Strategic Innovation and Competitive Advantage of SMEs in Ethiopia

Tafese Niguse[1], Brehanu Borji[2] and Shashi Kant[3]

Abstract

Small and medium-sized businesses play an indispensable role in the economy's development because they foster the introduction of new technologies, promote science, boost innovation performance, aid in the framework for policymaking, and are one of the areas where innovation research is currently receiving a lot of attention. The main goal of this investigation was to determine the competitive advantage, human capital, and strategic innovation of Ethiopian SMEs. The researchers used an explanatory research strategy for this work, which is backed by a quantitative methodology. A multi-stage sampling technique was used since it allows for a systematic and representative selection procedure in choosing respondents. The researchers used a structured questionnaire to gather information from the 282 sample respondents. With the use of explanatory and confirmatory factor analysis (EFA and CFA), the researchers employed SEM to examine the data gathered from the respondents. According to the study's outcomes, strategic innovation is what allows SMEs to get a competitive edge. The findings also demonstrated a strong and positive link among competitive edge as well as innovative strategy. The results of this research also showed that competitive advantage is directly impacted by human resource, confirming the idea that human capital significantly boosts competitive advantage. Lastly, the research showed that human capital plays partial mediating role in the relationship among competitive advantage and strategy innovation. This study recommends that SMEs invest in strategic innovation and human capital development to enhance competitive advantage. Future research should investigate sector-specific factors affecting innovation and investigate the long-term influence of human capital on competitive dynamics in different economic contexts.

Keywords: *Strategic innovation, Human capital, Competitive advantage, SMEs*

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1. Introduction

Since the business world is changing so quickly these days, companies must innovate to stay competitive and survive. In order to successfully handle changing circumstances, innovation entails adopting new, evidence-based business strategies in addition to applying novel technologies in to services as well as products. In free market, firms are required to make enough profit. Organizations must improve their performance if they want to outperform their rivals in terms of earnings (AlQershi, 2024). The modern corporate environment has become more difficult as globalization quickens, competition heats up, and cutting-edge technology are used more often. In order to be profitable and relevant in a market that is always changing, businesses must constantly innovate and adapt (Wu et al., 2024).

According to earlier research, strategic innovation helps businesses to rethink and adjust their business plans in reaction to changing market dynamics and regulatory violations. According to Markides (1997) a company's ability to take on industry leaders and get a competitive advantage depends on the strategic innovation it uses (AlQershi et al., 2021). By developing new technologies, encouraging scientific development, improving innovation performance, and participating in policy formation frameworks, small businesses are crucial for enhancement of wealth (Kassa & Getnet Mirete, 2022). SMEs in Ethiopia operate as catalysts for the nation's transition to an industrialized economy by boosting economic development and generating employment opportunities. They are regarded as the cornerstone for the growth of several companies, underscoring their necessity in determining the direction of advancement. Supporting SMEs is thus crucial for long-term economic growth (Olana, 2020).

Ethiopia has the fewest privately held businesses and the lesser rate of new company formation in sub-Saharan Africa, according to the UN Industrial formation Organization (Shitaye, 2022). Due to this circumstance, the Ethiopian government has designated promoting the growth of SMEs a priority, acknowledging their vital role in generating opportunities for employment (Abebe & Gemeda, 2020). By emphasizing on SMEs, government seeks to increase jobs and economic development while meeting the immediate demand for more innovation in the whole country. Ethiopia strives to enhance the business climate and foster sustained economic expansion by aiding the continued development of these businesses, which will ultimately end up in a more dynamic and sustainable economy (Khan et al., 2024).

2. Statement of the problem

For SMEs, particularly in emerging nations like Ethiopia, an integration of innovative strategy as well as talent of staff members provides an alluring route to competitive advantage (Niguse et al., 2025). With the

support of knowledgeable staff, companies that use strategic innovation shall be capable to adjust to changing business conditions, boost functioning effectiveness as well as invent sustainable competitive advantages. However, owing to a number of barriers, many Ethiopian enterprises find it difficult to adopt new methods, hence reality often falls short of this ideal (Zhang, 2023). These obstacles impede the possibility of expansion and creativity, highlighting the need of support structures that enable efficient plan implementation in the regional business environment.

Regarding the link among advantage in competition, talent wealth as well as innovation in strategy in Ethiopian SMEs, empirical evidence reveals important gaps in the literature. Although certain investigations reveal that innovation in strategy boosts accomplishment of firms, these studies often ignore human capital. Furthermore, several study results point to a theoretical gap in how staff talent affects the performance of innovative strategy (Alajeeb & Al Najjar, 2022). The majority of current research ignores the particular difficulties encountered by Ethiopian SMEs in favor of concentrating on industrialized economies. Successful innovation initiatives in Ethiopia's unique socioeconomic situation are further hampered by contextual problems such limited resource access, inadequate facilities as well as lack of qualified staff (Zhang, 2023). Closing these gaps is essential to developing successful regional policies.

The most of previous investigation has revolved around the link among strategic innovation, capital of talent and benefit in competition, in the industry of banking, which originally motivated the researchers to conduct this study (Alkharabsheh & Al-Sarayreh, 2022; Al-Surmi et al. 2020; AlQershi, 2024; Ateş et al. 2020; Abebe & Gemeda, 2020; Borodako, 2023 and Wahyuni, 2024). But this investigation desired to examine these ideas within the framework of SMEs. The critical role of human capital was disregarded by Fathi et al,. (2021) and Datiko (2024), who investigated the link among innovation in strategy as well as advantage of competition in SMEs (Otache, 2024). The researchers were further driven by this study gap on innovation in strategy as well as relationship of it to competitive advantage and wealth of talent in SMEs, particularly in developing countries. Despite increasing calls from scholars for comprehensive study in this area, there is currently lack of investigation on innovative strategy in SMEs.

Due to a lack of knowledge about the connection among innovative strategy as well as human capital, Ethiopian SMEs find it difficult to use innovative strategies for competitive advantage. It is difficult for SMEs to put plans in place that deal with their particular problems in the absence of empirical results that are adapted to Ethiopia's particular socioeconomic setting. Furthermore, their capacity to implement innovative strategies is limited by a dearth of research on institutional and cultural variables, which ultimately impedes development and competitiveness (Wang et al., 2023). By investigating how innovation in strategy uses talent wealth to generate benefit in competition in Ethiopian SMEs, present investigation requires to fill these gaps. The study aims to provide insightful information that may improve these businesses' capacity for innovation and general performance by identifying the unique possibilities and difficulties they encounter.

3. Literature review

3.1 Definition of key terms

3.1.1 Strategic Innovation

According to AlQershi et al. (2019), strategic innovation demonstrates how businesses rethink their business models and transform their present market by shifting competition and breaching the law. According to Markides (1997), a company's adoption of strategic innovation determines whether it is successful in challenging the current industry leader and gaining a competitive advantage. Knowing the gaps in a company's positioning map allows for strategic innovation (AlQershi et al., 2020). The conceptual and empirical gaps in earlier strategic innovation research are filled in part by the identification of strategic innovation concepts. Despite having several excellent concepts and measurements, previous management perspective research on strategic innovation lacks clear scientific analysis (Kodama, 2018).

Innovative strategy influences human capital, according to the results of earlier research. For example, innovative strategy had a significant impact on capital of human (AlQershi, 2022), human capital has significant impact on the link among innovation in strategy as well competitiveness (Muriuki et al., 2023), and strategic alignment is crucial to achieve good business success (Alkharabsheh & Al-Sarayreh, 2022). Strategic innovation plays a crucial role in helping SMEs attain advantage in competition. Prior studies discovered a favorable link among business advantage in competition as well as innovative strategy. As an example, consider the following sources (Fakunmoju et al., 2020; Arokodare & Asikhia, 2020; Alajeeb & Al Najjar, 2022; Fathi et al., 2021; Termezi, 2020; AlMujaini, 2021; and Järvenpää et al., 2020).

3.1.2. Human capital

Employee experience, expertise, intellect, and training are all considered forms of human capital (Sachitra, 2020). It encompasses people's knowledge, talents, and abilities; it is a conglomeration of attitudes, aptitudes, and values that help build corporate value and competitive advantage. The knowledge and skills of the workers in the company are reflected in human capital (Liwawo et al., 2025). Despite not being shown on the financial sheet, this intangible asset has a big influence on how well a business performs (Khan et al., 2024). Businesses must put money in human capital if they want to increase production as well as profitability. Organizations may improve their chances of success by putting employee development first

since more investment in employees results in better outcomes and increased productivity (Goldin, 2024; AQershi, 2021).

Empirical research shows how crucial capital of staff is to attain benefit in competition. Alnoor (2020), for instance, discovered beneficial link among competitive advantage as well as capital of intellectuals. Additionally, Gebremichael & Tekle (2020) showed that in Ethiopian SMEs, human capital had a favorable impact on innovative strategy as well as advantage of competition. Additionally, managers' and owners' training, expertise, and abilities have a direct as well as indirect impact on the expansion and competitive edge of SMEs (Wodajo et al., 2020). Timothy (2022) observed that, among Tanzanian SMEs, businesses with competent management outperform those with less skilled leadership (AlQershi, 2024). In order to further investigate these dynamics, the following hypothesis was developed in light of these data.

3.1.3. Competitive Advantage

Organizations with a competitive edge may outperform their competitors, gaining more clients and expanding their market share (Muazu & Abdulmalik, 2021). It illustrates how businesses improve their goods and provide services more successfully than their rivals in the market. Businesses may get a competitive edge by using a variety of tactics, including creating cheaper items, effectively distinguishing their offers, and focusing on certain market niches (Distanont, 2020).

Maintaining a company's position in the present and future competitive settings depends on this advantage. It is determined by contrasting the market's average performance. If a company creates higher margins of profit than those of competitors in a comparable sector, it could be considered to have an edge over the competition (Lieberman, 2021). In the end, establishing an advantage over others involves much more than simply being outstanding; it additionally includes retaining that competitive advantage throughout the years. To keep up their competitive edge, corporations have to continually reinvent themselves and adjust for shifting market circumstances. Firms may strengthen their standing in the marketplace and secure long-term success by concentrating on efficiency, distinctiveness, and smart choosing markets (Otache, 2024).

3.2 Theoretical Paradigm

Four theoretical paradigms can be identified in relation to the themes under consideration: They include resource-based view, human capital theory, dynamic capability theory, as well as theory of diffusion of innovation.

A. Resource-Based View Theory (RBV): Postulates that firm may gain a competing benefit by using certain, precious, non-replaceable resources. Human capital-made up of workers' knowledge, skills, and experience is a vital resource in SMEs. Strategic innovation depends much on human capital to improve creativity and flexibility as it includes applying new ideas and procedures. Thereby, the RBV claims that spending on human capital increases a SME's ability for strategic innovation, thereby enabling sustained competitive advantage. This link emphasizes the need of developing talent within companies to promote creativity and long-term success (Kassa & Mirete, 2022).

B. Human Capital Theory: According to human capital theory, expenditures in training and education increase workers' productivity and efficiency, hence improving organizational performance. A knowledgeable staff is very necessary for SMEs to effectively implement strategic innovations (Niguse et al., 2025). By guaranteeing that workers have the required knowledge to carry out innovative ideas efficiently, human capital mediates the link among innovation in strategy as well as advantage in competition. This theory focuses the requirement of growing capital of talent to enable the acceptance of new ideas and cutting-edge technologies, hence improving the competitive position of SMEs. Organizations may create an innovative culture that propels expansion and improves general performance by giving training and education top priority (Semke & Tiberius, 2020).

C. Dynamic Capability Theory: Success depends on the dynamic capabilities theory, which holds that a corporation may build, integrate, and rearrange inside as well as outside proficiencies in reaction to fast changing environment. Strategic innovation in SMEs calls for both responsiveness and flexibility, qualities driven by human capital (Liwawo et al., 2025). This idea holds that by promoting a creative culture, supporting information exchange, and enabling learning, skilled staffs increases the vitality of SMEs. Human capital as a mediator increases the efficacy of innovative strategies projects, hence helping SMEs to adapt and compete in their sectors. Investing in their staff helps small and medium-sized enterprises to improve their creative capacity, hence guaranteeing their agility and competitiveness in an always changing environment (Al-Surmi & Duan, 2020).

D. Theory of Diffusion of Innovation: Growth and competitiveness depend on businesses' acceptance of new ideas, processes, and technical breakthroughs. In this regard, human capital is very essential as it affects the pace and effectiveness of the execution of innovations (Niguse & Borji, 2025). Skilled employees at SMEs are more inclined to embrace as well as spread innovative ideas, hence improving the competitiveness of the company. This method emphasizes how human capital mediates the implementation and uptake of

strategic innovations. Encouraging a skilled staff helps SMEs to be more innovative and guarantees they stay sensitive to changes in the market and better placed in their particular sectors (Varadarajan, 2020).

4. Empirical literature and hypothesis development

4.1 Strategic Innovation and Competitive Advantage

The link among innovative strategy and benefit of competitions in SME firms has been the desire of much investigation. Empirical studies showed innovative strategies greatly improves a firm's competitive stance (Blaique et al., 2024). For example, research shows that by participating in creative activities like creating new goods, improving current services, or using inventive business ideas, SMEs may stand out in the marketplace. Attracting and keeping consumers depends on this distinction, hence it finally helps to increase market share and provide a competitive edge. SMEs may properly establish themselves in a dynamic market by giving strategic innovation top priority (Hartani et al., 2021).

Strategic innovation is directly related to increased operational efficiency. Studies indicate that small and medium-sized businesses (SMEs) using creative ideas may improve production, save expenses, and simplify processes (Liwawo et al., 2025). For example, research on Ethiopian SMEs showed that using modern manufacturing methods greatly improved output while reducing running costs. This operational enhancement helps SMEs to provide better quality goods at reasonable pricing, hence improving their competitive advantage in the market. Focusing on innovation helps SMEs to be more efficient and stay in a strong position in a dynamic corporate environment (Canhoto, 2021).

Empirical studies revealed that creative SME firms are more flexible and sensitive to changing market circumstances and customer tastes. Companies that give strategic innovation a priority can swiftly change to fit changing needs in the fast Ethiopian market, hence giving them a competitive advantage over competitors (Mohlala et al., 2024). This adaptability not only allows SMEs to capture new market prospects but also allows them to retain current clients. Encouraging a culture of innovation helps these companies to better match their goods and services with consumer demands, hence improving customer happiness and loyalty. Strategic innovation therefore becomes a crucial instrument for SMEs aiming to survive in an always changing corporate environment (Haseeb et al., 2019).

H1*: Strategic innovation has significant impact on competitive advantage.*

4.2 Strategic Innovation and Human Capital

Innovative strategy had a beneficial impact on staff talent in firms, particularly in small as well as medium-sized firms. The culture of innovative strategy helps business firms to inspire staff members to learn novel technologies, use imaginative methods to solve problems, as well as enhance their general talents innovations (Niguse & Borji, 2025). Often, this focuses on the results of innovation in specific program of learning as

well as development meant to provide members of staffs the tools they require to properly undertake novel concepts. Members of staff therefore become more flexible and adaptable, which helps the business to respond speedy to evolving customer requirements and technical developments. Sustaining an advantage in competition in the market depends on this flexibility (Fakunmoju et al., 2020).

Strategic innovation increases information sharing within companies and promotes staff involvement. Companies that give innovation top priority create a culture that values teamwork and group idea generation. This cooperative atmosphere not only enhances personal abilities but also helps departmental information to flow across boundaries (Otache, 2024). A more creative and integrated workforce can be resulted from employees' greater propensity to participate in cross-functional initiatives. This synergy improves the capacity of the company to create and carry out new ideas and at the same time strengthens human capital. Strategic innovation therefore becomes a major engine of organizational performance as well as staff involvement (Arokodare & Asikhia, 2020).

Strategic innovation may greatly improve employee enthusiasm and involvement. Staff members that take part in innovative projects often experience more responsibility and ownership for their job (Blaique et al., 2024). Higher retention rates and better work happiness may result from this more active participation. When employees understand how their efforts directly influence the creative results of the company, they are more willing to work hard in their duties and improve their abilities. Encouraging creativity helps companies not only improve staff happiness but also increase general human capital by creating an atmosphere (Niguse et al., 2025).

H2*: innovative strategy has significant influence on competitiveness.*

4.3 Human capital and competitive advantage

Especially in fast-paced industries where skill and knowledge are crucial, organizations' human capital greatly influences their competitive advantage. The term "human capital" refers total talents, experience, as well as qualities of an organization's staff members (Liwawo et al., 2025). Businesses that spend money on managing their human resources and training are more likely to be able to innovate, adjust, and react to market shifts. Such expenditures enable companies to distinguish themselves from rivals by increasing general efficiency, boosting production, and improving problem-solving skills. Moreover, by developing their people, companies promote a culture of ongoing innovation and development, hence improving their long-term sustainability and performance in the market (Alajeeb & Al Najjar, 2022).

A knowledgeable and talented staff drives innovation within a firm. Employees with varied backgrounds and abilities are more likely bring concepts as well as solutions, hence helping to develop novel goods, services, and processes (Niguse et al., 2025). This creative ability not only keeps companies ahead of

the competition but also helps them to more closely satisfy changing consumer needs. Companies that give human capital development first priority, then, frequently gain a durable competitive edge by means of ongoing innovation and improvement. Investing in their people helps companies to foster innovation and flexibility, which are very vital for long-term success (Distanont, 2020).

Human capital not only fuels creativity but also improves the capacity of a company to carry out its plans efficiently. Employees who effectively grasp their responsibilities and the aims of the organization may harmonize their efforts with strategic goals, hence enabling more effective project execution. Devoted and involved people are more likely to surpass expectations in their positions, therefore improving performance levels (Timothy, 2022). This dedication not only increases general output but also improves the competitive standing of the company in the marketplace. Investing in human capital helps businesses build a motivated staff in line with their strategic goal, hence guaranteeing long-term success (Blaique et al., 2024).

H3: *Human capital has beneficial impact on competition edge.*

4.4 Mediation effect of human capital between innovative strategy as well as competition advantage

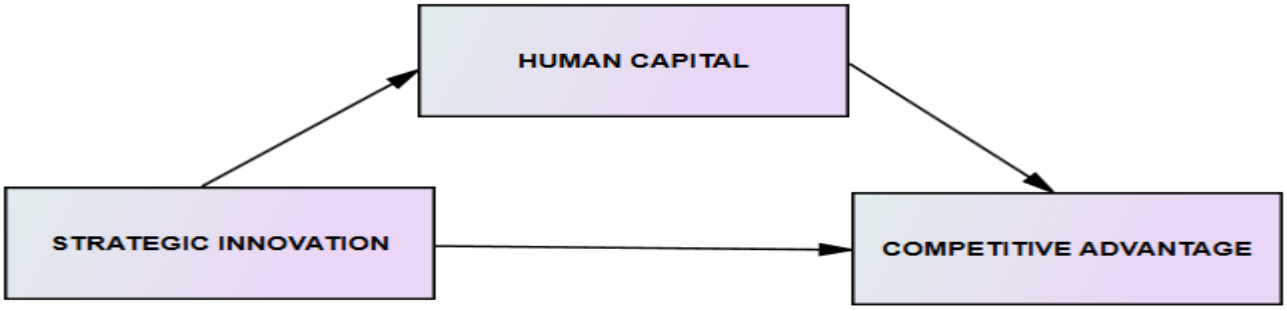
AlQershi (2021) studied the mediating influence of human capital on the links among innovative strategy as well as the accomplishment of SMEs in Yemen. The outcome of investigation revealed, for companies, human capital completely mediates the link among innovations in strategies as well as competition benefits innovations (Niguse & Borji, 2025). This implies that the evolution and administration of human capital greatly improve the favorable impact of innovation in strategy on position of competition in business. SMEs may use their strategic projects more efficiently by giving human capital top priority, hence improving performance and market success (Mohlala et al., 2024).

Wang (2022) discovered that green human capital positively influences the integration among benefit of competition as well as innovative strategy activities. In the same vein, Jirakraisiri et al. (2021) revealed capital of intellectuals mediates partially the link among green strategic purpose as well as innovative performance. Mokhtar (2019) looked at how strategic innovation affected performance in emerging nations, stressing the partly mediating serves as capital of talents in Yemeni manufacturing companies. Moreover, Sibhato (2018) investigated how intellectual capital in Ethiopian SMEs affected innovative performance by means of innovative practices, thereby showing that capital of intellectuals may mediate the link among innovative practices as well as competitiveness (Rubio-Andrés et al., 2024). Drawing on these results, the study created hypotheses to further explore these mediating influences in other settings.
H4*: Human capital can mediate the link among innovative strategy as well as competitive edge.*

Conceptual framework

Based on theoretical and empirical literature, the investigators developed the following conceptual framework

Fig 1 Conceptual framework



Source: Adopted from (Alqershi, 2021)

5. Research methods

5.1 Research design and approach

The current research aspired to evaluate mediation of human capital in the link among innovative strategy as well as edge in competition among Ethiopian SMEs. To fit the study goals and properly investigate the interactions among competition edge, innovative strategy as well as capital of talent, researchers used descriptive and explanatory research approaches. Adopting a quantitative research method helped to simply gather, code, and summarize data for analysis and let the computation of numerical values. Multivariate statistical techniques were used to examine the data in line with the study objectives. This all-encompassing strategy allowed for a complete study of the connections among edge in completion, innovative strategy and human capital within the framework of Ethiopian SMEs.

5.2 Sampling method

The target population, acceptable margin of error, and the required confidence interval for the study type guided the sample size determination, which helped to gather data from respondents. The population for this research consisted of Ethiopian SMEs' managers and staff members operating in Sidama national regional state. In order to guarantee a methodical and representative selection of responders, a multi-stage sampling procedure was utilized. By recording a variety of viewpoints, this method improves the data's dependability and eventually produces more precise and broadly applicable study results. Hence, the researchers selected Sidama national regional state first. Then, manufacturing SMEs were selected. There are 950 manufacturing SME firms in Sidama national

regional state. By using stratified sampling, the investigators selected 282 respondents. To determine sample size, the researchers used Yamane 1967 formula which is:

$n= N/1+N (e)^2$ $n= 950/1+950 (0.05)^2 \cong 282$

Where: n = sample size, N= population size, e^2= margin of error at 5%

5.3 Methods of data collection

The researchers gathered both primary and secondary data from Ethiopian SMEs to address the study objectives and validate the hypotheses. Sample respondents provided primary data using a standardized questionnaire. The surveys were gathered and distributed in May 2024. The researchers examined many secondary data sources, including published papers, journals, books, the internet, and other pertinent materials. This two-pronged strategy guaranteed a thorough data collecting procedure, hence enabling a strong investigation of the links within innovative strategy, competitive advantage as well as human capital. The research sought to provide a well-rounded knowledge of the dynamics within Ethiopian SMEs by including both primary and secondary data. Inaccurate responses or non-representative sample might lead to bias in data collecting. By using a multi-stage sample process, the researchers in this study addressed bias and made sure that the 282 respondents were chosen in a methodical and representative manner. Furthermore, replies were standardized through the use of a structured questionnaire, which reduced variability and improved the accuracy of the data gathered.

5.4 Instrument's Measurement

The questionnaire for this study was created using items from previous research and standardized according to the study's topic. Included in the constructions were strategic innovation dimensions with three questions for each variable, totaling five items, modified from Derrick and Kaplan (2017). While competitive advantage was evaluated with five questions from Sachitra et al. (2016), human capital was examined using five items modified from Alajeeb & Al Najjar, (2022). A 5-point Likert scale has been applied to evaluate respondents' views on innovative strategy, edge in competition as well as capital of staff members. Altogether, the 18 questions on the survey included demographic information, guaranteeing a thorough data collecting procedure.

5.5 Data analysis and interpretation

The researchers first painstakingly edited the gathered data to guarantee its consistency, correctness, and completeness. Responses that were lacking, erroneous, or inconsistent were considered unfit for further examination. Preparing the dataset for further processing depended on this data editing technique. After

editing, the researchers coded and entered the data into statistical software. Investigators applied descriptive as well as inferential statistics. Structural equation modeling was applied to examine the impact of innovation in strategy on benefit of competition by means of exploratory and confirmatory factor analyses, hence evaluating the mediation. This method provided a thorough knowledge of the connections among the variables. Descriptive statistics were done employing SPSS V.23; SEM path examination was done using SPSS AMOS 23. These techniques together let the researchers properly identify direct as well as indirect impacts of the study constructs. Using these strict analytical methods, the research sought to provide strong results that help to clarify how innovative strategy as well as capital of human affects competition edge in the framework of Ethiopian SMEs.

6. Results and discussions

Response rate

Out of the 282 questionnaires distributed, 273 were successfully filled out as well as returned, resulted response rate of 97 percent. This high percentage revealed strong engagement among the participants as well as reflects the effectiveness of the data collection process. The robust response rate enhances the reliability of the findings, as it provides a substantial sample size for analysis. Collecting nearly all responses allows for a comprehensive knowing of the perspectives and experiences of the respondents, thereby strengthening the overall validity of the investigation results. This level of participation is crucial for drawing meaningful conclusions and recommendations.

Reliability analysis

Table 1: Check of reliability

No	Constructs	Alpha values	No of item
1	Strategic innovation	.726	5
2	Human Capital	.775	5
3	Competitive advantage	.840	5
5	Total	.780	15

Source: Survey result, 2024

Table 1 revealed a soundness of the investigation constructs as shown by Cronbach's alpha values. The results show a fair reliability for the six items of Strategic Innovation with an alpha of 0.726. Scoring a little higher at 0.775, Human Capital has adequate consistency across its six elements. Also depending on six factors, the idea of Competitive Advantage reveals the most consistency with an alpha of 0.840. The total dependability across all components is 0.780, suggesting a high internal consistency for the 18 evaluated items. By verifying the effectiveness of the assessment methods used, these reliability coefficients enhance the validity of the data gathered for exploring the relationships among innovative strategy, edge in competition and

human capital. As outcomes of investigations, the alpha value of all items were > 0.70, indicating soundness of items and potential further research as table 2 shows above.

Adequacy of Data

Table 2: Data adequacy

Kaiser-Meyer-Olkin and Bartlett's Test		
Kaiser-Meyer-Olkin		.886
Bartlett's Test	Approx. Chi-Square	5159.170
	Degree of freedom	351
	Significance	.000

Source: Survey result (2024)

Table 2 here above presented the Kaiser-Meyer-Olkin (KMO), sample adequacy as well as Bartlett's Test have been used to measure to know the soundness of data. A KMO score of 0.886 suggests a high degree adequacy of sampling, hence implying that the data is suitable for factor analysis. Generally speaking, a KMO number of 0.7 is acceptable; values above 0.8 are deemed excellent. With 351 freedom degrees as well as a significance level of 0.000, Bartlett's Test of Sphericity produced an estimated chi-square of 5159.170. This notable finding shows that the correlation matrix is not an identity matrix, hence verifying that the constructs have enough correlations to continue with component analysis. All things considered, these findings confirm the strength of the information for further study.

Total variance explained

Table 3: Total Variance explained

Total Variance Explained									
	Eigenvalues, initial			Total squared loadings extraction			Sums of rotation of Squared Loadings		
Constructs	Total	Variance %	Valid %	Total	% of Variance	Cumulative %	Total	Variance %	Total %
1	13.225	36.737	36.737	13.225	36.737	36.737	4.209	11.692	11.692
2	3.120	8.668	45.405	3.120	8.668	45.405	3.681	10.224	21.916
3	2.596	7.211	52.616	2.596	7.211	52.616	3.634	10.094	32.010
4	2.309	6.413	59.029	2.309	6.413	59.029	3.537	9.824	41.834
5	2.085	5.791	64.820	2.085	5.791	64.820	3.498	9.718	51.552
6	1.513	4.202	69.023	1.513	4.202	69.023	2.784	7.735	59.287
7	1.378	3.827	72.850	1.378	3.827	72.850	2.718	7.551	66.837
8	1.168	3.244	76.094	1.168	3.244	76.094	2.575	7.152	73.989
9	1.027	2.853	78.947	1.027	2.853	78.947	1.785	4.958	78.947
10	.805	2.237	81.184						
Methods of extraction: Analysis of Principal components									

Source: survey result (2024)

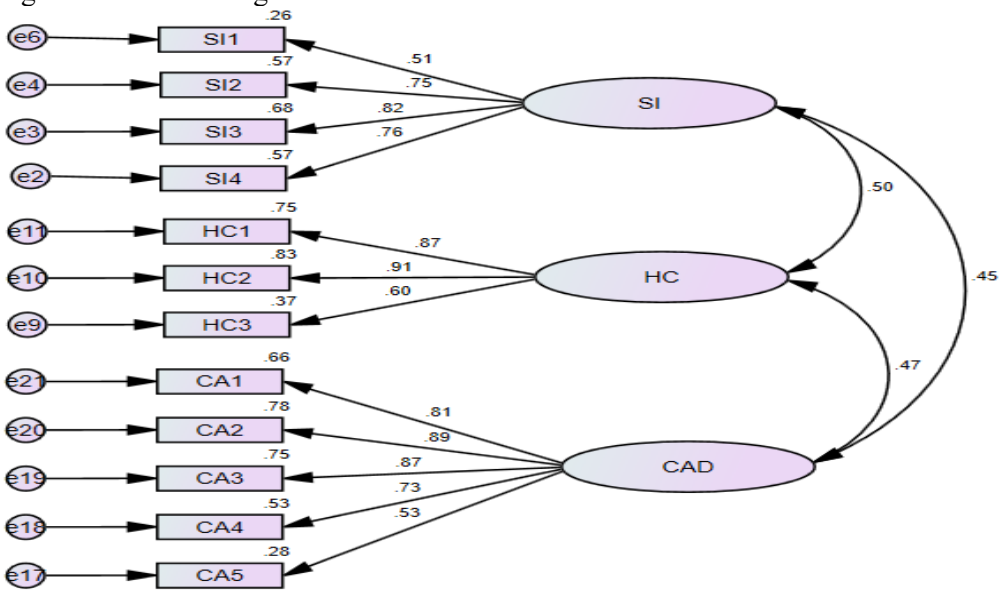
Essential for determining the underlying structures in the dataset, Table 3 offers a thorough breakdown of the total variance explained using PCA. The first eigenvalue shows that the first

construct has an eigenvalue of 13.225, therefore accounting for 36.737% of the overall variance. This notable number emphasizes the relevance of the first component in the study as it indicates that the first factor catches a major part of the variability of the data. Considering more components increases the cumulative explained variation to 81.184%, which shows that even if individual constructs contribute less variance, their combined influence is very vital for a complete explanation of the data. The total squared loadings extraction underlines even more the value of these structures by showing how they help to account for variation. All things considered, these findings support PCA's efficacy in exposing the main dimensions in the data.

Confirmatory factor analysis

The figure shows the structural model defining the links between three constructs: Strategic Intent (SI), Human Capital (HC), and Competitive Advantage (CAD). Every construct consists of many indicators; arrows show the strength and direction of their associations. For example, from SI1 to SI4, the indications display different degrees of loadings; SI4 has the greatest loading at 0.75. Human Capital measures, such HC1, show substantial correlations with a loading of 0.83, suggesting their major influence on the HC construct. Represented by measures CA1 to CA5, Competitive Advantage (CAD) shows substantial correlations for CA1 and CA3 but lower loading of 0.28 for CA5. All things considered, the model shows how the different components rely on one another and so helps to show their role in competitive advantage. Lower factor loadings caused SI5, HC4, and HC5 to be excluded from the study.

Figure 2: CFA investigation



Source: AMOS output, 2024

Table 4: Model fitness

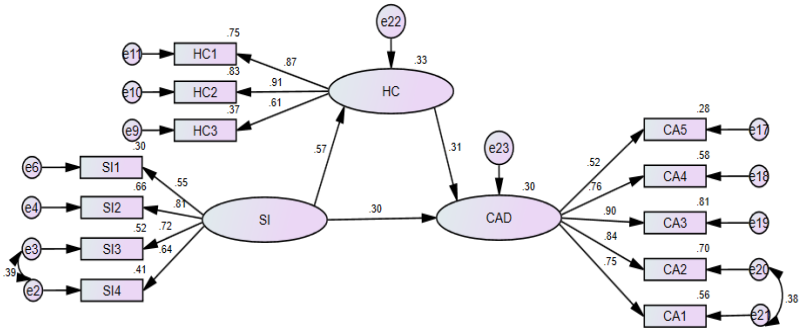
Types of measurements	Criteria	outcomes	Acceptance stage	
Chi-square	CMIN	33.650	-	
	Degree of freedom	18	-	
	CMIN/DEF	1.869	<3	fitted
	P value	.159	>0.5	Fitted
Absolute fitness	RMSEA	.050	<0.07	Fitted
Incremental fitness	CFI	.970	>0.9	Fitted
	IFI	.978	>0.9	Fitted
	RFI	.948	>0.9	Fitted
	TLI	.965	>0.9	Fitted
Parsimony fit measure	PNFI	.508	>0.50	Fitted
	PCFI	.605	>0.50	Fitted

Source: Survey result (2024)

Table 4 highlighted an overall overview of model fitness, demonstrating its effectiveness in capturing the underlying data structure. The Chi-square statistic (CMIN) is reported at 33.650 with 18 degrees of freedom, leading to a CMIN/DF ratio of 1.869. This outcome is within the acceptable limit of less than 3, indicating a well-fitted model. Additionally, the p-value of 0.159 exceeds the threshold of 0.05, further validating the model's fit. For absolute fit, the RMSEA is 0.050, which is below the acceptable limit of 0.07, affirming a good fit. Incremental fitness, including the Comparative Fit Index (CFI) at 0.970, Incremental Fit Index (IFI) at 0.978 as well as Relative Fit Index (RFI) at 0.948 as well as Tucker-Lewis Index (TLI) at 0.965, all surpasses the 0.90 threshold. Finally, the parsimony measures, Parsimonious Normed Fit Index (PNFI) 0.508 as well as Parsimonious Comparative Fit Index (PCFI) at 0.605, indicate acceptable fit, reinforcing the model's robustness and overall adequacy.

Structural Equation Model and Hypothesis Testing

Figure 3: Structural model for strategic innovation construct



Sources: Survey result (2024)

Table 5: Regression weights

			Estimate	S.E.	C.R.	P	Hypothesis	Decision
Human Capital	<---	Strategic innovation	.979	.137	7.144	.000	H2	Supported
Competitive Advantage	<---	Strategic innovation	.129	.035	3.648	.001	H1	Supported
Competitive Advantage	<---	Human Capital	.214	.065	3.299	.000	H3	Supported

Sources: Survey result (2024)

The correlations among Strategic Innovation, Competitive Advantage as well as Human Capital are shown in Table 5 using regression weights. With S.E of 0.137, the route from Strategic Innovation to Human Capital indicates an estimate of 0.979. The link is depicted by the C.R of 7.144 as well as p-value of 0.000, hence supporting Hypothesis 2 (H2) that strategic innovation improves human capital. This close relationship implies that the skills and capacities of the workforce are improved by good innovation methods, hence supporting the need of promoting innovation within companies. Moreover, the table shows notable correlations including edge in competition. With a S.E. of 0.035 and a C.R. of 3.648, the route from Strategic Innovation to Competitive Advantage is estimated at 0.129, hence confirming Hypothesis 1 (H1) with a p-value of 0.001. The link between Human Capital as well as edge in competition also reveals an estimate of 0.214, a S.E. of 0.065, and a C.R. of 3.299, hence supporting Hypothesis 3 (H3) with a p-value of 0.000. These outcomes underline the vital part that both innovations in strategic as well as capital of human have in fostering competition advantage within companies.

Analysis of Direct Effect

Table 6: Analysis of direct effect

	Strategic innovation	Human capital	Competitive advantage
Human capital	.575	.000	.000
Competitive advantage	.303	.311	.000

Source, Amos output, 2024

Table 6 illustrates the analysis of direct effects among Competitive Advantage, Innovative Strategy, as well as Human Capital. The outcome reveals a strong positive influence of Innovative Strategy on Human Capital, with outcome of 0.575. This revealed that an innovative strategy initiative beneficially boosts the talents of staff members within the firms. Furthermore, Human Capital had direct effect of 0.311 on edge of competition, suggesting talented employees can substantially improve the firm's competitive edge. Additionally, Innovative Strategy directly influences edge of competition with a value of 0.303, reinforcing the idea that effective innovation strategies contribute to a stronger market position. Overall, these outcomes

revealed the benefit of putting money in to innovative strategy to create talent capital, that enhances the firm's competitive advantage.

Mediation effect Analysis of Study

Table 7: Mediation analysis of human capital

	Strategic innovation	Human capital
Human capital	.000	.000
Competitive advantage	.179	.000

Source: Amos output, 2024

Table 7 offers a look at the mediation of Human Capital in relation of innovative strategy as well as advantage of competition. With a reported direct impact of 0.579, Strategic Innovation directly affects Human Capital. With a score of 0.179, however, wealth of talent has a major impact on benefit of competition. This implies that human capital mediates both direct and indirect effects of innovative strategy on edge of competition. The results indicate that Human Capital partially mediates in this interaction. This underlines the need of investing in human resources to maximize strategic innovation, hence promoting competitive advantage within companies. Deeper understanding of this mediation might help to maximize organizational tactics. Therefore, H4, which hypothesizes Human capital favorably, mediated the interaction among innovative strategy as well as edge in competition.

7. Discussion

Factor analysis was done in this work to ready the data for model parameter estimation. The Kaiser-Meyer-Olkin (KMO) as well as Bartlett's test of Sphericity was employed to guarantee sample size adequacy. Principal component analysis followed by Varimax rotation was used to evaluate construct validity. The outcome revealed factor loading of all items extraction values were over 0.5, indicating substantial relationships. Though, one item from Strategic Alignment (SA1) showed a low factor loading of under 0.5 and was left out of further investigation. The study also showed that for the other nine items, the Eigenvalues were above 1, suggesting their relevance. All things considered, these nine constructs contributed to a total variance of 78.947%, hence validating the factors' strength and supporting the validity of the constructs in the research.

Previous research has shown a beneficial link among innovative strategy as well as asset of human, suggesting that innovation in strategy enhances capital of human. Similar results were found in the current research, hence verifying the notable beneficial influence of innovative strategy on human resource. This is consistent with Abas and Mokhtar's (2019b) study, which also underlined beneficial influence of innovative strategy on human capital (AlQershi, 2021). The findings also support previous Abas et al. (2019) studies showing that innovative strategy is highly influenced by talent of human. This implies, by putting money in

to human capital, businesses can always innovate, compete successfully in the market, and maintain their growth and development throughout time. This reveals the necessity of talent asset in fostering strategic innovation.

The hypothesis developed to examine integration among innovative strategy as well as talent wealth suggested that while the association was not significant, it was positive. The results also revealed that talent wealth might favorably moderate the link among innovative strategy as well as benefit of competition. Present investigation found a partial mediation of capital of human among competition benefit and innovative strategy. This is consistent with the findings of Sibhato (2018); revealed human talent partially mediates the beneficial impact of innovative strategy on edge of competition in Ethiopia. These results, nevertheless, differ with those of Wang (2022) and Jirakraisiri et al. (2021), revealed that capital of talents fully mediates the link among innovation of strategy and benefit of competition, hence stressing the intricacy of these interrelations.

The path analysis findings showed Human Capital significantly influences competition edge, thus implying that in order to get competitive advantage, investments in and enhancements to human capital are absolutely vital. This result is consistent with other studies stressing the need of human capital in promoting competition benefit. Alnoor (2020), for instance, observed that human capital factors especially affect benefit of competition in small as well as medium businesses (SMEs). Likewise, Gebremichael and Tekle (2020) discovered that the capital of staff directly as well as indirectly influences the development and competitive advantage of Ethiopian SMEs. Moreover, Wodajo et al. (2020) verified that SMEs run by competent managers often outperform those with less qualified leaders. Timothy's (2022) research supports this tendency by showing that in Tanzanian SMEs; educational credentials greatly improve performance, hence underlining the need of human capital in competitive dynamics.

8. Conclusion

This paper investigated how talent of staff in Ethiopian small and medium companies (SMEs) mediates the interaction among innovative strategy as well as benefit in competition. The results showed that a firm’s human capital had beneficial influence to gain benefits in competition. The outcome also showed that strategic innovation is a basis for improving competitive advantage by means of human capital. The direct influence of innovative strategy on benefit of competition was shown to be favorable and statistically relevant. The research, on the other hand, showed a partial mediation effect of human capital, suggesting that innovative strategy affects edge of competition indirectly by means of the improvement of human capital. Emphasizing its vital part in promoting competitive success, the performance of SMEs in the market is mostly dependent on their investment in talent of staffs.

The findings of the model of SEM support the assumption that capital of talent has a major beneficial impact on benefit of competition by showing that talent of staff members directly influences competitiveness edge. This result emphasizes that advanced human capital is the source of competitive advantage. Moreover, the research verifies that when companies increase their strategic innovation, talent of staff and benefit of competition both becomes better. Firms hoping to acquire and maintain competitive advantage must thus use strategic innovation. Managers, owners, and staff members of SMEs must understand the need of investing in strategic innovation as it helps to drive competitiveness in the dynamic corporate world of today. Improving human capital is also basic for increasing value and guaranteeing future developments, so helping to be a main tool for obtaining long-term competitive advantage.

9. Managerial implication

The outcomes of the investigation have several crucial managerial consequences for companies, especially small and medium-sized ones trying to improve their competitive advantage by means of strategic innovation. The creation and execution of strategic innovation projects should be given top priority by managers. Companies may greatly improve their human capital by promoting a culture that values innovation and experimentation. This means not only supporting creative ideas but also equipping staff members with the required knowledge by means of focused training courses and professional development opportunities. Such investments not only provide employees with necessary skills but also foster a feeling of connection and ownership, which is absolutely required to support innovation within the company.

Furthermore, the study emphasizes the need of seeing talent of staff as a vital mediator among innovative strategy as well as benefit of competition. Managers should know that just putting fresh concepts in to operation is not enough; they also have to make sure their talent of staff is sufficiently ready to accept and carry out these modifications. This calls for fostering information sharing and lifelong learning, hence empowering people to work together and use their combined knowledge. Creating such an encouraging environment would help companies to be more innovative and keep a competitive edge in an always changing market. In the end, encouraging a innovativeness culture and putting money in to staff development will enable SMEs to evolve and flourish in the changing corporate environment of today.

10. Limitations and Further Research Direction

The present investigation examined the influence of innovative strategies on competition benefit by mediation of capital of talent a case of SMEs of Ethiopia. Future studies should investigate the dynamic interaction among human capital, innovative strategy, as well as competitiveness in different industrial settings outside SMEs. Investigating how various company cultures affect the success of strategic innovation

projects might provide insightful analysis. Longitudinal studies might also evaluate the long-term effects of human capital growth on competitiveness in fast changing marketplaces. Researchers might also look at how digital transformation and technology help to improve staff talents and creative capacity. Moreover, investigating the particular training courses that provide the greatest human capital return on investment might help managers make decisions. At last, cross-regional or cross-sectorial comparison research might draw attention to particular issues and best practices in using HC for strategic innovation.

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