

# Organizational Strategic Capability and Organizational Performance: The Serial Mediating Roles of Innovation and Operational Efficiency

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## Abstract

*This study examines how innovation and operational efficiency serially mediate the relationship between organizational strategic capability and organizational performance. Grounded in the Resource-Based View, organizational strategic capability is conceptualized through strategic direction and alignment, strategy execution, and strategic adaptability. A quantitative, explanatory, cross-sectional design was adopted, and data were collected from 384 employees and managers using a structured questionnaire. Structural equation modelling and serial mediation analysis were applied, with common method bias assessed before hypothesis testing. The results show that organizational strategic capability positively influences innovation and organizational performance, innovation improves operational efficiency, and operational efficiency positively affects organizational performance. The serial indirect effect through innovation and operational efficiency is significant, while the direct effect remains significant, indicating partial serial mediation. The findings extend the Resource-Based View by explaining the sequential process through which strategic capabilities are converted into organizational performance.*

**Keywords:** *Innovation, Operational efficiency, Organizational performance, Organizational strategic capability, Resource-based view, Serial mediation, Strategic capability.*

## 1. Introduction

In today's world, organizations experience competition, instability of the market, fast-paced technology, and changing expectations of customers, necessitating that organizations use digital transformation and new technologies in order to cope with the new dynamics of competition. [1]. In this way, organizational agility and adaptability, along with efficient internal resource management, become more important for competitiveness in uncertain environments. Therefore, organizations should go further than resource dependence and develop capabilities that will help them recognize opportunities, cope with challenges, and translate their strategic intentions into actions.

Strategic capability of an organization has become increasingly important because organizations need to perform sustainably in dynamic and competitive business environments. This is defined as an organization's capacity to define a strategic direction, align resources and activities with strategic priorities, execute strategies effectively, and respond to changes in the environment. [2]. The literature has indicated that the success of an organization in dynamic environments depends not only on developing strategies but also on implementing and adjusting them according to new situations. Strategy direction and alignment offer a framework for decision-making and resource allocation, whereas strategy execution is concerned with the implementation of strategic planning. [3]. In the same way, strategic adaptability allows an organization to change its strategies in line with changes in technology, markets, and the environment. Consequently, organizations with distinct strategic direction, alignment, execution, and adaptability are well-positioned for success.

Strategic capabilities form important organizational resources used to gain competitive advantage and performance. They form resources which include knowledge, skills, processes, procedures, structures, and managerial abilities of an organization which help it coordinate its activities and use its resources to create economic value and competitive advantage. [4]. Strategic alignment is especially significant since it focuses on the need for coordinating an organization's strategy with its capabilities and the environment to enhance performance. [5]. Alignment can only be effectively accomplished by integrating the organization's mission, goals, process, resources, and technology, all of which should be continuously modified in accordance with environmental changes. But achieving strategic alignment is difficult since the business environment undergoes constant changes. Under such circumstances, it becomes necessary to develop strategic adaptability, which will help organizational managers cope with unpredictable circumstances by means of flexibility, agility, leanness, and resilience. [6]. Hence, the three aspects constitute strategic capabilities of organizations.

Organizational performance is intimately related to the degree to which companies fulfil their strategic and operational goals. It is influenced by several elements, including organizational strategy, managerial performance, resource utilization, and the ability to successfully coordinate internal activities. [7]. Although strategic talents are commonly acknowledged as essential predictors of organizational performance, they may not increase performance solely through a direct relationship. The competence of an organization to develop and implement strategy must be converted into concrete organizational procedures and outcomes. As a result, studying the mechanisms by which strategic competence contributes to organizational performance is critical for building a more complete knowledge of strategic management.

Innovation is one critical channel to transform organizational strategic competence into better organizational outcomes. Organizations characterized by a clear strategic direction and good execution capability are better positioned to take search of new possibilities, develop creative solutions and adapt to changing consumer and market demands. Continuous technological innovation is particularly vital for preserving organizational competitiveness, evolving products and processes, and satisfying emerging customer expectations. [8]. However, firms may confront an innovation dilemma in which the costs and challenges associated with technology improvement impair profitability and inhibit long-term growth. This emphasises the significance of integration of innovation with good organizational procedures so as to ensure innovations provide measurable operational advantages.

The efficiency of processes is an additional key factor that influences organizational effectiveness. It makes it possible for organizations to streamline their resources, become productive, cut down on unnecessary costs, improve service or product delivery, and be more competitive. Operational efficiency is thus a critical requirement for organizations that wish to survive and flourish in highly competitive business environments. [9]. Organizational practices, technology, procedures, and resource management may all be enhanced by innovation, leading to greater operational efficiency. Organizations might boost their value-adding, price-competitive, and performance-enhancing capabilities with

more operational efficiency. One possible chain reaction between strategic capabilities, innovation, and organizational performance is as follows: strategic capabilities cause innovation, which in turn causes operational efficiency, which in turn serves to improve organizational performance.

This research derives its definition of organizational strategic capacity from the Resource-Based View (RBV). It states that, when appropriately created and used, organizational strategic capability is a valuable internal capability that may lead to better performance. The RBV states that companies get a lasting advantage over their competitors when they acquire and use resources and abilities that are valued, distinctive, difficult to replicate, and non-substitutable. According to this school of thought, companies may better manage their resources, foster innovation, and enhance operational processes when its leaders possess organizational strategic competency. Organizational strategic capacity impacts performance via the sequential processes of innovation and operational efficiency, but this linked process has received little attention. Consequently, this research delves into the connection between strategic capacity and performance by examining the sequential mediating functions of innovation and operational efficiency. Providing a process-based explanation for how strategic capabilities are transformed into measurable organizational outcomes, the proposed model states that organizational strategic capability fosters innovation, which in turn strengthens operational efficiency. Consequently, organizational performance is improved.

## **2. Review of Literature and Hypothesis Development**

This section reviews the existing scholarly literature on Organizational strategic capability, innovation, operational efficiency and organizational performance. It critically synthesis existing research to understand how strategic capabilities in organizations influence innovation, improve operational processes and achieve superior performance. The review also identifies the theoretical foundations and empirical relationships among the constructs, with Resource-based view (RBV). Finally, the literature review highlights the gaps in existing research, thereby establishing the rationale for examining the serial mediating roles of innovation and operational efficiency in the relationship between organizational strategic capability and organizational performance.

### **2.1. Organizational strategic capability positively influences innovation**

[10] Used data from 120 owners and managers to investigate the impact of organizational capacities on innovation, internal control, and competitive advantage in batik MSMEs in Surakarta, Indonesia. Structural Equation Modeling analysis showed that organizational competence has a considerable impact on innovation, internal control, and competitive advantage, whereas innovation and internal control have no significant impact on competitive advantage. According to the findings, MSMEs should focus on improving internal competencies in order to gain a competitive edge, contradicting the notion that innovation is the key driver. This study combined multiple theoretical approaches to highlight the importance of organizational competence in these culturally entrenched organizations. [11] Analyzed the effect of organizational capability, tacit knowledge, and organizational innovation capability on public sector performance. Specifically, the capacity to innovate is used as a mediator to examine the connection between organizational competence, tacit knowledge, and performance. Using stratified random sample and SEM-PLS, the study was carried out among 1,912 officials in North Maluku Province. The findings indicate that tacit knowledge and competence have a favorable effect on performance, which in turn increases an organization's

capacity for innovation. It is said that organizations in the public sector should prioritize training and technology progress as tools to manage tacit knowledge and enhance capabilities. The following hypothesis may be advanced in light of the evidence presented above:

***Hypothesis 1: Organizational strategic capability positively influences innovation.***

## **2.2. Innovation positively influences operational efficiency**

[12] Analyzed technological innovation's impact on operational efficiency in manufacturing, healthcare, logistics, and finance, using data from 200 companies. Key findings reveal substantial efficiency gains in manufacturing (18% reduction in production time) and logistics (15%), primarily due to automation and the Internet of Things (IoT). The findings were an illustration of Rogers' Diffusion of Innovation Theory, which emphasized the need for sectoral variation when it comes to adoption of technology. The study proposed a phased approach and customized compliance approaches for regulated sectors. It also suggested future exploration of innovation impacts on specific sub-industries. A study by [13] Investigated the impact of strategic planning, innovation management, and operational efficiency at United Bank for Africa, Nigeria. It considered the impact of innovation management on operational efficiency and the direct implications of strategic planning on both innovation management and operational efficiency. Using a quantitative survey method and a mediation analysis with SPSS and PROCESS Macro, the results show that both operational efficiency and innovation management are positively impacted by strategic planning. However, when controlling for strategic planning, there is no significant effect of innovation management on operational efficiency. On top of that, it isn't a go-between for the two. For the banking industry to achieve operational efficiency, the research stressed the need of direct strategic planning. Thus, the following hypothesis might be proposed based on the aforementioned studies:

***Hypothesis 2: Innovation positively influences operational efficiency.***

## **2.3. Operational efficiency positively influences organizational performance**

The primary aim of this research is to empirically assess the factors influencing organizational performance through an analysis of National Basketball Association (NBA) team data. Specifically, NBA teams achieve higher market performance by leveraging valuable, rare, inimitable, and non-substitutable resources and capabilities, aligning operational efficiencies with core competence to secure competitive advantages. [14] Defined operational efficiency as the level of competence demonstrated by these teams, utilizing extensive game-related statistics and financial data concerning human resources and budgets. Data was collected over six seasons (2015–2016 to 2020–2021) for all 30 NBA teams. Findings indicate that 29 out of 180 decision-making units show remarkable organizational efficiency, making significant contributions to franchise value. [15] Demonstrated that, this study used a descriptive research design and looked into the impact of operational efficiency on the Kenya Airports Authority (KAA)'s performance. The study collected data from 161 employees from a targeted group of 267 using disproportionate stratified sampling and semi-structured questionnaires. Multiple regression analysis, descriptive statistics, and inferential statistics were all part of the analysis that was carried out using SPSS. The results demonstrated that KAA's organizational performance was greatly enhanced by process optimization ( $B=0.765$ ;  $p=0.000$ ), service automation ( $B=0.730$ ;  $p=0.000$ ), resource management

( $B=0.696$ ;  $p=0.000$ ), and stakeholder cooperation ( $B=0.793$ ;  $p=0.000$ ). Finally, the research urges the Kenyan government to install automated security systems and passport control at all of the country's airports and suggests that management make employee training a top priority in order to optimize processes. The following theory may be put up in light of the considerations mentioned above:

**Hypothesis 3:** *Operational efficiency positively influences organizational performance.*

## **2.4. Organizational strategic capability has a positive direct influence on organizational performance**

[16] Looked into how dynamic skills contribute to competitive advantage and enhanced performance in technology-based SMEs. It takes into account the ways in which these competences affect competitive advantage, how competitive advantage affects performance via mediating effects, and what it means to build these capabilities in dynamic markets. Among 400 managers from SMEs, researchers discovered a positive correlation between dynamic capabilities and competitive advantage. These capabilities aid in enhancing resource management, creativity, and adaptability. This competitive advantage is mediating the relationship enabling businesses to excel in their performance. The study stresses the significance of the development of dynamic capabilities for leaders in SMEs to succeed in today's rapidly changing and technology-oriented environment. [17] Mentioned the important relation among dynamic capabilities, strategic behavior, and organizational performance amid contemporary issues in businesses. A total number of 118 papers published from 2006 to 2021 have been reviewed via the Systematic Literature Review approach with a three-stage process including preparation, conduct, and knowledge production. The study revealed that terms are categorized into three groups which are "Knowledge Management," "Measurement Instrument," and "Organizational Environment." This study offers a methodology for future work. The results demonstrate the connection between the above dimensions both theoretically and empirically. This suggests that there is a high correlation between dynamic capability and competitive intensity. Hence, the following hypothesis could be considered:

**Hypothesis 4:** *Organizational strategic capability has a positive direct influence on organizational performance.*

## **2.5. Serial mediation: Innovation and operational efficiency serially mediate the relationship between organizational strategic capability and organizational performance**

The above-stated hypothesis is the newly proposed sequential mediation hypothesis. Based on the previous theoretical arguments, organizational strategic capability is expected to stimulate innovation by providing strategic direction, execution capability and adaptability. Innovation, in turn, is supposed to boost operational efficiency by developing better processes, technologies, products, and methodologies. Enhanced operational efficiency is projected to lead to improved organizational performance. As a result, this study offers a sequential process in which innovation and operational efficiency influence the relationship between

organizational strategic competence and performance. Thus, the following hypothesis is proposed:

**Hypothesis 5:** *Innovation and operational efficiency serially mediate the relationship between organizational strategic capability and organizational performance.*

## 2.6. Research gap

Recent literature suggests that organizational competencies may spur creativity, innovations may bring about improvement in operations, and operations efficiency may contribute to performance in organizations. Prior literature has primarily examined the relationship between these factors in isolation or has primarily looked at different mediating effects; however, very few studies have considered the combination of all these factors together in an ordered sequence. In addition, the concept of organizational strategic capability is often considered as one and whole concept, without any emphasis on its multi-faceted aspects, which include strategic orientation and alignment, strategy execution capacity, and strategic flexibility. There has been limited empirical work on the conversion of strategic capability into performance through the process approach. Hence, this study fills this gap by proposing and testing the serial mediation model in which organizational strategic capability affects innovations, innovations contribute to operations efficiency, and operations efficiency, in turn, leads to performance in organizations.

## 3. Theoretical Framework

Resource-Based View (RBV) is the theoretical framework that supports this investigation. It provides a sound theoretical basis for comprehending the connection between organizational capabilities and performance. The RBV hypothesis states that businesses may achieve long-term performance and competitive advantage by acquiring and using resources and talents that are valuable, rare, unique, and cannot be replaced. [18]. Organizational capability, as opposed to just available resources, indicates an organization's capacity to integrate and coordinate its resources to successfully respond to change external conditions. So, it's not only the resources an organization has that affect its success; how well those resources are used also plays a significant role.

Organizational strategic capability, according to this study, is the capacity of an organization to choose its own strategic direction and alignment, carry out its own strategy execution, and adapt to change circumstances. This kind of capability may be seen as a significant asset that firms can exploit to their advantage if they adopt a resource-based perspective.

When it comes to create a performance advantage via innovation, the resource-based approach states that organizational competencies are crucial. Organizations with strong strategic competencies are better able to see possibilities, set aside funds for innovations, conduct experiments, and ultimately launch new goods, services, processes, and business models. [19]. Since the aforementioned competencies impact process, it follows that organizational strategic capability will impact innovation.

The efficient delivery of goods and services is made possible by innovations that boost operational efficiency via the enhancement of processes, the effective use of technology, the decrease of waste, and the efficient allocation of resources. In order

to boost efficiency and output, businesses might reorganize their resources using the RBV method. Lower costs, more productivity, improved process quality, and more effective use of resources are the outcomes of operational efficiency, which is attained via efficient usage and management of resources.

It is believed that operational efficiency would have a beneficial effect on the performance of the company. Consequently, the RBV sheds light on the ways in which talents and resources contribute to enhanced organizational performance. Furthermore, it proves that strategic capability is directly related to organizational performance. This is because organizations can improve their performance by coordinating and responding to their environment in pursuit of strategic opportunities when they are strategically oriented, properly executed, and flexible.

This research presents a sequential mechanism that organizations' strategic competence effects organizational performance, based on the theoretical considerations mentioned before. In particular, it is believed that an organization's performance will be enhanced by increased operational efficiency, which in turn will be boosted by innovation, which is boosted by organizational strategic capacity. So, we claim that innovation and operational efficiency mediate the link between an organization's strategic competence and its performance in a sequential fashion. Not only does this sequential mediation mechanism broaden the RBV's applicability, but it also elucidates the relationship between strategic capabilities and performance and the transformation of those skills into quantifiable organizational results.

#### **4. Research methodology**

Using a quantitative, explanatory, and cross-sectional research design, this study investigates how organizational performance is correlated with strategic capability. Primary data was collected from the chosen organization's workers and management using a standardized questionnaire. Research will focus on the causes and effects of innovation and operational efficiency as mediators between performance, organizational strategic capability, innovation, and operational efficiency. The measurement and structural models, together with the assumptions that have been given, will be evaluated using Structural Equation Modelling (SEM).

##### **4.1. Research design and approach**

Researchers in this study used a quantitative, explanatory, cross-sectional design to test hypotheses on the relationships between strategic competency, innovation, operational efficiency, and performance in organizations. The study's purpose is to statistically evaluate the proposed hypotheses by quantifying constructs using structured questionnaire data, hence a quantitative approach is appropriate. To examine the relationships between the variables and the mediating functions of operational efficiency and innovation in a sequential fashion, an explanatory design is used. The study will use a cross-sectional research design, meaning that data will be collected from the sample at a single point in time. Using structural equation modeling (SEM), the researchers examined the direct relationships between variables, including serial mediation from organizational strategic capability to organizational performance through innovation and efficiency, and administered tests for both structural and measurement models.

## 4.2. Conceptual framework

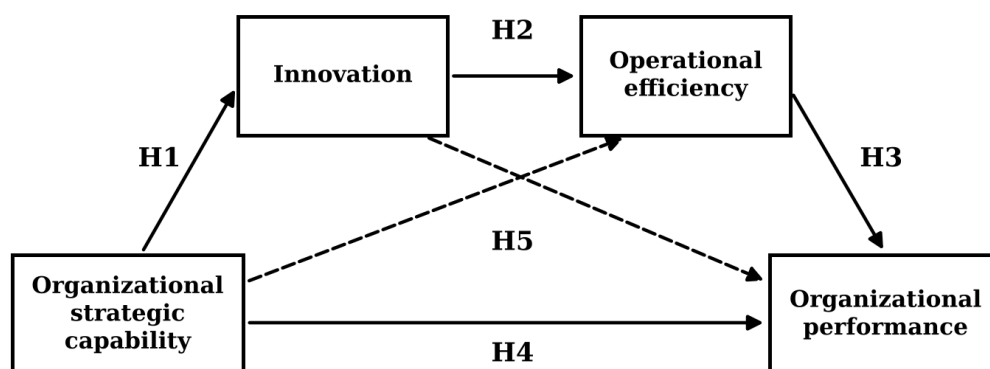


**Figure 1. Conceptual framework**

Solid arrows denote the hypothesised paths (H1–H4) and H5 denotes the serial indirect path. Dashed arrows denote the control paths (organizational strategic capability → operational efficiency; innovation → organizational performance) that are estimated in the serial mediation model but are not hypothesised.

## 4.3. Objectives of the study

- To examine the influence of organizational strategic capability on innovation.
- To assess the influence of innovation on operational efficiency.
- To determine the influence of operational efficiency on organizational performance.
- To examine the direct influence of organizational strategic capability on organizational performance.
- To investigate the serial mediating roles of innovation and operational efficiency in the relationship between organizational strategic capability and organizational performance.

## 4.4. Sample selection and size

Managers and workers with sufficient expertise in organizational strategy, innovation, operations, and performance were selected using a purposive sample technique. With this sample size, Structural Equation Modeling (SEM) was able to adequately test the research model's direct relationships and serial mediations. Participants were selected based on their expertise in providing feedback on the study's constructs. We were able to run the SEM analysis and draw valid conclusions with respect to measurements and structural models using this sample size. In order to gather this information, a survey was administered to the participants using a five-point Likert scale.

#### **4.5. Data Collection methods**

A questionnaire was created to collect data from the management and staff of the selected investment-advising and multi-family offices. To collect data in this study this questionnaire was the main instrument used. The researchers at McMillan found that certain pre-existing scales measuring innovation, operational efficiency organizational performance and organizational strategic capability have different effects on the study population. A point consists of the measure of "Strongly Disagree" and five points equal "Strongly Agree". This was measured on a five-point likert scale used to evaluate all the items. It was pilot tested with subject-matter experts before the main examination was taken in order to verify that the questionnaire was transparent and simple to interpret. It helped ensure that the questionnaire was full of appropriate data and that the information reflected the questionnaire content validity. This led to 384 honest responses collected in direct interviews from people with sufficient expertise in strategic and operational operations.

#### **4.6. Measurement of variables**

A well-designed questionnaire, tailored to the specifics of the chosen company, examined the variables included in the present research using pre-existing scales. The three components that make up an organization's strategic capability are its ability to plan and execute its strategies, its level of strategic flexibility, and its level of strategic orientation and alignment. Three reflecting constructs organizational performance, operational efficiency, and innovation—were evaluated using a battery of indicators. A five-point Likert Scale, with 1 representing Strongly Disagree and 5 representing Strongly Agree, was used to measure all of the items. Factor loadings, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) were used to evaluate internal consistency and convergent validity. The Fornell-Larcker Criterion was used to evaluate discriminant validity. The results show that the research is reliable and valid enough; all of the indicator loadings were acceptable, the reliability indexes were higher than recommended, and the AVE values were higher than the minimum required. Although the items refer to the organization, they were answered by individual employees and managers, and the resulting scores are therefore treated as individual-level perceptions of the organizational constructs, as explained in the following subsection.

#### **4.7. Level of analysis**

Although the constructs examined in this study are organizational in nature, they were measured by asking individual employees and managers to rate their own organization, and the respondents were nested within a limited number of organizations. Consequently, the data do not contain sufficient between-organization variance to estimate organizational-level relationships, and neither aggregation of responses to the organizational level nor multilevel modelling was feasible, since both require data from a large number of organizations [15]. In line with the principle that the level of theory, measurement and analysis must be aligned [5], [15], the individual respondent is treated as the unit of analysis, and each

construct is interpreted as the respondent's perception of the organization: perceived organizational strategic capability, perceived innovation, perceived operational efficiency and perceived organizational performance.

Accordingly, the structural paths estimated in this study represent associations among individual perceptions of these organizational attributes across respondents, not the effect of one firm-level attribute on another. The construct labels are retained in the remainder of the paper for readability, but all hypothesis tests, results and conclusions are to be read at this individual, perceptual level. Whether the same relationships hold between organizations is identified as a priority for future research using multi-organization samples and multilevel structural equation modelling.

#### **4.8. Data analysis techniques**

To analyze the data, Structural Equation Modelling (SEM) was used. Summarizing the demographic features of the sample participants was the first use of descriptive statistics. In order to verify construct reliability and convergent validity, the measurement model was examined using factor loadings, Cronbach's alpha, composite reliability, and average variance retrieved. The Fornell-Larcker criteria was used to assess discriminant validity. We used RMSEA, CMIN/DF, GFI, NFI, RFI, and RMR to evaluate the fitness of the models. Standardized route coefficients and significant indicators were used in the structural model to evaluate the direct effects postulated in H1-H4. Last but not least, we used a serial mediation analysis to see if innovation and operational efficiency mediate the relationship between organizational strategic capability and performance in a sequential fashion. Bootstrapping with 5,000 resamples and 95% confidence intervals was used to examine direct, indirect, total indirect, and serial indirect effects. A confidence interval that omits zero suggests a substantial mediation influence. We used the significant direct influence that was left after the mediators were added to determine partial serial mediation. Prior to hypothesis testing, common method bias was assessed using the full collinearity variance inflation factor (VIF) approach [16] and inspection of the latent inter-construct correlations [2]. To ensure a single, coherent model specification, the direct-path hypotheses (H1-H4) and the serial mediation hypothesis (H5) were tested on the same model [10] (Model 6). In addition to the hypothesised paths, this model includes two non-hypothesised control paths, from organizational strategic capability to operational efficiency and from innovation to organizational performance, which a serial multiple-mediator model must contain for an unbiased decomposition of indirect effects; these control paths are shown as dashed arrows shown in Figure 1.

### **5. Results**

#### **5.1. Descriptive Statistics**

Among the 384 respondents, 218 were males (56.77% of the total) and 166 were female (43.23% of the total), as shown in Table 1 and Figure 2, which reflect the demographic profile of the sample. A total of 145 respondents (37.76%) fell into the 31–40 age bracket, followed by 116 (30.21%) in the 21–30 age bracket. Of those who responded, 83 (21.61%) were in the 41–50 age bracket, and 40 (10.42%) were

older than 50. In terms of educational attainment, 171 (44.53%) of the respondents had a Master's degree, while 135 (35.16%) had a Bachelor's degree. Also, 58 people (or 15.10%) had professional credentials, and 20 people (or 5.21%) had a PhD or equivalent advanced degree. There were 111 respondents with 6-10 years of experience (28.91%), 102 with 3-5 years of experience (26.56%), and 85 with less than 3 years of experience (22.14%). Within the sample, 55 people (14.32%) had 11–15 years of experience, while 31 people (8.07%) had above 15 years. Respondents represent a highly educated and experienced workforce which makes them a good match for the measure of a wide range of criteria including strategic competencies innovation, operational efficiency and performance.

**Table 1. Demographic Profile (N=384)**

| Demographic variable      | Category                      | Frequency | Percentage (%) |
|---------------------------|-------------------------------|-----------|----------------|
| Gender                    | Male                          | 218       | 56.77          |
|                           | Female                        | 166       | 43.23          |
| Age                       | 21–30 years                   | 116       | 30.21          |
|                           | 31–40 years                   | 145       | 37.76          |
|                           | 41–50 years                   | 83        | 21.61          |
|                           | Above 50 years                | 40        | 10.42          |
| Educational qualification | Bachelor's degree             | 135       | 35.16          |
|                           | Master's degree               | 171       | 44.53          |
|                           | Professional qualification    | 58        | 15.1           |
|                           | Doctorate/Other qualification | 20        | 5.21           |
| Total work experience     | Less than 3 years             | 85        | 22.14          |
|                           | 3–5 years                     | 102       | 26.56          |
|                           | 6–10 years                    | 111       | 28.91          |
|                           | 11–15 years                   | 55        | 14.32          |
|                           | More than 15 years            | 31        | 8.07           |

Source: SPSS

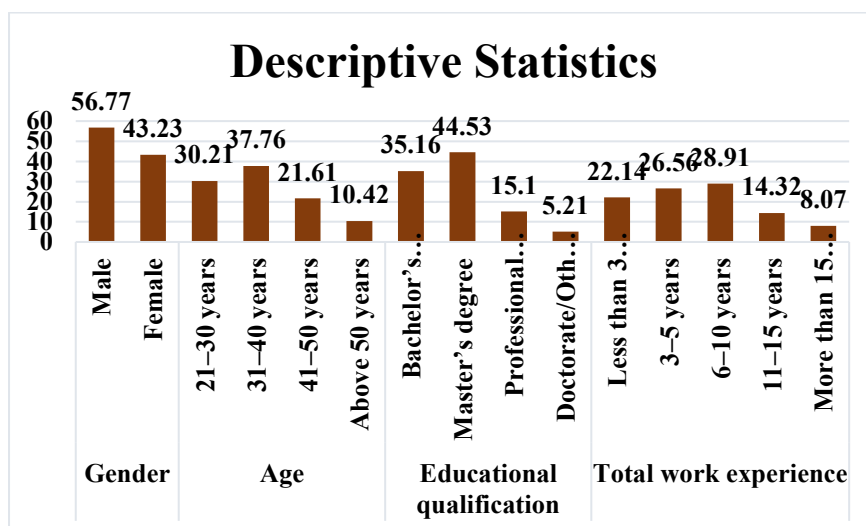


**Figure 2. Demographic Profile of Respondents**

## 5.2. Reliability and Validity

All of the constructs have satisfactory reliability and convergent validity, as shown in table 2 above, which demonstrate the results of the measurement model. A total of 0.914 for Cronbach's Alpha, 0.914 for Composite Reliability (CR), and 0.682 for Average Variance Extracted (AVE) were recorded for Organizational Performance, which had factor loadings ranging from 0.709 to 0.795. The construct explains a substantial percentage of the variance in its indicators, as confirmed by these values, which also show good internal consistency. While both Cronbach's Alpha (0.870) and Composite Reliability (0.871) were higher than the acceptable threshold of 0.70, the factor loadings for Innovation varied from 0.644 to 0.787. There is enough evidence of convergent validity, as the AVE value of 0.531 is higher than the threshold of 0.50. Operational Efficiency also displayed strong reliability and convergent validity, with factor loadings ranging from 0.744 to 0.865 and Cronbach's Alpha and Composite Reliability both equal to 0.904. There was an AVE of 0.655. With factor loadings ranging from 0.755 to 0.858, Cronbach's Alpha of 0.911, Composite Reliability of 0.902, and AVE of 0.540, the higher-order construct known as Organizational Strategic Capability is well-supported. Both the internal consistency and the convergent validity of the multidimensional construct are demonstrated by these findings. In general, all buildings meet the required specifications, with AVE values above 0.50, composite reliability values over 0.70, and reliability coefficients over 0.70. So, we may trust the measurement model to test our hypotheses and structural models.

**Table 2. Reliability and Validity**

| Constructs | Loadings | Cronbach's Alpha | Composite Reliability | Average Variance Extracted |
|------------|----------|------------------|-----------------------|----------------------------|
|            |          | 0.914            | 0.914                 | 0.682                      |

| Constructs                                       | Loadings      | Cronbach's Alpha | Composite Reliability | Average Variance Extracted |
|--------------------------------------------------|---------------|------------------|-----------------------|----------------------------|
| Organizational performance                       | 0.709 – 0.795 |                  |                       |                            |
| Innovation                                       | 0.644 – 0.787 | 0.870            | 0.871                 | 0.531                      |
| Operational Efficiency                           | 0.744 – 0.865 | 0.904            | 0.904                 | 0.655                      |
| Organizational Strategic Capability (High Order) | 0.755 – 0.858 | 0.911            | 0.902                 | 0.54                       |

Fornell-Larcker criterion results for construct discriminant validity examination are presented in Table 3. The numbers off-diagonal show the correlations between constructs, while the diagonal values show the square root of the Average Variance Extracted (AVE) for each construct. Compared to the correlations for Innovation (0.416), Operational Efficiency (0.639), and Organizational Strategic Capability (0.547), the square root of the AVE for Organizational Performance (0.826) is higher. Similarly, when compared to its correlations with operational efficiency (0.545) and organizational strategic competence (0.478), the square root of the AVE for innovation (0.728) is superior. Likewise, the square root of the AVE for operational efficiency (0.809) is greater than its correlations with organizational performance (0.639), innovation (0.545) and organizational strategic capability (0.342). Finally, compared to the relationships with Organizational Performance (0.547), Innovation (0.478), and Operational Efficiency (0.342), Organizational Strategic Capability's square root of AVE (0.868) is highest. Consequently, the measurement model has enough discriminant validity, and the constructs are empirically different, as the diagonal values of each construct are greater than their respective inter-construct correlations.

**Table 3. Discriminant Validity**

| Constructs                          | Organizational performance | Innovation | Operational Efficiency | Organizational Strategic Capability |
|-------------------------------------|----------------------------|------------|------------------------|-------------------------------------|
| Organizational performance          | 0.826                      |            |                        |                                     |
| Innovation                          | 0.416                      | 0.728      |                        |                                     |
| Operational Efficiency              | 0.639                      | 0.545      | 0.809                  |                                     |
| Organizational Strategic capability | 0.547                      | 0.478      | 0.342                  | 0.868                               |

Table 4 shows the model fit indices based on the structural model that was recommended. With values below 3.00 considered acceptable, a CMIN/DF ratio of 1.279 indicates an excellent model fit. Model fit is acceptable with GFI(0.928), NFI(0.932), and RFI (0.924) all above the suggested threshold of 0.90. A lower below the generally recognized threshold of 0.08, an RMR result of 0.054 suggests the presence of residual errors. In addition, the RMSEA value of 0.027 is much lower than the suggested maximum of 0.08, which means that the model approximation fits the data quite well. Since chi-square is impacted by sample size, we rely on all available evidence from fit indices to evaluate model fit instead of only the chi-square significance test, even when the p-value is 0.000. The results show that the suggested model fits the data well on the whole. So, it's safe to say that the model is statistically sound and ready for more investigation.

**Table 4. Model fit Overview**

| Variable | CMIN/DF | P value | GFI   | NFI   | RFI   | RMR   | RMSEA |
|----------|---------|---------|-------|-------|-------|-------|-------|
| Value    | 1.279   | 0       | 0.928 | 0.932 | 0.924 | 0.054 | 0.027 |

### 5.3. Common Method Bias

Because all constructs were measured through self-reported questionnaires completed by the same respondents at a single point in time, the presence of common method bias (CMB) was formally examined before the hypotheses were tested [22]. Two statistical tests were applied. First, a full collinearity assessment was conducted following Kock [16], in which each latent construct was regressed on all the other constructs and a variance inflation factor (VIF) was computed; VIF values greater than 3.3 indicate pathological collinearity and suggest that the model may be contaminated by common method bias. The full collinearity VIFs, derived from the latent construct correlation matrix reported in Table 3, were 2.142 for Organizational Performance, 1.658 for Innovation, 2.067 for Operational Efficiency and 1.645 for Organizational Strategic Capability. All values are below the threshold of 3.3, indicating that the model is not affected by pathological common method bias. Second, the inter-construct correlations were examined, since correlations above 0.90 are a typical signature of substantial common method variance [2]. The highest correlation among the constructs was 0.639 (Operational Efficiency and Organizational Performance), well below this threshold. Together, these results indicate that common method bias is not a serious concern in this study and that the observed relationships are unlikely to be artefacts of the measurement method.

### 5.4. Structural Equation Modeling (SEM) and Hypothesis Testing

For the direct correlations that were hypothesized in the research, Table 5 displays the results of the SEM test, estimated on the same model specification as the serial mediation analysis in Table 6. The results demonstrate a strong and positive correlation between Organizational Strategic Capability and Innovation ( $\beta = 0.380$ ,

$p < 0.001$ ). This supports H1 since innovative ideas can be developed and executed by organizations that have a clear strategy, are competent, and are flexible. A strong and positive correlation between innovation and operational efficiency ( $\beta = 0.330$ ,  $p < 0.001$ ) lends credence to H2, suggesting that innovations result in enhanced organizational operations and better management of resources. Furthermore, the correlation between operational efficiency and organizational performance is positive and statistically significant ( $\beta = 0.442$ ,  $p < 0.001$ ), lending credence to H3 and demonstrating the effect of efficiency on organizational results. Conclusion: H4 is correct since there is a robust and substantial correlation between Organizational Strategic Capability and Organizational Performance ( $\beta = 0.364$ ,  $p < 0.001$ ). In conclusion, the results offer credence to all four of the direct impact hypotheses (H1, H2, H3, and H4). If an organization's strategic competency is high, then its employees are more likely to think creatively, which in turn boosts operational effectiveness, which in turn boosts organizational performance. There is a positive correlation between organizational strategic competency and performance that holds true even when controlling for other factors. Hypothesis H5 proposes a serial mediating impact of innovation and operational effectiveness; the results provide a solid basis for investigating this effect.

To ensure consistency between the structural model and the serial mediation analysis, a single model specification is used throughout the study. Because a serial multiple-mediator model must include every path permitted by the causal order strategic capability  $\rightarrow$  innovation  $\rightarrow$  operational efficiency  $\rightarrow$  performance [10], the model includes, in addition to the hypothesised paths, two control paths: from organizational strategic capability to operational efficiency ( $\beta = 0.222$ ,  $p = 0.0002$ ) and from innovation to organizational performance ( $\beta = 0.117$ ,  $p = 0.0094$ ). These paths are not hypothesised and are shown as dashed arrows shown in Figure 1; they are estimated so that the hypothesised direct and indirect effects are not biased by omitted paths. Consequently, the coefficients reported in Table 5 are identical to the corresponding paths in Table 6, and both tables refer to one and the same model.

**Table 5. Structural Equation Modelling Analysis (Direct Effects, Same Specification as Table 6)**

| Hypothesis | Structural relationship                                                      | $\beta$ | p-value | Decision  |
|------------|------------------------------------------------------------------------------|---------|---------|-----------|
| H1         | Organizational Strategic Capability $\rightarrow$ Innovation                 | 0.380   | <0.001  | Supported |
| H2         | Innovation $\rightarrow$ Operational Efficiency                              | 0.330   | <0.001  | Supported |
| H3         | Operational Efficiency $\rightarrow$ Organizational Performance              | 0.442   | <0.001  | Supported |
| H4         | Organizational Strategic Capability $\rightarrow$ Organizational Performance | 0.364   | <0.001  | Supported |

| Hypothesis | Structural relationship                                                  | $\beta$ | p-value | Decision    |
|------------|--------------------------------------------------------------------------|---------|---------|-------------|
| Control    | Organizational Strategic Capability $\rightarrow$ Operational Efficiency | 0.222   | 0.0002  | Significant |
| Control    | Innovation $\rightarrow$ Organizational Performance                      | 0.117   | 0.0094  | Significant |

### 5.5. Serial Mediation Analysis: Innovation and Operational Efficiency as

#### Mediators

Organizational Strategic Capability and Organizational Performance are mediated by Innovation and Operational Efficiency, according to the findings of the serial mediation study (Table 6). The predicted association between organizational strategy capacity and innovation is supported by these data, which demonstrate that organizational strategic competence significantly influences innovation positively ( $\beta = 0.380$ ,  $SE = 0.0533$ ,  $t = 7.1387$ ,  $p < 0.001$ ). A strong positive correlation between Organizational Strategic Capability and Operational Efficiency exists ( $\beta = 0.222$ ,  $SE = 0.0585$ ,  $t = 3.8077$ ,  $p = 0.0002$ ). Furthermore, the level of operational efficiency is favorably affected by innovation ( $\beta = 0.330$ ,  $SE = 0.0528$ ,  $t = 6.3303$ ,  $p < 0.001$ ). This demonstrates that creative capacities have a beneficial effect on the effectiveness of business operations. The result shows that innovation has a good effect on organizational performance ( $\beta = 0.117$ ,  $SE = 0.0449$ ,  $t = 2.609$ ,  $p = 0.0094$ ), while operational efficiency has an even bigger positive effect ( $\beta = 0.442$ ,  $SE = 0.0415$ ,  $t = 10.6664$ ,  $p < 0.001$ ). Organizational Performance is directly impacted by Organizational Strategic Capability ( $\beta = 0.364$ ,  $SE = 0.0483$ ,  $t = 7.5556$ ,  $p < 0.001$ ). Therefore, it lends credence to the idea that the dimensions are directly related. The fact that the confidence interval does not include zero indicates that the first indirect impact of organizational strategic capability on organizational performance via innovation is considerable ( $\beta = 0.044$ , 95% CI [0.0107, 0.0843]). Like the direct impact, the indirect effect via Operational Efficiency is also substantial ( $\beta = 0.098$ , 95% CI [0.0438, 0.1572]). The substantial indirect influence propagating along the chain of Organizational Strategic Capability  $\rightarrow$  Innovation  $\rightarrow$  Operational Efficiency  $\rightarrow$  Organizational Performance ( $\beta = 0.056$ ,  $SE = 0.0145$ , 95% CI [0.0313, 0.0877]) is the most essential aspect. The overall indirect impact was extensive however and was considered significant ( $\beta = 0.199$  95% CI >0.1374, 0.2671). The results indicate that Organizational Strategic Capability influences Organizational Performance directly and indirectly through Innovation and Operational Efficiency, but the direct effect is still significant even after adjusting for the mediators ( $\beta = 0.3648$ ,  $SE = 0.0483$ ,  $t = 7.5556$ ). Organizational strategic competency is improved by innovations that lead to increased operational efficiency, as confirmed by the observed strong serial indirect impact.

**Table 6. Serial Mediation Analysis (Innovation and Operational Efficiency as Mediators)**

| Path                                                                                                               | Effect | Standard Error (SE/Boot SE) | t-value | p-value / 95% Bootstrap CI | Result      |
|--------------------------------------------------------------------------------------------------------------------|--------|-----------------------------|---------|----------------------------|-------------|
| Organizational Strategic Capability<br>□ Innovation (a <sup>1</sup> )                                              | 0.38   | 0.0533                      | 7.1387  | <0.001                     | Significant |
| Organizational Strategic Capability<br>□ Operational Efficiency (a <sup>2</sup> )                                  | 0.222  | 0.0585                      | 3.8077  | 0.0002                     | Significant |
| Innovation □ Operational Efficiency (d <sup>21</sup> )                                                             | 0.33   | 0.0528                      | 6.3303  | <0.001                     | Significant |
| Innovation □ Organizational Performance (b <sup>1</sup> )                                                          | 0.117  | 0.0449                      | 2.609   | 0.0094                     | Significant |
| Operational Efficiency □ Organizational Performance (b <sup>2</sup> )                                              | 0.442  | 0.0415                      | 10.6664 | <0.001                     | Significant |
| Organizational Strategic Capability<br>□ Organizational Performance (c')                                           | 0.364  | 0.0483                      | 7.5556  | <0.001                     | Significant |
| Indirect Effect 1:<br>Organizational Strategic Capability<br>□ Innovation → Organizational Performance             | 0.044  | 0.0183                      | —       | [0.0107, 0.0843]           | Significant |
| Indirect Effect 2:<br>Organizational Strategic Capability<br>□ Operational Efficiency → Organizational Performance | 0.098  | 0.029                       | —       | [0.0438, 0.1572]           | Significant |

| Path                                                                                                                                 | Effect | Standard Error (SE/Boot SE) | t-value | p-value / 95% Bootstrap CI | Result                   |
|--------------------------------------------------------------------------------------------------------------------------------------|--------|-----------------------------|---------|----------------------------|--------------------------|
| Serial Indirect Effect:<br>Organizational Strategic Capability<br>□ Innovation □ Operational Efficiency □ Organizational Performance | 0.056  | 0.0145                      | –       | [0.0313, 0.0877]           | Significant              |
| Total Indirect Effect:<br>Organizational Strategic Capability → Organizational Performance                                           | 0.199  | 0.0333                      | –       | [0.1374, 0.2671]           | Significant              |
| Direct Effect (c') after mediation                                                                                                   | 0.3648 | 0.0483                      | 7.5556  | <0.001                     | Partial Serial Mediation |

Table 6 and Table 5 are based on the same model specification. Paths a2 and b1 are the non-hypothesised control paths shown as dashed arrows shown in Figure 1.

## 6. Discussion and Conclusion

Consistent with the RBV, which asserts that substantial organizational resources and abilities, when created and used effectively, may provide improved performance, these results offer strong empirical evidence for the suggested model. Factor loadings were from 0.644 to 0.865, Cronbach's Alpha was in the range of 0.870 to 0.914, Composite Reliability was also within that range, and AVE was in the range of 0.531 to 0.682, all of which point to high reliability and validity in the measurement model. The structural findings provided support for H1 by showing that Innovation was significantly impacted by Organizational Strategic Capability ( $\beta = 0.380$ ,  $p < 0.001$ ). The research has shown that the three pillars of a successful strategy, Strategic direction and consistency, Strategy Execution and Strategic flexibility, form the core structure for every innovative enterprise. Recent studies [20], [21] Conform to the findings that corroborate the beneficial effect of dynamic capabilities on innovative capacity and, consequently, organizational performance. The evidence points to the case that both organizational and innovation capabilities are essential for obtaining competitive advantages.

Findings support hypotheses 2 and 3 and highlights the significance of the relationship between innovation efficiency and performance. The major impact on Organizational Performance was Operational Efficiency ( $\beta = 0.442$ ,  $p < 0.001$ ), while Innovation significantly impacted Operational Efficiency ( $\beta = 0.330$ ,  $p < 0.001$ ). According to the findings, innovation may be used to provide strategic value by enhancing processes, making better use of resources, integrating technology, and improving organizational functioning. [22] Both the present empirical data and the

study based on the Resource-Based View have shown that organizational skills increase the performance and efficiency of the company. The findings have further supported this link. While previous studies have shown that innovation management does not significantly improve efficiency when taking strategic planning into account, the present study contradicts those results. What this means is that certain organizational and industry characteristics determine the nature of the link between innovation and efficiency. [13].

Extra support was given to H4 and H5. Strategic capabilities have a direct influence on organizational outcomes as highlighted by the significant direct effect of organizational capabilities on organizational performance ( $\beta = 0.364$ ,  $p = 0.001$ ). The overall indirect impact was also significant ( $\beta = 0.199$ , 95% CI [0.1374, 0.2671]);, and the indirect effect of organizational strategic capability innovation operational efficiency  $\rightarrow$  Organizational performance was highly significant ( $\beta = 0.056$ , 95% confidence interval [0.0313, 0.0877]) and correlated quite positively. The inclusion of the mediators does not decrease the significance of the direct impact ( $\beta = 0.3648$ ,  $p = 0.001$ ) which confirms partial serial mediations. An earlier investigation that looked at capabilities and innovation as being a tie between capabilities and performance strengthens the understanding of the concept of knowledge exploration and development. It shows that innovation will eventually lead to operational efficiency which is the next step in turning strategic capabilities into performance. [20] The findings confirm the resource-based view since they not only clear how Strategic capabilities boost organizational performance but also show how valuable internal capabilities become organizational gains through innovative innovation and efficient resource management.

This research provides evidence that organizational strategic capabilities are vital components when trying to be great. Developing new initiatives and improving the use of resources and processes is made possible by planning and building the strategy effectively. Successful execution of the strategy and strategic agility. Ignoring strategic capacities of organizations leads to turn strategic capacity into better organizational performance, Innovation should be a highly-productive tool of management. This research provides an evidence base for the continuous improvement of an organization's performance direct and sequentially. Organizational Performance is directly impacted by strategic capability however a sequential route to enhanced performance can be formed through combination of innovation with operational efficiency. In summary the results show that strategic capacity helps innovate more easily and innovation improves operational efficiency, and lastly effective and efficient organizational procedures form the basis of good organizational performance. This study continues the corpus of knowledge known as the resource-based view by offering an explanation of how internal capabilities affects corporate performance. Organizational Strategic Capability, Innovation, Operational Efficiency, and Organizational Performance make up a serial mediation model that the study sheds light on. This model explains how companies accomplish performance by using their strategic capabilities. It should be noted that these conclusions are drawn at the individual level of analysis: they reflect how employees' and managers' perceptions of strategic capability, innovation, operational efficiency and performance are related, and confirming these relationships at the organizational level requires data from a large sample of organizations.

## **7. Practical and Social implications**

The outcomes demonstrate the need for managers and organizational leaders to develop strategic capability as a multidimensional construct including strategic direction, successful implementation, and adaptability. It is recommended for organizations to focus on strategic planning, effective communication, employee development, and flexible decision-making approaches. The analysis stresses the significance of an essential serial mediation approach which implies that strategic competence is not only a contributing factor to the effectiveness but also the creation of an environment that fosters creativity thus transforming creative ideas into more efficient procedures and performance. For organizations to perform better, it is recommended to combine strategic planning with innovation management, digital technology and performance evaluation, evaluating innovation by its contribution to the effectiveness and performance rather than by the number of innovative ideas developed. Moreover, increased ability and innovations can lead to sustainable creation of value for employees, customers, and other stakeholders; this results in effective resource management, reduced wastage, better customer service, and environment friendly activities. Emphasizing innovation and adaptability leads to the creation of an innovative and competent workforce with problem-solving abilities, helping companies maintain their competitive position while promoting economic development. Essentially, it proves that innovation driven by strategic capabilities and efficiency is vital for organizational success and creation of greater social and economic value.

## **8. Limitations and Future Research Directions**

The results are influenced by many restrictions that are considered in this study. Because of its quantitative cross-sectional design, it was unable to examine developmental difficulties in terms of organizational performance, innovation, operational efficiency, or strategic competence across time or to demonstrate a causal relationship between variables. Although it is backed by SEM and serial mediation analysis, the data is cross-sectional, so we can't see how the changes play out over the organization's phases or in other types of business settings. There is a risk of technique bias, answer bias, and social desirability bias when using self-reported survey data. Although the full collinearity and inter-construct correlation tests indicated that common method bias is not a serious concern, such tests cannot eliminate method variance entirely. These biases might influence how respondents perceive the actual organizational results. Research settings, which are confined to specific institutions, might make it difficult to apply the findings to other markets, categories of enterprises, countries, or sorts of institutions. Other important characteristics influencing organizational outcomes could be overestimated when Organizational Strategic Capability has been conceptualized as superior construction. All of the respondents who responded were drawn from a limited number of organizations therefore the study had an individual level of analysis. Findings based on this study reflect purely individual perceptions of organizational constructs rather than differences between groups' operations.

To obtain outsider insight into causes and evidence of times-dependent fluctuations future studies may have to use a longitudinal technique - or' To understand the link between capacity and performance, researchers may adopt mixed methods studies including quantitative and qualitative. To more understand

how institutional and environmental variables contribute to correlation heterogeneity comparative studies are suitable spanning different contexts. Providing a framework by which to evaluate the effects of various dimensions of the organizational strategic Capability on innovation and performance could improve the theoretical framework proposed here. More particular research should seek to collect more data from a large sample of organizations while treating each one as the unit of analysis; or apply multilevel structural equation modelling to account for the nesting of respondents within the organisation, and data sources need to be well-organized to reduce common method bias.

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