LEX LOCALIS-JOURNAL OF LOCAL SELF-GOVERNMENT
ISSN:1581-5374 E-ISSN:1855-363X
VOL. 23, NO. 11(2025)

THE INFLUENCE OF DYNAMIC MANAGERIAL CAPABILITIES AND TRANSFORMATIONAL LEADERSHIP ON INNOVATIVE PERFORMANCE THROUGH ORGANIZATIONAL CHANGE CAPABILITIES OF MODERATE ORGANIZATIONAL CULTURE IN SIDOARJO REGIONAL GOVERNMENT ORGANIZATIONS

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Abstract: This study aims to identify and analyze the influence of dynamic managerial skills and transformational leadership on innovative performance through the ability to change organizational culture, moderated by organizational culture, within the scope of the Sidoarjo Regency Regional Apparatus Organization. This study uses a quantitative approach. Explanatory research guides this study. Data was gathered via questionnaires, observational studies, literature, and documentation, then analyzed with multi-level analysis. The study found that dynamic managerial skills positively and significantly impact both innovative performance and organizational change ability. Transformational leadership, while not directly affecting innovative performance, significantly influences organizational change ability. Organizational change ability, in turn, positively and significantly affects innovative performance. Interestingly, organizational change ability partially mediates the effect of dynamic managerial skills on innovative performance, and fully mediates the effect of transformational leadership. Finally, organizational culture does not moderate the relationship between organizational change capabilities and innovative performance.

Keywords: Dynamic Managerial Capabilities, Transformational Leadership, Innovative Performance, Organizational Change Capabilities, Organizational Culture.

1. Introduction

Today, public sector organizations in many countries continue to undergo changes through public administration reforms. These changes are developing rapidly in various forms of paradigms (Bekkers, et.al., 2011). The most substantial changes have come about since the 1980s, thanks to the development of the New Public Management (NPM) paradigm, which applied management and economic perspectives from business to the public sector (Calciolari et. al, 2018). New Public Management makes public administration reform part of the fundamental changes that must be made by developing countries to be able to face global competitive challenges, so that they can transform into developed countries in the future.

The New Public Management Paradigm requires public sector organizational management to transform by prioritizing the principles of competition, performance, and responsiveness in every bureaucratic behavior so that it can stimulate the improvement of organizational performance results to be more effective and efficient. Furthermore, the concept of good governance is also encouraged to continue to be developed in every country in the world, especially in developing countries, where this can support administrative reform efforts that prioritize the implementation of public sector management based on the principles of good governance.

This problem is observed in all countries, but it's particularly noticeable in developing ones like Indonesia. There, numerous government institutions struggle with low governance, even though they have what seems like enough financial resources to carry out their programs and reach national goals.

For instance, the 2018 Government Agency Performance Accountability Report (LAKIP) assessed by the Ministry of State Apparatus Empowerment and Bureaucratic Reform revealed that 44.55% of Indonesian government agencies scored below 60, falling into the CC, C, and D categories (Menpan.go.id, 2019).

The public organization sector also serves as a set of organizational resources and routines aimed at fulfilling policy initiatives and service provision. Therefore, according to Widianto, et al. (2021) is applied to private sector organizations and public organizations as both types of organizations modify their operational routines to achieve greater effectiveness. Managers in public organizations can encourage the development of dynamic managerial abilities by allocating resources in the organization's search and learning process or by encouraging employees to share their knowledge.

The Scope of Organizational the Regional Government of Sidoarjo Regency has the function of coordinating the implementation of the duties of the regional apparatus in the field of economy and natural resources, the implementation of development, and the procurement of goods and services consisting of: 1.) the Public Works Office of Highways and Water Resources; 2.) Department of Housing, Settlements, Cipta Karya, and Spatial Planning; 3.) Department of Transportation; 4.) Cooperatives and Micro Enterprises Office; 5.) Youth, Sports, and Tourism Office (Tourism sector); 6.) Department of Industry and Trade; 7.) Environmental and Hygiene Services; 8.) Food and Agriculture Service; 9.) Fisheries Service; 10. Investment Services and One-Stop Integrated Services; 11.) Regional Development Planning Agency; 12.) BUMD; 13.) BLUD; 14.) and some other Services.

Differences in Leadership Styles Between Regional Heads, where the new Regent of Sidoarjo comes from a different background and generation from his predecessors where the new Regent of Sidoarjo carries the tagline of innovation and young spirit in leading the Sidoarjo Regency Government so that this also has an impact on the Environment of the Sidoarjo Regency Government at various levels of sectors. With public administration reform in demand, there's a clear rise in public expectations for high-governance public sector organizations, indicating that public sector management in Indonesia is still underperforming.

To become more flexible when facing global challenges, Indonesia's public sector organizations must undergo a comprehensive transformation. This involves adopting a sound public sector management model, especially in how they manage their organizational capacity. In the study of Ferreira, et. Al. (2021) defines capacity as having competent people and adaptable processes that create dynamic managerial capabilities, which then enable the formation of responsive policies leading to improved organizational governance.

Changes in work styles, culture, and demands to always actively innovate create a work atmosphere that tends to force Human Resources within the Sidoarjo Regency Government to be more proactive and demand achievements, but on the other hand, cause a sense of surprise and worry if they work. Are less able to follow the new leadership style, especially for State Civil Apparatus (ASN) who are used to the old work pattern. However, this did not last long, as evidenced by the surge in Budget Absorption from 2020 to 2021, where the increase is a reflection of development in Sidoarjo Regency.

The fear of being eliminated and the fear of not being able to keep up with the new wave of leadership often arise, especially every time there is a change of leadership. This also happens to Public Sector Organizations such as the Sidoarjo Regency Government, and then becomes one of the things that, if not handled properly, will cause organizational divisions and decreased performance. Fortunately, this is not proven and is one of the supporting factors for accelerating performance improvement, which ultimately has an impact on increasing development in Sidoarjo Regency.

Based on several studies, dynamic managerial skills are widely applied in business organizations as the strategic management of organizations in the face of changing environments

(Eisenhardt & Martin, 2000; Teece & Pisano, 1997; Zahra & George, 2002; Li, 2014; Khaksar et. al, 2020). In Teece's (2020) view, dynamic managerial ability refers to an organization's knack for integrating, cultivating, and reorganizing its competencies, both internal and external, to cope with swift environmental changes.

Boger et al. (2019) state that to face these global changes and challenges, public organizations can apply the concept of dynamic governance, where various policies, institutions, and structures built can adapt to changes that occur very quickly. This means that governance in public sector organizations is expected to be able to develop policies that are adaptive and interact quickly with changes in the organizational environment. Therefore, Bogers et al. (2019) state that the desired outcome in dynamic governance is the achievement of adaptive policies by public organizations.

Meanwhile, Adeniran & Johnston (2012) propose that dynamic managerial capability is a consistent, learned pattern of systematic organizational activities designed to refine and alter routine operations for improved outcomes. Furthermore, according to Albort-Morant, et. Al. (2018) mentions three components in the dynamic managerial capabilities of public sector organizations, namely thinking ahead, thinking again, and cross-thinking, where the three components are influenced by the context of community capabilities and process agility.

The concept of dynamic managerial ability according to Widianto et. Al. (2021), achieving improved public sector organizational governance is possible by creating public policies that can adapt to the quick shifts in the organizational environment. It is also thought by other researchers that the public sector experiences more environmental changes compared to the business sector; for instance, certain policy alterations necessitate instant adjustments to an organization's business processes (Zahra & George, 2002; Kaur & Mehta, 2017; Wilden & Gudergan, 2017; Kareem & Alameer, 2019; Vision, et al, 2020).

Efforts to cultivate dynamic managerial capabilities can be considered a key success factor for public sector organizations. Widianto et al. (2021) argue that public sector organizations will find it challenging to respond effectively to environmental shifts without continuously improving these capabilities. Moreover, this kind of dynamic governance isn't random; it depends on leadership that can both instigate change and interact with the social fabric to achieve organizational objectives. In essence, dynamic governance is the result of capacity building and the institutionalization of cultural values that support the ability of dynamic and proactive organizations to build adaptive pathways and adaptive public policies.

With dynamic governance, public sector organizations can keep their policies and structures relevant and effective, helping them meet long-term goals (Robertson et. al., 2023). This study aims to find out and analyze the influence of dynamic managerial capabilities and transformational leadership on innovative performance through organizational change capabilities that moderate organizational culture in Sidoarjo Regional Government Organizations.

2. Method

This research was conducted with a quantitative approach and used an explanatory type of research. The research population consists of all Regional Apparatus Organizations (OPD) within the Sidoarjo Regency Regional Government.

This means that all government agencies that are part of the regional bureaucratic structure are used as research subjects. To obtain representative and comprehensive data, researchers used the census technique in sampling. The census method means that there is no selection or sampling of part of the population, but all members of the population are used as respondents. The census approach classifies respondents into various categories at both the individual and organizational levels, such as:

1. Regarding the sample of individual respondents for the transformational leadership variable, especially the Head of the Sidoarjo Regency Local Government Organization, there were 45 people.

2. For other variables, such as dynamic managerial ability, organizational change ability, organizational culture, and innovative performance, are intended for 90 Sidoarjo Regency Regional Management Officials.

A questionnaire serves as the research instrument, filled out by respondents who provide both their identifying information and their responses. The researcher undertook a field investigation, circulating these questionnaires among respondents to elicit feedback pertinent to the study and to perform observational analysis. A Likert scale questionnaire served as the instrument for this study. Data collection methods included questionnaires, direct observations, reviews of existing literature, and documentation. The analytical approach involved assessing validity and reliability, combining values, and testing hypotheses via a multi-level analysis. A structural equation model, applied to individual-level data from two separate groups, was central to this analysis, and the research also featured a mixed effects model. The mixed-effects model extends the conventional regression model by including a random coefficient for each cluster unit.

3. Result

3.1 Criterion Validity Test

Each statement item for dynamic managerial ability, transformational leadership, innovative performance, organizational change ability, and organizational culture underwent criterion validity testing. With corrected item-total correlation values between 0.619 and 0.871 (all above 0.30), all items are deemed valid for measuring the variables.

3.2 Convergent Validity Test

In a single-factor Exploratory Factor Analysis, convergent validity is assessed by factor loading. An indicator is considered valid if its load factor surpasses the limit. The minimum factor loading is 0.50, ideally 0.70, though over 0.40 is acceptable for instrument testing. All statement items have a loading factor value greater than 0.40 because they have a value range between 0.698-0.908. Thus, it is concluded that all statement items meet convergent validity, meaning that each statement item has sufficient weight in reflecting the variables of dynamic managerial ability, transformational leadership, innovative performance, organizational change ability, and organizational culture.

3.3 Unidimensional Test

Unidimensionality shows the relationship between items together in measuring the same concept/variable. Unidimensionality means that the items represent the same concept. The unidimensional validity test results showed that each variable's KMO was above 0.50, its eigenvalue was greater than 1, and the Bartlett test was significant (alpha ≤0.05). Therefore, all statement items effectively measure the dynamic managerial variables. Capabilities, transformational leadership, innovative performance, organizational change capabilities, and organizational culture have qualified unidimensionality or can represent the same concept (representing one concept) in each construct measure.

3.4 Discriminating Validity Test

Discriminant validity evaluates how well an item exclusively reflects its intended construct over others. It's confirmed when a construct's AVE square root surpasses its correlations with alternative constructs. All items for dynamic managerial capability, transformational leadership, innovative performance, organizational change ability, and organizational culture fulfilled this condition, thus achieving discriminant validity.

3.5 Trust test

The reliability of our questionnaire, reflecting its trustworthiness, was confirmed using Cronbach's Alpha. All variables, dynamic managerial capability, transformational leadership, innovative performance, organizational change capability, and organizational culture demonstrated excellent internal consistency, with Cronbach's Alpha values ranging from 0.890 to 0.954 (all

significantly above the 0.60 minimum). This indicates the questionnaire items are highly reliable for measurement.

3.6 Evaluation Bias Data Collection

After the questionnaire was declared valid and reliable, the researcher collected data. In this case, the object of the study was 45 Sidoarjo Regency Local Government Organizations, with a sample of the Head of the Sidoarjo Regency Regional Government Organization and 2 Managerial Officials in each Sidoarjo Regency Regional Government. Organization so that a total response was obtained. 90 respondents. To ensure valid analysis and generalizable conclusions, researchers need to evaluate data for general method bias and non-response bias. The presence of these biases can significantly undermine the trustworthiness of research findings.

3.7 Common Method Bias

Adopting procedural (CMV) and statistical (CMB) strategies, this study actively managed bias. Procedural steps ensured data quality by: customizing the questionnaire for Sidoarjo Regency's context, separating construct items, targeting experienced manager-level respondents, and protecting respondent anonymity. This approach ensured reliable information and unbiased data collection.

For statistical bias control, a Harman single-factor test (EFA and CFA) was conducted. EFA revealed six factors, with the first explaining only 45.73% of the variance. The CFA for a single method factor showed poor fit (CFI = 0.327, TLI = 0.524, p = 0.000, RMSEA = 0.145), confirming that a single-factor model is not feasible.

3.8 Bias Non-Response

Non-response bias is a bias that occurs because questionnaires do not get a good response from the population (many are not filled out or not returned), so the sample obtained by researchers has the potential to be biased because the sample may have differences. Response characteristics of the population. In this study, the researcher received a very good response to the data collection process, so that bias due to non-response can be avoided.

The evaluation of non-response bias statistically used univariate tests and multivariate tests to compare the responses of the initial and final respondents, the results of which are in Appendix 4. The evaluation revealed consistent response patterns regardless of submission time. With univariate (t=0.697, p=0.488) and multivariate (F=0.297, p=0.913) tests showing no significant differences, non-response bias was not a serious problem in this research.

3.9 Convergent Validity Testing

Convergent validity is determined by outer loadings and AVE, with a threshold of 0.50 for both. An indicator's validity is also confirmed if its T-statistic is above 1.96 or its p-value is under 0.05. The following is an analysis of the convergent validity of each indicator on the variables of dynamic managerial ability, transformational leadership, innovative performance, organizational change ability, and organizational culture.

Table 2: Convergent Validity Testing

Variabel	Indicator	External Loading	Results
Dynamic managerial capabilities (X1)	X1.1	0,883	Saw
	X1.2	0,792	Saw
	X1.3	0,843	Saw
	X1.4	0,805	Saw
	X1.5	0,785	Saw
	X1.6	0,768	Saw
Transformational Leadership (X2)	X2.1	0,719	Saw
	X2.2	0,873	Saw

Variabel	Indicator	External Loading	Results
	X2.3	0,818	Saw
	X2.4	0,863	Saw
	X2.5	0,863	Saw
	X2.6	0,799	Saw
	X2.7	0,817	Saw
	X2.8	0,885	Saw
	X2.9	0,893	Saw
	X2.10	0,867	Saw
	X2.11	0,714	Saw
	X2.12	0,804	Saw
	X2.13	0,860	Saw
	X2.14	0,788	Saw
Innovative Performance (Y)	Y.1	0,821	Saw
	Y.2	0,777	Saw
	Y.3	0,820	Saw
	Y.4	0,817	Saw
	Y.5	0,817	Saw
	Y.6	0,796	Saw
	Y.7	0,824	Saw
	Y.8	0,843	Saw
Organizational Change Ability (Z)	Z.1	0,809	Saw
	Z.2	0,829	Saw
	Z.3	0,819	Saw
	Z.4	0,736	Saw
	Z.5	0,815	Saw
	Z.6	0,786	Saw
	Z.7	0,826	Saw
	Z.8	0,806	Saw
	Z.9	0,817	Saw
	Z.10	0,759	Saw
Organizational Culture (L)	M.1	0,778	Saw
	M.2	0,839	Saw
	M.3	0,908	Saw
	M.4	0,822	Saw
	M.5	0,884	Saw
	M.6	0,851	Saw
	M.7	0,892	Saw

(Source: Primary Data, 2023)

All indicators demonstrated convergent validity with outer loadings above 0.50, thus effectively measuring dynamic managerial capabilities, transformational leadership, innovative performance, and organizational change capabilities, and organizational culture. Refer to Figure 1 for a detailed breakdown per variable:

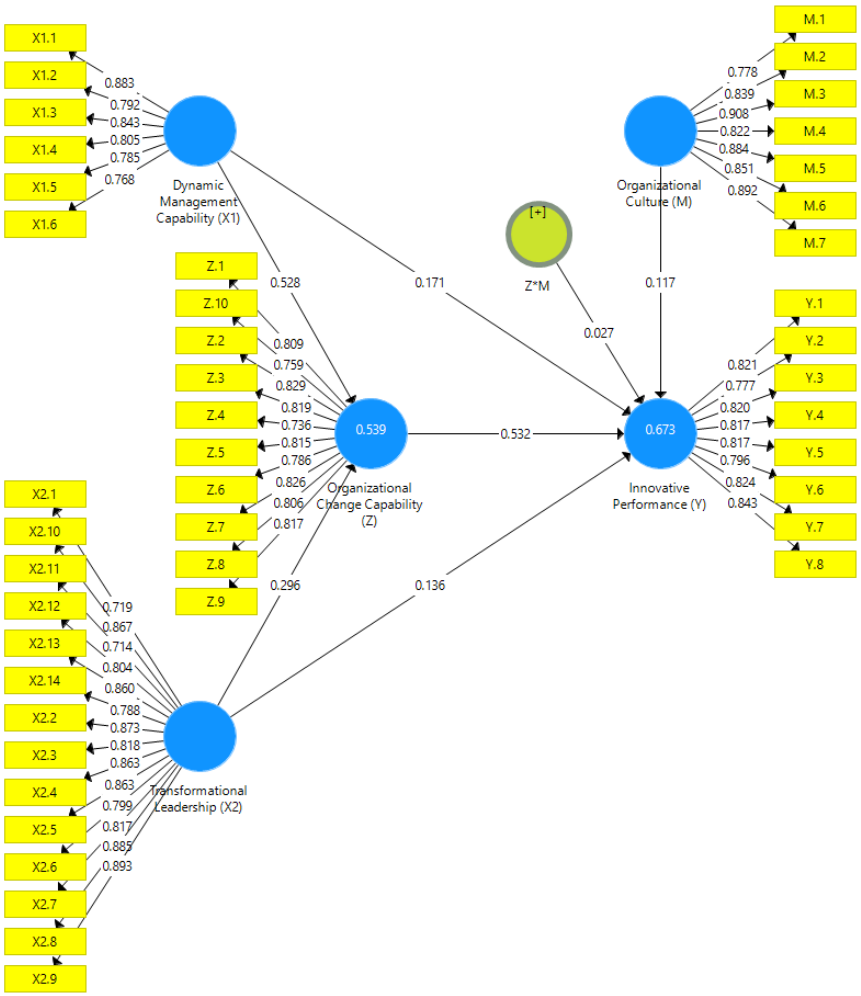

Figure 1. Algorithm Estimation Results

(Source: Primary Data, 2023)

3.10 Discriminatory Validity Testing

Outer model discriminant validity is checked via cross-loadings, Fornell-Larcker, and HTMT. Indicators are valid with high cross-loadings on their own variable and low on others. Fornell-Larcker requires AVE's square root to be greater than correlations. HTMT values under 0.90 indicate discriminant validity (Henseler et al., cited in Hair et al., 2017:119).

Cross-loading results in Appendix 6 verify discriminant validity for all indicators, showing stronger loadings on their own variables (bolded) and weaker ones elsewhere. Consequently, dynamic managerial ability, transformational leadership, innovative performance, organizational change ability, and organizational culture constructs satisfy discriminant validity. Fornell-Larcker discriminant validity results follow in Table 3:

Table 3. Value of the Fornell-Larcker Criteria

Build	Variabel				
	X1	X2	And	With	M
Dynamic managerial capabilities (X1)	**0,814**				
Transformational Leadership (X2)	0,549	**0,828**			
Innovative Performance (Y)	0,665	0,600	**0,815**		
Organizational Change Ability (Z)	0,691	0,586	0,788	**0,801**	
Organizational Culture (L)	0,532	0,534	0,592	0,619	**0,854**

(Source: Primary Data, 2023)

Dynamic managerial capabilities, transformational leadership, innovative performance, organizational change capabilities, and organizational culture all exhibit discriminant validity, as evidenced by the Fornell-Larcker Criterion in Table 3. This criterion confirms that the square root of each variable's AVE surpasses its correlations with other variables in the model. Further assessment of discriminant validity, using the Heterotrait-Monotrait Ratio (HTMT), is presented in Table 4:

Table 4. Value of Heterotrait-Monotrait Ratio (HTMT)

Build	Variabel				
	X1	X2	And	With	M
Dynamic managerial capabilities (X1)					
Transformational Leadership (X2)	0,588				
Innovative Performance (Y)	0,723	0,628			
Organizational Change Ability (Z)	0,744	0,610	0,838		
Organizational Culture (L)	0,578	0,559	0,627	0,661	

(Source: Primary Data, 2023)

Table 4 shows that the HTMT value of the entire construct combination produces a value smaller than the maximum limit of 0.90 (Hair et al., 2017:119), so it can be concluded that dynamic managerial ability, transformational leadership, innovative performance, organizational change ability variables, and organizational culture have met discriminant validity.

3.11 Internal Consistency Testing

For internal consistency, a key external model evaluation, we use Cronbach's alpha and Composite Reliability to check indicator consistency. Cronbach's alpha establishes the minimum reliability, whereas Composite Reliability indicates the actual reliability. The thresholds are typically >0.60 for Cronbach's alpha and >0.70 (though 0.60 is permissible) for Composite Reliability (Hair et al., 2017: 127). The assessment of internal consistency on the variables of dynamic managerial capability, transformational leadership, innovative performance, organizational change capability, and organizational culture is presented in Table 5 below:

Table 5. Internal Consistency Testing

Build	Alfa Cronbach	Composite Reliability	road
Dynamic managerial capabilities (X1)	0,897	0,921	0,662
Transformational Leadership (X2)	0,964	0,968	0,685
Innovative Performance (Y)	0,928	0,940	0,664
Organizational Change Ability (Z)	0,938	0,947	0,641
Organizational Culture (L)	0,938	0,950	0,730

(Sumber: Data Primer, 2023)

As shown in Table 5, all constructs (dynamic managerial capabilities, transformational leadership, innovative performance, organizational change capabilities, and organizational culture) exhibit good reliability, evidenced by Cronbach's Alpha and Composite Reliability values above 0.70. With all outer model analysis criteria met convergent validity, discriminant validity, and reliability the measurement model is accepted, and inner model analysis can proceed.

3.12 Analysis of the coefficient of determination (R^2)

The inner evaluation of the model is then seen from the value of R2 or the determination coefficient. Level R^2 has a value range of 0-1. The substantial category is 0.75, medium is 0.50, and weak is 0.25. The following are the results of the R2 calculation for each of the following endogenous constructs:

Tabel 6 Koefisien determinasi (R^2)

Konstruksi Endogen	Disesuaikan R2	Kategori
Kemampuan Perubahan Organisasi (Z)	0,528	Sedang
Kinerja Inovatif (Y)	0,653	Sedang

(Sumber: Data Primer, 2023)

The SEM model shows dynamic managerial capabilities and transformational leadership predict 52.8% of organizational change capability (a medium level of influence). Furthermore, these factors, combined with organizational change capability and moderated by organizational culture, predict 65.3% of innovative performance, also a medium predictive power.

3.13 Predictive Relevance Analysis (Q^2).

The Q^2 blindfolding test assesses predictive relevance; a coefficient greater than 0 confirms it, while 0 or less indicates its absence. For measurement, Q^2 values of 0.02, 0.15, and 0.35 correspond to small, medium, and large predictive relevance of independent constructs on endogenous ones.

Table 7. Value Q^2 _

Endogenous constructs	Q2 Value -	Category
Organizational Change Ability (Z)	0,333	Keep
Innovative Performance (Y)	0,423	Big

(Source: Primary Data, 2023)

The results of the SEM analysis produced a Q2 value that all met the criteria of more than 0, so it can be classified as having moderate predictive relevance in the construct of organizational change capabilities, meaning that the variables of dynamic managerial capabilities and transformational

leadership have moderate relevance in predicting the ability of organizational change. Furthermore, the value of the predictive relevance of innovative performance variables is of great value, meaning that dynamic managerial capabilities, transformational leadership, and organizational change capabilities, as well as organizational culture moderation, have great relevance in predicting innovative performance.

3.14 Prediction Analysis

Prediction analysis is used to evaluate how well the predictive ability of the model's estimation results. In the results of the Predict analysis, the researcher needs to compare the RMSE, MAE, and MAPE values in the analysis model with the benchmark using a linear model (LM) so as to produce a prediction, with the following conditions: a) If the majority of dependent construct indicators in the analysis model produce higher RMSE, MAE, and MAPE values than the LM model, this indicates that the model has low predictive power; B .) If a small number (or the same number) of indicators in the analysis model produce higher RMSE, MAE, and MAPE values than the LM model, indicating medium/fairly high predictive power; C) If there is no indicator in the analysis model that has a higher RMSE value than the LM model, then the model has high predictive power.

3.15 Hypothesis Testing Results

In SEM model analysis, hypothesis testing for each direct path, indirect path, and total path uses a bootstrapping approach to generate a standard estimated value of error. Furthermore, testing the significance of this influence uses the criterion that if the CR (critical ratio) is greater than 1.96 or the probability value (p-value) is less than the real level of 5%, then the path is declared significant. The estimated results of the Bootstrapping analysis can be seen in Figure 2 below:

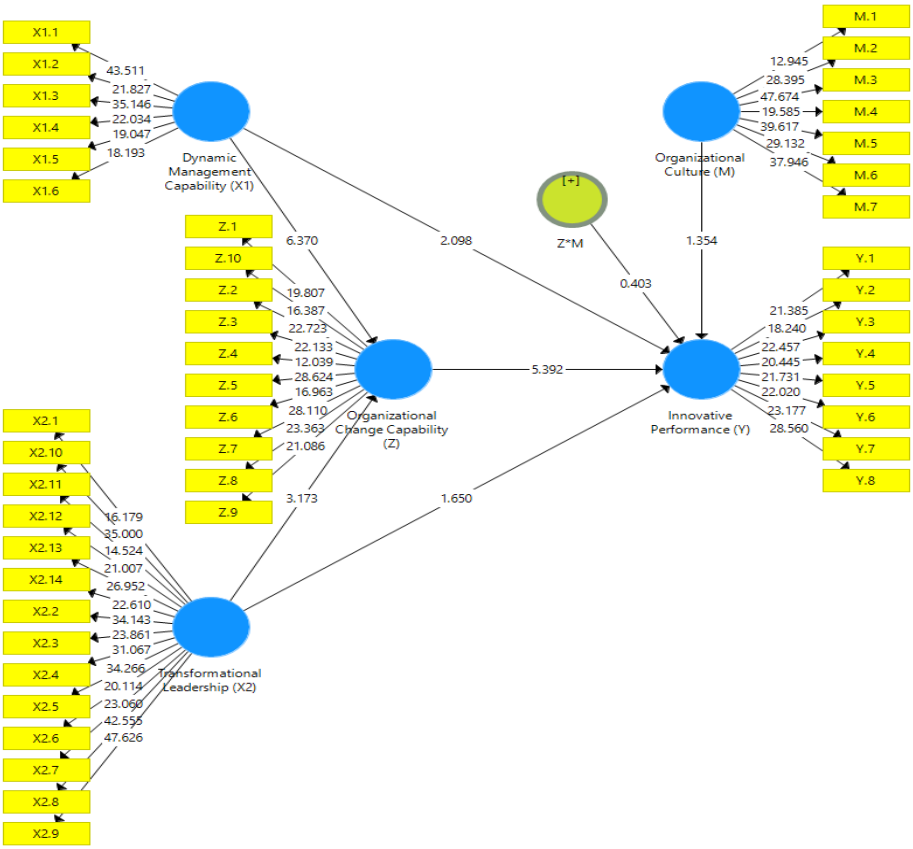

Figure 2. Bootstrapping Analysis Results

3.16 Analysis of the Significance of Direct Influence

Path significance is assessed via the main model's bootstrapped path coefficients (Figure 2). For a 2-tailed test, hypotheses are accepted if T-statistic ≥ 1.96 or p-value < 0.05. The original sample estimates, T-statistics, and p-values are detailed from this analysis:

Table 8: Results of the Significance Test for Direct Influence

no.	Immediate effects	coefficient.	T-Stat	P-Value	Information
1	Dynamic Managerial Ability (X1)→ Innovative Performance (Y)	0,171	2.098	0,036	H_1 accepted
2	Transformational Leadership (X2→)Innovative Performance (Y)	0,136	1.650	0,100	H_2 rejected
3	Dynamic managerial ability (X1)→ Organizational change ability (Z)	0,528	6.370	0,000	H_3 accepted
4	Transformational Leadership (X2)→ Organizational Change Ability (Z)	0,296	3.173	0,002	H_4 accepted
5	Organizational Change Capability (Z)→ Innovative Performance (Y)	0,532	5.392	0,000	H_5 accepted

(Source: Primary Data, 2023)

The results of hypothesis testing using the results of bootstrapping analysis based on Table 10 above can be explained as follows:

1. Dynamic managerial capabilities positively and significantly impact innovative performance. The analysis (coefficient = 0.171, T-statistic = 2.098, p-value = 0.036) supports this, indicating that stronger managerial capabilities lead to higher innovative performance, thereby accepting H1.
2. Transformational leadership has no significant effect on innovative performance. Despite a positive coefficient (0.136), the T-statistic (1.650 < 1.96) and p-value (0.100 > 0.05) indicate insignificance, meaning better transformational leadership doesn't notably boost innovation. Thus, H2 is rejected.
3. Dynamic managerial capabilities significantly and positively impact organizational change capabilities. The analysis (coefficient = 0.528, T-statistic = 6.370, p-value = 0.000) strongly supports this, indicating that stronger managerial capabilities lead to a higher capacity for organizational change. Thus, H3 is accepted.
4. Transformational leadership significantly and positively influences organizational change capability. With a coefficient of 0.296, a T-statistic of 3.173, and a p-value of 0.002, the findings indicate that stronger transformational leadership leads to greater organizational adaptability. Thus, H4 is accepted.
5. Organizational change capabilities significantly and positively impact innovative performance. With a strong coefficient of 0.532, a T-statistic of 5.392, and a p-value of 0.000, the findings confirm that a higher capacity for organizational change leads to greater innovation. Thus, H5 is accepted.

Total Impact Significance Analysis

Furthermore, the results of the analysis of the total influence on the significance of innovative performance will be explained as follows:

Table 9. Results of the Total Impact Significance Test

NO	Total Impact on Innovative Performance (Y)	Total Effect Analysis		
		Total Effect	P-Value	Pangkat
1.	Dynamic managerial capabilities (X1)	0,451	0,000	2
2.	Transformational Leadership (X2)	0,293	0,003	3
3.	Organizational Change Ability (Z)	0,532	0,000	1

(Sumber: Data Primer, 2023)

The results of the total effect analysis showed that the variables consisting of dynamic managerial capability, transformational leadership, and organizational change capability, in total, all three had a significant effect on innovative performance because the total effect provided a probability value (p-value) of less than 0.05. The total coefficient of influence is the sum of direct and indirect influences. The total effect value can also be outlined in Figure 3 below:

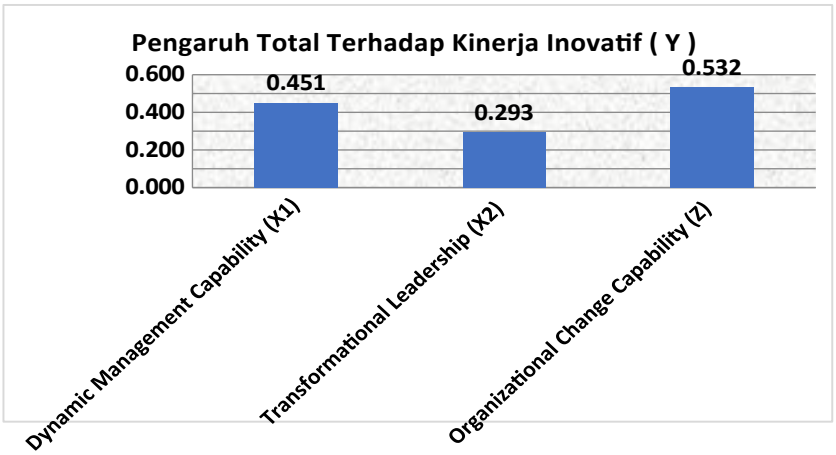

Figure 3: Total Impact on Innovative Performance (Y)

(Source: Primary Data, 2023)

Figure 3 shows that innovative performance is driven more by high organizational change capability than by dynamic managerial capability and transformational leadership. These results provide information on the priority scale in an effort to improve innovative performance, ranging from the highest priority to the lowest priority. Ideally, organizations need to pay attention to all three variables that can improve innovative performance. However, if an organization has limited time, energy, or budget, it is necessary to pay attention to the priority scale.

In this dynamic governance, the internal role of the organization is the most dominant and influential role, where dynamic governance cannot be achieved without understanding and interdependence between the culture and capabilities of the organization, then between human capabilities and abilities (able people), and how. Agile process (Kindström & Kowalkowski, 2013). This cannot be separated from the scope of the Sidoarjo Regency Government's organization, where, in addition to coordinating the performance of the two agencies, they also carry out supervision.

Furthermore, Kindström and Kowalkowski (2013) revealed that the ability of people to work together with agile processes greatly determines the success of an institution in dealing with external factors due to future uncertainty and practices that apply outside the organization. In addition, these two aspects also support the application of three important components in an organization's dynamic managerial capabilities, namely thinking ahead, thinking again, and thinking the opposite.

The concept of dynamic managerial ability put forward by Bendig *et. Al.* (2018), based on the concept of dynamic governance, states that dynamic managerial skills include organizational attitudes, knowledge, skills, and resources deployed to carry out assignments to achieve desired results. Beckers *et al.* (2011) stated that there are three cognitive abilities that public organizations must possess in dynamic governance, namely thinking ahead, thinking again, and thinking across.

First, public sector organizations must be able to think ahead to understand how the future can affect organizations and make policies that can face potential challenges and take advantage of new opportunities that exist in the future. Second, rapid environmental changes can make existing policies outdated and ineffective, even though they have been carefully and thoughtfully chosen, so public organizations need to rethink existing policies and programs to test whether they are still relevant to existing policies. Necessity. Long-term organization.

If it is no longer relevant, the policy must be revised to be effective in achieving the main goals of the organization. Third, in the development of new knowledge, continuous organizational learning and innovation are needed to be able to face new challenges and take advantage of new opportunities. Therefore, public sector organizations need to think clearly in looking for ideas and best practices that can be adapted and contextualized in their organizational environment.

These three factors encourage transformational changes in governance, which lead to the formation of dynamic managerial capabilities of government/public sector organizations in facing global challenges. For example, through the merit system, apparatus resources are formed and developed from the moment a public organization begins to recruit the talents it needs, then continues with how the organization continuously updates the skills and knowledge of its apparatus, as well as how the public organization can retain and disseminate essential skills to create and implement strategies.

Public sector organizations depend on the ability of their apparatus (able people) to carry out dynamic governance. Capable people here are one of the main sources of competitive strength, enabling them to compete and be able to outperform their competitors. Bekker, *et al.* (2011) also said that the process will determine the input of resources and assignments needed, the human resources who are responsible for carrying out the assignment, and the outputs that must be produced as well as how to coordinate and integrate the assignments of the human resources that carry them out so that they can produce those outputs. In addition, the process will set and define its management and performance rules, as well as the end users who will receive the results.

In addition, the process also determines how quality and performance are measured, how errors are detected and corrected, and how improvements and changes can be made by the organization. Beuter Jr., *et al.* (2019) identify three categories of processes carried out by organizations, namely work processes, behavioral processes, and change processes. Work process is a process that carries out all operational and administrative activities of an organization can converting inputs into outputs. The behavioral process shapes the pattern of behavior, the way of acting and interacting with individuals and groups in carrying out work. The change process describes how an organization can adapt, evolve, and grow, which will ultimately change the scale, character, and identity of the organization.

The formation of dynamic managerial capabilities of an organization will involve the three categories of organizational processes, together creating the capacity that will enable it to continue to transform innovative performance in public sector organizations, namely, anticipating the future, allocating financial resources, and applying systemic discipline. Activities and structures of work, behaviour, and change that collectively encourage the public sector to continue learning, improve its performance, and adapt to change. Bitencourt *et al.* (2020) define the three processes as follows, namely:

1. Anticipating the future in public sector organizations is a process that involves the ability of leaders to see problems that have a significant impact on the success of the organization's strategies and policies in the future.
2. Allocating Financial Resources is a process that encourages the changes expected by the organization by ensuring that the aspect of allocating financial resources is carried out adequately and efficiently so that it can fund ongoing activities as well as new programs and activities that suit needs. Environmental changes occur.
3. The application of Systemic Discipline, which is the process of designing systems and structures to ensure that organizational changes can be carried out continuously so that continuous improvement appears, and not just changes that occur once that over time will lose their suitability because the future is unpredictable.

The concept of dynamic managerial ability in public sector organizations is based on the concept of dynamic governance, which consists of 3 (three) components of thinking, namely thinking ahead, thinking again, and cross-thinking (Breznik and Hisrich, 2014). In addition, there are 2 (two) driving factors that can support the formation of these three components of thinking, namely the context of the ability of the community (able people) and the agility of the organization's business processes in responding to all changes that occur (agile process) (Faccin, *et al.*, 2019).

The concept of dynamic managerial capabilities is the most important aspect of public sector organizations' efforts to achieve a competitive advantage by being able to anticipate threats and take advantage of opportunities to support the achievement of expected goals. By building and implementing the concept of dynamic managerial capabilities, public sector organizations can ultimately create capabilities that can generate policies that are adaptive and responsive to rapidly changing environments.

These dynamic managerial abilities must be built from within the organization through the accumulation of experience and cannot be purchased or acquired from outside the organization. Therefore, the capable and agile components of the process are the main things that must be developed by public sector organizations to have organizational characteristics that can think ahead to face future organizational challenges (thinking ahead), rethinking to reconsider effectiveness and efficiency. In implementing current policies and programs to achieve organizational goals (rethinking), and cross-thinking to facilitate the organizational learning process through exposure to various new ideas, insights, and best practices that come from outside the organization (cross-thinking).

4. Conclusion

This study shows that dynamic managerial capabilities have a positive and significant effect on innovative performance and organizational change capabilities. In addition, transformational leadership is proven to have a significant effect on organizational change capability, but does not directly have a significant effect on innovative performance. Organizational change capability plays an important role in improving innovative performance, as evidenced by its significant direct effect and as a mediator, both partially in the relationship between dynamic managerial capability and innovative performance, and fully in the relationship between transformational leadership and innovative performance. Meanwhile, organizational culture is not proven as a moderator in the relationship between organizational change capability and innovative performance. The results of this study confirm the importance of strengthening dynamic managerial capabilities and organizational change capabilities in driving organizational innovative performance. Transformational leaders can make a greater contribution to innovation if focused on strengthening the organizational change process. Therefore, organizations need to build adaptive managerial systems, support a culture of change, and strengthen the role of transformative leadership. For future research, it is recommended to test this model in other sectors or types of organizations, as well as include additional variables such as

technological support, external environment, or other leadership styles to enrich understanding of the determinants of innovative performance in a broader context.

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