

Chapter 12


Effect of Human Capital on Competitive Advantage With Mediating Role of Organizational Innovation Goals in the Case of SMEs: Ethiopia

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ABSTRACT

With an emphasis on the mediating function of organizational innovation goals, this study examines the connections between competitive advantage, human capital, and organizational innovation goals. The study show that human capital has a

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major impact on both competitive advantage and organizational innovation goals. The significance of investing in employee skills and expertise is highlighted by the substantial correlation between human capital and competitive advantage, which is measured at 0.39. Furthermore, with a computed mediation value of 0.50, the research shows that Organizational Innovation Goals indirectly affect Competitive Advantage through Human Capital. The coefficients relating Organizational Innovation Goals to Competitive Advantage (0.62) and Human Capital to Organizational Innovation Goals (0.70) are multiplied to produce this value. When direct and indirect impacts are combined, the whole effect yields a whole influence value of 0.89, indicating that strategic innovation projects and human capital development must be integrated for competitive success.

INTRODUCTION

Small and medium-sized businesses (SMEs) are becoming more widely acknowledged as essential drivers of economic development, innovation, and job creation in the quickly changing global economy of today. Human capital, or the sum of people's abilities, expertise, and experience, has drawn a lot of attention as a crucial component of competitive advantage. Understanding how human capital affects competitive outcomes becomes crucial as businesses want to distinguish out in crowded marketplaces. With an emphasis on the mediating function of organizational innovation objectives, this study explicitly looks at how human capital affects competitive advantage in Ethiopian SMEs (Wongsansukcharoen & Thaweepaiboonwong, 2023).

Economists like Adam Smith first proposed the idea of human capital, which Gary Becker subsequently expanded upon by stressing its importance in raising economic growth and productivity. Research on the connection between organizational performance and human capital has grown over the last few decades. According to empirical research, companies with highly qualified employees are better equipped to innovate and adjust to shifting market conditions. But little is known about how organizational innovation objectives function as a mediating element in this connection, especially when it comes to SMEs in poor nations like Ethiopia (Bekata & Kero, 2025).

Although the value of human capital is acknowledged, Ethiopian SMEs encounter real-world obstacles that prevent them from utilizing this resource to its full potential. The efficient use of human capital is frequently hampered by a lack of supporting policies, poor infrastructure, and restricted access to chances for training and development. Low knowledge of the strategic significance of innovation in generating competitive advantage exacerbates these difficulties. Research that fills up these

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