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Strategic Human Resource Management and Organizational Performance: The Mediating Role of Organizational Innovation

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ABSTRACT

This study examined the relationship between Strategic Human Resource Management, Organizational Innovation, and Organizational Performance, with Organizational Innovation as a mediating variable in the banking sector of Pakistan. A quantitative, cross-sectional research design was adopted, and data were collected from 239 employees of selected public and private banking organizations, including National Bank of Pakistan, The Bank of Punjab, Habib Bank Limited, United Bank Limited, MCB Bank Limited, and Meezan Bank Limited. Data were collected through a structured self-administered questionnaire using convenience sampling and analyzed through correlation, regression, and mediation analysis. The findings showed that Strategic Human Resource Management had a significant positive relationship with Organizational Innovation (β = 0.624, $p < 0.001$) and significantly predicted Organizational Performance (β = 0.286, $p < 0.001$). Organizational Innovation also significantly predicted Organizational Performance (β = 0.471, $p < 0.001$). Furthermore, mediation analysis demonstrated that Organizational Innovation significantly mediated the relationship between Strategic Human Resource Management and Organizational Performance (indirect effect = 0.294, $p < 0.001$). These findings indicate that effective strategic HR practices can promote organizational innovation and contribute to improved organizational performance. The study is significant because it provides an integrated understanding of how HR practices and innovation can work together to strengthen organizational outcomes in the banking sector. The findings may assist banking managers and HR professionals in improving employee development, performance management, employee involvement, and innovation-oriented practices. The study also contributes to the existing literature by highlighting the mediating role of Organizational Innovation in linking Strategic Human Resource Management with Organizational Performance.

Strategic Human Resource Management

Strategic Human Resource Management (SHRM) is the process of planning and aligning human resource policies and practices in an organization with the strategic goals of the organization. It includes practices and initiatives focused on developing employees and ensuring they are working towards the organization's objectives, such as recruitment and selection, training and development, performance management, compensation, employee participation, and others. SHRM is different from HRM in that employees are seen as a strategic asset, and their knowledge, skills, motivation and commitment to the organization can be important factors in achieving a competitive and successful organization for the long-term (Phiri & Phiri, 2022). Organizations have to function in

competitive and ever-changing environments, so the strategic management of human resources has become more significant to them. An organization needs personnel who are able to keep their pace with new technology, think creatively, resolve issues, share information, and make improvements to the organization. By designing HR-related aspects, SHRM can enhance the capability of employees and foster the organizational effectiveness and innovation. Previous studies have thus focused on the strategic linkage of HR practices to building the capabilities of organizations and enhancing the outcomes of organizations (Nguyen & Dao, 2023).

Organizational Innovation and Organizational Performance

Organizational Innovation is the development and deployment of new or enhanced products, services, processes, technologies and organizational practices. It helps companies enhance processes, adapt to market dynamics, and innovate value generation strategies. In dynamic environments, innovation serves as a key pillar for organizations' adaptability, efficiency, competitiveness, and ability to continuously enhance their products and processes (Chen et al., 2023). Organizational Performance is the degree to which the organization meets its strategic and operational goals effectively using its resources and capabilities. It can encompass productivity, efficiency, service quality, competitiveness, employee results and the attainment of organizational objectives. Both the quality of human resources and the organization's capacity to innovate in practice have an impact on organizational performance. Therefore, innovation can be a vital channel for enhancing capabilities of an organization into achieving better performance (Li et al., 2022). The correlation between innovation and performance is especially relevant as companies have to constantly enhance their products, services and processes to compete. Innovative activities can mitigate inefficiencies, increase quality, make activities more responsive and provide opportunities for growth. In fact, previous empirical studies have reported that innovation is positive for organizational performance, and it can be an important organizational ability through which firms can outperform their competitors (Turulja et al., 2023).

This is especially relevant when talking about innovation and performance, as organizations must continually enhance their products, services, and processes to stay competitive. Innovative activities may help to eliminate inefficiencies, boost quality, strengthen responsiveness and open up opportunities for growth. Empirical research has found that innovation is linked to organizational performance and can serve as a valuable organizational competency that is leveraged to obtain benefits for the organization (Chawla et al., 2023).

Strategic Human Resource Management and Organizational Innovation

Knowledge, skills, motivation and participation of employees can be developed to create favorable conditions for innovation in the organization through Strategic HRM. Organisations can be equipped with the right personnel through strategic recruitment and enable their personnel to produce and execute new ideas through training and development. Likewise, employee involvement and empowerment can foster the sharing of knowledge and engagement in innovative initiatives with employees (Trivedi & Srivastava, 2024).

Innovative behavior can also be promoted with performance management and reward systems that recognize the contributions of employees and link their performance to organizational goals. Providing employees with the chance to learn, engage in decision-making, and put their knowledge into practice can encourage them to embrace new strategies and help drive organizational change. Hence, SHRM can offer the building blocks for building and sustaining organizational innovation.

There is empirical evidence that strategic HR practices and innovation are positively related. Susantinah et al., (2023) concluded that practices such as strategic HR practices had a positive association with innovation performance, and Jotabá et al. (2022) reported that strategic HR practices, selection, training, appraisal, rewards and empowerment had positive relationship with innovation performance. Likewise, Alfawaire et al., (2021) concluded that there was a positive direct relationship between high-performance HRM practices and innovation, indicating that strategically managing human resources can be a key consideration in enhancing organizational innovation.

Organizational Innovation and Organizational Performance

Organizational innovation can help to improve organizational performance in the following ways: By introducing new and better products and services, by improving internal processes, by providing a more responsive response to customer and environmental needs. Innovation can help organizations' to be more efficient and productive in their operations, and enhance their competitive standing. Therefore, those organizations that have better innovation capabilities can be better equipped to meet their strategic and operational goals (Kasemsap, 2017).

Innovation can also boost the adaptability of the organization by allowing the organization to be able to adapt in response to technological advancements and shifting market dynamics. Implementing innovative ideas effectively can enhance service delivery, minimize inefficiencies, and facilitate organizational development. Innovation has, therefore, been identified as an important factor that improves the organizational performance, especially if the organizational resources and capabilities are adequate for fostering innovation (Migdadi, 2021).

Strategic Human Resource Management and Organizational Performance

There is a direct link between Strategic HRM and organizational performance, as Strategic HRM helps to link employees' capabilities and activities with the organization's objectives. Good recruitment brings in good staff and training and development enhances their skills. Motivation can be further strengthened by implementing means of performance management, compensation, and employee participation to motivate employees to contribute towards organization's goals (Geethanjali et al., 2024).

This strategic approach to managing employees can also enhance the effectiveness of the organization by building valuable human capital and in ensuring the implementation of organizational strategies. By aligning HR practices with organizational priorities, employees will be more aware of their responsibilities and will be better able to contribute to organizational goals. Empirical studies have thus been found to establish positive links between strategic HRM and organizational performance in diverse organizational settings (Chourasia et al., 2023).

Mediating Role of Organizational Innovation

Although there can be a direct connection between SHRM and organizational performance, it may also be through organizational innovation. Strategic HR practices build employees' knowledge, skills, motivation and opportunities for participation, which may inspire innovative activities. Human capabilities can then be translated into better products, processes, services, and organizational practices that can improve performance—thereby offering a potential pathway by which SHRM can help improve performance (Korayim et al., 2024).

There is a mediating position of organizational innovation that implies that organizations might not only improve their performance through strategic HR practices, but also via the role organizational practices play in making employees and organizations more innovative. The key role that SHRM plays in this process is to offer the human-resource base; the key role that organizational innovation plays is the capacity for introducing and implementing new ideas; and the key role that organizational performance plays is the organizational outcome. This view offers a more holistic understanding of the role human resource strategies can play in achieving organizational success (Imani et al., 2020).

This mediating mechanism has been supported by recent empirical evidence. Nguyen and Dao (2023) determined that innovation was the mechanism that linked high-performance HRM practices with firm performance, while Alfawaire et al. (2021) determined that innovation was crucial in linking HRM practices to organizational performance. In a similar way, Farouk et al. (2016) found that innovation performance was a part of the pathway between SHRM and firm performance. Based on the results, it is possible to consider the organizational innovation as a mediator between strategic human resource management and organizational performance.

Research Objectives

- To examine the relationship between Strategic Human Resource Management and Organizational Innovation.
- To examine the relationship between Organizational Innovation and Organizational Performance.
- To examine the relationship between Strategic Human Resource Management and Organizational Performance.
- To examine the mediating role of Organizational Innovation in the relationship between Strategic Human Resource Management and Organizational Performance.

Research Questions

1. What is the relationship between Strategic Human Resource Management and Organizational Innovation?
2. What is the relationship between Organizational Innovation and Organizational Performance?
3. What is the relationship between Strategic Human Resource Management and Organizational Performance?

4. Does Organizational Innovation mediate the relationship between Strategic Human Resource Management and Organizational Performance?

Problem Statement

Organizations increasingly face competitive pressure, technological changes, and changing market demands, making strategic human resource management and organizational innovation important for achieving sustainable organizational performance. Although Strategic Human Resource Management (SHRM) can strengthen employee capabilities, motivation, and organizational effectiveness, organizations may still face difficulties in translating these HR capabilities into improved performance. Previous research has established positive relationships between SHRM and firm performance and has further shown that innovation can provide an important mechanism through which HR practices contribute to organizational outcomes (Ogalo, 2020). However, there remains a need to further examine whether Organizational Innovation explains the relationship between Strategic Human Resource Management and Organizational Performance. Therefore, this study aims to examine the relationship between Strategic Human Resource Management and Organizational Performance and to investigate the mediating role of Organizational Innovation in this relationship (Heidar et al., 2019).

Significance of the Study

This study is significant because it provides a comprehensive understanding of the relationship between Strategic Human Resource Management, Organizational Innovation, and Organizational Performance. By examining Organizational Innovation as a mediator, the study explains how strategic human resource practices may contribute to improved organizational performance through the development and implementation of innovative practices. The findings may help managers and HR professionals design effective HR strategies, strengthen employee capabilities, encourage innovation, and improve overall organizational performance. The study also contributes to the existing academic literature by examining these three important organizational variables within an integrated framework and may provide a useful foundation for future researchers investigating similar relationships in different organizational contexts.

Literature Review

Strategic Human Resource Management as a Driver of Organizational Innovation

Trivedi and Srivastava (2024) examined the relationship between strategic HR practices and innovation performance in 25 knowledge-intensive information technology organizations in India. Using questionnaire data from 387 employees and structural equation modeling, the authors found that strategic HR practices had a significant positive relationship with innovation performance. Their findings emphasized that hiring, training, development, and strategic performance management can strengthen employees' knowledge and capabilities, which subsequently support organizational innovation. The study therefore provides empirical evidence that strategically managed human resources can serve as an important foundation for innovation.

Similarly, Chawla et al. (2023) investigated the relationship between strategic HRM and firm performance through knowledge management capability and innovation performance. Their study collected data from 624 employees working in 252 Indian firms and used PROCESS-based mediation analysis. The findings showed that SHRM practices, including selection, training, appraisal, rewards, and empowerment, enhanced knowledge management capability and innovation performance. The study further demonstrated that innovation performance formed an important pathway connecting SHRM with firm performance, highlighting the importance of employee-oriented HR practices in developing organizational innovation.

Sujoko, (2026) provided broader evidence through a meta-analytic examination of the relationship between HRM and organizational innovation. Their work showed that HRM systems can influence innovation by strengthening employee competencies, motivation, and opportunities to participate in organizational activities. Taken together with the findings of Susantinah et al. (2023), the literature indicates that strategic HR practices are not limited to improving routine employee outcomes but can also create the capabilities and conditions required for organizational innovation.

Innovation and Organizational Performance: Evidence from Empirical Studies

Turulja, Kožo, Kurtić, and Pejić Bach (2023) examined the mediating effect of innovation in the relationship between HRM practices and organizational performance using data from 408 managers in an emerging-economy context. The researchers considered selective hiring, training, participative decision-making, and rewarding as HRM practices and examined behavioral, product, process, and market

innovation. Their findings indicated that innovation played a mediating role in the relationships involving selective hiring, training, and participative decision-making and organizational performance.

Bolaji Bello et al., (2018) examined 312 enterprises from industrial and service sectors to investigate whether innovation explains the relationship between high-performance HRM practices and firm performance. Their results showed that high-performance HRM practices were directly associated with innovation and indirectly associated with firm performance through innovation. The study provides direct evidence that innovation can transform the capabilities created through HRM practices into improved organizational outcomes.

Antunes et al., (2017) further demonstrated that strategic HR practices were positively associated with innovation performance, particularly through organizational capabilities related to differentiation. Their findings suggest that organizations can strengthen performance-related outcomes when HR practices are strategically connected with capabilities that encourage innovation. Collectively, these studies indicate that organizational innovation is an important organizational capability that can contribute to improved performance and may explain part of the relationship between human resource practices and organizational outcomes.

Strategic Human Resource Management and Organizational Performance

Al-Khaled et al. (2020) examined SHRM and firm performance by considering knowledge management capability and innovation performance as sequential mediators. Using data from 624 employees across 252 Indian firms, the study found that SHRM practices involving selection, training, appraisal, rewards, and empowerment enhanced organizational capabilities and contributed to firm performance. The findings demonstrate that the contribution of SHRM to performance can extend beyond direct HR outcomes and can operate through organizational capabilities developed from effective HR practices.

Lepak et al. (2018) similarly demonstrated that HRM practices are connected with organizational performance and that innovation can influence this relationship. Their findings showed that selective hiring, training, and participative decision-making were particularly relevant to the pathway between HRM practices and organizational performance. These findings suggest that organizations can improve performance when HR practices are designed to develop employee capabilities and provide opportunities for employees to contribute to organizational improvement.

Eneh et al., (2016) provided further evidence that HRM practices can influence firm performance indirectly through innovation. Their findings showed that high-performance HRM practices had an indirect relationship with firm performance and a direct relationship with innovation. This evidence indicates that the relationship between strategic human resource management and organizational performance should not necessarily be viewed as purely direct, because organizational capabilities such as innovation may provide an important mechanism through which HR practices are converted into performance outcomes.

Organizational Innovation as a Mediating Mechanism

Waheed et al., (2019) directly investigated innovation as a mediator between high-performance HRM practices and firm performance. The findings obtained from the 312 businesses were in agreement with their hypothesis that innovation acted as a mediator between HRM practices and firm performance. This is important for the present study, as it shows that human resource capabilities can be developed as a way to enhance performance by encouraging organizations to develop and implement innovative activities.

Yildiz et al. (2021) also reported evidence of mediation mechanism based on innovation. Their study revealed that innovation had a mediating impact on the relationship between a number of HRM practices and organizational performance, with the mediation being different for some HR practices. The findings indicate that the impact of HR practices on performance outcomes using innovative approaches could be specific to a particular HR practice and the organizational environment where it is implemented.

Awais et al. (2023) extended this view by looking at innovation performance as a mediator between SHRM and firm performance, along with knowledge management capability as another mediator. They found that the SHRM practices improved knowledge related capabilities and innovation performance, which in turn added to the firm performance. Despite the introduction of an extra mediator in their model, their results are very good support to the argument that innovation is an important mechanism that connects strategic HRM and organizational performance.

Research Gap

While there are established links between the three variables SHRM, OI and OP, very little research has explored the three variables together in one integrated framework. Prior research has largely concentrated on specific HRM practices, other intervening factors,

or specific organizational settings, and there is limited evidence on Organizational Innovation as a targeted mediator between SHRM and Organizational Performance (Jabbar et al., 2022). Hence, in the current study the focus is drawn to the research independent variable – Strategic HRM, the research mediating variable – Organizational Innovation and the dependent variable – Organizational Performance which will offer a targeted outlook on the contribution of strategic HR practices to organizational performance through innovation.

Hypotheses

- **H1:** There is a significant positive relationship between Strategic Human Resource Management and Organizational Innovation.
- **H2:** Strategic Human Resource Management significantly predicts Organizational Performance.
- **H3:** Organizational Innovation significantly predicts Organizational Performance.
- **H4:** Organizational Innovation significantly mediates the relationship between Strategic Human Resource Management and Organizational Performance.

Conceptual Framework

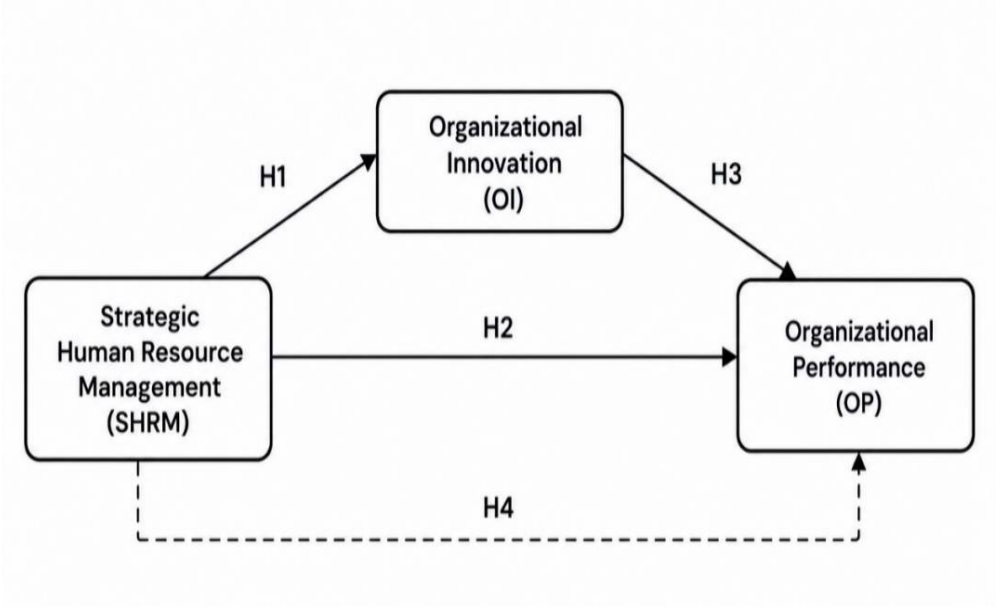


Fig 1: Conceptual Framework

Methodology

Research Design

A cross-sectional research design with a quantitative approach was employed to explore the linkages between SHRM, Organizational Innovation, and Organizational Performance. The study used a questionnaire-based survey approach because it was able to gather quantitative data from employees at one time and to investigate the hypothesized direct and indirect relationships between the study variables.

The study was carried out in the environment of banking sector of Pakistan. Based on the relationship to be analyzed, the quantitative design was deemed suitable for this research in determining the relationship between Strategic Human Resource Management and Organizational Innovation, Organizational Innovation and Organizational Performance, and Strategic Human Resource Management and Organizational Performance as well as the mediating role of Organizational Innovation.

Population and Sampling

The population of the study included the employees of selected public and private banking organizations in Pakistan. Employees of National Bank of Pakistan (NBP), The Bank of Punjab (BOP), Habib Bank Limited (HBL), United Bank Limited (UBL), MCB Bank Limited and Meezan Bank Limited were the sources of data. These banking organizations were added for representation of public, private, conventional and Islamic banking environment. Staff from various department and job levels were deemed fit for participation.

There were 239 responses in the final sample that were usable. The respondents were selected by convenience sampling, which involved selecting respondents who were readily available and willing to participate. The questionnaires was sent to the selected banking organizations and the distribution of questionnaires was made to the eligible employees of the selected banking organizations. The questionnaires completed were checked for fullness and incomplete ones discarded if required. Of the 239 respondents, 109 were from public schools and 130 were from private schools.

Table 1: Distribution of Respondents by Selected Banking Organizations (N = 239)

Banking Organization	Sector	Respondents (n)	Percentage (%)
National Bank of Pakistan (NBP)	Public	40	16.7
The Bank of Punjab (BOP)	Public	40	16.7
Habib Bank Limited (HBL)	Private	40	16.7
United Bank Limited (UBL)	Private	40	16.7
MCB Bank Limited	Private	39	16.3
Meezan Bank Limited	Islamic/Private	40	16.7
Total	—	239	100.0

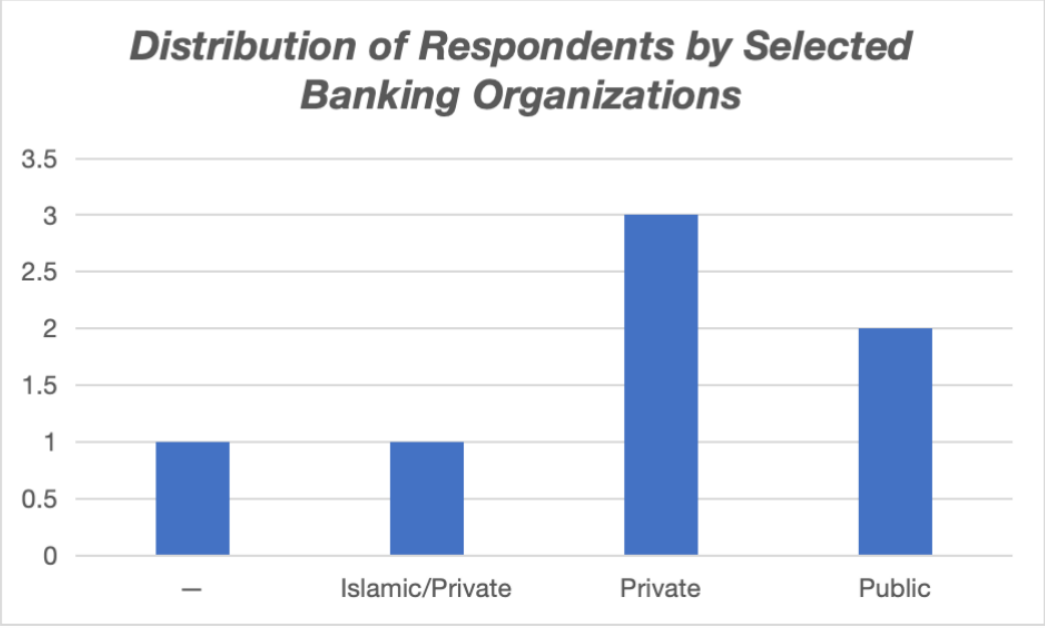


Fig. 2: Distribution of Respondents by Selected Banking Organizations (N = 239)

Data Collection and Research Instrument

A structured, self-administered questionnaire was used to gather the primary data. The questionnaire was self-administered without the interviewer's assistance. They were briefed on the academic goals of the research and were urged to answer questions in light of their experiences in their organizations. A self-administered questionnaire was used to ensure a standardized approach in collecting responses.

The questionnaire items were designed to assess the Strategic HRM, Organizational Innovation, and Organizational Performance. Items from existing measures used in prior studies were modified to create the measurement items. Employee development, employee performance, employee rewards, employee involvement, and strategic HR practices were evaluated for their assessment of strategic HRM. Based on existing innovation research (Tang, 1998), items were developed that measured Organizational Innovation in terms of introducing and implementing new or improved organizational practices, processes, services and methods. Indicators of organizational effectiveness and performance were used in measuring organizational performance in the previous HRM-performance research. Items were all rated on a five-point Likert scale from 1 = Strongly Disagree to 5 = Strongly Agree.

Validity and Reliability

The validity of the questionnaire was ensured by using the well-established measurement items adapted from the previous studies and its relevance in the context of the banking sector in Pakistan. Reliability of the study instrument was determined by the internal consistency of the items measuring Strategic Human Resource Management, Organizational Innovation, and Organizational Performance, which was done using the Cronbach's alpha reliability coefficient. The internal consistency was considered satisfactory with Cronbach's alpha value of 0.70 or higher.

Ethical Considerations

There was no compulsory participation in the study and the respondents were given information on the academic purpose of the study before the questionnaire was completed. The data gathered from the respondents was confidential and only used for academic. There was no requirement for personally identifying information and the respondents were willing to respond.

Table 2: Demographic Characteristics of Study Participants (N = 239)

Demographic Characteristic	Category	n	%
Gender	Male	139	58.2
	Female	100	41.8
Age	20–30 years	72	30.1
	31–40 years	91	38.1
	41–50 years	52	21.8
	Above 50 years	24	10.0
Educational Qualification	Bachelor's degree	87	36.4
	Master's degree	112	46.9
	MPhil/MS or equivalent	32	13.4
	PhD	8	3.3
Work Experience	Less than 5 years	76	31.8
	5–10 years	89	37.2
	11–15 years	47	19.7
	More than 15 years	27	11.3
Job Position	Officer/Executive	96	40.2
	Assistant Manager	61	25.5

Demographic Characteristic	Category	n	%
	Manager	57	23.8
	Senior Manager	25	10.5
Total	—	**239**	**100.0**

Demographic characteristics revealed that 139 (58.2%) was male while 100 (41.8%) was female. Regarding age, the largest proportion of respondents was between 31 and 40 years (38.1%), followed by those aged 20–30 years (30.1%), 41–50 years (21.8%), and above 50 years (10.0%). Most of the respondents (112, 46.9%) had a master's degree, 87 (36.4%) had a bachelor's degree, 32 (13.4%) had an MPhil/MS or equivalent degree, and 8 (3.3%) had a PhD. Regarding work experience, 89 (37.2%) respondents had 5–10 years of experience, followed by 76 (31.8%) with less than 5 years, 47 (19.7%) with 11–15 years, and 27 (11.3%) with more than 15 years. With respect to job position, 25.5% (61) were officers/executives, 23.8% (57) were managers and 10.5% (25) were senior managers.

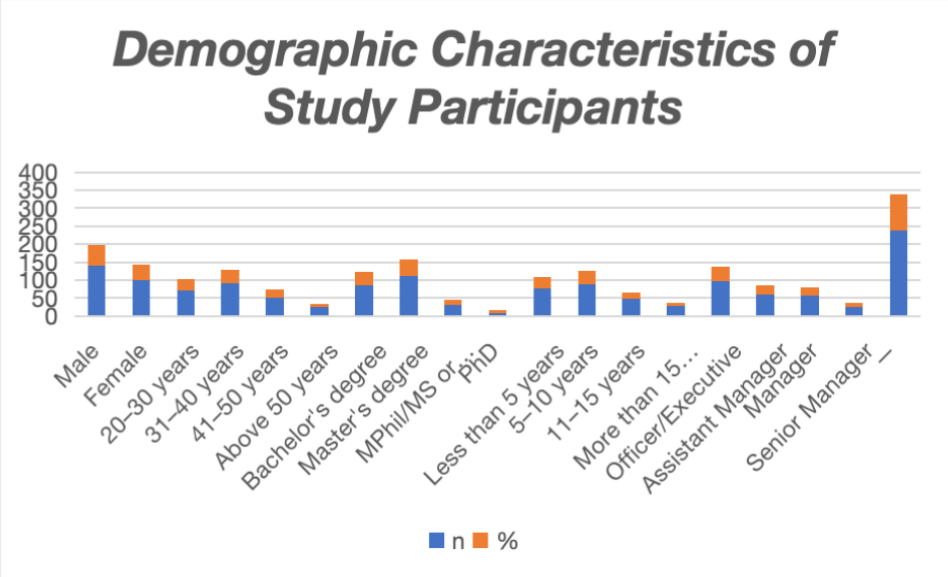


Fig. 3: **Demographic Characteristics of Study Participants (N = 239)**

Table 3: Reliability and Convergent Validity Analysis (N = 239)

Construct	Cronbach's Alpha	Decision
Strategic Human Resource Management	0.884	Reliable
Organizational Innovation	0.867	Reliable
Organizational Performance	0.851	Reliable

The findings suggest that the three constructs had good internal consistency. The Cronbach's alpha value of Strategic Human Resource Management, Organizational Innovation and Organizational Performance were above the recommended value of 0.70. So, all of the study variables showed good reliability and were accepted to be suitable for further statistical analysis.

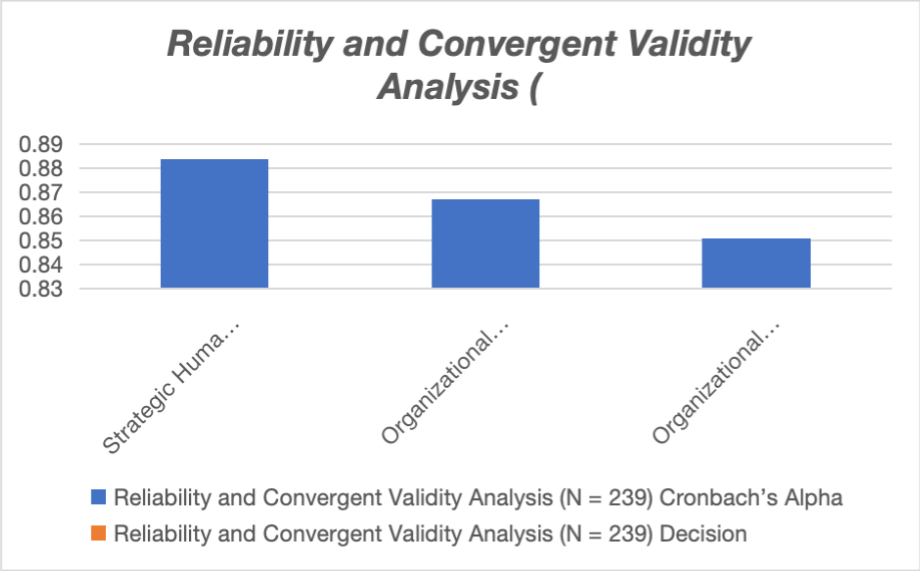


Fig. 4: Reliability and Convergent Validity Analysis

Table 4: Relationship Between Strategic Human Resource Management and Organizational Innovation (N = 239)

Variables	Mean	SD	Pearson's r	p-value
Strategic Human Resource Management	3.74	0.68	0.624	< 0.001
Organizational Innovation	3.81	0.65	0.624	< 0.001

The strategic human resource management was positively and significantly related to Organizational Innovation ($r = 0.624$, $p < 0.001$).

Table 5: Strategic Human Resource Management as a Predictor of Organizational Performance (N = 239)

Predictor Variable	Outcome Variable	β	SE	t	p-value
Strategic Human Resource Management	Organizational Performance	0.286	0.071	4.028	< 0.001

The results of regression analysis revealed that Strategic Human Resource Management is positively and significantly related to Organizational Performance ($\beta = 0.286$, $P<0.001$). The positive regression coefficient shows that there is a positive relationship between SHRM and Organizational Performance. Hence, it was observed that H2 was supported, which means that there was a significant relationship between SHRM and Organizational Performance.

Table 6: Organizational Innovation as a Predictor of Organizational Performance (N = 239)

Predictor Variable	Outcome Variable	β	SE	t	P Values
Organizational Innovation	Organizational Performance	0.471	0.067	7.030	< 0.001

The results of regression analysis revealed that Strategic Human Resource Management is positively and significantly related to Organizational Performance ($\beta = 0.286$, $P<0.001$). The positive regression coefficient shows that there is a positive relationship between SHRM and Organizational Performance. Hence, it was observed that H2 was supported, which means that there was a significant relationship between SHRM and Organizational Performance

Table 7: Mediation Analysis of Organizational Innovation in the Relationship Between Strategic Human Resource Management and Organizational Performance (N = 239)

Variables	Indirect Effect	BootSE	LLCI	ULCI	p-value
Strategic Human Resource Management, Organizational Innovation, and Organizational Performance	0.294	0.048	0.204	0.391	< 0.001

The mediation analysis revealed that the Organizational Innovation partially mediated the relationship between the Strategic Human Resource Management and Organizational Performance. The BootSE for the indirect effect was 0.048, and the effect was positive (0.294). The 95% confidence interval for r12 was [0.204, 0.391] which contains no zero, suggesting that there was a statistically significant indirect relationship. Thus, the results of the current study indicated a significant mediation effect of Organizational Innovation, thus supporting H4.

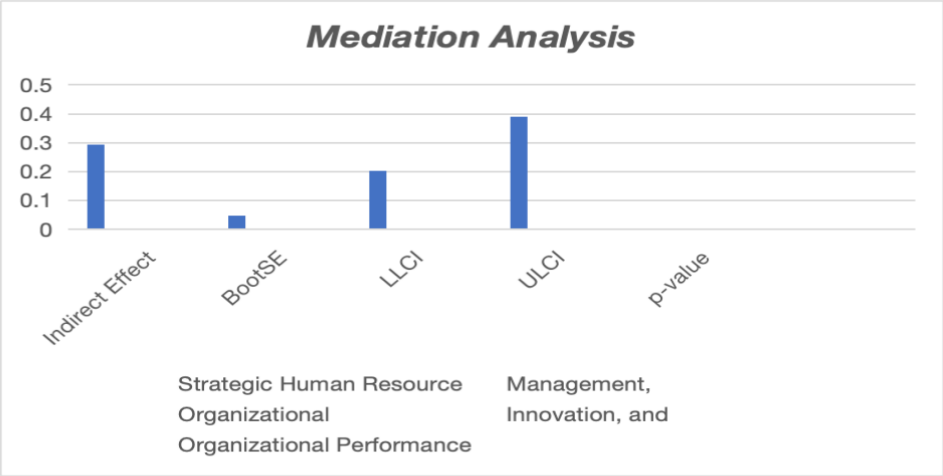


Fig. 5: Mediation Analysis

Discussion

The present study aims to explore the relationships between Strategic Human Resource Management, Organizational Innovation and Organizational Performance with an emphasis on the mediation of Organizational Innovation. The findings revealed that Strategic Human Resource Management (SHRM) was significantly positively related to Organizational Innovation. This suggests that having effective HR practices, such as employee development, performance management, rewards and employee involvement can give the organization an environment which facilitates innovation. This finding aligns with the study by Karimivand, (2025) and that by Trivedi and Srivastava (2024) which indicated that strategic HR practices have positive effects on organizational innovation.

The study also confirmed that SHRM was a significant predictor for Organizational Performance. It implies that organizations' with a strategic HRM process can build and develop capabilities, motivation and effectiveness of their employees which consequently can enhance organizational performance. The finding is supported by Kebede et al. (2026) who reported the positive relationship between Strategic HRM and firm performance. In the same way, Rajabi Farjad et al. (2021) found that effective HRM practices positively influence the organizational performance by enhancing the organizational capabilities.

Organizational Innovation was also found to significantly predict Organizational Performance. The discovery implies that companies that create and execute new or improved processes, services, and organizational practices have a greater chance of having better performance. The banking industry might be especially significant in terms of innovation as expectations of customers evolve, digital technology is adopted, and competition is fierce. This finding aligns with Iqbal et al., (2019) who found that innovation performance is a crucial factor in company performance.

The mediation analysis also revealed that Organizational Innovation significantly mediated between the Strategic Human Resource Management and Organizational Performance. This means that strategic HR practices can impact organizational performance

directly, as well as indirectly, in that they can foster innovation within the organization. This discovery is consistent with Zehir et al. (2016) who noted that innovation is a key mechanism that connects HR practices to organizational performance. Overall, the results showed that the HR strategies and organizational innovations are complementary to improve the organizational performance in the banking industry.

General Conclusion

The findings of the present study can be summed up as following: Strategic Human Resource Management, Organizational Innovation, and Organizational Performance are significantly connected in the banking sector. The strategic Human Resource Management was positively correlated with Organizational Innovation and Organizational Performance and Organizational Innovation was also positively correlated with Organizational Performance. The results show that the HR practices can help in building employees' competence and promote innovative organizational practices, thereby helping in enhancing the organizational performance.

In addition, the study results indicated that Organizational Innovation is an important intermediary between Strategic Human Resource Management and Organizational Performance. This implies that not only are effective HR strategies important to achieving better performance, but so too is an environment that encourages innovation. Hence, the banking institutions should adjust their HR strategies to innovation strategies to enhance organization efficiency and sustain performance.

Future Implications

The relationships between SHRM, Organizational Innovation and Organizational Performance in various industries and organizational contexts should be further investigated to enhance the generalizability of the results. These and other relationships could also be better established over time in future studies through the use of larger sample sizes, longitudinal studies, and probability sampling. Other factors like organizational culture, employee engagement, leadership, digital transformation, knowledge management can be explored further to gain a better insight into the role of HR strategies and innovation in organizational performance.

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