

## **Does mediation of intellectual capital required in relationship between strategic alignment, strategic foresight and firm performance in Ethiopian SMEs?**

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### **Abstract**

*This investigation examined the mediation effect of strategic alignment, strategic foresight, intellectual capital and firm performance of manufacturing SMEs in Sidama regional state, Ethiopia. The study's target population comprised of 4,000 members of staff from 30 small and medium-sized manufacturing companies. The researchers employed a method called systematic random sampling to choose 363 respondents to take part in the study. To collect data, the researchers used structured questionnaire. Using AMOS software, the researchers applied methods such exploratory factor analysis (EFA), Kaiser-Meyer-Olkin (KMO) measure, and structural equation modeling (SEM). The results showed that Firm performance and strategic alignment, as well as strategic foresight and Firm performance, are significantly correlated. Intellectual capital was also found to be an important mediator, improving the efficiency of both strategic alignment and strategic foresight in reaching competitive results. The findings emphasize how crucial it is to incorporate intellectual 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 understanding of how these constructs interact to affect Firm performance.*

**Key words:** Strategic alignment, strategic foresight, intellectual capital, Firm performance

### **Introduction**

The idea of strategic alignment has become very important as businesses look to obtain a Firm performance in a global economy that is becoming more and more competitive (Kim & Seo, 2023). The process of matching an organization's resources and capabilities with its strategic objectives is known as strategic alignment, and it guarantees that all organizational components collaborate to achieve shared objectives (Dixit et al., 2021). In a similar vein, strategic foresight is the capacity to predict, plan for, and adjust to future developments—has become an essential skill for businesses negotiating intricate and changing landscapes. When combined, these ideas are crucial for small and medium-sized businesses (SMEs), especially in developing nations like Ethiopia where companies encounter particular possibilities and problems (AlMujaini et al., 2021).

Theories of strategic management that highlight the connection between an organization's strategy and operational efficacy are where strategic alignment first emerged. Organizational performance and strategic alignment are positively correlated, according to early empirical research, which shows that companies that successfully match their resources with their strategic objectives are more likely to produce better results (Dörr et al., 2024). Furthermore, research on strategic foresight shows that proactive planning and scenario analysis make firms more resilient and able to take advantage of new trends and disruptions. Though the theoretical underpinnings of these ideas are well-established, empirical research on their interactions and wider ramifications is still lacking, especially when it comes to Ethiopian SMEs (Arokodare & Asikhia, 2020).

In reality, Ethiopian SMEs confront many obstacles, such as restricted access to resources, poor infrastructure, and a business environment that is changing quickly. These difficulties frequently make it more difficult for them to apply foresight and strategic alignment techniques successfully. Moreover, intellectual capital's function as a mediator in these connections is frequently disregarded. A key factor in converting strategic orientation into observable Firm performances is intellectual capital, which includes the abilities, know-how, and experiences of personnel. However, little is known about the relationship between Firm performance, intellectual capital, and strategy alignment in the context of Ethiopian SMEs (Ateş et al., 2020).

By examining the impact of strategic alignment and strategic foresight on Firm performance, with an emphasis on the mediating function of intellectual capital within Ethiopian SMEs, this study seeks to close these gaps. The study will offer important insights into how these businesses might use their resources and talents to improve their competitive standing by looking at this relationship. This study will also provide actionable suggestions for business executives and politicians on how to create an atmosphere that supports strategic alignment and foresight, which will eventually support the long-term expansion of SMEs in Ethiopia (Hartani et al., 2021).

How do strategic alignment and strategic foresight affect Firm performance in Ethiopian SMEs, and what mediating function does intellectual capital play in this relationship? This is

the main research issue driving this study. In order to give guidance for future research and useful implications for improving the strategic skills of SMEs in Ethiopia, the study aims to answer this question and offer a thorough understanding of the dynamics at work.

### **Background of Study**

Small and medium-sized businesses (SMEs) in Ethiopia have both possibilities and problems, which provide the study's backdrop. Due to their substantial contributions to GDP growth and employment, SMEs are essential to the Ethiopian economy (Kim & Seo, 2023). However, they frequently face challenges including restricted financial resources, poor infrastructure, and an unstable economic climate, which can make it difficult for them to successfully execute strategy frameworks (Al-Surmi & Duan, 2020). The ideas of strategic alignment and strategic foresight are crucial for boosting Firm performance in this environment, but putting them into practice is difficult (Farida & Setiawan, 2022).

The challenges Ethiopian SMEs face in putting strategic alignment and foresight into practice are demonstrated by a number of case studies. An Addis Ababa-based SME that manufactured textiles, for example, sought to match its activities with government export plans. However, a lack of qualified staff and inadequate technology resources presented significant challenges for the company Jafari-Sadeghi et al., (2020). Its strategy plans were poorly executed despite having a strong strategic vision because it was unable to match operational requirements with intellectual capital development. The business lost out on chances for growth and expansion as a result of its inability to adjust to market needs (Kang & Na, 2020). Given that the company's competitiveness was directly impacted by a shortage of trained personnel, this case emphasizes the need of making sure that intellectual capital efforts are incorporated into the strategic alignment process (Dörr et al., 2024).

A technological startup that aimed to use strategic foresight to traverse the quickly changing digital terrain is another real-world example. Even though the business understood how important it was to predict consumer demands and industry trends, it had difficult time obtaining pertinent information and carrying out in-depth market research (Najem et al., 2024). Its capacity to successfully execute foresight tactics was hampered by the scarcity of trustworthy market research instruments and the high expense of hiring experts. As a result,

rather than proactively defining its strategy, the company frequently responded to market developments, which resulted in lost opportunities & a weakened Firm performance (Kim & Seo, 2023).

Furthermore, studies have revealed that a large number of Ethiopian SMEs do not have a structured strategy creation process. According to a survey of several SMEs, owners & managers frequently depended on informal decision-making procedures that failed to sufficiently take long-term strategic goals into account, even if they recognized the significance of strategic alignment. Their capacity to effectively compete in both domestic and foreign markets was eventually hampered by this reactive approach, which resulted in fragmented efforts in resource allocation & operational execution (Obomeghia & Onuoha, 2023).

These real-world difficulties highlight the necessity of gaining a thorough grasp of how strategic alignment and strategic foresight can be successfully combined in the particular setting of Ethiopian SMEs. There is a substantial knowledge vacuum 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 Ethiopian SMEs to improve their strategic capacities, hence promoting sustainable growth and competitiveness, by tackling these issues and investigating the mediating function of intellectual capital.

### **Statement of the Problem**

This study aims to address the issue of Ethiopian SMEs' limited comprehension and implementation of strategic alignment and strategic foresight, which impedes their capacity to gain a Firm performance Dixit et al., (2021). In order to successfully navigate their intricate and ever-changing business contexts, SMEs should ideally combine strategic alignment with proactive strategic foresight (AlMujaini et al., 2021). Through this integration, they may be able to better respond to pressure from the competition and predict changes in the market by utilizing their distinct resources, especially intellectual capital. Nevertheless, Ethiopian SMEs' present practices frequently fall short of this ideal, resulting in lost opportunities and less-than-ideal performance (Al-Surmi & Duan, 2020).

There is conflicting evidence about how well strategic alignment and foresight may boost Firm performance. 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 intellectual capital in the relationship between Firm performance, strategic alignment, and strategic foresight are inconclusive. Although some research indicates that intellectual 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 Ethiopian SMEs. A more thorough investigation of how intellectual capital development may support the application of strategic alignment and foresight is required in light of this theoretical gap.

Significant knowledge and context gaps exist in addition to theoretical deficiencies. There is a dearth of study on the particular difficulties faced by SMEs in developing nations because the majority of the literature currently available on strategic alignment and foresight was produced in developed economies (Kryscynski et al., 2021). Policymakers and corporate executives are unable to develop successful strategies that are suited to the unique requirements of Ethiopian SMEs due to this lack of contextual knowledge. This environment is made more difficult by practical issues, since many SMEs struggle to successfully execute strategic objectives due to a lack of resources, poor infrastructure, and restricted access to market data (Ateş et al., 2020).

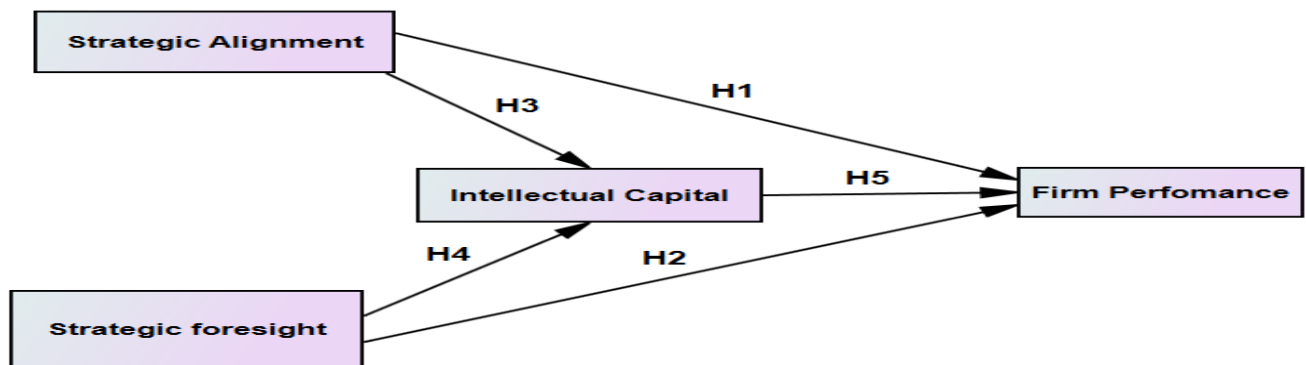
By analyzing the impact of strategic alignment and strategic foresight on Firm performance in Ethiopian SMEs, with a particular focus on the mediating function of intellectual capital, this study seeks to close these gaps. The study will not only improve knowledge of these ideas in the context of Ethiopian SMEs but also serve as a guide for future academics and

policymakers by offering empirical support and useful insights. The results will provide guidance for creating focused plans that enable SMEs to efficiently coordinate their resources, predict market trends, and eventually gain long-term Firm performances. The goal of this research is to help provide a stronger theoretical foundation and useful recommendations that will help SMEs in Ethiopia and other comparable situations become more strategically capable.

### Conceptual Framework

Figure 1 below shows conceptual framework of the study independent variables (strategic alignment and strategic foresight) mediating variable (intellectual capital) and dependent variable (Firm performance)

Fig 1 Conceptual framework



Source: Developed by researcher, 2024

### Research Methodology

#### Research Design and Approach

In order to investigate the association among strategic alignment, strategic foresight, intellectual capital and firm performance of manufacturing SMEs in Sidama regional state, Ethiopia. The investigators used a descriptive as well as explanatory research designs along with a quantitative research approach. These designs made it easier to gather and analyze numerical data, which allowed for a comprehensive statistical study of the buildings in question.

### Target Population and Sample size determination

Small and medium-sized manufacturing companies in Sidama Regional State, Ethiopia, were the focus of this research. Focusing on small and medium-sized manufacturing businesses in Sidama Regional State makes sense since the area has a lot of economic potential but also a lot of problems. This is a great location to learn about strategic innovation and how to get an edge over your competitors. The study's target demographic was 4,000 employees from 30 small and medium-sized manufacturing companies. The researchers employed a method called systematic random sampling to choose 363 people to take part in the study. The researcher utilized the Yamane (1967) method to figure out how big the sample should be. Taking into account the degree of confidence (95%) and the sampling error (5%=0.05).

$$n = N / (1 + N(e)^2) \quad n = 4000 / (1 + 4000(0.05)^2) = 363$$

Where: n = sample size, N= population size= 4000,  $e^2$ = margin of error at 5%

### Methods of Data Collection

A standardized questionnaire that was created based on validated scales as well as current literature was used to collect data. The questionnaire had questions assessing competitive advantage, human capital, strategic alignment, and strategic foresight. Likert-type scales were used to gauge respondents' opinions and experiences. Before distributing the questionnaire, a pilot test was carried out to further develop the instrument and ensure its clarity as well significance. A small group of people tested the questionnaire questions in a pilot test and provided feedback on how clear and relevant they were. This procedure helped researchers find and fix any problems or ambiguities, ensuring that the instrument worked well in the main study.

### 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, or EFA, was used. Through this research, it was possible to make sure that the things that were put together were

in meaningful alignment with the theoretical constructs of Firm performance, strategic foresight, strategic alignment, and intellectual capital. The suggested correlations between the variables were then tested using AMOS software and Structural Equation Modeling (SEM). SEM made it possible to assess how strategic alignment and strategic foresight, through intellectual capital, affect Firm performance both directly and indirectly. The researchers were able to validate the theoretical framework supporting the investigation and comprehend the intricate relationships between the constructs.

## Data Analysis

### Analysis of KMO and Bartlett's Test

*Table 1. 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

Table 1 presents the results of the Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity, which are essential for assessing the suitability of the data for factor analysis. A high degree of sampling adequacy is shown by the KMO score of 0.850, which implies that the data are suitable for factor analysis. KMO levels above 0.6 are generally regarded as acceptable, whereas values near 1.0 suggest that the variables have a common variance and are likely to produce significant factors. Consequently, a substantial correlation between the variables in the study is shown in the resulting KMO score.

By examining the hypothesis that the correlation matrix is an identity matrix which would suggest that the variables are unrelated and inappropriate for factor analysis—Bartlett's Test of Sphericity enhances this evaluation even more. With 89 degrees of freedom, the findings display an approximate Chi-Square value of 1417.737, resulting in a significance level (p-value) of 0.000. The null hypothesis is rejected since this p-value is significantly below the accepted cutoff of 0.05. This suggests that there are important correlations between the variables and that the correlation matrix is not an identity matrix.



The conclusion that the data are suitable for factor analysis is supported by these findings taken together. The validity of the upcoming exploratory factor analysis (EFA) and structural equation modeling (SEM) will be supported by the high KMO value and the significant Bartlett's Test, which indicate that the study's variables can be successfully examined to find underlying factors. In the context of SMEs in Ethiopia, this strong foundation increases the validity of the conclusions pertaining to strategic alignment, strategic foresight, intellectual capital, and Firm performance.

### Analysis of Total Variance Explained

Table 2: Total Variance Explained

Comp onent	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	%of Variance	Cumulative %	Total	%of Variance	Cumulative %	Total	%of Variance	Cumulative %
1	4.48	32.237	32.235	4.48	32.237	32.235	3.00	21.453	21.453
2	1.39	9.789	42.022	1.39	9.789	42.024	2.16	15.491	36.945
3	1.31	9.087	51.110	1.31	9.087	51.113	1.98	14.168	51.113
4	.950	6.786	57.894						
5	.871	6.225	64.116						
6	.773	5.520	69.637						
Extraction Method: Principal Component Analysis.									

Source: SPSS output, 2024

Table 2 presents the results of the Total Variance Explained from the exploratory factor analysis (EFA) conducted using Principal Component Analysis (PCA). Important metrics that together reveal the underlying structure of the data are included in the table, including Initial Eigenvalues, Extraction Sums of Squared Loadings, and Rotation Sums of Squared Loadings. Prior to extraction, the Initial Eigenvalues show how much of the variance was explained by each component. With an eigenvalue of 4.48, the first component accounts for 32.237% of the total variance, indicating that it captures a significant amount of the variability in the data. When taken as a whole, the first three factors explain more than 51% of the variance, showing

that only a small number of factors can adequately capture the fundamental connections between the variables.

Following extraction, the values stay the same, and the first three components—the first being 32.237%, the second being 9.789%, and the third being 9.087%—continue to exhibit considerable variation explained. These three elements are crucial in describing the data structure, as seen by the total percentage of 51.113%. With an eigenvalue of 0.950, the fourth component indicates that although it adds to the total variance, it falls short of the PCA criterion for maintaining factors, which is usually set at 1.0.

In an effort to produce a more straightforward and understandable structure, the Rotation Sums of Squared Loadings further elucidate the variance distribution among the components following rotation. After rotation, the first component still has the largest loading and explains 21.453% of the variation, suggesting that it still has a substantial amount of explanatory power. The second and third components, which account for 15.491% and 14.168% of the variation, respectively, likewise have smaller but significant contributions.

### **Confirmatory Principle Component Examination**

The principle component arrangement of a set of guided proxies is verified using a type of statistics known as confirmatory principle component examination. Based on the underlying frame job and correlatives among observed proxies, investigations can evaluate hypotheses utilizing CFA. To evaluate the hypothesis that there is a association among the proxies that are being steered and the latent conceptions that underpin them, the inquiry employed CFA under table 3.

### Analysis of Covariances

Table 3: Covariance

Covariance			Approxim ation	S.E.	C.R.	P	Hy.
Firm performance	<-->	Strategic foresight	.242	.021	8.231	***	<b>H2</b>
Intellectual capital	<-->	Strategic alignment	.303	.032	7.692	***	<b>H3</b>
Firm performance	<-->	Strategic alignment	.254	.24	7.831	***	<b>H1</b>
Intellectual capital	<-->	Strategic Foresight	.308	.034	7.701	***	<b>H4</b>
Firm performance	<-->	Intellectual capital	.273	.25	7.820	***	<b>H5</b>
Strategic alignment and strategic foresight	<-->	Mediation of intellectual capital	.286	.23	7.692	***	<b>H6</b>

Source: AMOS output, 2024

Table 3 presents the covariance estimates among the constructs of Firm performance, strategic foresight, strategic alignment, and intellectual capital, providing insights into the relationships among these variables. Covariance values, standard errors, critical ratios (C.R.), and significance levels (p-values) are included in each table item and together help to explain the dynamics in the suggested model. Positive correlations between the constructs are indicated by the covariance, and all provided values are statistically significant at a high level (\*\*\*, signifying  $p < 0.001$ ). Strategic foresight and Firm performance have a high positive correlation, as indicated by their covariance of 0.242. This research supports the idea that businesses that successfully use strategic foresight stand to gain a greater Firm performance since they are able to predict shifts in the market and adjust their plans accordingly.

A more trained and engaged workforce is also typically developed by companies that match their strategic objectives with their human resource practices, according to the correlation between intellectual capital and strategic alignment, which is stated to be 0.303. This supports the idea that strategic alignment improves organizational outcomes by having a beneficial impact on intellectual capital. The claim that a well-aligned strategy can result in better competitive positioning is further supported by the correlation of 0.254 between strategic alignment and Firm performance. In order to take advantage of competitive opportunities, this

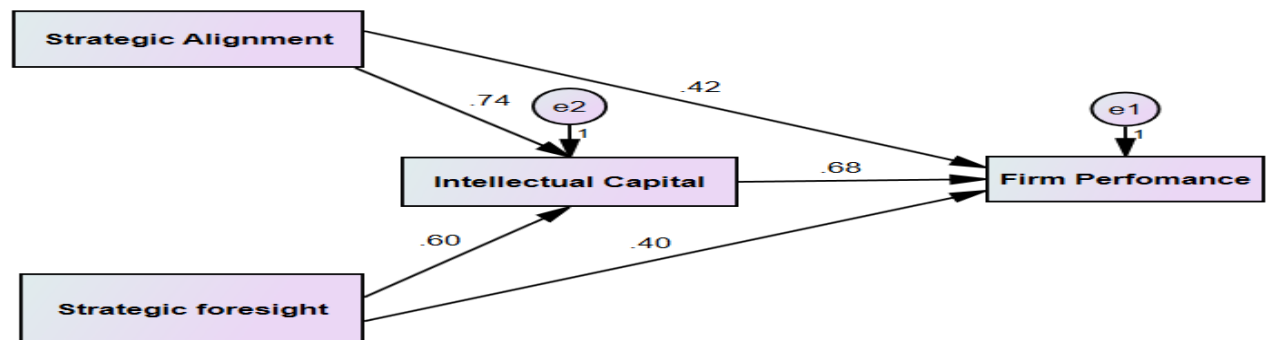
relationship emphasizes how crucial it is to integrate organizational practices with strategic objectives.

Furthermore, firms that emphasize foresight projects are likely to build their intellectual capital more successfully, as indicated by the correlation value of 0.308 between strategic foresight and intellectual capital. This implies that employing foresight approaches helps to develop a workforce that is capable of handling future issues in addition to improving strategic decision-making. The crucial role that a trained workforce plays in attaining competitive success is highlighted by the correlation of 0.273 between intellectual capital and Firm performance. This research supports the notion that converting strategic efforts into competitive outcomes requires investments in intellectual capital.

Lastly, the intellectual capital -mediated covariance of 0.286 between strategic alignment and strategic foresight points to a complicated interaction in which intellectual capital increases the efficiency of both foresight and strategic alignment in generating Firm performance. The concept that intellectual capital acts as a critical mediator in the interactions between these categories is supported by this data.

### Mediating Role Examination

Fig 2 Structural Equation model



Source: AMOS output, 2024

The above figure (fig 2) shows mediation effect of intellectual capital between strategic alignment, strategic foresight and Firm performance. Direct and indirect effect of strategic alignment and strategic foresight on Firm performance was indicated by this diagram.

**Analysis of Indices for Model Fit***Table 4: indices for Model Fit*

<b>Sig.</b>	<b>Chi-Sq</b>	<b>RMR</b>	<b>Fitness Goodness</b>	<b>Fitness Confirmatory</b>	<b>TLI</b>	<b>RMSEA</b>
0.004	1.960	.037	0.931	0.913	0.912	.0281

Source: AMOS output, 2024

Table 4 presents various indices for assessing the fit of the proposed model, providing important information about how well the model captures the connections between Firm performance, intellectual capital, strategic alignment, and strategic foresight. The significance level (Sig.), Tucker-Lewis Index (TLI), Root Mean Square Error of Approximation (RMSEA), Goodness of Fit Index (GFI), Comparative Fit Index (CFI), Chi-Squared (Chi-Sq), and Root Mean Square Residual (RMR) are important metrics.

The model fit is statistically significant at the significance level of 0.004, indicating that there is an acceptable degree of deviation between the observed data and the expected model fit. This is further supported by a lower Chi-Squared value of 1.960, which quantifies the difference between the observed and predicted covariance matrices. Although a better fit is typically indicated by a lower Chi-Squared value, it is crucial to interpret it in combination with other fit indices. The model well reflects the associations between the components, as indicated by the RMR value of 0.037, which shows a low level of residual variance. RMR values below 0.05 are generally seen as indicating a strong match, and this figure bolsters the idea that the model is suitable.

The stated values for the Confirmatory Fit Index (CFI) and the Goodness of Fit Index (GFI) are 0.913 and 0.931, respectively. The fact that both indices are higher than the generally recognized cutoff point of 0.90 indicates that the model does a good job of fitting the data. The suggested model's adequacy is further supported by the CFI, which evaluates the model's relative fit to a null model. A GFI above 0.90 suggests that the model explains a significant amount of the variance in the data. The model's fit is further supported by the Tucker-Lewis Index (TLI) score of 0.912, which is near the optimal value of 1. An acceptable fit is typically indicated by values above 0.90, which imply that the model well captures the complexity of

the data. Lastly, the RMSEA value of 0.0281 is particularly noteworthy, as values below 0.05 suggest a good fit. This low RMSEA indicates that the model approximates the population covariance matrix closely, affirming that the model is well-specified.

### Analysis of Regression Examination

Table 5: Regression Examination

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

Source: AMOS output, 2024

Table 5 presents the results of the regression examination, detailing the relationships among Firm performance, strategic foresight, strategic alignment, and intellectual capital. Each entry includes the regression coefficients, standard errors (S.E.), critical ratios (C.R.), p-values, and assessments of the hypotheses being tested. The robustness of the model is demonstrated by the results, which show strong, statistically significant correlations among the constructs. With a critical ratio of 7.583 and a regression coefficient of 0.864, strategic foresight and Firm performance are strongly positively correlated. Hence, H2 was accepted. Organizations that successfully use strategic foresight are likely to have large Firm performances, according to this significant conclusion ( $p < 0.001$ ). Being able to predict future trends and make appropriate preparations enables businesses to establish a positive market position.

The regression coefficient of 0.328, critical ratio of 2.853 and p-value confirming significance ( $p < 0.001$ ) are obtained for the association between strategic alignment and intellectual capital. This finding suggests that the development and efficacy of intellectual capital are positively impacted when strategic objectives and HR practices are in line. Organizations may develop a more competent and engaged staff by making sure that their intellectual capital

initiatives complement their overarching objectives. Hence, H3 was accepted. The significance of strategic alignment in attaining competitive success is further supported by the regression coefficient for strategic alignment and Firm performance, which is 0.957 with a critical ratio of 7.958. This large coefficient supports the idea that firms need to integrate their strategic objectives since it indicates that successful alignment of strategic initiatives results in notable improvements in competitive standing. Hence H1 is accepted.

Additionally, the critical ratio of 7.762 and the coefficient of 0.856 between strategic foresight and intellectual capital show a strong positive link. This research supports the notion that companies that place a high priority on strategic vision are more likely to successfully develop their intellectual capital. Businesses can more effectively use foresight insights to spur innovation and gain a Firm performance by improving staff capabilities. For this reason H4 was accepted.

The importance of having a trained workforce in attaining competitive success is further highlighted by the regression coefficient of 0.765 between intellectual capital and Firm performance. This strong correlation (C.R. = 7.821) emphasizes how crucial intellectual capital investments are to converting strategic plans into observable competitive results. Therefore, H5 is accepted. Lastly, a coefficient of 0.856 and a critical ratio of 7.763 demonstrate the importance of the intellectual capital mediation effect between strategic alignment and strategic foresight. This finding supports the idea that intellectual capital plays a critical mediating role in these connections by showing that it increases the efficacy of both strategic alignment and foresight in generating Firm performance. Hence, H6 was accepted.

### Analysis of the Mediating Role Effect

Table 6. Mediating role Effect

	Influence	worth	Path Influence
Strategic Alignment → Firm performance	Direct Influence	.42	Direct influence stated
Strategic Alignment → Intellectual capital → Firm performance	Indirect Influence	.72*.68=.49	Indirect Influence Ensued
	Whole influence	.91	Partial mediation
Strategic foresight → Firm performance	Direct influence	.40	Direct influence stated
Strategic foresight → Intellectual capital → Firm performance	Indirect influence	.60*.68=.41	Indirect Influence Ensued
	Whole influence	.81	Partial mediation

Source: AMOS output, 2024

Table 6 outlines the mediating effects of intellectual capital in the relationships between strategic alignment, strategic foresight, and Firm performance. The table distinguishes between direct and indirect influences, providing critical insights into how intellectual capital functions as a mediator in these strategic frameworks. The direct influence of the link between Firm performance and strategic alignment is 0.42, which indicates a considerable positive effect. This implies that improving Firm performance is a direct result of successful strategic alignment. But when the research takes into account the indirect influence through intellectual capital, it finds a path influence of 0.72 multiplied by 0.68, which equals an indirect influence of 0.49. This suggests that the relationship between strategic alignment and Firm performance is significantly mediated by intellectual capital. The total influence of the direct and indirect paths is 0.91, indicating that although the direct effect is considerable, intellectual capital's contribution only partially mediates it. This finding implies that organizations can enhance their Firm performance not only through strategic alignment but also by effectively developing their intellectual capital.



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

## Discussion

Knowledge how strategic alignment, strategic foresight, and firm performance interact to produce economic success in Ethiopian SMEs requires knowledge of the role that intellectual capital plays as a mediator in this connection. Effective synchronization of a company's resources and capabilities with its objectives and external environment is ensured by strategic alignment. SMEs may create a strong foundation for long-term success when paired with strategic foresight, which entails predicting future trends and becoming ready for possible obstacles. Nonetheless, this relationship can be greatly impacted by the function of intellectual capital, which includes relational, structural, and human capital. Firms may effectively use their strategic alignment and foresight thanks to intellectual capital, which is the foundation of innovation and flexibility.

The value of intellectual capital in improving business success is emphasized by empirical research. According to studies, companies with a lot of intellectual capital are better able to take advantage of strategic possibilities and react to changes in the market. Organizations can attain more strategic alignment and foresight, for example, by investing in the skill development of their workforce (human capital) and building robust networks (relational capital). Using intellectual capital can give Ethiopian SMEs a competitive edge in a market where resources are frequently few and dynamics are changing quickly. According to the literature, intellectual capital mediates the effects of strategic alignment and foresight on business performance, enabling improved resource utilization and decision-making. It also increases the efficacy of these strategies.

Furthermore, in Ethiopia, where SMEs confront particular difficulties such restricted access to financing, inadequate infrastructure, and a shortage of trained personnel, it is especially important to comprehend the mediating role of intellectual capital. These businesses can more successfully traverse their complicated environment by incorporating intellectual capital into strategic operations. According to research, SMEs that place a high priority on developing their intellectual capital are more likely to see increases in resilience and performance. For Ethiopian SMEs looking to improve their competitive positioning and sustainability in a market that is becoming more and more turbulent, investigating the role of intellectual capital as a mediator in the interactions between strategy alignment, strategic foresight, and company performance provides insightful information.

### **Conclusion**

To sum up, this study emphasizes how crucial intellectual capital, strategic alignment, and strategic foresight are to giving Ethiopian SMEs a Firm performance. Organizations must embrace a comprehensive approach to strategic management that incorporates strategic initiatives and intellectual capital development, as evidenced by the positive links found between both components. According to the findings, companies can improve personnel capacities, stimulate innovation, and eventually gain a Firm performance in a business environment that is changing quickly by cultivating a culture of alignment and foresight.

This study has important ramifications for both practitioners and legislators. To make sure that their workforce is prepared to handle strategic challenges and seize new possibilities, SMEs should give intellectual capital expenditures first priority. The study's conclusions can also guide the creation of regulations meant to assist SMEs in developing their strategic capacities. All things considered, this study makes a significant contribution to the subject of strategic management by providing a paradigm for comprehending how intellectual capital mediates the relationship between Firm performance and strategic alignment and foresight.

### **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 intellectual 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 intellectual 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 Firm performance 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 intellectual 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.<sup>13</sup>

Paragraph-form Theoretical Implications

**Recommendations**

Small and medium-sized businesses (SMEs) in Ethiopia are encouraged to take a multifaceted approach in order to improve Firm performance through strategic alignment, strategic foresight, and intellectual 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.

Additionally, SMEs must make a concerted effort to foster an atmosphere that encourages strategic vision. This entails incorporating scenario planning and routine environmental scanning into the organizational workflow. To increase buy-in and take advantage of different viewpoints, leaders should include staff members in these procedures. Additionally, SMEs can be empowered to anticipate changes in their specific industries and make well-informed decisions by investing in technology that makes data analysis and market insights easier. Establishing alliances with academic institutions and trade groups can also give SMEs access to important resources and knowledge to improve their efforts at intellectual capital development and strategic planning.

**Future Directions**

Future studies should examine how intellectual capital, strategic alignment, and strategic foresight affect Firm performance across time in a range of industries and situations. Long-term research projects can shed light on how these connections evolve and alter in response to outside market forces. Comparative studies between various sectors or geographical settings may also reveal particular difficulties and effective tactics used by SMEs to put these ideas into practice. Future research should also focus on the effectiveness of particular intellectual capital development initiatives. Organizations seeking to maximize their development spending will find great value in research that looks at which training approaches and methods produce the biggest gains in employee performance and strategy alignment. Deeper

understanding of internal dynamics may also be obtained by investigating how company culture affects the effectiveness of strategic alignment and foresight activities. The cultural elements that help or hinder the integration of strategic initiatives can be revealed by qualitative research that documents the experiences and viewpoints of managers and staff.

### **Declarations**

**Ethical Statement:** We confirm that our study was conducted in accordance with the ethical standards outlined in the Declaration of Helsinki and was approved by the Research Ethics Committee of the Bule Hora University, Department of marketing management (Reference number: CBE/MKMT/06, 2017; Approval Date: 31/9/2024).

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