

# Chapter 6


## Impact of Innovation Dimension Mediation on the Performance of Ethiopian SMEs With an Entrepreneurship Orientation

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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. The study used an explanatory research design and a quantitative methodology. To gather data 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 findings show that entrepreneurship orientation and innovation mediation as a combination have a big impact on organisational success.*

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## INTRODUCTION

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) defined entrepreneurial orientation (EO) as the process, practice, and decision-making activities that lead 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 crucial role 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 innovativeness, pro-activeness, and risk-taking constitutes a uni-dimensional tactical orientation, according to Ajzen's theory of 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 augmented 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 corporates 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).

## 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 augmented interest in comprehending the connection among innovation and performance among Small and Medium Enterprises (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 previous studies on the connection among innovation and SME performance have been incongruous. According to some research, there is a good correlation among innovation and SME performance (Michael Nnaemeka Ajemba & Ebube Chinwe Arene, 2022; Perdana & Prasasti, 2023 Mustafa, Rehman, Zaidi, & Iqbal, 2015). Other research, also, has discovered ambiguous or even detrimental associations (Mohamed et al., 2023; Rauch, Wiklund, Lumpkin, & Frese, 2009; Mata & Aliyu, 2014).. More research

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