RESEARCH PAPER

The Relationship Between HRM Practices And Organizational Innovation: Mediating Role Of Human Capital In Banking Sector

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ABSTRACT

With an emphasis on the banking sector (BS), this study will examine the mediating function of human capital (HC) in the relationship between Human Resource Management (HRM) practices and organizational innovation (OI). The study takes a quantitative methodology based on a sample of 200 employees working in the public and privately owned banks in the selected districts in Maharashtra. Statistical methods such as % analysis, regression, correlation, and mediation analysis were used to examine the data collected from a structured questionnaire. The results indicate that the private sector (Pvt. Sec.) banks have better HRM practice, development of human capital, and better innovation performance than the public sector (PS) banks. Statistical methods such as % analysis, regression, correlation, and mediation analysis were used to examine the data collected from a structured questionnaire. Those findings reveal the significance of quality HRM practices in improving organizational performance and imply that the banks operating in the PS should reinforce their HR practices and allocate greater resources to employee development in order to stay afloat in the fast-changing BS.

Keywords: HRM Practices, Organizational Innovation, Human Capital, Banking Sector, Public vs Private Banks, Employee Development, Technological Innovation, Performance Management.

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1. INTRODUCTION

The modern business world is witnessing an increasing appreciation of innovation as a source of competitive advantage and long-term sustainability by organizations. Continuous innovation has become more important in the banking industry, where the current evolution and transformation driven by technology, regulatory shifts, and changing customer expectations require continuous innovation. HRM practices are crucial in encouraging this kind of innovation through the provision of a friendly work environment, increasing the ability of the employees, and promoting workplace creativity and involvement. Training and development (T&D), performance appraisal (PA), employee involvement (EI) and compensation systems are some of the practices that have great impact on motivation and performance of employees, thus, leading to organizational performance. Effective HRM practices can, in particular, keep institutions in the BS competitive and sensitive to the changing market needs by ensuring quality of services and technological adaptation.

More so, HC concept has been developed as an important connection between HRM practices and OI. The HC that includes the skills, knowledge, competencies and the experience of the employees is a strategic asset that allows organizations to be innovative and adapt. HC implies that the mediating role of HRM practices in innovation might not be as effective as HRM practices on their own, unless it leads to the creation and advancement of employee capabilities. When applied to the situation with the public and the Pvt. Sec. banks, the differences in the management styles, flexibility of the organization, and investment in the development of the employees may play a significant role in the efficiency of the HRM practices and, as a result, the outcomes of the innovation. Although performance-based cultures and sophisticated HR systems are typical of the Pvt. Sec. banks, structural and administrative issues can be a challenge to the PS banks. As such, this research paper will examine how HRM practices are correlated with OI with a particular emphasis on how HC mediates this relationship in the banking industry, which can shed some light on how people-focused approaches can lead to OI and development.

2. LITERATURE REVIEW

Agha, Eyupoglu, and Tashtoush (2025) studied the connection between the practices of HRM and OI within the banking industry of North Iraq, and especially how HC mediates the relationship. The researchers concluded that successful HRM practices such as training, performance appraisal, and EI played a key role in increasing OI. It also showed that HC was a key mediator since the influence of HRM practices on

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innovation results increased with the development of skills, knowledge and competencies of employees. The study pointed out that the banks which put money on HC were in a better position to deliver innovative performance and remain competitive.

Yousaf et al. (2019) examined the effects of high-performance work practices (HPWPs) on OI with a high emphasis on HC as an intermediary. The research showed that HPWPs, including selective recruitment, long-term training, and rewarding performance had a positive influence on innovation in organizations. The results revealed that HC played an important role in mediating this relationship, implying that organizations could not attain innovation by solely relying on HR practices unless the practices helped to increase the capabilities of the employees. The research came to the conclusion that it was critical to enhance HC in order to transform HRM practices into innovative results.

Iqbal et al. (2021) examined how HR practices relate to OI capability, in particular knowledge management. The research result revealed that HR practices had a great impact on innovation capability as they helped in creating and managing knowledge within organizations in an effective manner. It also highlighted that knowledge management was a very important mechanism by which HRM practices boosted innovation. The study found that the organizations that successfully combined HR practices with knowledge management systems had greater chances to build capabilities of high-quality innovation and maintained long-term performance.

Hussain and Shafiq (2023) explored how intellectual capital is related to sustainable organizational performance in the banking industry in Pakistan, and how OI mediates this relationship. The research discovered that intellectual capital, which includes human, structural and relational capital, played a crucial role in enhancing organizational performance. It also found that OI was a major mediating factor, which amplified the effects of intellectual capital in outcomes of sustainability. The results highlighted that banks that invested in intellectual resources and encouraged innovation had a higher chance of attaining long-term performance and competitive advantage.

Nieves and Quintana (2018) explored how HR practices affect innovation in hotels, with a special emphasis on HC as the mediator. The research showed that the following HR practices training, employee involvement, and empowerment were positively related to the result of innovation. It also discovered that HC was a major mediating factor as the translation of HR practices into innovative performance was facilitated by the development of skills and knowledge of the employees. This study found that organizations that concentrated on the enhancement of HC by putting in place strong HR strategies were in a better position to realize greater levels of innovation and organizational achievement.

3. RESEARCH METHODOLOGY

In order to examine the connection between HRM and OI (with HC as the mediating variable) in the BS, this study used a quantitative research strategy.

3.1 Research Design

Since this study will detail the present HRM practices in both public and Pvt. Sec. banks and explain how these practices may influence HC and OI, it follows a descriptive and explanatory research design.

3.2 Study Area

The study was carried out in the sampled districts of Maharashtra namely Amravati, Solapur, Jalgaon, Latur, and Chandrapur but not the large metropolitan cities so as to have a more representative and diverse view of banking activities.

3.3 Sample Size and Sampling Technique

One hundred employees from PS banks and one hundred employees from Pvt. Sec. banks made up the 200 respondents selected as bank workers. The researchers employed a stratified random sampling method in order to get an equal representation of both sectors which was done by selecting branches which were then sampled using convenience sampling.

3.4 Data Collection Methods

The structured questionnaire based on Likert scale was used to gather primary data that included major variables like HRM practices (T&D, PA, EI, and compensation), HC (skill improvement, knowledge sharing, and competency development), and OI (process, product/service, and technological innovation). Journals, reports, and other pertinent academic resources were used to get secondary data.

3.5 Data Analysis Techniques

There were many types of statistical analysis performed on the collected data, including descriptive statistics, correlation, regression, and mediation analyses, among others. Using these methods, we examined relationship between variables and looked for evidence that HC mediated those relationships.

4. RESULT AND DISCUSSION

In order to foster OI in the BS, the results demonstrate emphatically that HRM approaches are crucial. Banks in the Pvt. Sec. continue to outperform those in the PS in matters of HRM dimension, HC development and innovation results. The latter can be explained by their adaptable management systems, performance-oriented culture and increased investment in employee development.

4.1 Sample Distribution and Study Area

Table 1 shows the distribution of respondents who participated in the study based on the sector. 50% of the 200 bank employees who will fill out the survey will work for PS banks, while the other 50% will be employed by Pvt. Sec. banks. Each industry is well-represented, giving researchers a fair sample from which to draw comparisons.

Table 1: Sector-wise Distribution of Respondents

Sector Type	Number of Respondents	Percentage (%)
PS Banks	100	50%
Pvt. Sec. Banks	100	50%
Total	**200**	**100%**

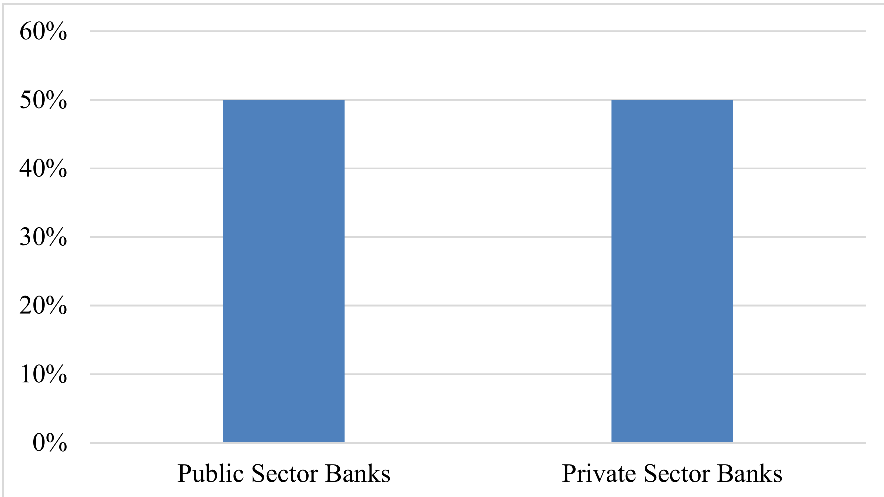

Figure 1: Graphical Representation of Sector-wise Distribution of Respondents

The study's comparison findings are more reliable and valid because public and Pvt. Sec. banks were equally represented among the respondents. By using a balanced sample, we may examine HRM practices, HC development, and OI fairly while minimizing sectoral bias. Since both industries are fairly represented in the study, it also increases the conclusions' generalizability.

4.2 Demographic Profile of Respondents

The demographic profile of the study's participants is presented in Table 2. Gender-wise, the largest group of respondents consists of males (120, 60%), and the female respondents are 80 (40%). Regarding age, most participants fall within the 31–40 years category (80, 40%), followed by 21–30 years (70, 35%) and 41–50 years (50, 25%). When it comes to work experience, the most significant proportion of respondents has 5-10 years of experience (90, 45%), then those with under 5 years (60, 30%) and finally those with over 10 years (50, 25%). These demographic distributions are presented in a visual manner in Figure 2.

Table 2: Demographic Characteristics

Variable	Category	F	(%)
Gender	M	120	60%
	F	80	40%
Age Group	21–30 years	70	35%
	31–40 years	80	40%
	41–50 years	50	25%
Experience	<5 years	60	30%
	5–10 years	90	45%
	>10 years	50	25%

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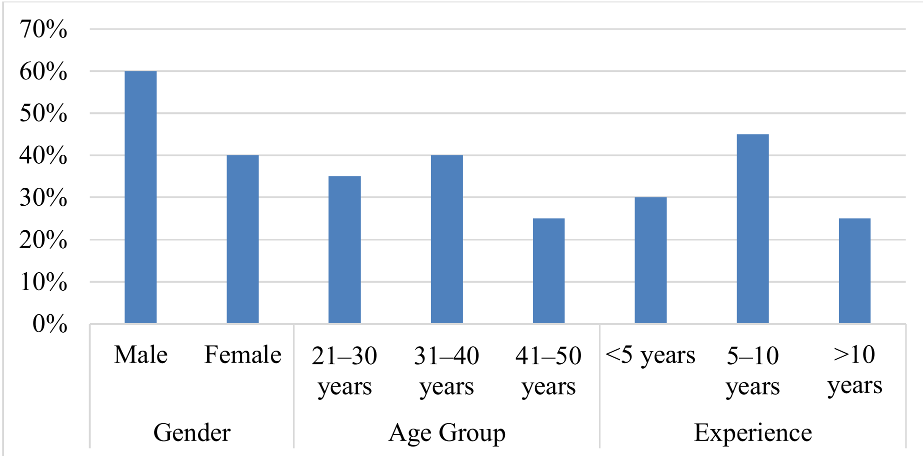

Figure 2: Graphical Representation of Demographic Characteristics

Demographic data show that the study mainly covers responses of relatively experienced and professionally active working population especially those in mid-career (31-40 years) and with experience of 5-10 years. This implies that the respondents will have a good exposure to the HRM practices and processes in the organization and their responses can be used to measure innovation and human capital. The disproportionate number of male respondents can be attributed to potential gender disparity in banking labor force in the chosen areas. On the whole, the demographic distribution contributes to the validity of the research, since it comprises the respondents who are experienced and mature enough to give informed opinions.

4.3 HRM Practices in Public vs Private Sector Banks

The public and Pvt. Sec. banks' perspectives on HRM procedures are displayed in Table 3. Pvt. Sec. banks had greater percentages in all HRM parameters, according to the report. Public banks have a T&D rate of 68%, whereas private banks have a rate of 82%. There is a significant difference between PA of 85% in private banks and 65% in public banks. On the same note employee participation is rated at 80% in the case of private banks and 60% in the case of public banks and compensation and rewards reflects the largest difference as it is rated at 88% in the case of the private banks and 62% in the case of the public banks.

Table 3: Perception of HRM Practices

HRM Practice	PS (%)	Pvt. Sec. (%)
Training & Development	68%	82%
Performance Appraisal	65%	85%
Employee Participation	60%	80%
Compensation & Rewards	62%	88%

Figure 3: Graphical Representation of Perception of HRM Practices

These results show that compared to PS banks, Pvt. Sec. banks have better and more organized HRM practices. A better training, appraisal, participation, and rewards score suggests a more dynamic, performance-driven, and people-centered model of private banks. Such a significant difference in compensation and rewards also indicates the more powerful incentive systems used in the Pvt. Sec. that can stimulate motivation and productivity of employees. Conversely, relatively smaller percentages in the banks in the PS can be explained by strict policies, lack of flexibility and reduced pace of adoption of contemporary HR practices.

4.4 Human Capital Development

Table 4 shows a comparative analysis of HC development indicators in both public and Pvt. Sec. banks. The results indicate that a higher percentage of all indicators is being reported by the Pvt. Sec. banks. While public banks have seen a 66% gain in expertise, private banks have seen an 84% improvement. When comparing public and private banks, the level of information sharing is 64% and 81%, respectively. Equally, competency development among employees is greatest in private banks with 86% and 63% in the case of public banks. These differences are graphically illustrated in figure 4, which shows that there is greater HC development in banks of the private sector.

Table 4: Human Capital Indicators

Indicator	PS (%)	Pvt. Sec. (%)
Skill Enhancement	66%	84%
Knowledge Sharing	64%	81%
Employee Competency Growth	63%	86%

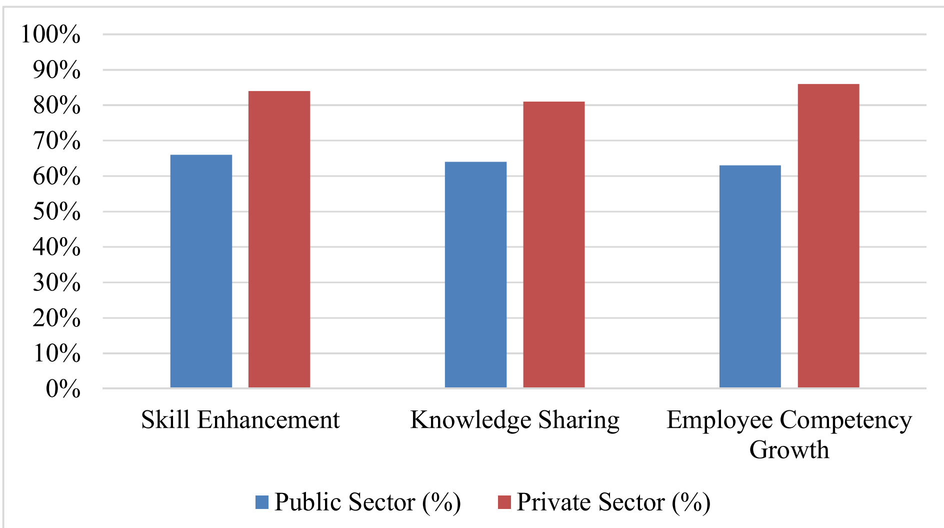

Figure 4: Graphical Representation of Human Capital Indicators

The data indicate that the Pvt. Sec. banks are more concerned with developing HC by means of continuous learning, knowledge sharing and competency development. The increased skills development and competency levels show that the private banks are more invested in developing their employees, which is critical in enhancing performance and innovation in the organization. On the other hand, the relatively lower scores in the PS banks might be due to fewer training opportunities and reduced proactive knowledge-sharing behaviors. This disjunction suggests that the reinforcement of HC programs in state-owned banks would considerably boost the abilities of staff and aid innovation-based performances.

4.5 Organizational Innovation Outcomes

Public and Pvt. Sec. banks' innovation performance is compared across key aspects in Table 5. The statistics show that banks of the Pvt. Sec. always have greater innovation returns. In the case of private banks, process innovation is reported to be 83% whereas in the case of public banks, it is reported to be 61%. Innovation in products/services is at 85% among the private banks and 58% in the public banks. There is a highest percentage of technological adoption in the private banks of 88% and a 63% in the public banks.

Table 5: Innovation Performance

Innovation Aspect	PS (%)	Pvt. Sec. (%)
Process Innovation	61%	83%

Product/Service Innovation	58%	85%
Technological Adoption	63%	88%

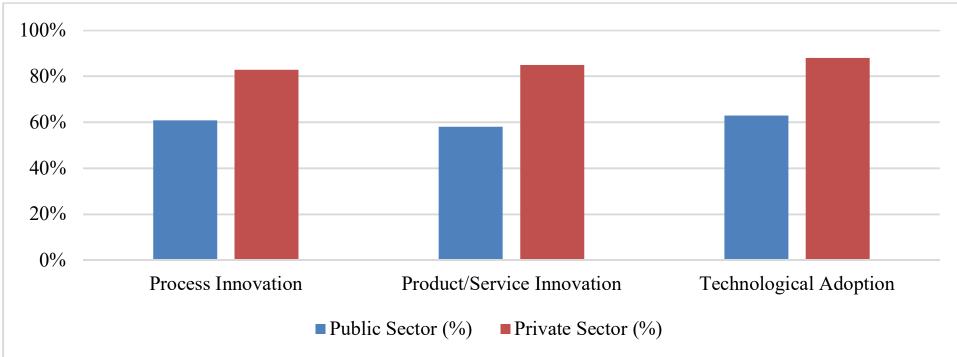

Figure 5: Graphical Representation of Innovation Performance

The results reveal that banks in the Pvt. Sec. are more aggressive and effective in implementing innovative practices, especially in technology and service delivery. An increased degree of technological implementation and product development implies a high emphasis on modernization, customer-focused approaches, and competitive positioning. On the flip side, PS banks may have lower ratings due to their less adaptable structure, slower decision-making, and less willingness to embrace new technology. These findings support the thesis that the greater the HRM practice and HC building in the private banks, the higher the OI.

4.6 Discussion

When comparing public and Pvt. Sec. banks, the findings show that Pvt. Sec. banks have better HRM practices, more opportunities for HC development, and more innovative organizational structures. Higher training, performance appraisal, participation and compensation scores indicate a more flexible and performance-based approach of the private banks. HRM plays a crucial role in building strong human capital, and these methods can help increase the level of employees' skills, knowledge, and competences.

Also, the findings affirm that HC is a mediator between the HRM practices and OI. Process, service and technological innovation are more evident in the case of the private banks with better human capital. Conversely, the PS banks are falling behind because of inflexible structures and slower pace of adopting modern practices. This implies that an enhanced HRM system and employee development can greatly boost innovation particularly in state sector banks.

5. CONCLUSION

The current study finds that HRM practices influence the organization innovation in the banking industry positively and significantly, with HC as a mediating factor. The results are quite clear in that; Pvt. Sec. banks score higher on effective HRM practices, employee development and innovation outcomes mainly because they are flexible in nature, performance oriented and more investing in human resource. The research indicates that the HRM practices of training, performance appraisal, employee participation, and compensation systems have a significant role in enhancing skills, knowledge and competencies of the employees that in turn lead to innovation in processes, services and technology. In contrast, the performance of the PS banks is rather low based on the structural inflexibility and slow pace of implementing the modern practices of HR. Thus, the paper highlights that enhancing the HRM systems and investing in HC development are fundamental measures of enhancing innovation capacities and realizing sustainable growth, especially in the case of the PS banks in a dynamic and competitive banking environment.

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