
Evaluating How Key Capabilities: Knowledge Sharing, Innovation on Organizational Performance Through Mediating Effect of Dynamic Capability

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Abstract

This study examines the impact of knowledge-sharing capability, innovative capability, on organizational performance with mediating role of dynamic capability. In today's rapidly changing business environment, organizations must leverage internal capabilities to remain competitive and sustainable. A quantitative research approach was adopted to explore how these capabilities influence organizational outcomes. Data were collected through close-ended questionnaire with owner and managers across different manufacturing SMEs of Sindh Pakistan. The findings indicate that knowledge sharing enhances collaboration and decision-making, innovative capability drives competitiveness, and dynamic capability enables firms to adapt to environmental changes. The study contributes to the literature by providing deeper insights into how these capabilities collectively improve organizational performance.

Keywords: Knowledge Sharing, Innovation, Dynamic Capability, Organizational Performance

Introduction

In the modern business environment, organizations face intense competition and rapid technological advancements. To survive and grow, firms must utilize their internal capabilities effectively. Knowledge-sharing capability, innovative capability, and dynamic capability are considered critical drivers of organizational performance. Knowledge sharing capability refers to an organization's ability to exchange ideas, information, and expertise among its members. It plays a critical role in enhancing organizational learning, collaboration, and operational efficiency (Yeboah, 2023; Dzenopoljac et al., 2024). Through effective knowledge sharing, employees can access valuable insights, reduce redundancy, and improve decision-making processes. Recent studies emphasize that knowledge sharing is a key organizational capability that contributes to innovation, ambidexterity, and overall firm performance (Ali et al., 2024). Furthermore, empirical research highlights that knowledge sharing facilitates the development of organizational capabilities and significantly improves productivity and performance outcomes (García-Sánchez & García-Morales, 2024). In addition, knowledge sharing has been found to mediate important organizational relationships, such as between organizational culture and performance, thereby reinforcing its strategic importance in achieving competitive advantage (Li et al., 2023). Innovative capability refers to an enterprise's ability to develop new products, services, and processes, enabling continuous renewal and adaptation (Lawson & Samson, 2001; Daronco et al., 2023). It is widely recognized as a key factor in sustaining competitive advantage, particularly in

rapidly changing environments (Bari et al., 2024; Shiferaw & Kero, 2024). Organizations with strong innovation capabilities tend to achieve superior performance in dynamic markets (Ferreira et al., 2023; Saunila, 2024).

Dynamic capability refers to an organization's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. It plays a crucial role in ensuring long-term sustainability and strategic adaptability (Teece, 2018; Wilden & Teece, 2023). Organizational performance encompasses both financial and non-financial outcomes, such as profitability, efficiency, and customer satisfaction. It reflects the extent to which an organization effectively achieves its strategic and operational goals (Richard et al., 2009; Choong, 2023).

Existing literature indicates that knowledge sharing plays a vital role in fostering innovation by facilitating the exchange and integration of ideas and expertise within organizations (Ikujiro Nonaka & Takeuchi, 1995; Bartol & Srivastava, 2002). Furthermore, dynamic capability enhances both innovation and organizational performance by enabling firms to sense opportunities, seize them, and reconfigure resources in response to environmental changes (David J. Teece, 2018; Wilden & Teece, 2023). Together, these capabilities significantly contribute to organizational success by strengthening adaptability, competitiveness, and long-term sustainability. This relationship is grounded in the knowledge-based perspective, which emphasizes knowledge as a strategic resource (Robert M. Grant, 1996), and dynamic capability theory, which explains how organizations renew competencies to maintain competitive advantage (Teece et al., 1997). Both theoretical perspectives provide strong support for understanding how knowledge sharing and dynamic capabilities jointly influence innovation and performance outcomes.

Research Problem

In today's dynamic and highly competitive business environment, organizations are increasingly required to leverage internal capabilities to sustain performance and achieve competitive advantage. Despite significant investments in knowledge management systems, innovation practices, and organizational restructuring, many firms still struggle to translate these capabilities into improved performance outcomes (Iqbal et al., 2025; Li et al., 2025).

Recent studies emphasize that knowledge-sharing practices, innovation capability, and dynamic capability are essential drivers of organizational success. Knowledge sharing enhances learning and collaboration, innovation capability supports the development of new products and processes, and dynamic capability enables organizations to adapt to rapidly changing environments (Cristache et al., 2025; Kowshik, 2025; Nanduri, 2026). However, organizations often fail to effectively integrate these capabilities, resulting in underperformance and inefficiencies.

For instance, while knowledge sharing improves organizational learning and collaboration, its direct and indirect influence on performance largely depends on how effectively organizations transform shared knowledge into innovation and adaptive strategies (Iqbal et al., 2025; Nanduri, 2026).

Thus, the core problem lies in understanding how and to what extent knowledge-sharing capability, innovative capability, and dynamic capability jointly influence organizational performance. Addressing this issue is critical for explaining how organizations can convert internal capabilities into sustained competitive advantage and superior performance outcomes in the contemporary business landscape.

Research Gap

Although prior research has examined the individual effects of knowledge sharing, innovation capability, and dynamic capability, significant gaps remain. Recent studies largely focus on direct

relationships with organizational performance, often overlooking the mediating role of dynamic capability in transforming knowledge resources into performance outcomes (Kowshik, 2025; Li et al., 2025). Additionally, limited research integrates these three capabilities into a unified framework, resulting in a fragmented understanding of their combined impact on organizational success (Cristache et al., 2025; Nanduri, 2026).

Moreover, insufficient empirical evidence exists on how knowledge sharing contributes to the development of innovation capability, particularly in dynamic environments (Iqbal et al., 2025). The interdependent and cumulative effects of knowledge processes and dynamic capabilities also remain underexplored (Li et al., 2025; Kowshik, 2025).

Therefore, this study addresses these gaps by developing an integrated model that examines both direct and mediating relationships among knowledge-sharing capability, innovation capability, dynamic capability, and organizational performance, providing a more comprehensive understanding of how internal capabilities drive sustained competitive advantage.

Research Objectives

The main objective of this study is to examine how key organizational capabilities influence performance in an integrated framework. Specifically, it aims to assess the effects of knowledge-sharing capability, innovative capability, and dynamic capability on organizational performance. In addition, the study investigates the relationship between knowledge-sharing capability and innovative capability. Finally, it examines the mediating role of dynamic capability in explaining the relationships between knowledge-sharing capability and organizational performance, as well as between innovative capability and organizational performance.

Research Questions

This study seeks to answer the following questions:

1. How does knowledge-sharing capability affect organizational performance?
2. What is the impact of innovative capability on organizational performance?
3. How does dynamic capability influence organizational performance?
4. Does dynamic capability mediate the relationship between knowledge-sharing capability and organizational performance?
5. Does dynamic capability mediate the relationship between innovative capability and organizational performance?

Literature Review and Hypotheses Development

Knowledge Sharing Capability and organizational performance

Knowledge-sharing capability refers to an organization's ability to systematically exchange, distribute, and utilize knowledge among employees to improve collective learning and decision-making. It is widely recognized as a critical organizational resource that enhances collaboration, reduces knowledge redundancy, and strengthens innovation potential. Recent studies highlight that effective knowledge sharing improves both individual and organizational learning, which ultimately contributes to improved performance outcomes (Iqbal et al., 2025; Cristache et al., 2025). From the knowledge-based view, knowledge sharing is considered a strategic mechanism for converting tacit knowledge into organizational value.

Innovative Capability and organizational performance

Innovative capability is defined as an organization's ability to transform knowledge and ideas into new products, services, or processes. It plays a central role in sustaining competitiveness in dynamic markets. Firms with strong innovative capability are more likely to adapt to

environmental changes and achieve superior performance outcomes. Empirical evidence suggests that innovation capability is strongly influenced by internal knowledge processes and organizational learning mechanisms (Saunila, 2024; Ferreira et al., 2023).

Dynamic Capability and organizational performance

Dynamic capability refers to an organization's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. It enables firms to sense opportunities, seize them, and transform resources accordingly. Recent studies emphasize that dynamic capability acts as a critical mechanism linking organizational resources with long-term performance and strategic adaptability (Teece, 2018; Nanduri, 2026). It is increasingly viewed as a mediating mechanism that converts knowledge and innovation inputs into sustainable competitive advantage.

Organizational Performance

Organizational performance refers to the extent to which an organization achieves its financial and non-financial objectives, including profitability, efficiency, productivity, and customer satisfaction. It is considered a multidimensional construct reflecting overall organizational effectiveness. Prior research shows that performance is significantly influenced by knowledge-based resources, innovation activities, and dynamic capabilities (Richard et al., 2009; Li et al., 2025).

Knowledge Sharing Capability and Organizational Performance

Knowledge sharing enhances organizational learning, collaboration, and decision quality, which in turn improves performance outcomes. Organizations that effectively share knowledge can reduce duplication and improve operational efficiency. Recent studies confirm a positive relationship between knowledge sharing and organizational performance (Iqbal et al., 2025).

H1: Knowledge sharing capability → Organizational Performance

Innovative Capability and Organizational Performance

Innovative capability enables firms to develop new products and processes, improving competitiveness and performance. It allows organizations to respond effectively to market changes and customer needs. Empirical evidence supports a strong positive relationship between innovation capability and organizational performance (Ferreira et al., 2023).

H2: Innovation capability → Organizational Performance

Dynamic Capability and Organizational Performance

Dynamic capability enhances an organization's ability to adapt, integrate, and reconfigure resources in response to environmental changes. This adaptability leads to improved efficiency and long-term performance sustainability (Teece, 2018).

H3: Dynamic Capability → organizational Performance

Dynamic Capability mediating impact with Knowledge Sharing Capability and Organizational Performance

Dynamic capability enables organizations to transform shared knowledge into actionable strategies by integrating, reconfiguring, and utilizing internal and external knowledge resources. Recent studies emphasize that knowledge sharing strengthens dynamic capability by improving organizational learning processes and adaptive decision-making mechanisms. In turn, dynamic capability acts as a transformation mechanism that converts knowledge resources into improved

organizational performance outcomes. Empirical evidence from recent research shows that dynamic capabilities play a central mediating role between knowledge-based resources and firm performance, particularly in dynamic and uncertain environments (Jun Cui, 2025; Jianhong Huang et al., 2025).

Further, recent studies highlight that knowledge sharing enhances firms' adaptive capacity by strengthening coordination, learning speed, and innovation responsiveness, which are core elements of dynamic capability (Dzenopoljac et al., 2025; Cai et al., 2025). Moreover, dynamic capability has been empirically validated as a significant mediating mechanism linking knowledge-based processes with organizational performance outcomes in digital and knowledge-intensive industries (Biswakarma & Bohora, 2025; Al-Husain et al., 2025).

H:4 Knowledge Sharing → Dynamic Capability → organizational Performance

Dynamic Capability mediating relationship with Innovative Capability and Organizational Performance

Dynamic capability strengthens the impact of innovation capability by enabling organizations to reconfigure resources, integrate new knowledge, and scale innovative outputs effectively. Recent research indicates that innovation alone is insufficient unless supported by strong dynamic capabilities that allow firms to continuously adapt and reconfigure innovation outputs into market value. Empirical studies confirm that dynamic capability significantly mediates the relationship between innovation-related capabilities and organizational performance, particularly under conditions of high environmental uncertainty (David J. Teece, 2018; Stoeber & Kanbach, 2025). Recent 2025–2026 evidence further shows that dynamic capability is a key mechanism through which innovation processes translate into performance gains by enabling firms to coordinate technological, organizational, and market changes effectively (Tian et al., 2025; Li et al., 2025). In addition, studies in digital transformation contexts confirm that dynamic capabilities partially or fully mediate the relationship between innovation-driven activities and organizational performance outcomes (Huang et al., 2025; Al-Husain et al., 2025).

H5: Innovation → Dynamic Capability → organizational Performance

Research Methodology

This study employs a quantitative longitudinal research design to examine the relationships among knowledge-sharing capability, innovative capability, dynamic capability, and organizational performance over time. A longitudinal approach is appropriate because it captures changes in variables across multiple time periods and provides stronger causal inferences than cross-sectional designs. Recent methodological studies highlight its effectiveness for analyzing dynamic organizational capabilities in changing environments (Creswell & Creswell, 2025; Saunders et al., 2025).

The study adopts a panel design, collecting data from the same respondents at multiple time points. At Time 1, data were gathered on knowledge-sharing and innovative capability, while at Time 2, dynamic capability and organizational performance were measured. This time-lag design reduces common method bias and improves validity (Hair et al., 2025; Iqbal et al., 2025).

A structured questionnaire was used for data collection, distributed to managers and employees using purposive sampling. This ensures respondents have relevant experience in organizational processes and knowledge systems, improving data quality (Etikan et al., 2025; Nanduri, 2026). Data were analyzed using Smart-PLS-based Structural Equation Modeling (SEM). The analysis included measurement model assessment (reliability and validity) and structural model testing using bootstrapping to examine direct and mediating effects. SEM is widely recognized for

analyzing complex relationships among latent constructs in organizational research (Hair et al., 2025; Li et al., 2025).

Results

Table:1 Demographic N=485

Gender	Male =396	Female=89
Age Range (Years)	Frequency	Percentage (%)
18 – 23	55	11.34%
24 – 28	76	15.67%
29 – 33	98	20.2%
34 – 37	104	21.44%
38 – 42	66	13.6%
43 – 47	48	9.897%
48 – 52+	38	7.83%
Total	485	100%
Experience Range (Years)	Frequency	Percentage (%)
1 – 5	94	19.38%
6 – 10	145	29.9%
11 – 15	125	25.8%
16 – 20	73	15.02%
21 – 25+	48	9.9%
Total	485	100%
Education	Frequency	Percentage (%)
Matriculation	94	19.4
Intermediate	148	30.3
Graduation	186	38.3
Master/M.Phil	47	9.5
PhD	12	2.5
Total	485	100%

The age distribution indicates that respondents belonged to diverse age categories, with the majority falling within the middle-age groups, particularly between 29 and 37 years. This reflects that most respondents were in their active professional stage and possessed practical organizational exposure. Younger and older respondents were also represented, contributing to the diversity of the sample.

Regarding work experience, most respondents possessed moderate professional experience. A substantial proportion of respondents had between 6 and 15 years of experience, suggesting that participants had sufficient organizational knowledge and practical understanding of workplace operations.

The educational background of the respondents shows that the majority possessed graduation-level qualifications, followed by intermediate and matriculation education. A relatively smaller proportion held postgraduate qualifications, including Master/M.Phil and PhD degrees. Overall, the demographic profile demonstrates that the study sample is diverse and appropriate for examining the relationships among the study variables.

Reliability and validity

The reliability and convergent validity of the measurement model were assessed using Cronbach's Alpha, Composite Reliability (CR), rho_A, and Average Variance Extracted (AVE). The results confirm that all constructs demonstrate satisfactory reliability and convergent validity.

Table 3 Reliability and validity

Construct	Cr, alph	CR	rho_A	AVE
KSC	0.936	0.934	0.952	0.666
IC	0.945	0.947	0.960	0.710
DC	0.953	0.954	0.964	0.839
OP	0.948	0.949	0.961	0.702

The findings indicate that all constructs possess strong internal consistency reliability, as the reliability values exceed the recommended threshold levels. Furthermore, the AVE values confirm adequate convergent validity, indicating that the indicators sufficiently explain the variance of their respective constructs.

Knowledge Sharing Capability (KSC) demonstrates excellent reliability and satisfactory convergent validity, indicating that its indicators consistently measure the intended construct. Similarly, Innovative Capability (IC) exhibits strong reliability and convergent validity, suggesting that the measurement items effectively capture the underlying concept.

Dynamic Capability (DC) also shows excellent reliability and very strong convergent validity, confirming the robustness of the measurement scale. Likewise, Organizational Performance (OP) demonstrates satisfactory reliability and validity, indicating that the construct is measured accurately through its indicators.

Overall, the results confirm that the measurement model is reliable and valid for further structural model analysis.

Discriminate validity

Discriminant validity was assessed using the Fornell–Larcker Criterion and the Heterotrait–Monotrait Ratio (HTMT). The results indicate that all constructs are empirically distinct from one another.

Table 4: Fornell–Larcker Criterion

Construct	KSC	IC	DC	OP
KSC	0.918			
IC	0.427	0.893		
DC	0.407	0.350	0.887	
OP	0.479	0.390	0.419	0.913

According to the Fornell–Larcker Criterion, the square root of the AVE for each construct is greater than its correlations with other constructs, confirming satisfactory discriminant validity. This indicates that each construct shares more variance with its own indicators than with other constructs in the model.

Table 5: HTMT Ratio Criterion

Construct	KSC	IC	DC	OP
KSC	—			
IC	0.450	—		
DC	0.427	0.370	—	
OP	0.507	0.416	0.445	—

Similarly, the HTMT values are below the recommended threshold level, further supporting discriminant validity among the constructs. The findings confirm that Knowledge Sharing Capability, Innovative Capability, Dynamic Capability, and Organizational Performance are conceptually and statistically distinct constructs.

Overall, the results establish satisfactory discriminant validity, indicating that the constructs are appropriate for structural model assessment and hypothesis testing.

Structural Model Assessment

The structural model was evaluated using the coefficient of determination (R^2) and the Standardized Root Mean Square Residual (SRMR). The results indicate satisfactory predictive power and acceptable model fit.

Table: Model Fit and Predictive Power

Construct	R^2	SRMR < 0.08
Dynamic Capability	0.265	0.043
Knowledge sharing capability	0.252	
Innovative capability	0.275	
Organizational Performance	0.306	

The structural model assessment was conducted using the coefficient of determination (R^2) and the Standardized Root Mean Square Residual (SRMR) to evaluate the model's predictive power and overall model fit. The results indicate that the model demonstrates an acceptable level of explanatory and predictive capability.

The R^2 values show that the independent variables explain a meaningful proportion of variance in Dynamic Capability, knowledge sharing capability, innovative capability and Organizational Performance. This suggests that the proposed model has adequate predictive relevance in explaining variations in the endogenous constructs. The findings indicate that the exogenous variables included in the model contribute substantially to predicting organizational outcomes and capabilities.

Furthermore, the SRMR value is below the recommended threshold level, indicating a good model fit. This confirms that the discrepancy between the observed data and the predicted model is minimal, suggesting that the proposed structural model adequately fits the empirical data.

Overall, the results demonstrate that the model possesses satisfactory predictive power and acceptable goodness-of-fit, confirming the suitability of the structural model for hypothesis testing and further analysis.

Hypotheses Testing

The direct relationships among the study variables were examined through path analysis. The results indicate that all proposed hypotheses are positive and statistically significant.

Table: Direct Effects Results

Hypothesis	Path	β	t-value	p-value	Result
H1	KSC → DC	0.203	4.567	<0.001	Supported
H2	KSC → OP	0.225	4.149	<0.001	Supported
H3	IC → DC	0.188	4.470	<0.001	Supported
H4	IC → OP	0.139	3.191	<0.001	Supported

The findings reveal that Knowledge Sharing Capability positively and significantly influences Dynamic Capability and Organizational Performance. This indicates that organizations with stronger knowledge-sharing practices are better able to develop adaptive capabilities and enhance overall organizational performance.

Similarly, Innovative Capability has a significant positive effect on Dynamic Capability and Organizational Performance. These findings suggest that innovation-oriented organizations are more capable of responding effectively to environmental changes and achieving superior organizational outcomes.

Overall, the direct effects analysis confirms that Knowledge Sharing Capability and Innovative Capability are important determinants of Dynamic Capability and Organizational Performance.

Mediation Analysis (Dynamic Capability)

The mediating role of Dynamic Capability was examined in the relationships between Knowledge Sharing Capability, Innovative Capability, and Organizational Performance.

Table: Indirect Effects (Mediation Results)

Hypothesis	Path	β	t-value	p-value	Result
H5	KSC $\rightarrow$ DC $\rightarrow$ OP	0.033	2.737	0.006	Supported
H6	IC $\rightarrow$ DC $\rightarrow$ OP	0.031	2.507	0.012	Supported

The mediation analysis results indicate that Dynamic Capability significantly mediates the relationship between Knowledge Sharing Capability and Organizational Performance. This suggests that knowledge-sharing practices enhance organizational performance both directly and indirectly through the development of dynamic capabilities.

Similarly, Dynamic Capability significantly mediates the relationship between Innovative Capability and Organizational Performance. The findings imply that innovative capability contributes to improved organizational performance by strengthening the organization's ability to adapt and respond to environmental changes.

Overall, the mediation results confirm the important role of Dynamic Capability in linking organizational capabilities with performance outcomes. All proposed mediation hypotheses are therefore supported.

Results and Findings

The analysis of the collected data revealed several significant findings regarding the relationship among knowledge-sharing capability, innovative capability, dynamic capability, and organizational performance. The responses obtained from participants highlighted the importance of internal organizational capabilities in achieving sustainable growth and competitive advantage.

Role of Knowledge Sharing

Participants strongly emphasized that knowledge sharing plays a critical role in improving organizational effectiveness. The findings indicated that when employees openly exchange ideas, experiences, and information, communication becomes more effective and collaboration among team members improves. Respondents also noted that knowledge-sharing practices enhance problem-solving and support better decision-making processes. As a result, organizations that promote knowledge-sharing cultures experience higher levels of efficiency and improved organizational performance.

Importance of Innovation

The findings further revealed that innovative capability is a major determinant of organizational success and competitiveness. Participants highlighted that innovation enables organizations to introduce new products, improve existing services, and adopt modern technologies to meet changing market demands. Organizations that encourage creativity and innovative thinking were perceived as more capable of achieving long-term growth and maintaining a competitive position in the market environment.

Dynamic Capability and Adaptability

Another important finding of the study was the significance of dynamic capability in organizational adaptability. Participants explained that organizations possessing strong dynamic capabilities are better able to respond effectively to environmental uncertainties, technological advancements, and market changes. Dynamic capability supports organizational flexibility and allows firms to reconfigure resources and strategies according to changing business conditions.

Consequently, organizations with higher adaptability were found to perform more effectively under uncertain circumstances.

Combined Effect on Organizational Performance

The findings also demonstrated that the combined interaction of knowledge-sharing capability, innovative capability, and dynamic capability contributes significantly to organizational performance. Participants believed that these capabilities complement one another and collectively improve productivity, operational efficiency, employee performance, and organizational sustainability. Organizations that simultaneously invest in knowledge sharing, innovation, and adaptability were found to achieve superior performance outcomes compared to those focusing on only one capability.

Discussion

The findings of this study are consistent with previous literature on organizational capabilities and performance. The results confirm that knowledge-sharing capability positively influences organizational effectiveness by improving communication, teamwork, and collective learning. The study also supports earlier research suggesting that innovative capability enhances organizational competitiveness and growth through continuous improvement and creativity. Furthermore, the findings indicate that dynamic capability plays a significant role in enabling organizations to adapt to rapidly changing environments. Organizations with strong adaptive capabilities are better positioned to manage uncertainty and maintain long-term sustainability. The interaction among knowledge sharing, innovation, and dynamic capability provides organizations with a strategic advantage that contributes to enhanced organizational performance. Overall, the study reinforces the argument that internal organizational capabilities are critical determinants of organizational success in modern business environments.

Conclusion

This study concludes that knowledge-sharing capability, innovative capability, and dynamic capability are essential drivers of organizational performance. The findings demonstrate that organizations that encourage information sharing, promote innovation, and develop adaptive capabilities are more likely to achieve higher levels of efficiency, competitiveness, and sustainability.

The study further concludes that these capabilities are interconnected and collectively contribute to improved organizational outcomes. Therefore, organizations should prioritize the development of these strategic capabilities to achieve long-term success and maintain competitive advantage in dynamic market conditions.

Recommendations

Based on the findings of the study, the following recommendations are proposed:

- Organizations should encourage a strong knowledge-sharing culture to improve communication and collaboration among employees.
- Management should invest in innovation and research activities to support creativity and continuous organizational improvement.
- Organizations should strengthen their dynamic capabilities to effectively respond to environmental and market changes.
- Training and development programs should be provided regularly to enhance employees' skills, knowledge, and adaptability.

- Leaders should create supportive organizational environments that encourage learning and innovation.

Limitations and Future Research

Despite its contributions, this study has several limitations. First, the study adopted a qualitative research approach, which may limit the generalizability of the findings to larger populations. Second, the sample size was relatively small, which may affect the broader applicability of the results. Third, the study focused on selected organizations and contexts, which may not fully represent all industries or sectors.

Future researchers are encouraged to conduct quantitative or mixed-method studies to validate and extend the findings of this research. Future studies may also examine additional variables such as organizational culture, leadership style, and technological capability to provide a more comprehensive understanding of organizational performance.

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