

Effect of Strategic Alignment and Strategic Foresight on Competitive Advantage with Mediating Role of Human Capital a case of SMEs of Sidama Regional State, Ethiopia

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Abstract

This study examined effect of strategic alignment and strategic foresight on competitive advantage with mediating role of human capital in SMEs of Sidama regional state in Ethiopia. Structured questionnaire was used to gather data from a sample of 282 respondents using a quantitative research approach. Using SPSS and AMOS software, the researchers used methods such exploratory factor analysis (EFA), Kaiser-Meyer-Olkin (KMO) measure, and structural equation modelling (SEM) to analyze data. The results show that competitive advantage and strategic alignment, as well as strategic foresight and competitive advantage, are significantly correlated. Human capital was also found to be an important mediator, improving the efficiency of both strategy alignment and foresight in reaching competitive results. In addition to this, human capital was found partial mediator between both strategic alignment and strategic foresight and competitive advantage. The findings emphasize how crucial it is to incorporate human capital development into strategic management procedures and how SMEs must cultivate an aligned and forward-thinking culture. For managers and policymakers looking to improve SMEs' strategic competencies in a changing business environment, this research adds to our understanding of how these constructs interact to affect competitive advantage.

Keywords: Strategic alignment, strategic foresight, human capital, competitive advantage, Sidama regional state, SMEs

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Introduction

The notion of strategic alignment has become more crucial for firms seeking a competitive edge in a constantly expanding global market (Kim & Seo, 2023). Strategic alignment includes connecting an organization's resources and competencies with its strategic objectives, ensuring all components work together toward shared goals (Dixit et al., 2021). In a similar vein, managing complex environments requires strategic foresight, which is the capacity to predict, prepare for, and adjust to future occurrences. For small and medium-sized businesses (SMEs), which confront specific possibilities and problems in developing countries like Ethiopia, these ideas are especially important (AlMujaini et al., 2021). Despite the established theoretical underpinnings that relate strategic alignment to organizational performance, there are still limited empirical researches examining how these two factors interact in the context of Ethiopian SMEs (Arokodare & Asikhia, 2020).

Ethiopia's economy depends heavily on small and medium-sized businesses (SMEs), which fuel job creation and GDP expansion (Kim & Seo, 2023). But according to Al-Surmi and Duan (2020), small SMEs frequently face difficulties such a lack of funding, poor infrastructure, and an unstable economic environment. SMEs must attain good strategic alignment and foresight, coordinating their operations with government export goals, in order to improve their competitive edge. Incorporating human capital development into their goals requires having access to qualified staff and the right technologies. Although human capital plays a crucial role in moderating these interactions, its significance is frequently disregarded. Performance and growth are hampered in the Sidama regional state by a lack of understanding of the relationships between strategy alignment, human capital, and competitive advantage in SMEs (Ateş et al., 2020).

The researchers identified a substantial knowledge gap regarding the unique requirements and circumstances of SMEs in developing nations since the majority of the material currently in publication concentrates on larger businesses or developed economies. This study intends to offer practical insights that will enable SMEs in Sidama regional state to improve their strategic capacities, hence promoting sustainable growth and competitiveness, by tackling these issues and investigating the mediating function of human capital.

There is conflicting evidence about how well strategic alignment and foresight may boost competitive advantage. Although many studies demonstrate the beneficial relationship between

these ideas in larger businesses, there is little empirical research that focuses exclusively on SMEs in developing nations like Ethiopia Kang et al. (2020). Instead of using a structured strategic framework, many SMEs make decisions informally and in ways that are not in line with their operational capabilities. There is a knowledge gap about how these ideas might be successfully modified and applied in a local setting as a result of the conflict between well-established theoretical frameworks and the reality encountered by SMEs (Jafari-Sadeghi et al., 2020). Additionally, the results of current research on the mediating function of human capital in the relationship between competitive advantage, strategic alignment, and strategic foresight are inconclusive. Although some research indicates that human capital is an essential resource for accomplishing strategic objectives, little is known about the ways in which it affects these connections, especially when it comes to SMEs in Sidama regional state. A more thorough investigation of how human capital development may support the application of strategic alignment and foresight is required in light of this theoretical gap.

By highlighting the mediating function of human capital, this study seeks to fill existing gaps regarding the effects of strategic alignment and strategic foresight on competitive advantage in SMEs in the Sidama regional state. The results will direct the creation of focused strategies that help SMEs in Sidama regional state and comparable areas better coordinate their resources, predict market trends, and gain long-term competitive advantages, so enhancing their strategic skills.

Literature Review

Related theories

In examining the relationship between strategic alignment, strategic foresight, and competitive advantage, several theoretical frameworks provide valuable insights.

Resource Based View Theory (RBV):

The Resource-Based View (RBV) becomes the main theoretical framework for this investigation. According to RBV, businesses can gain a sustained competitive edge by skillfully utilizing their special assets and competencies (Wijaya & Suasih, 2020). The significance of internal resources, including organizational culture, technology, and human capital, in influencing strategic choices is emphasized by this theory. This study will shed light on how resource optimization can generate competitive advantage by concentrating on how Ethiopian

SMEs can match their internal capabilities with their strategic objectives (Arokodare & Asikhia, 2020).

Dynamic Capabilities Theory

This theory expands on the RBV by emphasizing how crucial it is for a company to be able to innovate and adapt to changing conditions. According to this notion, organizations need to have the capacity to refresh and reconfigure their valued resources over time. Building dynamic capacities is essential for Ethiopian SMEs, especially in a market that is changing quickly (Obomeghia & Onuoha, 2023). The importance of strategic foresight in predicting future trends and enabling the required modifications to preserve competitiveness is emphasized by this approach (Dörr et al., 2024).

Contingency Theory

This theory sheds light on the ways that internal and external variables affect the efficacy and strategy of organizations. According to this view, the best course of action depends on both the internal and external surroundings Farida & Setiawan, (2022). Understanding the contextual elements, such as market dynamics, legal frameworks, and cultural norms, can assist SMEs in Ethiopia in customizing their strategic alignment and foresight initiatives to their unique situation. This theory emphasizes the value of adaptability and flexibility, which are critical for SMEs functioning in a dynamic environment (AlMujaini et al., 2021).

Institutional Theory

This theory offers insight into how external forces, including social, economic, and regulatory aspects, influence organizational behavior and strategic decisions (Obomeghia & Onuoha, 2023). Institutional variables may have a major impact on how SMEs coordinate their goals and build foresight capabilities in the Ethiopian setting. Gaining knowledge of these factors can help SMEs better understand the possibilities and difficulties they encounter when pursuing their strategic goals (Dixit et al., 2021).

Empirical Literature Review

Strategic Alignment and Competitive Advantage

Organizations that successfully align their strategies and resources are better positioned to achieve exceptional performance in their particular markets. Coordination of an organization's resources, capabilities, and actions with its strategic objectives is known as strategic alignment, and it guarantees that all organizational components are working toward the same objectives. For

businesses looking to stand out from the competition and keep a competitive edge, this alignment is essential (Hartani et al., 2021). Firms with high strategic alignment were more agile and responsive to market changes, enabling them to capitalize on emerging opportunities faster than their competitors. This ability to adapt quickly not only enhances operational efficiency but also strengthens market positioning, which is essential for sustaining competitive advantage in dynamic environments (Obomeghia & Onuoha, 2023).

One important aspect of competitive advantage is innovation, which is facilitated by strategic alignment. Companies with a high degree of strategic alignment were better able to use their resources for creative endeavors. These businesses gained a competitive edge by creating new goods and services that better satisfied consumer wants by making sure those R&D activities were in line with market demands and strategic objectives (Dörr et al., 2024). Attaining strategic alignment is not without its difficulties, though. Corporate culture has a big influence on how well strategic alignment initiatives work. Businesses with a collaborative and communicative culture are more likely to attain higher degrees of alignment, which improves their competitive results (AlMujaini et al., 2021).

On the other hand, companies with strict hierarchical or departmental silos can be difficult to properly adjust their strategies, which make them even more difficult to compete in the market (Al-Surmi & Duan, 2020). Compared to more stable sectors, industries with high technological change may be more likely to assess direction. This shows how important it is for companies to change their adjustment plans according to their own competitive landscape and market conditions (Kryscynski et al., 2021).

H1: Strategic alignment has significant effect on competitive advantage

Strategic Foresight and Competitive Advantage

In order for enterprises to predict changes and modify their plans appropriately, strategic foresight entails the methodical investigation of possible future trends and scenarios. Keeping a competitive advantage requires the capacity to anticipate and get ready for upcoming possibilities and obstacles (Najem et al., 2024).

Organizations that actively participate in foresight activities are better able to recognize new trends and changes in consumer behavior. Companies who employed foresight approaches like trend analysis and scenario planning were able to make well-informed strategic decisions that put them ahead of their rivals. In addition to improving adaptability, this proactive strategy cultivates

an innovative culture, both of which are essential for maintaining competitive advantage (Rehman et al., 2022).

Companies that integrate strategic planning with foresight are more likely to create novel goods and services that satisfy the needs of the market in the future. These companies may better connect their R&D efforts with business objectives and gain a competitive edge by anticipating changes in consumer preferences, technology, and regulatory environments (Obomeghia & Onuoha, 2023). Firms with strong foresight capabilities had a competitive edge because they were better equipped to manage risks and deal with uncertainty. By methodically examining possible future events, these companies might create backup plans and quick fixes for unforeseen difficulties, strengthening their ability to withstand market volatility (Wijaya & Suasih, 2020).

But putting strategic foresight into practice is not without its difficulties. A lack of resources and experience causes many firms to struggle with incorporating foresight into their strategic processes (Sulistyo & Ayuni, 2020). Furthermore, companies who do not place a high priority on foresight may end up being reactive rather than proactive, which may limit their capacity to react to changes in the market (Kang & Na, 2020). According to research by Sarpong and Hu (2017), organizational culture and industry features can have a major impact on how foresight affects competitive advantage. This implies that businesses must modify their forward-thinking strategies to fit the unique dynamics of their sector (Dörr et al., 2024).

H2: Strategic foresight has significant effect on competitive advantage

Strategic Alignment on Human Capital

Empirical research has focused on the connection between human capital and strategic alignment, showing that a workforce's performance and capabilities are greatly improved when organizational strategy and HR practices are effectively aligned. An organization's resources, especially its human capital, are directed toward accomplishing its strategic goals when there is strategic alignment. Employee engagement, motivation, and productivity all rise as a result of this alignment, which creates an atmosphere where workers comprehend their responsibilities in light of the organization's larger objectives (Ateş et al., 2020).

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rise as a result of this alignment, which creates an atmosphere where workers comprehend their responsibilities in light of the organization's larger objectives (Rehman et al., 2022). Employee performance and retention significantly improved for businesses that matched their strategic goals with their HR procedures Kang & Na, (2020). Strategic alignment increases employee engagement and loyalty by fostering a dedication to business goals (Al-Qudah et al., 2020).

Companies who successfully matched their plans with knowledge management programs were able to create a workforce that was more informed. The organization's competitive position was further strengthened by this integration of strategic alignment with knowledge management methods, which also improved staff competencies and promoted a collaborative and innovative culture (Dixit et al., 2021). Rigid cultures can make it difficult for organizations to match strategic goals with human capital development initiatives, which can lead to a gap between employee competencies and corporate objectives. The performance of the company may be hampered by this misalignment since it may result in lower morale and productivity (Arokodare & Asikhia, 2020).

Furthermore, Marler and Fisher (2013) pointed out that promoting strategic alignment requires strong leadership. According to their findings, managers who successfully convey the connection between strategic goals and HR activities can encourage a culture of responsibility and involvement among staff members (Sulistyo & Ayuni, 2020). On the other hand, unclear communication can result in misunderstandings and misalignments, which can have a detrimental effect on human capital results (Hassanabadi, 2019).

H3: Strategic alignment has significant effect on human capital

Strategic Foresight and Human Capital

Strategic alignment involves the systematic integration of an organization's resources, including its human capital, with its strategic objectives. This alignment is essential for empowering businesses to anticipate changes and make informed decisions in rapidly evolving environments (AlMujaini et al., 2021). Organizations with well-aligned strategies are better equipped to identify new opportunities and mitigate risks. By actively engaging their workforce in strategic initiatives, such as aligning human resources with business goals, companies can enhance their ability to innovate, adapt their strategies, and respond effectively to changing consumer preferences and market conditions (AlQershi, 2021). Companies that incorporate human capital development into their strategic planning are more likely to create innovative products and

services that meet future consumer needs (Al-Qudah et al., 2020). By aligning R&D efforts with strategic objectives and investing in employee skills, organizations can better anticipate shifts in consumer behavior and technological advancements, thereby gaining a competitive edge (Najem et al., 2024).

Organizations that prioritize alignment between their strategic initiatives and human capital are better positioned to navigate uncertainties. By involving employees in strategic discussions and planning, these companies can develop more robust contingency plans and agile responses to unforeseen challenges, strengthening their resilience in volatile markets (Farida & Setiawan, 2022). Organizational culture and industry characteristics significantly affect how alignment translates into competitive advantage. For instance, organizations in rapidly evolving industries may find greater benefits from strategic alignment compared to those in more stable environments. This underscores the necessity for companies to tailor their alignment strategies to the unique dynamics of their respective sectors (Sulistyo & Ayuni, 2020).

H4: Strategic foresight has significant effect on human capital

Human Capital and Competitive Advantage

An organization's staff is crucial to boosting performance and establishing long-term competitive positioning, according to a wealth of empirical research on the relationship between human capital and competitive advantage Dixit et al., (2021). Employees' combined skills, knowledge, and experiences are known as human capital, and they are becoming more and more acknowledged as an essential resource that can have a big impact on an organization's capacity to innovate, adapt, and meet market needs (Rehman et al., 2022).

Spending on education and training improves staff competencies, which boosts output and, hence, competitive advantage. Numerous follow-up studies have backed up this fundamental idea, repeatedly showing that businesses that put a high priority on developing their human capital tend to perform better (Kang & Na, 2020). Companies that prioritize the development of human capital through recruitment, training, and retention tactics are better able to promote creativity and adaptability. Organizations can improve their competitive standing by using this competence to set themselves apart from rivals and react quickly to shifting market conditions (AlQershi, 2021).

Businesses that successfully use their people resources are in a better position to adopt cutting-edge tactics that provide them a competitive edge. These businesses may improve customer

service, create new goods and services, and streamline operations by utilizing the distinct abilities and perspectives of their workforce (Kim & Seo, 2023). Companies frequently find it difficult to match their strategic goals with their human capital initiatives. Organizations risk underutilizing their workforce's potential if human resource policies and overall business strategy are not well communicated and integrated, which could result in subpar performance (Najem et al., 2024). The way that human capital affects competitive advantage can differ depending on the industry and organizational setting (Rehman et al., 2022). Rapid technological change, for instance, may necessitate a staff that is more skilled and adaptable, making human capital development even more important for preserving competitive posture (Al-Qudah et al., 2020).

H5: Human capital has significant effect on competitive advantage

Mediation Effect of Human Capital between Strategic Alignment, Strategic Foresight, and Competitive Advantage:

Human capital, which includes employees' skills, knowledge, and competencies, enhances the effectiveness of both strategic alignment and foresight in achieving competitive advantage (Hassanabadi, 2019). When organizational goals are clearly aligned with HR practices, employees are more prepared and motivated to contribute to these objectives (Dixit et al., 2021). This alignment fosters a culture of accountability and engagement, which ultimately leads to improved performance outcomes and a competitive edge. As a result, human capital acts as a mediator, converting strategic alignment into measurable organizational results (Dörr et al., 2024).

Companies with strategic foresight are more inclined to invest in training and development initiatives that are specifically designed to enhance their human resources (AlQershi, 2021). Employees who have improved their knowledge and abilities are better equipped to predict changes in the market and innovate successfully, which turns strategic initiatives into a competitive edge (Kim & Seo, 2023). The report emphasizes that human capital increases the advantages gained from such strategic endeavors in addition to facilitating the execution of forward-thinking projects (Farida & Setiawan, 2022).

(Farida & Setiawan, 2022) made a substantial contribution to this understanding by examining the relationship among organizational resilience, human capital, and strategic foresight. Businesses with strong human capital development procedures are better able to use strategic foresight to manage uncertainty, according to their research Arokodare & Asikhia, (2020).

Human capital mediates the interaction in this situation by giving staff members the skills they need to react appropriately to the knowledge gathered from foresight initiatives, improving the company's competitive positioning (Dixit et al., 2021).

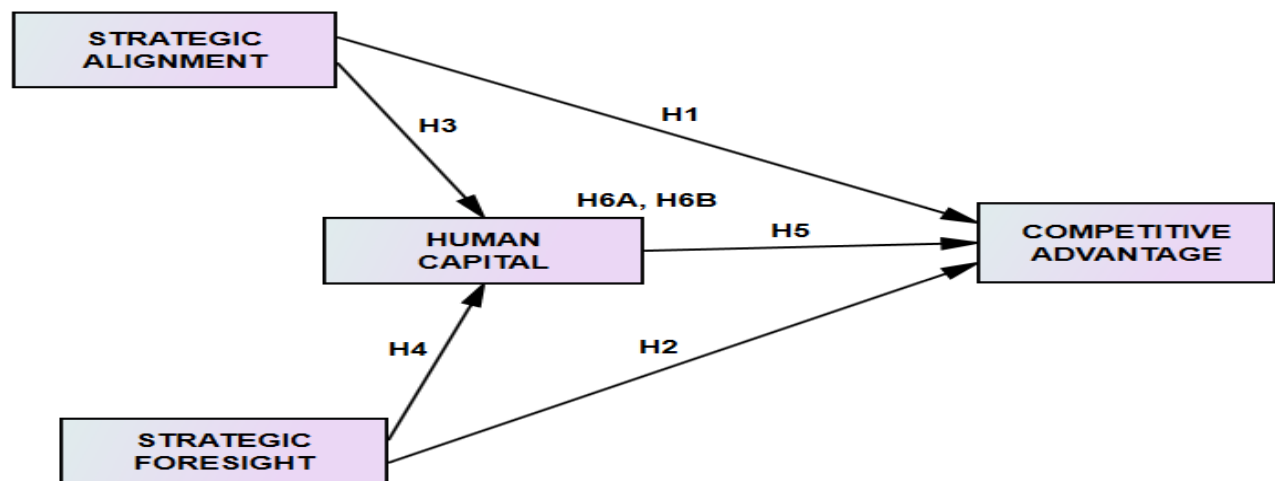
Fully utilizing human capital as a bridge between these strategic constructions is still difficult, though. Organizations frequently fail to match their human capital activities with strategy alignment and foresight efforts, according to Hartani et al., (2021). The potential competitive advantages that could be obtained are eventually reduced by this misalignment, which can result in underutilization of personnel and lost possibilities for innovation (Al-Qudah et al., 2020).

H6: Human capital mediates the relationship between strategic alignment, strategic foresight and competitive advantage

Conceptual Framework

Figure 1 below shows conceptual framework of the study independent variables (strategic alignment and strategic foresight) mediating variable (human capital) and dependent variable (Competitive advantage)

Fig 1 Conceptual framework



Source: Developed by researcher, 2024

Research Methodology

Research Design and Approach

In order to investigate the connections between strategic alignment, strategic foresight, human capital, and competitive advantage among SMEs in the Sidama regional state, this study combined a descriptive research design with a quantitative research approach. This design facilitated the collection and systematic analysis of numerical data, enabling a thorough statistical examination of the buildings involved. The researcher ensured the validity and dependability of the results by using structured questionnaires to collect quantitative data from a representative sample of SMEs. Finding important patterns or correlations and quantifying the interactions between the variables were the goals of the study. The comprehension of these crucial dynamics is improved by this analytical approach, which offers a strong basis for making deductions on the variables impacting SME performance in the area.

Target Population and Sample size determination

The target population for this study comprised of SMEs operating within the manufacturing sector in Sidama Regional state, Ethiopia. Precisely, the target population for this study will be owners, managers and employees working in 950 SMEs Sidama regional State, Ethiopia.

To determine the sample size in this study, the researcher used Yamane (1967) formula. By considering the level of confidence 95% and sampling error (margin of error) (5%=0.05).

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

Where: n = sample size, N= population size= 950, e^2 = margin of error at 5%

Table 1 show the sample size selected from each category (sector) with the help of a stratified sampling method, with a sampling fraction of $\cong 0.3$ i.e. Sample fraction = actual sample size /total population: 282/950.

Table 1 Stratified Sample for SMEs

Sector	Number of Firms	Sample fraction	Stratified sample	Proportions
Building ,ceramics and construction	89	0.3	26	9.4%
Textile and garment	216	0.3	64	22.7%
Wood, furniture and metal work	418	0.3	125	44%
Leather and Footwear	21	0.3	6	2.2%
Agro processing, Food and Beverages	156	0.3	46	16.4%
Chemical	24	0.3	7	2.5%
Mining and handcraft	12	0.3	4	1.3%
Soap and detergent	8	0.3	2	0.84%
Pharmaceutical and Medical Equipment	6	0.3	2	0.63%
Total	950		=282	100%
Sample size	282			
Sample fraction	≅0.3			

Source: Sidama regional state enterprise development office, (2024)

Methods of Data Collection

A systematic questionnaire that was created based on validated scales and current literature was used to collect data. The survey had questions assessing competitive advantage, human capital, strategic alignment, and strategic foresight. Likert-type scales were used to gauge respondents' opinions and experiences. Prior to administering the questionnaire, a pilot test was conducted to refine the instrument and ensure its clarity and relevance. Following this, the questionnaire was distributed to the target population, and data were collected over a defined period.

Methods of Data Analysis

The collected data were then subjected to various statistical analyses, beginning with the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, which assessed the suitability of the data for factor analysis. A KMO value above 0.6 indicated that the data were appropriate for further analysis. To find underlying factors and validate the dimensionality of the constructs evaluated in the questionnaire, exploratory factor analysis (EFA) was used. The components were able to be

meaningfully aligned with the theoretical constructs of strategic alignment, competitive advantage, strategic foresight, and human capital thanks to the study's findings. The suggested correlations between the variables were then tested using Structural Equation Modeling (SEM) with the help of AMOS software. SEM made it possible to assess how strategic alignment and strategic foresight, through human capital, affect competitive advantage both directly and indirectly. The researchers were able to validate the theoretical framework supporting the investigation and comprehend the intricate relationships between the constructs.

Results

Analysis of Data Adequacy

SPSS and AMOS software were used in this study to analyze the data that was gathered and assess the hypotheses that were developed. The findings of the Bartlett's Test of Sphericity and Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy, which are crucial for determining if the data is appropriate for factor analysis, are shown in Table 1. The KMO score of 0.850 indicates a high degree of sampling adequacy, suggesting that the data are appropriate for factor analysis. While values close to 1.0 indicate that the variables have a similar variation and are likely to yield major factors, KMO levels over 0.6 are often considered acceptable. As a result, the final KMO score indicates a strong connection between the study's factors.

By identifying unrelated variables that are inappropriate for component analysis, Bartlett's Test of Sphericity assesses the premise that the correlation matrix is an identity matrix. The test yielded a significance level (p-value) of 0.000 with 89 degrees of freedom and a Chi-Square value of 1417.737. The null hypothesis is rejected due to this p-value, which is much lower than the 0.05 limit. It also confirms that the correlation matrix is not an identity matrix and shows substantial correlations between the variables. These results confirm that the data is appropriate for factor analysis. The next exploratory factor analysis (EFA) and structural equation modeling (SEM) are validated by the high KMO value and the substantial Bartlett's Test, which improves understanding of strategy alignment, foresight, human capital, and competitive advantage in Ethiopian SMEs.

Table 2. KMO and Bartlett's Test

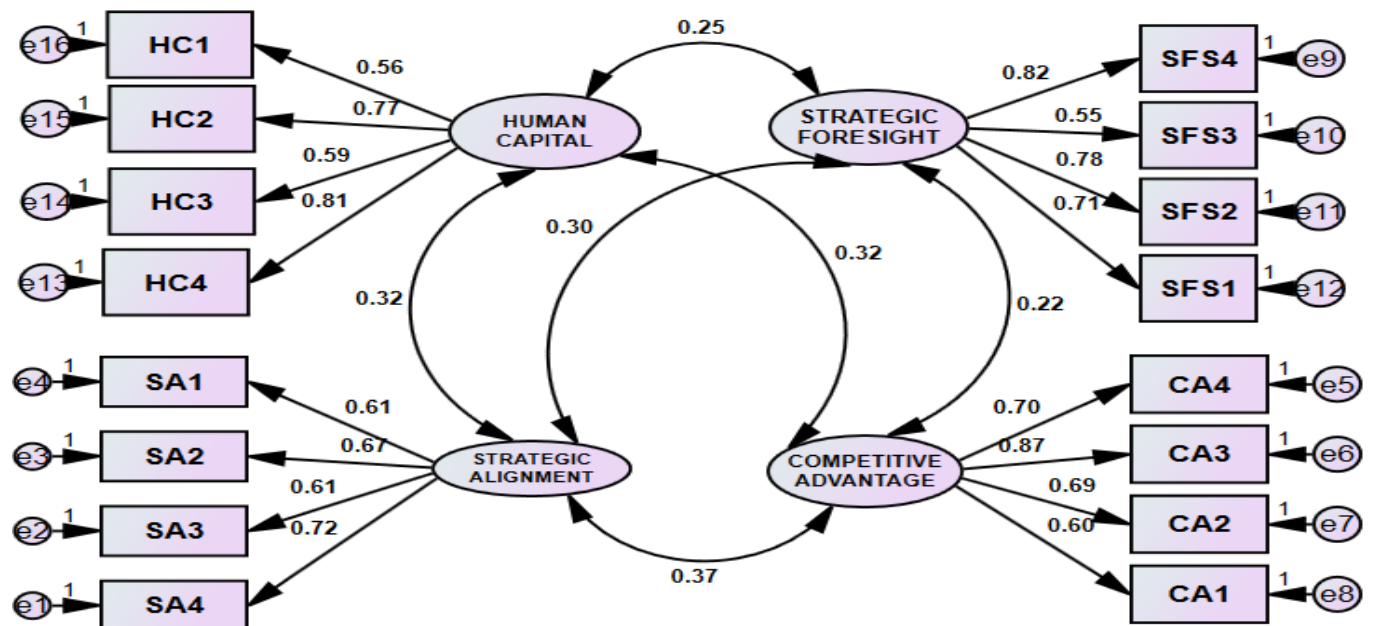
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.850
Bartlett's Test of Sphericity	Approx. Chi-Square	1417.737
	Df	89
	Sig.	.000

Source: SPSS output, 2024

Exploratory Factor Analysis

The diagram's exploratory factor analysis (EFA) model demonstrates the fundamental structures of competitive advantage, strategic alignment, strategic foresight, and human capital. Multiple indicators are linked to each factor, and the loadings show how much each indicator contributes to the construct in question. Interestingly, there are considerable relationships between strategic alignment and human capital, suggesting that they have a big impact on competitive advantage. The connections between the dimensions imply that strategic foresight serves as a crucial bridge, amplifying the influence of strategic alignment and human capital on competitive advantage. The study emphasizes how these factors are interrelated and offers guidance on how SMEs may use strategic alignment and human capital to strengthen their position in the market. All things considered, the EFA supports the theoretical framework that directs the research.

Figure 2. Exploratory factor analysis



Source: Source: AMOS output, 2024

Analysis of Covariance

The links between the dimensions of competitive advantage, strategic foresight, strategic alignment, and human capital are explained by the covariance estimates given in Table 3. Strong correlations between the constructs are shown by the positive covariance values, all of which are statistically significant at $p < 0.001$. Interestingly, there is a strong positive correlation (0.242) between strategic foresight and competitive advantage, indicating that firms that use strategic foresight are better able to predict changes in the market and improve their competitive advantage. A more competent and motivated staff is also fostered by matching strategic objectives with human resource practices, according to the link between human capital and strategic alignment (0.303). Additionally, the idea that strategic alignment is essential for improving organizational performance and grabbing competitive chances is supported by the correlation of 0.254 between strategic alignment and competitive advantage.

The correlation of 0.308 between strategic foresight and human capital indicates that companies that concentrate on foresight initiatives are likely to improve their human capital. This suggests that foresight techniques develop a workforce that can handle future issues in addition to enhancing strategic decision-making. The crucial role that a trained workforce plays in attaining competitive success is shown by the 0.273 connection between human capital and competitive advantage, which further supports the need to invest in human capital in order to convert strategic efforts into positive results. Furthermore, a complex interaction is revealed by the human capital-mediated covariance of 0.286 between strategic alignment and strategic foresight, indicating that human capital plays a crucial mediating role in enhancing the efficacy of both categories in generating competitive advantage.

Table 3: Covariance

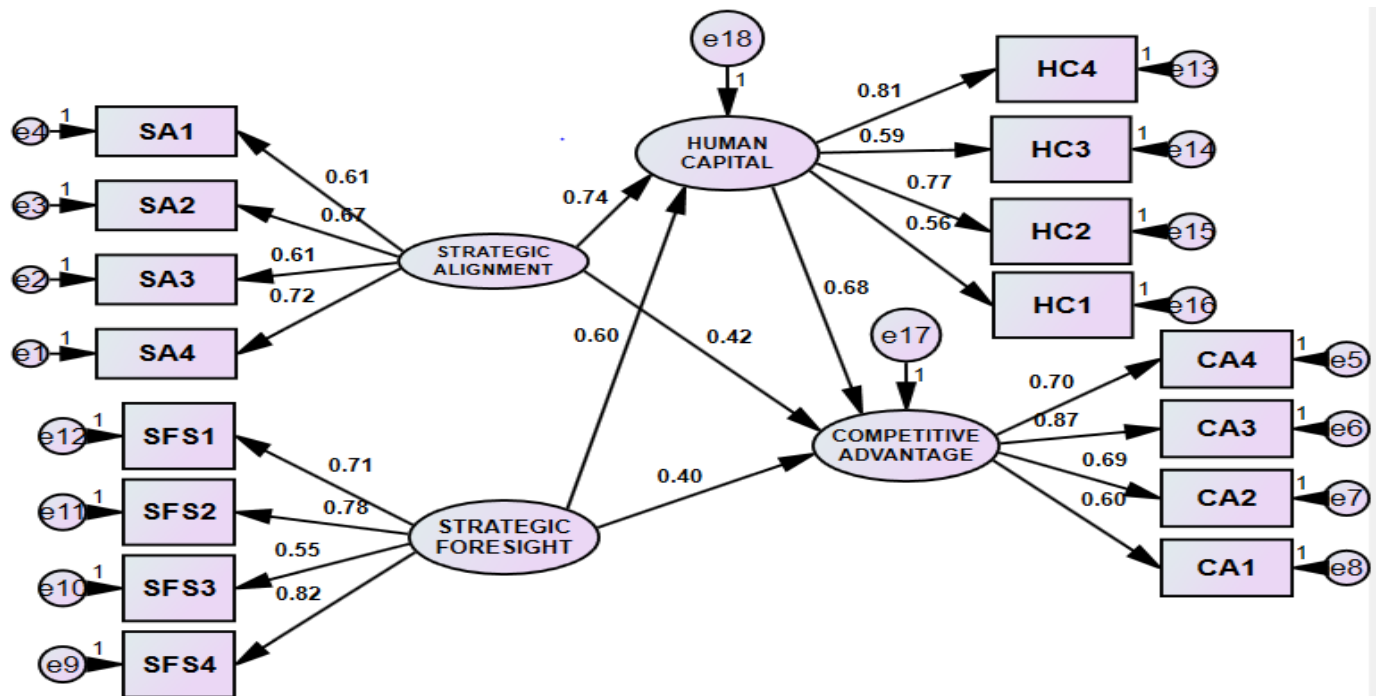
Covariance			Approximation	S.E.	C.R.	P	Hy.
Competitive advantage	<-->	Strategic foresight	.242	.021	8.231	***	H2
Human capital	<-->	Strategic alignment	.303	.032	7.692	***	H3
Competitive advantage	<-->	Strategic alignment	.254	.24	7.831	***	H1
Human Capital	<-->	Strategic Foresight	.308	.034	7.701	***	H4
Competitive advantage	<-->	Human capital	.273	.25	7.820	***	H5
Strategic alignment and strategic foresight	<-->	Mediation of human capital	.286	.23	7.692	***	H6

Source: AMOS output, 2024

Structural Equation Model

The structural equation model showing the connections between competitive advantage, strategic alignment, strategic foresight, and human capital is shown in Figure 3. This paradigm emphasizes how strategic alignment and strategic foresight affect competitive advantage both directly and indirectly. It highlights the critical role that human capital plays as a mediator in these connections, enabling the impact of strategic alignment and foresight on boosting competitive advantage. The figure makes clear the manner in which strategic alignment and foresight influence competitive results by graphically depicting these relationships. This thorough model highlights the need of incorporating human capital into strategic initiatives to improve competitive performance in SMEs and offers insightful information about the processes at work.

Fig 3 Structural Equation model



Source: AMOS output, 2024

Analysis of Regression and Testing hypothesis

Table 5 illustrates the regression analysis results, highlighting the relationships among competitive advantage, strategic foresight, strategic alignment, and human capital. The constructs in the model exhibit robust, statistically significant relationships with one another. Given a regression coefficient of 0.864 and a critical ratio of 7.583, which show a strong positive association between competitive advantage and strategic foresight, H2 ($p < 0.001$) is accepted. This implies that businesses can gain substantial competitive advantages by applying strategic foresight. Furthermore, the correlation between strategic alignment and human capital provides a critical ratio of 2.853 ($p < 0.001$) and a regression coefficient of 0.328, suggesting that aligned strategic objectives promote the growth of human capital, which supports H3. With a regression value of 0.957, H1 is also accepted, highlighting how crucial strategic alignment is to success in the marketplace.

The idea that businesses that prioritize strategic foresight successfully grow their personnel is supported by the crucial ratio of 7.762 and the coefficient of 0.856, which show a significant positive association between strategic foresight and human capital. Hypothesis H4 is accepted because companies may promote innovation and obtain a competitive edge by improving staff

skills through foresight insights. Furthermore, hypothesis H5 is validated by the regression coefficient of 0.765 and the crucial ratio of 7.821 between competitive advantage and human capital, which highlight the significance of competent workers in attaining competitive success. Last but not least, a crucial ratio of 7.763 and a coefficient of 0.856 demonstrate the important mediating function of human capital between strategic alignment and strategic foresight, supporting hypothesis H6. This highlights how important human capital is to boosting competitive advantage.

Table 5: Regression Examination

Relative			Approx.	S.E.	C.R.	P	Ass.
Competitive advantage	<-->	Strategic foresight	.864	.143	7.583	***	H2
Human capital	<-->	Strategic alignment	.328	.131	2.853	***	H3
Competitive advantage	<-->	Strategic alignment	.957	.192	7.958	***	H1
Human Capital	<-->	Strategic Foresight	.856	.121	7.762	***	H4
Competitive advantage	<-->	Human capital	.765	.131	7.821	***	H5
Strategic alignment and strategic foresight	<-->	Mediation of human capital	.856	.156	7.763	***	H6

Source: AMOS output, 2024

Analysis of Model Fitness

Table 4 presents various indices for assessing the fit of the proposed model, providing important. The suggested framework has a high model fit, according to the chi-square analysis findings. With 18 degrees of freedom, the CMIN value of 33.650 results in a CMIN/DF ratio of 1.867, far below the 3-point cutoff, is indicating that the model well captures the data. Furthermore, the p-value of 0.165 is higher than the 0.05 limit, confirming the suitability of the model. This evidence supports the validity of the constructs under investigation by showing that the actual data closely matches the predicted model.

A satisfactory fit is confirmed by the RMSEA value of 0.049, which is within the permitted limit of 0.08 in terms of absolute and incremental fit indices. Additionally, the incremental fit indices perform quite well; they surpass the 0.90 benchmark with CFI at 0.998, IFI at 0.990, RFI at 0.949, and TLI at 0.975. The model is both efficient and economical, as evidenced by the parsimony fit measures, PNFI at 0.515 and PCFI at 0.620, which also satisfy the minimal acceptance criterion of 0.50. When taken as a whole, these metrics indicate that the model works

effectively and offers a strong foundation for comprehending the connections among the components under study.

Table 4: indices for Model Fit

Types of measurements	Criteria	Value obtained	Level of acceptance	
Chi-square	CMIN	33.650	-	
	Degree of freedom	18	-	
	CMIN/DEF	1.867	<3	Well fitted
	P value	.165	>0.5	Well fitted
Absolute measurement of fit	RMSEA	.049	<0.08	Well fitted
Incremental fit instruments	CFI	.998	>0.9	Well fitted
	IFI	.990	>0.9	Well fitted
	RFI	.949	>0.9	Well fitted
	TLI	.975	>0.9	Well fitted
Parsimony fit measure	PNFI	.515	>0.50	Fitted
	PCFI	.620	>0.50	Fitted

Source: AMOS output, 2024

Analysis of the Mediating Role Effect

Table 6 outlines the mediating effects of human capital in the relationships between strategic alignment, strategic foresight, and competitive advantage. The table distinguishes between direct and indirect influences, providing critical insights into how human capital functions as a mediator in these strategic frameworks. Strategic alignment has a considerable positive impact on competitive advantage, as seen by its 0.42 direct influence. Nevertheless, the route influence estimate (0.72 multiplied by 0.68), which takes into consideration the indirect influence through human capital, results in an indirect influence of 0.49. This suggests that the link between strategic alignment and competitive advantage is strongly mediated by human capital. When direct and indirect channels are combined, the overall influence is 0.91, indicating that although the direct effect is significant, human capital only partially mediates it. Therefore, strategic

alignment and efficient human capital development are two ways that firms may improve their competitive edge.

The idea that strategic foresight independently influences competitive positioning is further supported by the direct influence of 0.40 between strategic foresight and competitive advantage. The indirect influence through human capital is 0.41, which is the consequence of multiplying 0.60 by 0.68. This suggests that the relationship between strategic foresight and competitive advantage is strongly mediated by human capital. The overall influence of 0.81 emphasizes that although strategic foresight has a significant direct impact; human capital also plays a crucial mediating function in improving competitive results. In this study, human capitals partially mediate the relationship between strategic foresight and competitive advantage.

Table 6. Mediating role analysis

	Influence	worth	Path Influence
Strategic Alignment → Competitive Advantage	Direct Influence	.42	Direct effect
Strategic Alignment → Human Capital → Competitive advantage	Indirect Influence	.72*.68=.49	Indirect effect
	Whole influence	.91	Partial mediation
Strategic foresight → Competitive Advantage	Direct influence	.40	Direct influence
Strategic foresight → Human Capital → Competitive Advantage	Indirect influence	.60*.68=.41	Indirect Influence
	Whole influence	.81	Partial mediation

Source: AMOS output, 2024

Discussion and Conclusion

The study's conclusions emphasize the vital roles that human capital, strategic alignment, and strategic foresight play in boosting competitive advantage for (SMEs) in Sidama regional state. Strong support for the model's validity and the connections between the constructs is provided by the statistical studies that were carried out, such as KMO, EFA, and SEM. According to the stated strong fit indices, the model faithfully captures the intricate relationships at work. These findings add to the body of knowledge on human capital and strategic management, especially as it relates to SMEs, which frequently deal with significant difficulties and resource limitations.

The analysis highlights the significance of successfully integrating strategic objectives with operational procedures by demonstrating the significant direct links between strategic alignment and competitive advantage as well as between strategic foresight and competitive advantage. Businesses may cultivate a more skilled and engaged staff and gain a competitive edge in markets by coordinating their human resource strategies with their strategic ambitions.

Furthermore, one important factor in the correlations studied is the mediating function of human capital. The findings show that human capital improves the efficacy of strategic alignment and strategic foresight in addition to having a direct impact on competitive advantage. This research implies that in order to convert strategic efforts into observable competitive results, investments in staff training and skill development are essential. Organizations can improve their foresight efforts, predict market shifts, and innovate successfully by giving human capital development top priority. In addition to this, human capital found to be a partial mediator between strategic alignment, strategic foresight and competitive advantage based on the finding of the study.

This study emphasizes how crucial strategic alignment, strategic foresight, and human capital are to boosting SMEs' competitive edge in Sidama regional state. It confirms earlier studies by showing that success requires a thorough strategic management strategy that incorporates these components. Research indicates that coordinating human resource strategies with corporate objectives cultivates a knowledgeable and motivated workforce, which is essential for creativity and flexibility (Kim & Seo, 2023). Furthermore, cultivating a culture of foresight enables SMEs to successfully predict changes in the market (Al-Surmi & Duan, 2020). According to Ateş et al. (2020), companies may improve their skills and responsiveness and prosper in a business environment that is changing quickly by giving strategy alignment and human capital development top priority.

Using the Resource-Based View (RBV), contingency theory, and dynamic capacity theory as lenses, this study emphasizes the vital roles that human capital, strategic alignment, and strategic foresight play in boosting competitive advantage for Ethiopian SMEs. The RBV emphasizes the value of human capital as a special resource that promotes strategic alignment and foresight and develops a trained, innovative workforce. According to contingency theory, companies must modify their plans to take advantage of possibilities and challenges from the outside world. Dynamic capability theory, on the other hand, shows how SMEs may use human capital to foresee changes in the market and make proactive adjustments. According to these ideas taken

together, SMEs must prioritize strategic integration and human capital development in order to successfully navigate a business environment that is changing quickly.

Managerial Implications

The study's conclusions have a number of significant managerial ramifications for Ethiopia's small and medium-sized businesses (SMEs). Managers should, first and foremost, understand the importance of strategic alignment and make sure that organizational plans and HR procedures are tightly related. Employees are able to comprehend their contributions to accomplishing overall company objectives thanks to this alignment, which promotes an engaged and accountable culture. Additionally, managers should prioritize funding the development of human capital through mentoring, training, and ongoing education. Managers can increase overall organizational performance and adaptability in a competitive market by developing the skills and abilities of their personnel.

Furthermore, the important mediating role of human capital implies that managers need to actively foster a forward-thinking culture within their companies. This entails motivating staff members to take part in strategic planning procedures, which will improve their capacity to predict upcoming market trends and obstacles. Managers can develop more comprehensive strategic plans that take advantage of the combined expertise and abilities of their workforce by integrating feedback from workers at all levels. In the end, maintaining a competitive edge and achieving better economic results can result from cultivating an engaged corporate culture that values alignment and foresight.

Practical Implications

Practically speaking, the study emphasizes how SMEs must put in place organized procedures to match business plans with initiatives for human capital development. This could entail setting up effective channels of communication to spread strategic objectives across the company and make sure that every worker is aware of their responsibilities in accomplishing these objectives. Furthermore, useful tools like feedback systems and performance indicators can be used to track results and modify plans as needed.

SMEs ought to think about incorporating strategic foresight into their operational frameworks as well. Organizations should stay aware of new trends and possible disruptions in their sectors by regularly conducting scenario planning sessions and environmental scanning. Organizations can

improve their agility and reactivity to shifting market conditions by providing employees with the frameworks and tools necessary to engage in strategic foresight.

Recommendations

Small and medium-sized businesses (SMEs) in Ethiopia are encouraged to take a multifaceted approach in order to improve competitive advantage through strategic alignment, strategic foresight, and human capital development. First and foremost, SMEs must set up precise frameworks that match their strategic goals with HR procedures. This can be accomplished by putting in place focused training initiatives that emphasize the particular abilities needed to accomplish strategic objectives. Frequent assessments of worker performance and competencies can reveal gaps and guide future training programs. SMEs can create a more resilient workforce by encouraging employees to pursue professional development and participate in knowledge-sharing procedures. It is also essential to cultivate a culture of continual learning and flexibility inside the firm.

By incorporating scenario planning and frequent environmental scanning into their operations, SMEs may proactively foster an atmosphere that supports strategic vision. Employee participation in these procedures increases buy-in and makes use of a range of viewpoints. SMEs may anticipate changes in the industry and make well-informed decisions by investing in technology that provides data analysis and market insights. Furthermore, establishing alliances with trade associations and academic institutions may provide important information and resources, strengthening their efforts at strategic planning and human capital development.

Future Directions

Future research should examine how strategic alignment, strategic foresight, and human capital interact to create competitive advantage across time in many sectors and environments. How these associations change in response to outside market pressures can be found through longitudinal study. Comparative research between industries or geographical areas may reveal particular difficulties and successful tactics used by SMEs to put these ideas into practice. In order to help firms maximize their training efforts by finding strategies that result in notable performance gains and strategy alignment, research should also examine the efficacy of certain human capital development programs. Additionally, analyzing how corporate culture affects the efficacy of strategic alignment and foresight may enhance comprehension of internal dynamics, with qualitative research collecting managers' and workers' viewpoints.

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