Partners Universal International Research Journal (PUIRJ)
Volume: 04 Issue: 04 | October– December 2025 | ISSN: 2583-5602 | www.puirj.com

The Effect of Strategic Innovation on Firm Performance: Evidence From Small Medium Sized-Enterprises in Selected Towns of Sheger Zuria and East Shewa, Ethiopia

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Abstract – Strategic innovation do need to make change goods & services they sell to their customer value, nor technologies that support these product to be successful in organization and this types of innovation is highly essential for organization to adapt the speed of technology and rapidly change in industry. This study aimed to examine the effect of strategic innovation on the performance of SMEs in selected Oromia regional state in Finfinnee Zuria and East Shewa, Ethiopia. The target population of the study was 19,709 SMEs of firms in Bole Lemi IP, and Adama IP cluster, number respondents provided from Finfinnee zuria and East Shewa, Oromia, Ethiopia SMEs data during collected 2024. Data were drawn and collected from a sample of 392 from textile and manufacturing industry, using the quantitative, cross-sectional and primary data collected from Textile and Apparel manufacturing industry, in Oromia Regional state selected from Bole Lemi IP and in Adama IP cluster, located From Finfinnee Zuria and East Shewa. The study was adopted descriptive study of Demographic information and explanatory and inferential research designs, and to use correlation analyses and multiple linear regression data analysis to evaluate the influence of strategic innovation with firm performance in SMEs. The regression coefficient results revealed that Alignment, Human Capital, customer insights and Tec. Capabilities has positively influenced with firm performance in SMEs, respectively.

However, strategic alignment has a Medium Relationship with Firm performance in SMEs, Human Capital and Technological Capabilities has a Strong relationship with Firm Performance in SMEs and Customer insight has Very strong relationship with Firm performance in SMEs has respectively and it has supported to increase have better performance in textile and apparel manufacturing industry in the study area.

Keywords: Strategic Innovation, Firm performance, Textile industry, Manufacturing industries, SMEs, Ethiopia.

1. INTRODUCTION

Strategic innovation is an organization process of reinventing or redesigning in its corporate business strategies to derive in business growth, and to generate the value for company, and its customer to create a competitive advantage in SMEs and (Sullivan, 1994) developed a strategic innovation that insights a significant variables that are related to strategic behavior to support theories and prescription in business organization (Barreto and Karia 2020). Strategic innovation is a competitive Creation of Growth strategy, new product categories, and it brings about Strategic positioning, through new Product, services and new business model in dynamic view of company strategy (Henderson & Clark, 1990). It is a holistic theoretical model of organizational system as a system of organizational Capabilities to achieve its business strategy in Company (Glasniemier, 1991). Leonard & Barton, (1991) to explore Strategic innovation dimensions with Strategic alignment, Human Capital, Social Capital, Technological Capabilities and Customers insight in Organization.

Barney & Wright, (1993) the Strategic innovation has sustained the role of human capital, Organizational strategies and it Create a Competitive advantage in industry. Miles & Covin, (2002) Strategic Innovation in Management based in fundamental concepts & the important Theories of RBV it is a valuable resources and capabilities it include technological capabilities, human capital development, skilled human resources, and strong brand reputation (Wahyuda et al., 2023; Rnandes et al., 2020), KBV it maximizing an employee capacity in knowledge involvement and the formulation of firms operational, DC it adapt rapidly changing environments by building, integrating and reconfiguring their resource and capabilities to boost firm performance & Contingency theory in Firms (Kamandi et al., 2021; Barreto and Karia 2020; Endris & Kassegn, 2022).

Strongly, this types of innovation is highly essential for organization to adapt the speed of technology is rapidly change in industry (Alhamami et al., 2023), and Strategic innovation do no necessary need to make change goods & services they sell to their customer value, nor technologies that support these product to be successful in organization (Qifa & Marunda, 2020), and it is important to organizational success in today's dynamic competitive business environment Hamel, (1996), it is a plan used by company to encourage an advancement in strategic alignment, technology, developing company's human capital, organizational process of strategic alliance (Kamandi et al., 2021), and redesigning its corporate strategy to drive a business growth and generate customer insights, to create a company's competitive advantage (Farooq et al., 2021), it allows a continuous improvement in product, process and services, it helps to survive growth of firms and to adapt the speed of technological change in industry (Henderson & Clark, 1990, Glasniemier, 1991, Leonard& Barton, 1992, Teece et, a, 1999, Miles & Covin, 2002).

Several studies investigated the effect of strategic innovation on firm performance in SMEs in economic development, productivity, growth, and performance improvement (Gebreeyesus, 2011; Hendrati et al., 2023) and few studies have revealed that strategic innovation is a key factor for economic development, including the firms' performance improvement of SMEs and some studies revealed that the dimensions of the strategic innovation types are negatively associated with some dimensions of strategic innovation with firm's performance and productivity (Endris & Kassegn, 2022). For instance, Karabulut (2015) study shows that Human Capital has negatively associated with learning and growth performance of SMEs (Ledi & Ameza–Xemalordzo, 2023). Some studies argued that Technological Capabilities and Strategic alignment have no clear result for their positive/negative effect association and (Abebe & Kegne, 2023) suggested that the effect of strategic innovation on a firm's performance of SMEs revealed that Human Capital and Customer insights has a significant and positive impact on firm performance (Ashraf et al., 2021), and while others provide evidence supporting the reverse arguments. However, no significant evidence was found for a positive relationship between non-technological strategic innovation and firms' performance in SMEs (Germee & Omar, 2023) and Conversely, some studies agree that process, Human Capital and Technological Capabilities has more efficient and supported a better contribution on firm performance of SMEs (Baki, 2011; Morone & Testa, 2008; Wahab et al., 2023).

Due to lack of capabilities in SMEs are not able to participate competitively in the national as well as international level (Khan et al., 2020). Ullah et al. (2011) argued that the lack of required entrepreneurial ability, education and characteristics are the big challenges for the success of enterprises (Siranesh & Mebratu 2020). Moreover, they further argued that the lack of proper training, Lack of better education, cause of Covid-19 pandemic, in the event those target are not completely met, due to time constraints and some lack of corporation is also the major causes of the failure of SMEs in Ethiopia (Sufa et al., 2022). Huang and Wu (2010) viewed that the world is going to be moved from a production-based economy to a knowledge-based

economy in Ethiopia still in introduction stage (Becerra-Vicario et al., 2023). Hence, to fill this gap, this study has sufficient respondents in SMEs in Ethiopia (Siranesh, 2020). Therefore, based on the above Theoretical gap, Empirical gap, Knowledge gap, Methodological gap and Location gap from reviewed literature the researcher has conduct this study to assess the effect of Strategic Innovation on Firm performance: A case of Small-Medium sized Enterprise (SMEs), Ethiopia.

2. THEORETICAL LITERATURE

2.1 The Concept of Strategic Innovation and Its Classification

Strategic innovation is the ability to think creatively, take risks, collaborate effectively, and identify and capitalize on emerging opportunities in order to achieve strategic goals (Drnevich and Croson 2013; Lichtenthaler and Lichtenthaler, 2009), it excites to be set a company strategy that make a high tasks decision and it ensures in day-to-day operation to align with the fulfilling the company's strategic goal in SMEs (Khan et al., 2020), and to build a skilled man power with the strong leadership, and to communication with skilled power in SMEs, and it seen as the deliberation and a systematic attempt to recognize new opportunities (Germee & Omar, 2023), and threats and to create new value propositions business models & the organizational capabilities in SMEs in order to address them (Regan & Ghobadian 2017). Chesbrough and Rosen bloom (2002) posit that the strategic innovation as the capabilities to see opportunities where others do not and to shape those opportunities to create economic value and capture a share of it (Salisu & Abu Bakar, 2020). Henderson and Clark (1990), it suggests that strategic innovation that involves redefining the terms of competition in an industry and it often through the introduction of new technology, business models, or other innovations. Hamel (2006) argues that the strategic innovation is a creating of new strategic options skilled human capital for the organization, rather than simply to exploiting existing ones in SMEs (Almujaini et al., 2021). Strategic innovation has also been defined as the capacity to anticipate and respond proactively to discontinuities and changes in the environment by exploiting new technologies (Howell, 2018), resources to develop human capital and a strategic alliance of new business models, products or services (Salampasis, Birasnav, and Malindretos, 2017).

The first variable, Strategic alignment is a multi-dimensional construct that is classified as product-oriented, quality-oriented (Kamandi et al., 2021), and market-oriented strategic alignment is empirically tested with firm performance measures in SMEs performance (Angulo-Ruiz, Pergelova & Wei, 2019). Strategic alignment is also classified as an Employee involvement, a process of keeping employees in line with in the value and work ethics in organization, a Customer involvement customer that affects, and thought a costumer puts in to choosing a product, and servers funny they have doing it in company, an Organizational operation to capture all the regular activities that brings a life of busines organization strategy in day to day activities process, and work how in SMEs, Information technology system that designed to collect process store and distribute information compared to task people structure, and fit technology in company (Al Khalifa, 2016).

Product-oriented strategic alignment often requires a tight linkage between business and Information science for organization to be incorporated as a strategic innovation into a product, service or process of firms (Tarofder & Gordon, 2007). Firms that constantly pursue strategic innovation in Information Science are deemed to create, and profit from sole Information Science that will possibly provide competitive advantages (Martinez-Simarro et al., 2015). The firms can be embedded to reduce costs by enlightening a productivity, and efficiency (Mithas and Rust, 2016). Quality and productivity orientation are focused on attaining a greater level of service quality and internal efficiency of SMEs performance (Marinova et al., 2008; Joneidi Jafari & Nili Pour Tabataba'i, 2017). Marketing-oriented and Information Science strategic innovation alignment require a

tight linkage between strategic alignments to be incorporated as an strategic innovation strategies (Almujaini et al., 2021) it includes an employee involvement, customer involvement, organizational operation & Information system with firm performance in SMEs (Martinez-Simarro et al., 2015; Sabherwal & Chan, 2001).

***H1: A strategic Alignment* has a direct relationship with Firm performance**

The second variable, Human Capital has a vital part in the survival of firms performance in SMEs (Cefos & Marsi, 2006) and it is commonly as a commercial implication of skilled knowledge, it acquired through training, education and from experience that enabling a person to perform individual tasks and activities in SMEs, Technological application, a software and tools to address a specific business challenges and it needs to stream and growing a market trend in industry, and a growing awareness of policy, and Skill in Company of idea and the ability to perceive, and to building an essential understanding in company (Timothy, 2022). growing awareness of policy, and Skill in Company (Grant 197; Becker, 1993; Malkomson, 2015; Arif Anjum, 2018), in human capital at the heart of business organizations, that relating to employees' knowledge, employee skill, employee competence, and capability (Alqershi, 2021). Moreover, employees that generate an intellectual capital through their competence, employee attitude and employee intellectual agility (Subramaniam & Youndt, 2005; Alqershi et al., 2019). According to Khalique, Shaari, Abdul and Isa (2011), the competence that includes skills, education, attitude that covers the behavioural dimensions of the employee's work (Science & Papers, 2021). Human Capital is also recognized as an important, and a vital ingredient for the success of companies in a competitive environment in the performance of SMEs (Djampagau et al., 2018).

Several researchers have investigated the Human Capital Alqershi et al., (2008), says in their study of the relationship between Human Capital and the performance of SMEs that found the significant relationship, Sharabati et al., (2010) observed that a significant and a direct influence of human capital on performance of SMEs, Zerenler et al. (2008) that explored the relationship between Human Capital and firm performance it found that Human Capital has a significant influence in the role that improving the features of existing services and products in SMEs (Alqershi, 2021; Wand, 2012).

H2: Human Capital has a direct relationship with firm performance

The third variable, Customer Insights in Strategic innovation determinant Customer-insights that involves that addressing the needs, for the anticipations of current, potential customers by developing a wide-ranging insights of customer needs and then conveying recognized value to customers (Narver & Slater, 1990; Barney, 2001; Estensoro et, al., 2002; Bartley et, al., 2007; Islamgaleyev *et al.*, 2020). The anticipated results of a customer-focus strategy consist of the creation of value for the customer which brings about customer loyalty, and Business Organization performance (Aziz *et al.*, 2021; Thuong & Singh, 2023). Customer-insights and practices ensures the enhancement of business organization's overall performance in SMEs (customer satisfaction, sales, market share, and profitability) with the development of competitive advantage (Abrokwah-Larbi, 2023).

However, their customer-insights measures are mainly centered on elements such as relationship management, customer service, customer forecast, induction and training strategies, customer surveys, and understanding of customer information (Wakjira, 2023). A customer-Insights oriented business organization places emphasis on customer's current and future needs and has also progressed in its capabilities aspect, and connected with a Customer insights to derives actions that to improve a product development and customer support in organization, Network ties it operates an organizational network application that associated that a relationship network activities to facilitate for third party in organizations, and other enterprises enabled artificial intelligence it implies a simulation of human intelligence of business process

and other machines, especially in computer systems in to specific application system in Organisations (Yau *et al.*, 2021; Madhani *et al.*, 2020; Hamidi *et al.*, 2020; Neneh, 2018).

H3: A Customer insights has a direct relationship with firm performance

The last Forth variable, Technological Capabilities to encompasses a broader sets of attributes, and resources behaviors to be combined with knowledge, skills, experiences, and strategic assets that enables to activate the performance and the achievements of organizational goals in industry and the determinants in which about creation of new ways of creating, and capturing value in organization (Kelly & Palaniappan, 2023), and a capabilities that implies to improve and to stimulate the growth and for the survival of in its firm performance in SMEs, and it can be measured by Learning Capability a managerial practical, Mechanisms, and a Management structure to be implemented and to promote learning habit in organization. R&D Capability it implies to gather a business knowledge activities, and to create a new product or services to discover a new way to improve the existing product and services in SMEs.

In technological capabilities SMEs should networking, through connection, and they should recruit skilled personnel and should be knowledgeable or seek information about the supporting firm's (Mbizi et al., 2013), Moreover, to mobilizing distinct ideas, and information from different sources allow a firm to create an environment that possesses the advantage of stimulating new ideas, and creating new knowledge in organization (Park and Rhee, 2013; Bonney, 2017). According to the modern business conditions, the activities of strategic innovation are considered as the driving force behind the success, and overall growth of the organisation (Nduati, 2019). The strategic innovation has a positive impact influence with the firm performance of SMEs in low and high technology industries in SMEs performance (Tranmer et al., 2020).

H4: Technological Capabilities has a direct relationship with firm performance

Strategic Innovation and Firm performance

A research by Alqahtani & Srinivasan (2019) investigated the effect of strategic innovation on firm performance in the Saudi Arabian construction industry (Sirah & Woldetensay, 2021). The study employed a quantitative research method and used a structured questionnaire to collect data from 217 construction firms in Saudi Arabia (Samuelsson, 2023). The study used structural equation modeling to analyze the data and test the hypothesized the strategic innovation has a significant positive effect on firm performance (Africa, 2021), and the relationships between the variables of Strategic Innovation determinants like Strategic Alignment, Human Capital has a negative correlation (Michael, 2020), Customer insight has law relationship and Technological capabilities has a strong relationship with firm performance in SMEs (Senbeta, 2021). Then, the study relied on self-reported data, which may be subject to response bias and social desirability bias in SMEs (Sirah & Woldetensay, 2021).

Further, that the study has constructed, and it measured with four key strategic innovation indicators for their studies indicating Strategic Alignment, Customer insights, skilled Human capital and Technological capabilities for the relationship between strategic innovations with achievements of firm's performance in SMEs (Zahra & Covin, 1993; Subramanian & Nilakanta, 1996; Zahra & Covin, 1993; Covin & Slevin, 1991).

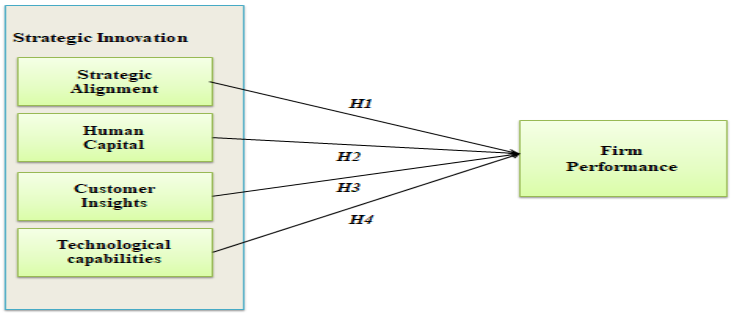
2.2 Review of Prior Empirical Studies

The relation between strategic Innovation and firm performance of SMEs has been widely discussed in the literature. However, the results are mixed (Yousif Ali, 2023). Using a sample of UK manufacturing firms, Geroski et al. (1993) and Geroski (1995) find that strategic innovation has both direct relationship with SMEs has significantly a positive effects on firm performance in SMEs (Pervan et al., 2018), and the accounting profitability, and stock market rates of return and growth (Schulze et al., 2022). Bolton (1993) also reveal a

positive relationship between strategic innovation and firm performance in SMEs (Kinyanjui, 2022). McAdam and Keogh (2004) confirmed that strategic innovation is a vital determinant that accomplishing firms' goals, and successful competition and that firms with strategic innovation activities are more dynamic in the competitive market (Bulto, 2021), and similarly, (Chana, 2021) conduct research on SMEs in the USA and find the positive effect of Strategic alignment, and Human Capital with SMEs' performance (Wasim et al., 2022). Using a sample of 179 Spanish manufacturing SMEs, (Senbeta, 2021) show that e-business is positively related with firm performance. (Aro et al., 2023) use a sample of 291 Australian SMEs and show that knowledge transfers, Customer insights and Technological capabilities are significantly a low correlation with firm performance in SMEs. Azar and Ciabuschi (2017) document that Strategic innovation enhances the performance of Swedish export ventures has a positive relationship with SMEs performance (Amaral, 2023).

Similarly, many other empirical students demonstrate the role of strategic innovation that enhancing various firm performance in SMEs indicators such as productivity, export performance (Tesfa, 2023; Farooq et al., 2021), and in other empirical studies done on the effect of strategic innovation elements on firm performance of profitability in Sri Lanka (Kijkasiwat and Phuensane, 2020). Therefore, strategic innovation capability shows a rise in the profitability of firm performance in SMEs, it implying Technological capabilities and Human Capital has a positive relationship between strategic innovation and firm performance in SMEs (Irawan et al., 2023) and other variables strategic alignment and Customer insights has no measured strategic innovation that investigated the effects of strategic innovation types on manufacturing firms in different countries and in different aspects of firm performance have also found that there is a negative effect on firms' performance (Yaskun et al., 2023) it used for Strategic innovation to measure by Customer insights, skilled Human Capital and Technological Capabilities has found a negative relationship between strategic innovation and firm performance and the remaining variables like Strategic alignment and TS with firm performance of SMEs (Chelliah et al., 2023).

In summary, empirical studies regarding the effect of strategic innovation on firm performance SMEs that provide mixed evidence (Shaher & Ali, 2020) and some studies confirmed that there exists a positive relationship between strategic innovation and firm performance (Patel & Patel, 2023), while some studies indicated that there is no significant evidence that shows a positive relationship (Chana, et al., 2021), and also others show that a negative relationship between some dimensions of Strategic alignment, Human Capital and Customer insights has a positive relationship with firm performance in SMEs and Technological Capabilities has a negative effect with firm performance in SMEs (Krampe, 2022). In that, firms with a higher level of strategic innovation activities would have better performance improvement in SMEs.



Source: Own adapted by researcher from literature, (2024)

Fig -1: Strategic Innovation & Firm Performance

3. DATA AND METHODOLOGY

3.1 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 infrential 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).

3.2 Data and Sampling

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 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 and service industry area or zone in the region as representative of the SMEs in Oromia, Ethiopia will be selected (Hall et al. 2013).

Accordingly, at the first stage Oromia regional state will be selected from Oromia region Manufacturing services industry of textile, Garment 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 and service industry of Textile, Garment and Apparel industry will be location in Oromia, Ethiopia. For this study, more than 392 respondents of Employee or workers from manufacturing and services industry of Textile, Garment and Apparel industry of SMEs will be 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 (19,709).

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

$$n = \frac{(19,709)}{1 + (0.0025)2} = 392$$

3.3 Sampling Frame

The sampling frame is closely related to the effect of Market Orientation on Organizational performance the mediating role of EO and Innovation in SMEs manufacturing and service industry in Textile and garment sector in Oromia regional state Finfine area and East Shewa zone, Ethiopia are the sampling frame respondents of the population.

The criteria of this selected area were based on high density of manufacturing industry location in Oromia, Ethiopia and for 392 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 and service textile, apparel and garment industry for the purpose of this study. addressed to Bole Lemi, and Adama Industrial parks 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. Similarly, from Adama industrial park gave to reach four textiles, garment and apparel 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.

Table -1: Lists of Targeted sectors area of the study

Cluster		Sectors of targeted area	No of owners
Bole Lami IP	1	Ever a top Sportswear textile PLC	54
	2	Top new Ethiopian Garment and textile PLC	29
	3	Ashton Textile Manufacturing PLC	31
	4	Vests Garment and Textile PLC	45
	5	Jay jay garment and textile Manufacturing PLC	60
	6	Shangtex garment and textile PLC	50
	7	Saints Ethiopian textile production PLC	47
Adama IP	1	King Dome Garment	25
	2	Sunshine garment and textile PLC	21
	3	Jotun Garment, and textile Manufacturing PLC	30
		Total	392

3.4 Data Analyses

For quantitative statistics data the survey will be collected coded, edited, and entered into the SPSS (Statistical package of Social Science) software V. 22 and to confirm AMOS software 23, and from descriptive statistics to analyses Frequency data, Mean, standard deviation kurtoses and Skewness data analyses will be analysed, for Multiple regression, and to infer the relationship between two or more variables and to demonstrate how several independent variables might explain the variance in a dependent variable.

Bivariate Correlation analysis refers to the analysis of two variables to determine relationships between them. Bivariate analyses are often reported in quality of life research. For an excellent example of research that utilizes bivariate analyses and demonstrates how the results of bivariate analyses can be used to inform further more complex analyses (Samuelsson, 2023)

According to Shukran (2003), the relationship has expressed by value within the range -1.00 to + 1.00 as Pearson product moment indicates. Pearson correlation has +1 in the case of a perfect increasing (positive)

linear relationship (correlation), -1and 1 in all other case indicating the degree of liner dependency between variable. Phyllis and his associates, (2017) suggested that inferences have important role in Business Study. This is because conclusions have normally been established on the bases of results. Such generalizations have been made for the population from the samples (Hussain et al., 2023).

Bivariate Simple linear regression is a regression model that estimates the relationship between one independent variable and one dependent variable using a straight line (Hussain et al., 2023). Both variables should be quantitative and describe the relationship between variables by fitting a line to the observed data. Simple linear regression models use a straight line, while logistic and nonlinear regression models use a curved line and regression allows you to estimate how a dependent variable changes as the independent variable change (Nguyen et al., 2023).

We consider the modeling between the dependent and one independent variable. When there is only one independent variable in the linear regression model, the model is generally termed as a simple linear regression model. When there are more than one independent variable in the model, then the linear model is termed as the multiple linear regression model (Africa, 2021).

To assumes that a linear relationship between dependent variable Y and an explanatory variable X, with the error term ε encompassing omitted factors. The least squares estimates a and b minimize the sum of squared errors when the fitted line is used to predict the observed values of Y. The standard error of estimate is our estimate of the standard deviation of the error term (Adeniyi et al., 2020). The standard errors of the estimates a and b can be used to construct confidence intervals for α and β and test null hypotheses, most often that the value of β is zero Y and X are not linearly related (Wall, 2021).

The coefficient determinations of ($R2$) compares the model's sum of the squared prediction errors to the sum of the squared deviations of Y is about its mean and can be interpreted as the fraction of the variation in the dependent variable that is explained by the regression model and the he correlation coefficient is equal to the square root of $R2$ of data can be investigate to be Considered in a simple linear regression model data set (Patel & Patel, 2023).

$Y= \beta o +\beta 1X+e$
Y= Dependent Variable (firm Performance)
βo = the intercept (constant) $\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, & $\beta 5$ are the coefficients associated with the independent variables
X1= Market Orientation (Independent Variable) and ε= Error
$Y= \beta o +\beta 1M1+e$
Y= Dependent Variable (firm Performance)

4. RESULTS AND DISCUSSION

4.1 Reliablity and Validity of Measurements

Table -2: Reliablity table of statistics; from Field survey (2024)

Item-Total Statistics				
	Scale Mean if Item Deleted	**Scale Variance if Item Deleted**	**Corrected Item-Total Correlation**	**Cronbach's Alpha if Item Deleted**
Strategic Alignment	74.5255	28.526	.382	.722
Human Capital	74.2628	21.161	.400	.795

Customer Insights	74.8087	27.199	.419	.804
Technological	74.0765	22.163	.538	.872
FirmPerf	74.0761	22.166	.438	.892

The reliability test of the study instrument is another important test of sound measurement. According to Kothari (2004), a measuring instrument is reliable if it provides consistent results which an instrument measures the way each time it is used under the same conditions which the same subjects. In this study, the reliability of the constructs was checked using Cronbach's alpha coefficients. George and Mallery (2019) stated that a reliability score should fall within a range of 0.70 to 1.00 to be acceptable. The reliability test reveals that the Cronbach alpha scores of all the variables such as StrAlign (alpha=0.722), HumCap (alpha=0.795), CustInsi (alpha=0.804), TechCap (alpha=0.872), and FirmPerf (alpha=0.892) ranging from 0.722 to 0.892 found to be over the recommended threshold.
Moreover, content validity was checked by getting the questionnaire reviewed by experts. In addition, the researcher conducted content validity of the questionnaire by selecting 15 respondents and adjustments were made accordingly.

4.2 Demographic Information Data

Table -3: Demographic information of statistics; from Field survey (2024)

Item	Category	Frequency	Pere sent
Gender of firm	Male	263	67.09
	Female	179	32.90
Ages of the firm	1-3	156	39.80
	4-6	105	26.79
	7-9	89	22.70
	Above 10 years	42	10.71
Education qualifications	Under certificate	182	46.42
	Certificate	90	22.95
	Diploma	65	16.58
	Degree	38	9.70
	Masters and above	17	4.35
Experience of owners	< 5 years	183	46.68
	6-10 years	97	24.74
	10-15years	73	18.63
	Above 15 years	39	9.95

Firm size	Micro	128	32.66
	Small	175	44.64
	Medium	89	22.70

The demographic information variables of this study for discussion were gender of respondents, educations qualifications, age of firms, experience of firm owners and firm size are summarized in table 3. At it can be seen to indicate in table 3, a sample of SMEs in textile manufacturing industry owners and members in Finfinnee zuria and East Shewa zone it included and the diversity of more males of 263(67.09%) than the numbers of females in Small and medium sized enterprises 179(32.91%) than small medium sized enterprises, and more single male in number (67%) than to other categories and Nonetheless, the 67.09% males' representation has a reflection of the male dominance, in Finfine zuria and East Shewa zone. Concerning ages of the firms, 156(39.83%) from year 1-3, 105(26.79%) from year 4-6, 89(22.70) from age 7-9 and 42(10.71%) above 10 years, the sectors has young manpower and new materials are operated in textile and manufacturing firms. In firms experience, the majorities 183(46.68%) respondents were engaged in enterprise <5years years, from 6-10 Years 97(24.74%), 73(18.63) from 11-15 years, while 39((9.95%) greater than 15 year's experience in firma, than it indicated that the Majority of Experience in enterprise has experienced and young owners and employees under 5 years Average Experience in industry to Contribute for Achievements of firm performance. The educational qualification of firm were provided with the option to specify Under Certificate and certificate in enterprise. Looking at the Firm size, the majority of them 175(44.64%) were in firms occupied by small sized enterprise in textile and manufacturing industry, in Oromia, Ethiopia.

4.3 Correlation Data Analyses of the Study Variables

Table -4: Correlation table of statistics. from Field survey (2024)

Correlations						
		Firm Perf	Hum Cap	Strat alig	Cust ins	Tech cap
Firm Perf	Pearson Correlation	1	.434**	.655**	.806**	.591**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	392	392	392	392	392
Strategic alignment	Pearson Correlation	.434**	1	.177**	.373**	.758**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	392	392	392	392	392
Human Capital	Pearson Correlation	.655**	.177**	1	.402**	.366**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	392	392	392	392	392
Customer insight	Pearson Correlation	.806**	.373**	.402**	1	.241**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	392	392	392	392	392

Technological capabilities	Pearson Correlation	.591**	.758**	.366**	.241**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	392	392	392	392	392
**. Correlation is significant at the 0.01 level (2-tailed).						

In this study, Pearson's Correlation Coefficient was used to analyze the relationship between explanatory variables and the dependent variable. The association between variables and their statistical significance has been presented in table 4. A table result indicated a significant positive correlation between the explanatory variables Strategic Alignment, Human Capital, Customer insights and Techinological Capablities with dependent variable firm performance, at correlation coefficient values of Strategic Alignment 0.434, Human Capital 0.655, Customer insights 0.806, and Techinological Capablities 0.591 with 95% confidence level of data set of Strategic innovation with Firm performance. Therefore, strategic alignment is Medium Relationship with Firm performance in SMEs, Human Capital and Techinological Capablities has Strong relationship with Firm Performance in SMEs and Customer insight has Very strong relationship with Firm performance in SMEs has respectively and as strategic innovation has increases with firm performance, is expected and supported to increase and vice versa in SMEs.

5. REGRESSION ANALYSES OF THE STUDY

5.1 Model Diagnostics Tests

The diagnostic tests Modell assumption has to be carried out before the linear regression estimation, and to test Normality assumption, Linearity assumption, Multicollinearity, kurtoses and Skewness Homogeneity of Homoscedasticity assumption and Multicollinearity assumption tests.

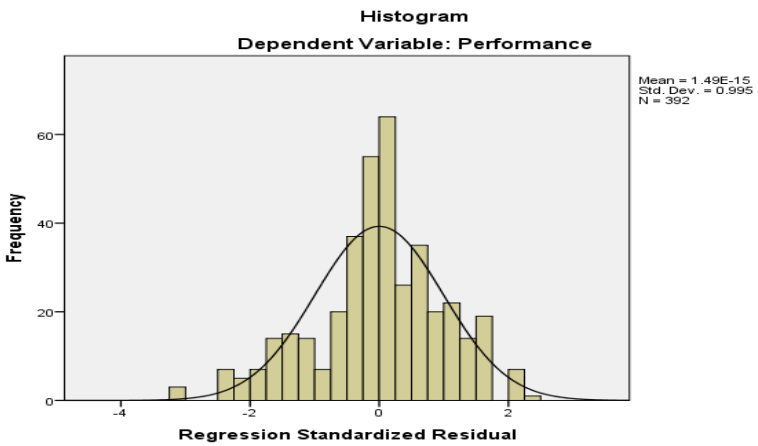


Fig -2: Normality test of Study

Table -3: Linearity Assumption Model test, (2024)

For the Normality tests it has to be determine when a data set is well-fitted by a normal distributions of data set of MSMEs, and it has to be computed, and it likely for a random variables of data underlying the data set of the variables has to be normally distributed, and the tests of a form of model selection date has to be highly adjusted , and it can be interpreted in several ways of data distributed methods, has depending on the bell

shaped dissemination of data for the interpretations of probability statistics of the assumption can be tested by looking at the histogram model for the data distribution together with above histogram of the standardized Coefficient residuals, of the closer the dots lie to the diagonal line, the closer to normal the residuals are distributed, based on researcher assumption data of Strategic Innovation and dependent variables of Firm Performance data of Histogram has highly Fitted, and Shapiro- walk model of statistics result has highly distributed morethan 0.7, and the significance value result output is accepted.

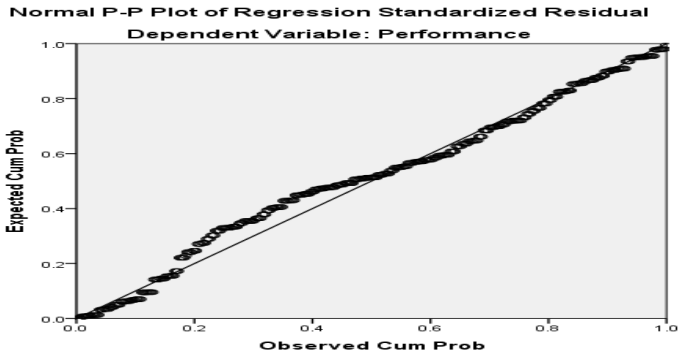


Fig -3:Homoscedasticity assumption Model test, (2024)

The Homoscedasticity result of equal distance of line and the same finite variance of variables of data result can be highly checked by the visual evaluation of a scare plot of the standardized residual error of linear regression standardized predicted value, (Osborn & Waters, 2012), and the error terms are distributed randomly with hasn't certain patterns of data, then the problem is not detrimental for analyses, and the figures and table above results shows that the standardized residuals error in data set are distributed evenly indicating heteroscedasticity are not a serious problem for this data, it has highly distributed and much larger of variations of variables of data set assumption has highly fitted(Gastwirth et al., 2009).

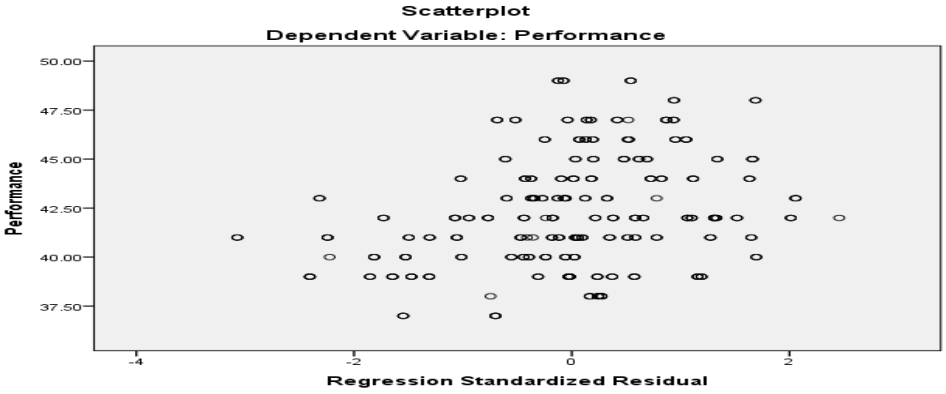


Fig -4: Heteroscedasticity Assumption Model tests, (2024)

The test of Homogeneity tested to be assumed, tested using Levene's tests of dependent variable result exhibits equal variance across the range of predictor variables, and this data set result assumption of the variances in the two groups are different from each other, the variance used to measure the equality of variance of error term for the variables regression of data evaluation of MO, EO, INNO (Gastwirth, Gel & Miao, 2019), the results of mean, media and adjusted df, MO consists OP with result of 8.13, EO with OP 9.19 and INNO consists with OP 7.17 that has to be omitted with the significance level of <0.05 result has to be supported, and the firm performance results that requires even distribution of residual and error terms or homogeneity of

error terms of SMEs of Ethiopia throughout the data distribution result output assumption result has to be supported.

5.2 Multicollinearity Assumption Test

Table -5: Multi Collinearity statistics. from Field study survey (2024)

	Collinearity Statistics		
Model	(Constant)	Tolerance	VIF
	Strategic alignment	.693	1.443
	Human capital	.352	2.837
	Customer insight	.704	1.420
	Technological capabilities	.351	2.851

Table -5: Multicollinearity Assumption test, (2024)

The Variance-inflation factor (VIF) of data set has also been checked, and the values are to be found smaller, which supports that the multicollinearity assumption tests is not a problem, and in this assumption the overall VIF results has less than 1 has to be supported and accepted as per (Hair, 2010), and the tolerance statistics in linear regression analysis of model fit assumption value it helps to detect a collinearity problem. The Tolerance result that runs from 0 to 1 and result to be closer to 1 it indicates there has no multicollinearity problem, (Keith, 2006), and in this study the overall the tolerances are above 0.5 has to be accepted and, the amount of variation in that construct is not explained by other predictors, and all the two tests of MO, EO, INNO and firm Performance of Multiple linear diagnostic results of data set to be run that can indicated there is no multicollinearity problem based on the assumption of SMEs of Ethiopia.

5.3 Automatic Linear Regression Assumption

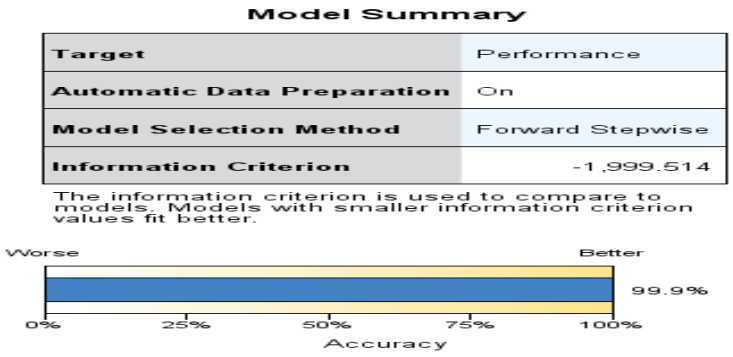


Fig -5:Model Summary

The Automatic Linear Regression transform of Assumption data test of MO, EO, INNO and OP variables are automatically transferred to be run, in order to provide an improved data set model transformation techniques of Linear regression of automatically estimated, and the measurement values, outlier trimming, category merging and other purpose of data preparation, Selection methods and Criterion information worse

accuracy model data result is better 99.7% to estimate the assumption of MSMEs Ethiopia, Oromia of selected zonal area of the study.

Table -6: Model-Summery statistics. from Field survey (2024)

Model Summery[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.886a	.782	.778	.44731	1.683
a. Predictors: (Constant), Techcap, Custins, Stratalig, Humcap					
b. Dependent Variable: Firm performance					

The linear combination of four strategic innovation predict variables of StrAlign, Human Cap, CustInsig and TechCap Sebastian Taylor (2023), the estimated Multiple linear regression coefficients and their R= .886, R2= .782, Adj. R2.= .778, Std. Err. =.44731, and the information is displayed in data set, Tamoskova, E. (2018) due to this reseon Strategic Innovation with Firm performance value output result of R=.782 high Correlation value, R-square value output .782 to solve the problem the remaining problem that solve by other variables and the variance value Adjusted R-Square result is .778 by 4 variance this means higher value of Model that support in this study, the durbin-watson value of error of variable data set result is 1.683 is close to 2 of the truth assumptions of data has almost certainly met value of data , in explanatory variables of (StrAlign, Human Cap, CustInsig and TechCap) can be together accounts that explaining in the dependent variable of firm performance by 78.2%. The remaining 21.8% of the Variance in SMEs overall Manufacturing Textile firm performance could be explained by the other variables are not incorporated in the current study in Oromia Regional state Finfine Zuria and East Shewa Textile Manufacturing Industry, Ethiopia, R.H, P. J. (2016).

Table -7: ANOVA table of statistics. from Field survey (2024)

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2801.473	4	700.368	957.448	.000b
	Residual	283.089	387	.731		
	Total	3084.561	391			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Techcap, Custins, Stratalig, Humcap						

The Analyses of Variance output(ANOVA) result in Model of SMEs of over all data set of Strategic innovation that affect Firm Performance of Textile Manufacturing industry result output shows the total Sum of Squares value 3084.461, df= 4+387= 391, in mean square value output result MSR regression= 700.368 and MSE residual value .731 that means in F- Calculation result MSR/MSE= 957.448 with probability value of .000, this means the value p<.001 is significant, due to this reseon Strategic Innovation with Firm performance is significantly positive and supported in Textile and manufacturing industry, in Oromia Regional state Finfine Zuria and East Shewa Zone, Ethiopia.

Table -8: Model Coefficient table of statistics. from Field survey (2024)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.578	.702		2.247	.025
	Stratalig	.324	.027	.225	12.149	.000
	Humcap	.336	.030	.288	11.114	.000
	Custins	.951	.025	.687	37.452	.000
	Techcap	.713	.033	.562	21.604	.000
a. Dependent Variable: FirmPerf						

Sebastian Taylor (2023) in regression coefficient analysed data value of Strategic Innovation with Firm performance results in explanatory variables of (StrAlign, Human Cap, CustInsig and TechCap)Standardized Coefficients (Yi= β0 + β1 X1 + β2X2 + β3 X3+ β4 X4+e), this means Y1 intercept value=1.578 (β0)+.225, β1(βStratalig) (β)+.342 β2(βHumcap)+.288 β3(βCustins)+.687, β4(βTechcap) +.562 this means with constant value result 1.578+ .225+.288+.687+.562+e value and Constant t= Value result 2.247, based on this out put the significant Value results of Regression Coefficient of Strategic Alignment, Human Capital, Customer Insight and Technological Capabilities results of alternative hypotheses of H1, H2, H3 and H4 with P-Value output .000 this means the value p<0.001, is due to this reason the overall predict independent Variables of Strategic innovation with dependent Variable with firm performance is significantly the alternative hypotheses value of linear predictor output result has significantly supported and a strong positive effect with firm performance in SMEs, in Oromia Regional state Textile Manufacturing industry in Finfine Zuria and East Shewa Zone, Ethiopia.

The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below: Predicted performance score strategic alignment=.324, Human Capital=.336, Customer insights=.951 Technological capabilities=.713. The table 8 result shows that, all the Explanatory variables of strategic innovation variable, it indicated customer insights is highly affect with 95.1% and Technological capabilities has also the next high effect 71.3% in SMEs textile and manufacturing industry to explain at 95% confidence level to the variation on the dependent variable.

6. HYPOTHESES TESTING

Table -9: Study of Hypotheses testing. Source from Field Survey (2024)

Proposed hypotheses of the data	Decision
H1: ***Strategic Alignment*** has a direct relationship with firm performance	Supported
H2: ***Human Capital*** has a direct relationship with firm performance	Supported
H3: ***Customer insights has*** a direct relationship with Firm performance	Supported

H4: ***Technological Capabilities*** has a direct relationship with firm performance	Supported

In hypothesis testing that proposed the alternative hypothesis for the current study of the overall predict independent Variables of Strategic innovation with dependent Variable with firm performance was tested, based on the study's result the correlation analyses and regression coefficient data analysis results with 95 confidence level and p-value output to tests of hypothesis is accepted and the results of hypotheses of data set result that proposed in the study are highly presented.

7. DISCUSSION

The Correlation coefficient values of strategic innovation variables of Strategic Alignment 0.434, Human Capital 0.655, Customer insights 0.806, and Technological Capabilities 0.591 with 95% confidence level of data set of Strategic innovation with Firm performance. Strategic alignment is the medium relationship with firm performance in SMEs, Human Capital and Technological Capabilities has Strong relationship with Firm Performance in SMEs and Customer insight has Very-strong relationship with Firm performance in SMEs has respectively and as strategic innovation has increases with firm performance, is expected and supported to increase and vice versa in SMEs.

This study aimed to evaluate the effect of strategic innovation with firm performance in SMEs. Furthermore, concerning the effect of the four predict independent variables of strategic innovation (StrAlign, Human Cap, CustInsig and TechCap) with firm performance in SMEs, the findings reveal that all these variable jointly accounts by 78.2%. The remaining 21.8% of the Variance in SMEs overall Manufacturing Textile firm performance could be explained by the other variables are not incorporated in the current study in Oromia Regional state Finfine Zuria and East Shewa Textile Manufacturing Industry.

The regression model results indicated in explanatory variables of (StrAlign, Human Cap, CustInsig and TechCap), based on this out put the significant Value results of Regression Coefficient of Strategic Alignment, Human Capital, Customer Insight and Technological Capabilities results of hypotheses with P.value output .000 this means the value $p<0.001$, is due to this reason the overall predict independent Variables of Strategic innovation with dependent Variable with firm performance is significantly the alternative hypotheses value of linear predictor output result has significantly supported and a strong positive effect with firm performance in SMEs, in Oromia Regional state Textile Manufacturing industry in Finfine Zuria and East Shewa Zone, Ethiopia.

The unstandardized coefficients B column, gives us the coefficients of the independent variables in the regression equation including all the predictor variables as indicated below: Predicted performance score strategic alignment=.324, Human Capital=.336, Customer insights=.951 Technological capabilities=.713. The table 8 result shows that, all the Explanatory variables of strategic innovation variable, it indicated customer insights is highly affect with 95.1% and Technological capabilities has also the next high effect 71.3% in SMEs textile and manufacturing industry to explain at 95% confidence level to the variation on the dependent variable.

8. CONCLUSION

In this study, the empirical analysis of innovation's effect on the performance of micro and small manufacturing firms was conducted using cross-sectional primary data collected from 247 micro and small manufacturing firms in selected towns of Awi zone, Ethiopia. The results of multiple regression

analysis revealed that firm innovation was statistically significant in explaining the performance of micro and small manufacturing firms in Injibara, Dangila, and Tilili towns. The result of the study also shows that product, process, marketing, and organizational innovation were positively and significantly related to firm performance, while product innovation were found to have a strong positive effect on the dependent variable firm performance followed by process and organizational innovation, respectively.

However, a weak statistical relationship was reported between marketing innovation and the performance of manufacturing firms than other variables. Hence, firms which have a strong orientation towards product, process organizational, and marketing innovation have better performance in manufacturing firms in the study area. Ayinaddis Journal of Innovation and Entrepreneurship (2023)

9. THEORETICAL IMPLICATIONS

From the theoretical point of view, this study contributes to the literature on the nexus between innovation and the performance of micro and small manufacturing enterprises by investigating the influence of product, process, marketing, and organizational innovation on the performance of firms. Despite the development of micro and small enterprise sectors and their contribution to the national economy, the effect of innovation on micro and small manufacturing firms' performance has not been studied sufficiently in Ethiopia in general and Awi zone in particular. Such findings are, therefore, important, because they equip policymakers and owners of MSEs with applied knowledge of how innovation affects firms' performance. In addition, this study provides valuable insights in reconciling seemingly inconsistent and mixed findings in previous studies.

10. MANAGERIAL IMPLICATIONS

These findings have some implications for MSEs owners and managers. The knowledge of the association between innovation and firm performance offers practical insights for the proper management of firms. It can be derived from this study that firms should put special emphasis on product and process innovations, as these types of innovation are found to be essential instruments for achieving sustainable competitive power. Innovative MSEs would have better opportunities of thriving in fierce competition, allowing them to diversify their products or services and adapt to the changing consumer needs.

11. 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 cross-sectional primary data to measure firm performance, and as such, the absence of objective performance measures could be a limitation. However, it should be noted that scholars agree that self-assessment of performance is relevant, especially when secondary data are unreachable. Further studies could also be conducted by incorporating several mediators and moderator variables and interlinking innovation types with micro and small manufacturing firms' performance.

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