Ayenew Birbirsa, &Tesfaye Eba Mogose (2022), and for this study more than 385 respondents of Employee or workers from small to medium enterprises, from 2 Governmental Industrial park Bole Lemi Industrial park, and From Adama Industrial park, and from 11 Textile and Garment PLC, and 1 private George Shoe Leather Manufacturing PLC in the area of East Shewa, and Finfine Area Ethiopia from Managers, CEO, and the selection criteria of this area were based on high density of small to medium enterprise location in Oromia, Ethiopia. For this study, more than 385 respondents of Employee or workers from small to medium enterprises to be targeted as sample size that has been determined by using the following known formula (Cochran's 1977).

Where, n= is the sample size z= the selected critical value of desired confidence level of p= is the estimated proportion of an attribute, that is present in the population, q=1-p and e= is the desired level of precision of sample size determination.

$$\frac{z2pq}{1+N(e)2} \qquad n=\frac{(1.96)2(0.5)(0.5)}{(0.05)2}=385$$

Accordingly, 385 plus 15% in order to offset an anticipated low response or responded rate percent 10% to 20%, and to maximize the generalizability of the results (Remenyi et al., 1998, Lai Van Voi 2023), 385x100/15=442 respondents were selected proportionally from both manufacturing sectors (Le Danih Vinih 2023), and this sample size is hoped to generate the required information with relatively good precision for finite known or large populations, (Saunders et al.; 2000, Sekaran & Bougie, 2016), and it also more than recommended size for applying statistics tools such as, factor analysis, AMOS, regression weight etc. (Julie, 2005; Field, 2013; Amentie & Bertrand, 2017).

### 2.1 Data Analyses Methods

Memon, M. A., Cheah, J.-H., Ting, H., Chuah, F., & Cham, T. H. (2021). From Structural Equation Modeling (SEM) to confirm, and to use model specification methods, data collection methods, model estimation methods, model evaluation methods and model modification methods of data for statistical estimation of research, that allows the examination of a data set, either continuous, tool is selected because it is able to estimate the model for mediating indirect effects, and other complex relationships among other variables, (Mohammed, Dauda& Goni 2020), and to account for measurement error, provide a measure of model fit of data Estimation of fixed parameters, and free data parameters are estimated from the data, and the evaluation of model fit of



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

the data for goodness of fit indices and criterion, to allow comparison of competing models demonstrated the central, and non-central indices based the regression weights of data set, correlation matrix, direct and indirect mediating effects, results of hypothesis test to confirm data will be analyzed in the basis of is standardized measure of the relationship between two or more variables and to test the unique variables will be verified during the study time (Bentler. M, 2018).

## 3. CONSTRUCT VALIDITY AND RELIABILITY STUDY OF THE STRATEGY

Table -1: Convergent Validity, and Reliability of the Variables

Variables	Construct Item			Loading	Alpha	Composite Reliability	AVE
Market	Customer	<	Innovation	.698	.860	.849	.580
Orientation	Competitors	<	Performance	.686			
	IFC	<	ROI	.536			
	Supplier	<	ROA	.467			
Innovation	Product	<	Profit share	.589	.853	.860	.590
	Process	<	Sales growth	.843			
	Marketing	<	Organization	.646			
	Organization		Marketing	.792			
Firm	Sales Growth	<b>&lt;</b>	Process	.515	.925 .928		.529
Performance	Market share	<	Product	.471			
	Profit Share	<	Customer	.533			
	ROI	<	Competitors	.506			
	ROA	<	Innovation	.628			
	Satisfaction	<	Innovation	.589			

Source: AMOS constructed Output (2023)

As per the SEM review constructed (Hair et al., 2017), the minimum value proposed Composite reliability level is 0.7, and the AVE level of 0.5, is the minimum acceptable level that has to show in Table 1, the Cronbach's alpha and composite reliability are used to assess in every dimension internal consistency reliability, and when the alpha coefficient of any component of a building surpasses 0.7, the items are regarded as extremely reliable (Wakjira and Shashi Kanti, 2022), and it using internal Consistence of Cronbach Alpha result that shows Market Orientation (.860), Innovation (.853), firm performance (.925), the value of Composite Reliability Market Orientation (.849), Innovation (.860), and firm Performance (.928) and the output of AVE, Market Orientation (.580), Innovation (.590), firm performance (.529) the result shows in both construct variable are morethan

Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

0.70% of the individual structures the products were regarded as exceptionally precise construct between Composite reliability and Cronbach alpha measure has rare difference to construct the Measurement model, and the AVE result of both Market Orientation, Innovation and firm performance based on the above assumption more than 0.5 the model has be highly valid and accepted (Hair Jr. et al., 2017).

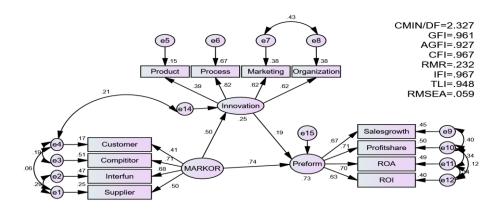


Fig -2: MO, INNO and OP AMOS developed. Source: MO, INNO and OP AMOS developed (2023)

Table -2: Regression Weights: (Group number 1 - Default model)

				Estimate	S.E.	C.R.	Р	Decision
Hl	Innovation	<	MARKOR	.306	.069	4.446	***	Accept
H2	Performance	<	MARKOR	.990	.166	5.963	***	Accept
Н3	Performance	<	Innovation	.417	.177	2.353	.019	Accept
H4	Performance <- -	<	MARKOR	.306	.069	4.446	***	Accept

Source: Regression Weights (2023)

To analyze the study hypotheses testing by calculating the path coefficient is the final stage in assessing the structural Equation model (SEM), and the lower Proportional Value (p-value), the stronger the association (Hair et al., 2017). Above table displays the structural model's direct association results, including the connection between hypotheses to be tested from H1 to H3 to be constructed to support the Effect of MO on Firm performance the Mediating role of Innovation of SMEs, Ethiopia.

Based on designed the data to calculate and estimated statistical significance for every, independent variables of Market Orientation, from Mediating Variables of Innovation, and dependent variable of Organizational Performance is significantly accepted, and the values of t and p indicates whether the



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

regression weight coefficients of the variables in the population data output result that indicated Relationship between Market Orientation and Firm Performance (.000\*\*), Relationship between Innovation and Firm Performance (.019\*\*), relationship between Market Orientation and Innovation the value (.000\*\*) of Regression weight result are constructed.

Result it shows are statistically insignificant with p-Value result is higher than >0.05 H1, H2 and H3, the result are supported result, and the Null hypotheses of regression weight is rejected, and the Alternative Hypotheses is Accepted it indicated a positive output that shows are statistically significant the p-Value result that shows less than < 0.005%. In our situation, the table shows that all independent variables possess a positive influence and that all independent variable's p-values are less than 0.05 based on this assumption.

HI: Market Orientation has significantly a positive relationship with Organizational performance of SME.

H2: Innovation has significantly a positive relationship with Organizational Performance of SME.

H3: Market Orientation has significantly a positive relationship with innovation of SME.

Table -3: Standardized Total Effects (Group number 1 - Default model)

	Market Orientation	Innovation	Performance	Decision
Innovation	.398	.000	.000	Accepted
Performance	.389	.686	.000	Accepted
satisfaction	.197	.347	.506	Rejected
ROA	.209	.368	.537	Rejected
ROI	.183	.323	.471	Rejected
Profit share	.199	.350	.511	Rejected
Market share	.307	.542	.790	Rejected
Sales growth	.243	.429	.626	Rejected
Process	.183	.461	.000	Accepted
Marketing	.320	.805	.000	Accepted
Organization	.289	.726	.000	Accepted
Product	.215	.541	.000	Accepted
Customer	.579	.000	.000	Accepted
Competitor	.813	.000	.000	Accepted
IFC	.589	.000	.000	Accepted
Supplier	.467	.000	.000	Accepted

Source: own Regression total effect model output (2023)

The total influence Effect of Market Orientation on Firm Performance that mediated with innovation practice and indirect mediated effects of Firm Performance, based on this reasons the total direct and indirect) effect of Market Performance with firm Performance with p- value .000\*\*\*. That is, due to both direct unmediated, and indirect mediated effects of Innovation mediated through Market Orientation and Firm Performance,



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

when goes up by value result of .000\*\* with overall total effect group results have highly affected and solve the problem of SMEs performance of Manufacturing textile industries of Ethiopia has totally affected.

H4: Innovation has indirect mediated relationship between Market Orientation and Organizational Performance of SME.

## 3.1 Model Fit Summary

Table -4: 1 Model Fit indices for structural model

NO	Model	Indices	Criterion	value	Decision
1	CMN	Chi-square χ2	Low	2.327	Accepted
2		Df	< 3	.24	Accepted
3		(P- value)	<. 05	.000	Accepted
4		Normed chi-square	< 20	17.732	Accepted
5	RMR and GFI	Root Mean Square error (RMR)	<. 05	.232	Accepted
6		Goodness of fit index( GFI)	> .90	.961	Accepted
7		adjusted goodness of fit index (AGFI)	> .90	.927	Accepted
8	Baseline	Normed fit index (NFI)	> .90	.944	Accepted
9	Comparison	Relative fit index( RFI)	< .90	.912	Accepted
10		Incremental fit index (IFI)	>.90	.967	Accepted
11		Tucker kiwis index (TLI)	>.95	.948	Accepted
12		comparative fit index (CFI)	>.95	.967	Accepted
13		PGFI	<.80	.317	Accepted
14	Parsimony	PRATIO	< .05	.636	Rejected
15	Adjusted Measure	PNFI	< .05	.601	Rejected
16		PCFI	< .05	.615	Rejected
17	NCP	NCP	>.05	.557	Accepted
18		LO 90	< .05	30.692	Accepted
19		HI 90	< .05	88.488	Rejected
20	FMIN	FMIN	< .05	.253	Accepted
21		FO	<.05	.144	Accepted
22	RAMSEA	RMSEA	< .05	.059	Accepted
23		PCCLOSE	< .05	.166	Accepted

Source: Model Fit Criterion for Measurement model (2023)



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

The SEM model fit indices for model resulted in a very large value of items with standardized regression less than 0.50 of CMN Model result of Chi-square of direct effect of 2.327 of model fit data indicates the difference between observed, and expected covariance matrices, and the hypotheses of this model of digital Marketing success with a significant P-value of .000\*\*, NPAR 0.105, Degree of Freedom 624, CMIN value is 17.732, RMR, 0.232, GFI results .961, AGFI=.927, NFI= .944, RFI=.912, IFI=.967, TLI=.948, CFI=.967 With parsimony adjusted measure result of PARATO=.636, PNFI=.601, .PCFI=.615, NCP=.557, Log90=30.692 along with the RMSEA=.059, PCLOSE=.166 it implies that the best model fit result of high CFA data result has highly fit, and the MO that affect Organizational performance determinant with mediating role of Innovation that affect the performance of SMEs Manufacturing Textile Industries in Ethiopia has high attention, to develop Market strategy and Innovation used has to be supported over all model fit are supported in SMEs industry.

Table -5: Correlations: (Group number 1 - Default model)

			Estimate	Strengths of Correlation
ell	<>	e12	.538	Strong
e9	<>	e10	.405	Strong
el	<>	e2	.290	Strong
e3	<>	e4	.590	Strong
e7	<>	e8	.426	Strong
e10	<>	ell	.537	Strong
el	<>	e4	.364	Strong
e10	<>	e12	.320	Medium
e4	<>	el4	.310	Medium

Source: own Correlation output (2023)

Based on Gada Gizachew Wakjira, (2022), said the relationship between two variables in each data set, and the correlation matrix among latent variables next to each double arrow relations are fully demonstrated, the Correlation between MO with OP, with Mediating role of Innovation with Firm Performance have high Correlation between each Measurement model with mediating Variable of innovation with dependent Variable, and Mediating variables the relationship between each measurement variable are the squared multiple correlations for each observed variable. Based on this reseon the factor e10 to e12 and factor between e4 to e14 are low and medium relation to Organizational Performance are fair estimate of relationship with MO, Innovation and Organizational performance of SMEs, and the remaining factor are high and very high and positive relationship to SMEs manufacturing industries on Ethiopia are supported.

#### 4. CONCLUSION

Internal Consistence of Cronbach Alpha result that shows Market Orientation (.860), Innovation (.853), firm performance (.925), the value of Composite Reliability Market Orientation (.849), Innovation (.860), and firm Performance (.928) and the output of AVE, Market Orientation (.580), Innovation (.590), firm performance (.529) the result shows in both construct variable are morethan 0.70% of the individual structures the products were regarded as exceptionally precise construct between Composite reliability and Cronbach alpha measure has rare difference to construct the Measurement model, and the AVE result of both Market



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

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The relationship between two variables in each data set, and the correlation matrix among latent variables next to each double arrow relations are fully demonstrated, the Correlation between MO with OP, with Mediating role of Innovation with Firm Performance have high Correlation between each Measurement model with mediating Variable of innovation with dependent Variable, and Mediating variables the relationship between each measurement variable are the squared multiple correlations for each observed variable. Based on this reseon the factor e10 to e12 and factor between e4 to e14 are low and medium relation to Organizational Performance are fair estimate of relationship with MO, Innovation and Organizational performance of SMEs, and the remaining factor are high and very high and positive relationship to SMEs manufacturing industries on Ethiopia are supported.

#### 5. RECOMMENDATION



Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

The growth of SMEs manufacturing Textile industries in the study area necessitates a variety of improvements in general, as well as improvements in the working areas of operators in particular are like Infrastructure or roads has been neglected in some areas of SMEs, and the improvement SMEs is a vital infrastructural equipment should be facilitated by governmental, and non-governmental organizations to equalize demand and supplied in SMEs area (Obeso, Hernández-Linares & Fernandez 2020).

Small and Medium sized Enterprises should be structured so that they may obtain raw materials from other firms in the manufacturing industry process, and the government should provide a favorable SMEs business environment in collaboration with society, and other prospective groups of industries, and the government support in establishing raw material sources, and finding viable of MO, INNO and markets for such firms of SMEs should be provided in order to create demand from outside of the towns of investigation area has been created (Getachew, Gebrekidan & Hossein, 2020).

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Volume: 02 Issue: 03 | July - September 2023 | ISSN: 2583-5602 | www.puirj.com

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