

# Chapter 13

## Effect of Strategic Innovation on Competitive Advantage With Mediating Effect of Human Capital in Ethiopia SMEs

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### **ABSTRACT**

*competitive advantage, highlighting the crucial importance of worker capabilities in improving organizational performance. It emphasizes how strategic innovation allows businesses to differentiate themselves in the market and enhance operational efficiency, resulting in increased consumer engagement and flexibility. According*

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*to the findings, human capital plays an important role in this connection, as SMEs that engage in employee development and nurture an innovative culture are better positioned to effectively execute new strategies. SMEs may gain long-term edge over rivals in an increasingly changing business environment by developing talented and motivated employees. This study emphasizes the need of understanding human capital as a strategic asset required to navigate the challenges of modern market-places. Besides, partial mediation was found among strategic innovation and edge over rivals by human capital.*

## **INTRODUCTION**

Strategic innovation has emerged as a vital source of edge over rivals in today's quickly changing global marketplace. This notion relates to an organization's capacity to establish new strategies and business models that not only improve operational efficiencies but also provide distinct value propositions to customers. Strategic innovation's worldwide relevance is highlighted by its role in promoting sustainability, driving technical improvements, and improving organizational resilience, particularly in the face of disruptive shifts. As SMEs throughout the world attempt to differentiate them, understanding how strategic innovation adds to edge over rivals becomes increasingly important (Zhang, 2023). The notion of strategic innovation originated in theories of innovation management and strategic management. Early talks focused on the necessity for SMEs to adapt to market changes through creative techniques, but more recent research has broadened this to include the integration of human capital as a critical component. Human capital, which represents workers' abilities, knowledge, and experience, has long been acknowledged as a critical asset capable of mediating the link among strategic innovation and edge over rivals. This mediation shows that SMEs with high human capital are better positioned to adopt innovative ideas effectively, giving them a edge over rivals (Datiko, 2024).

The empirical research has emphasized several aspects of this connection, notably in industrialized economies. Research has demonstrated that companies that invest in strategic innovation and human capital development outperform their competition. However, there is still a huge lack in research concentrating on underdeveloped nations like Ethiopia, where the environment, difficulties, and potential differ dramatically. Practical constraints such as restricted access to resources, poor infrastructure, and a scarcity of competent personnel might stymie the successful implementation of strategic innovation. As a result, knowing how human capital may mediate these issues is critical for achieving edge over rivals in such situations (Fathi et al., 2021).

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