

# Chapter 2

## Effect of Organization Readiness on Competitive Advantage With Mediating Effect of Human Capital: A Case of SMEs, Ethiopia

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### **ABSTRACT**

*This study examines the relationship between organizational readiness and competitive advantage, with a particular emphasis on the function that human capital plays as a mediator in Ethiopian small and medium-sized businesses (SMEs). For SMEs looking to improve their market positioning, knowing the elements that lead to competitive advantage has become more and more important as Ethiopia's economic*

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*environment changes. Using a standardized questionnaire given to a representative sample of SMEs from a variety of industries, the study takes a quantitative approach. The results show that competitive advantage is highly influenced by organizational readiness, and that human capital plays a crucial mediating role in this connection. To be more precise, prepared companies that make investments in training, skill development, and employee engagement are better able to use their resources to gain a competitive edge.*

## **INTRODUCTION**

The capacity of firms to gain and maintain a competitive edge has grown more and more important in today's dynamic global economy (Yilma and Fekadu, 2023). Small and medium-sized businesses (SMEs) are vital to economic growth, especially in developing nations like Ethiopia where they make a major contribution to employment and innovation. But the competitive environment is characterized by obstacles like few resources, legal limitations, and the requirement for flexibility (Ed-Dafali et al., 2023). Ethiopian SMEs have a crucial economic role, employing over 90% of the private sector workers and contributing around 30% of the country's GDP. They do, however, confront some obstacles, such as high tax rates, poor infrastructure, and restricted access to financing, which affects 63% of SMEs (Kebede & Wang, 2022). Furthermore, just 30% of SMEs indicate that their workforces have received enough training, indicating that there is still a skills gap. Trends in human capital show that improving education and skill development is necessary to increase creativity and productivity (Ferede et al., 2024). These elements highlight how crucial organizational preparedness is to using human capital to gain a competitive edge in Ethiopia's SME market. (L'Écuyer et al., 2019). Notwithstanding their importance, SMEs have a number of difficulties, such as restricted financial access, poor infrastructure, and regulatory obstacles (Hossain et al., 2024). Human capital trends also reveal a skills gap among employees, which impedes production and creativity (Anser et al., 2022). Gaining a competitive edge requires organizational preparedness, which is impacted by these characteristics taken together. Examining how organizational preparedness affects competitive outcomes—especially from the perspective of human capital in Ethiopia's SME sector—requires an understanding of these processes.

The distinctive setting of Ethiopian SMEs, which has received little attention in the body of research on organizational preparedness and human capital, makes this study stand out (Berlilana et al., 2021). In contrast to other research, our study creatively connects these two crucial elements, offering a thorough framework that emphasizes how they are interdependent in boosting competitive advantage (Hos-

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