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The dynamic managerial capability and transformational leadership on innovative performance through organizational change capability as a mediating role

Abstract

This study is grounded in Indonesia's positioning within global indices such as the Global Innovation Index (GII) and Worldwide Governance Indicators (WGI), which reflect moderate innovation capacity typical of a developing economy. At the local level, 21 out of 49 Regional Government Organizations (OPD) in Sidoarjo Regency demonstrate a lack of sustainable innovation, underscoring the need for improved innovation performance. This research aims to examine the effects of dynamic managerial capability and transformational leadership on innovative performance, with organizational change capability as a mediating variable. Using a quantitative explanatory approach and multilevel analysis, data were collected from 49 leaders and 147 subordinates. The results indicate that dynamic managerial capability and transformational leadership significantly enhance organizational change capability and directly improve innovative performance. Moreover, organizational change capability significantly influences innovative performance and serves as a key mediating mechanism. These findings highlight that innovation in public organizations is driven not only by leadership and managerial capacity but also by the ability to adapt and implement change effectively. Practically, the study emphasizes the importance of strengthening transformational leadership, adaptive capacity, and participatory change processes to respond to evolving regulatory, technological, and societal demands, thereby improving the quality and sustainability of public service innovation.

Keywords: Dynamic managerial capability, transformational leadership, innovative performance, organizational change capability, regional government organization

Abstrak

Penelitian ini didasarkan pada posisi Indonesia dalam indeks global seperti Global Innovation Index (GII) dan Worldwide Governance Indicators (WGI) yang mencerminkan kapasitas inovasi yang masih moderat sebagai negara berkembang. Pada tingkat lokal, sebanyak 21 dari 49 Organisasi Pemerintah Daerah (OPD) di Kabupaten Sidoarjo menunjukkan belum adanya inovasi yang berkelanjutan, sehingga menegaskan perlunya peningkatan kinerja inovasi. Penelitian ini bertujuan untuk menguji pengaruh dynamic managerial capability dan transformational leadership terhadap innovative performance, dengan organizational change capability sebagai variabel mediasi. Penelitian ini menggunakan pendekatan kuantitatif eksplanatori dengan analisis multilevel, dengan data yang dikumpulkan dari 49 pimpinan dan 147 bawahan. Hasil penelitian menunjukkan bahwa dynamic managerial capability dan transformational leadership secara signifikan meningkatkan organizational change capability serta secara langsung meningkatkan innovative performance. Selain itu, organizational change capability terbukti berpengaruh signifikan terhadap innovative performance dan berperan sebagai mekanisme mediasi utama. Temuan ini menunjukkan bahwa inovasi dalam organisasi sektor publik tidak hanya ditentukan oleh kapasitas manajerial dan kepemimpinan, tetapi juga

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oleh kemampuan organisasi dalam beradaptasi dan mengimplementasikan perubahan secara efektif. Secara praktis, penelitian ini menekankan pentingnya penguatan kepemimpinan transformasional, kapasitas adaptif, serta proses perubahan yang partisipatif untuk merespons dinamika regulasi, teknologi, dan kebutuhan masyarakat, sehingga dapat meningkatkan kualitas dan keberlanjutan inovasi layanan publik.

Kata Kunci: Dynamic managerial capability, transformational leadership, innovative performance, organizational change capability, regional government organization

1. Introduction

Innovation plays a critical role in national development, serving as a key driver of economic growth, social progress, and global competitiveness (Şener & Sarıdoğan, 2011). Countries that prioritize innovation are better positioned to capitalize on emerging opportunities and address complex challenges (Beliz et al., 2019). Innovation fosters the development of new technologies, products, and services that enhance productivity, generate employment, and improve societal well-being (Surya et al., 2021), while also strengthening industrial efficiency and long-term economic resilience (Wang et al., 2023). In this regard, the World Intellectual Property Organization (Bagley, 2025) reports the innovation performance of 132 countries through the Global Innovation Index (GII) 2023, which comprises seven pillars: Institutions; Human Capital and Research; Infrastructure; Market Sophistication; Business Sophistication; Knowledge and Technology Outputs; and Creative Outputs. These countries are classified into four quartiles: Q1 (rank 1–33), Q2 (34–66), Q3 (67–99), and Q4 (100–132).

Table 1. Comparison of Global Innovation Index (GII) Rankings (2023)

Quartile	GII Rank	Country	Institutions	HCR	Infrastructure	MS	BS	KTO	CO
Q2	61	Indonesia	85	75	68	37	77	86	44
Q2	36	Malaysia	43	30	45	33	46	55	40
Q1	5	Singapore	2	7	11	9	8	6	3
Q3	87	Brunei Darussalam	90	92	94	89	91	97	93
Q2	56	Philippines	61	69	83	50	48	60	53
Q2	43	Thailand	49	47	57	45	52	50	48
Q4	110	Lao PDR	60	96	64	96	102	97	110
Q4	101	Cambodia	74	107	79	76	125	93	124
Q2	46	Vietnam	60	75	64	77	49	48	44
Q1	10	South Korea	2	6	17	18	9	11	5
Q1	12	China	62	9	19	4	4	11	3
Q1	13	Japan	27	7	26	14	10	9	20
Q2	40	India	59	57	81	27	30	55	44
Q1	17	Hong Kong (China)	5	34	9	25	28	51	15
Q1	18	Australia	11	34	15	17	19	17	13

Noted: HCR = Human Capital & Research; KTO = Knowledge & Tech Outputs; MS= Market Sophistication; BS= Business Sophistication; CO= Creative Outputs

Source: Global Innovation Index Report 2023

As shown in Table 1, Indonesia is positioned in Quartile 2 (Q2), ranking 61st out of 132 countries. While it demonstrates relative strength in Market Sophistication (rank 37) and Creative Outputs (rank 44), weaknesses persist in Institutions (rank 85) and Knowledge and Technology Outputs (rank 86). Compared to Malaysia (rank 36), which

also falls within Q2 but exhibits stronger performance in Human Capital and Research (rank 30) and Market Sophistication (rank 33), Indonesia still faces structural challenges in building innovation readiness. These findings suggest substantial opportunities for improvement, particularly by leveraging existing strengths while strengthening institutional quality and knowledge-based outputs. Achieving this requires coordinated, cross-sectoral efforts to build a supportive innovation ecosystem, including effective governance mechanisms (Cunningham et al., 2019).

Indonesia's current position in the GII reflects a transitional stage as a developing economy, highlighting the urgent need to strengthen Organizational Change Capability to bridge the gap toward higher innovation performance. In the public sector context, Transformational Leadership plays a crucial role in inspiring and motivating employees to embrace change, particularly under conditions of uncertainty (Wang et al., 2007; Akdere & Egan, 2020). Empirical observations in Sidoarjo Regency indicate significant variation in Innovative Performance across regional government organizations, with 21 out of 49 agencies lacking sustainable innovation. While some institutions, such as public hospitals and investment services, demonstrate consistent high performance, others experience sharp declines, reflecting challenges in sustaining innovation outcomes.

These disparities highlight the importance of leadership and managerial capability in facilitating effective change. Approximately 80% of change initiatives fail due to the limitations of middle management, who play a critical mediating role between top management and operational employees (Sukoco et al., 2022). In this context, Dynamic Managerial Capability enables leaders to reconfigure resources and respond to evolving regulatory and societal demands (Mostafiz et al., 2019), while Transformational Leadership fosters vision alignment, motivation, and innovation-oriented behavior (Van der Voet, 2014). Together, these capabilities enhance Organizational Change Capability, which is essential for creating an environment that supports creativity, risk-taking, and collaboration (Supriharyanti et al., 2023).

Despite extensive research on innovation in the private sector, there remains a significant gap in understanding how these dynamics operate in public organizations, where bureaucratic rigidity often constrains innovation (Foss & Mazzelli, 2025). This study addresses this gap by adopting a Dynamic Capability perspective to examine how individual-level capabilities interact with organizational-level change capacity to influence Innovative Performance. Furthermore, it highlights the mediating role of Organizational Change Capability, which has been underexplored in prior studies. Accordingly, this research aims to analyze and evaluate the influence of dynamic managerial capability and transformational leadership on innovative performance through organizational change capability within regional government organizations in Sidoarjo Regency.

2. Literature riview and hypothesis development

2.1 Dynamic managerial capability and organizational change capability

In responding to similar environmental changes, managers often make different strategic decisions due to variations in their individual judgments and capabilities (Haarhaus & Liening, 2020). Managers play a critical role in organizational management, particularly

in orchestrating resources that drive strategic change and support the achievement of competitive positioning (Alfawaire & Atan, 2021). Within public organizations, middle managers are required to navigate both the technical and political dimensions of their environment to successfully lead change initiatives (Fernandez & Rainey, 2017). Given that public sector transformation is frequently constrained by regulatory frameworks and public accountability, the ability of middle managers to address legal, financial, and operational challenges becomes essential (Sotashe, 2021). By fostering trust and collaboration among stakeholders, middle managers can facilitate smoother organizational change processes, thereby enabling organizations to respond more effectively to external pressures (Rooney et al., 2023). Furthermore, managerial competencies and expertise play a vital role in developing and guiding employees, contributing to the creation of an adaptive workforce aligned with organizational change objectives (Masenya, 2022). Based on these arguments, the first hypothesis is proposed:

H1: Dynamic managerial capability has a significant positive effect on organizational change capability.

2.2 Transformational leadership and organizational change capability

The concept of transformational leadership was first introduced by Burns (1978) and further developed by Bass and Riggio (2026) and Muzakki et al. (2026), who defined it as a process through which leaders inspire followers to transcend personal interests for the benefit of the organization or society. Transformational leadership is characterized by the ability to inspire and motivate followers to achieve exceptional outcomes by transforming their attitudes, beliefs, and behaviors (Gonfa, 2019; Prastikawati et al., 2023; Muzakki & Christina, 2021). It encompasses idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, enabling followers to exceed self-expectations and align with a shared vision (Omamo & Awuor, 2018). In public sector organizations, middle managers who demonstrate transformational leadership play a pivotal role in enhancing organizational change capability, particularly in contexts marked by bureaucratic rigidity, procedural constraints, and resistance to change (Schuckert et al., 2018). Empirical evidence suggests that transformational leaders who exhibit idealized influence foster a learning-oriented environment, thereby enhancing the organization's capacity to absorb and implement new knowledge during change processes (Nofal & Jaradat, 2020). Additionally, trust and cohesion are critical in creating a supportive climate for change (Arifin et al., 2024; Muzakki et al., 2025), while leaders who provide individualized support and promote development opportunities ensure that employees are both capable of and motivated to adapt to change (Akdere & Egan, 2020). Based on these arguments, the second hypothesis is proposed:

H2: Transformational leadership has a significant positive effect on organizational change capability.

2.3 Organizational change capability, dynamic managerial capability, transformational leadership, and innovative performance

Innovative performance refers to an organization's ability to develop, introduce, and implement new products, services, processes, or ideas that significantly enhance its operations or competitive position (Yusr et al., 2018). It encompasses not only the generation of novel ideas but also their successful execution to create value for the organization and its stakeholders (Hanifah et al., 2019). Ali et al. (2021) emphasize that innovative performance is often the outcome of dynamic capabilities, which enable organizations to reconfigure and renew their resources in response to emerging demands.

In public sector organizations, where change is often incremental and constrained by regulatory frameworks, the ability to continuously learn and adapt is essential for fostering innovation (Gullmark, 2021). Middle managers and employees engaged in continuous learning are better equipped to identify inefficiencies in existing practices and develop creative solutions that enhance organizational innovative performance (Rampa & Agogué, 2021). Public organizations that emphasize learning throughout the change process are more likely to generate innovative ideas, as learning encourages experimentation, reflection, and knowledge sharing across departments (Marion & Fixson, 2021). Empirical evidence further suggests that organizational learning significantly enhances innovative performance by facilitating knowledge creation and dissemination (Soomro et al., 2021), enabling public organizations to improve efficiency, service delivery, and responsiveness to citizens (Miao et al., 2018).

Process capability in change management refers to an organization's ability to effectively manage the stages of change implementation, from planning to execution (Errida & Lotfi, 2021). In public organizations, where resistance to change is often high due to entrenched routines and bureaucratic inertia, a supportive change context becomes critical for fostering innovation (Ashok et al., 2021). A positive change environment encourages employees to take risks, experiment with new ideas, and collaborate across departments—factors that are essential for innovation (Kremer et al., 2019). Organizations with strong change capability provide psychological safety and the necessary resources for employees to engage in innovative behaviors without fear of failure (Miao et al., 2020).

Moreover, managers in the public sector must navigate complex regulatory environments and balance diverse stakeholder interests, making managerial cognition crucial for identifying innovation opportunities (Demir, 2022). Middle managers with strong cognitive capabilities are more likely to anticipate emerging service needs and guide their teams toward creative solutions (Berraies, 2020). The ability to analyze, synthesize, and apply knowledge is essential in facilitating innovation within hierarchical and often slow decision-making structures (Wurtzebach et al., 2019). Supporting this view, Carlsson (2023) highlights that advanced managerial cognition enables leaders to transform organizational challenges into innovation opportunities, while expertise in policy, technology, and public administration enhances their ability to design and implement effective innovative solutions (Rosenbloom et al., 2022).

In addition, middle managers who demonstrate idealized influence lead by example, embodying values such as openness, innovation, and ethical conduct (Afshari, 2022). This fosters a culture of trust and commitment, which is essential for promoting

innovative behavior (Nazir et al., 2018). Employees are more likely to engage in innovation when they observe leaders taking risks, challenging the status quo, and actively supporting innovation initiatives (Tan et al., 2023). By modeling innovative behavior, leaders inspire their teams to think creatively and pursue new ideas, even within traditionally rigid environments (Hortovanyi et al., 2021). As noted by Haque and Yamoah (2021), leaders who cultivate trust and confidence create an organizational culture that embraces innovation, ultimately enhancing innovative performance. Furthermore, leaders who demonstrate high ethical standards foster a trustworthy environment that encourages openness and risk-taking—both critical elements for innovation (Hossain et al., 2025). Based on the above arguments, the following hypotheses are proposed:

H3: Organizational change capability has a significant positive effect on innovative performance.

H4: Dynamic managerial capability has a significant positive effect on innovative performance.

H5: Transformational leadership has a significant positive effect on innovative performance.

2.4 Organizational change capability, dynamic managerial capability, transformational leadership, and innovative performance

Organizational Change Capability refers to an organization's capacity to continuously adapt, reconfigure, and develop new capabilities in response to external threats and opportunities (Suprihariyanti & Sukoco, 2022). It is closely associated with dynamic capability, as it involves the ability to integrate, build, and reconfigure internal and external competencies in rapidly changing environments (Teece et al., 2020). Empirical evidence indicates that organizational learning significantly enhances innovative performance, as it enables organizations to absorb and apply new knowledge effectively (Abdi et al., 2018).

Middle managers possessing dynamic managerial capability play a crucial role in facilitating this process; however, the extent to which organizations learn from change ultimately determines the level of innovation achieved (Salvato & Vassolo, 2018). Managers with strong human capital—an essential dimension of dynamic managerial capability—possess the expertise required to guide teams through complex change processes (Huynh et al., 2022). When organizations exhibit strong change process capability, managerial dynamic capabilities can be more effectively leveraged to implement innovative ideas (Teece, 2020). Furthermore, middle managers can utilize their social capital to build coalitions and drive change, yet a supportive organizational context—characterized by openness to new ideas, adequate resources, and leadership support—is essential to translate these efforts into tangible innovation outcomes (Villalonga-Olives et al., 2018). Consistent with this view, Le and Lei (2019) find that an innovation-supportive organizational context is critical in transforming managerial capabilities into innovative performance.

In public organizations, where resistance to change is often substantial, a supportive change context serves as a mediating mechanism between dynamic managerial capability and innovative performance, ensuring that managerial efforts lead to meaningful

innovation outcomes (Sung & Kim, 2021). In addition, transformational leaders who practice individualized consideration provide personalized support that enhances employee skills and competencies, thereby strengthening organizational learning capability (Suifan et al., 2018). By fostering change-related learning capabilities, transformational leadership enables organizations to continuously adapt and innovate, effectively translating leadership efforts into higher innovative performance (Alrowwad et al., 2020). However, without robust change management processes, innovations initiated by transformational leaders may fail during implementation (Farahnak et al., 2020). Strong change process capability ensures that such innovations are successfully executed, ultimately improving public service outcomes (Usman, 2020). Based on the above arguments, the following hypotheses are proposed:

H6: Organizational change capability mediates the relationship between dynamic managerial capability and innovative performance.

H7: Organizational change capability mediates the relationship between transformational leadership and innovative performance.

3. Method

3.1 Research Approach and Design

This study employs a quantitative approach using an explanatory research design. According to Creswell (2017), explanatory research aims to explain the relationships among variables and to examine the causal links between them. Data were collected using a structured questionnaire completed by respondents, with measurement indicators derived from established constructs in prior studies. The operationalization of each variable is presented below.

Table 2. Variables and item

Code and variables	Measurement Item
Cognitive Capital (Adapted from Widianto et al. (2021)	
CC1	Contributes to innovative solutions
CC2	Frequently identifies creative solutions to organizational problems
CC3	Demonstrates strong commitment and follow-through
Social Capital	
SC1	Shares common goals with other employees in the organization
SC2	Perceives themselves as partners in determining organizational direction
SC3	Fully aligns with the organizational vision
Human Capital	
HC1	Possesses a high level of skills
HC2	Widely recognized as one of the best employees in the organization
HC3	Demonstrates creativity and innovation in solving problems
HC4	Highly competent in their roles and responsibilities
HC5	Acts as a change agent and innovator, encouraging new ideas and public service innovation
Transformational Leadership (Rasheed et al., 2021)	
TL1	Inspires pride and respect among employees
TL2	Motivates employees to think creatively and innovatively
TL3	Clearly communicates work practices and organizational values
TL4	Fosters a collaborative work environment and encourages participation
TL5	Recognizes employee contributions and achievements

Code and variables	Measurement Item
TL6	Demonstrates concern for employees' professional and personal development
TL7	Communicates the organizational vision clearly and optimistically
Organizational Change Capability (Supriharyanti et al., 2024)	
Organizational Learning Capability	
OCL1	Seeks external information and knowledge relevant to the organization
OCL2	Identifies and utilizes relevant external knowledge
OCL3	Anticipates future developments related to organizational functions
OCL4	Integrates internal organizational knowledge effectively
OCL5	Applies knowledge consistently to solve organizational problems
OCL6	Organizes knowledge systematically for future use
OCL7	Combines existing and new knowledge to respond to environmental change
Change Process Capability	
CPC1	Develops a clear vision for organizational change
CPC2	Clearly communicates the need for change from the outset
CPC3	Establishes the urgency of change before implementation
CPC4	Builds broad support for change initiatives
CPC5	Empowers employees to implement change
CPC6	Monitors and communicates change progress effectively
CPC7	Provides individual support to employees facing difficulties during change
Change Context Capability	
CCC1	Recognizes innovation achievements in systems and processes
CCC2	Encourages flexibility and adaptability among employees
CCC3	Supports the development of new ideas
CCC4	Promotes an organizational identity as an innovative institution
Innovative Performance (Jugend et al., 2018)	
IP1	Develops a wider variety of public programs and services
IP2	Implements new technologies in public service or internal processes
IP3	Introduces new methods for organizing and managing work activities

3.2 Research setting

The population of this study comprises all Regional Government Organizations within the Sidoarjo Regency Government, totaling 49 organizational units, including 18 sub-districts, 2 secretariats, and 29 agencies, with an overall workforce of 9,304 employees. This study employs a multistage sampling technique, which involves selecting samples through multiple stages to ensure adequate representation of both organizational-level and individual-level variables. Specifically, multistage cluster sampling was applied by grouping the population into several clusters across different levels of analysis. The study incorporates two levels of analysis: (1) the organizational level, represented by heads of Regional Government Organizations and their immediate subordinates, and (2) the individual level, represented by lower-level managers. All 49 heads of Regional Government Organizations completed questionnaires measuring organizational-level variables, namely innovative performance and organizational change capability. At the individual level, a minimum of three lower-level managers per organization were selected, resulting in a total of 147 respondents who completed questionnaires measuring dynamic managerial capability and transformational leadership. Respondent demographic profile see on Table 3.

3.3 Data collection technique and data analysis

Data were collected using questionnaires, observations, and literature review to ensure the credibility and comprehensiveness of the information obtained. This study employs a multilevel analysis technique, which is appropriate for analyzing data structured across different hierarchical levels, such as individuals (Level 1) nested within organizations (Level 2). The analytical procedures include model fit testing, confirmatory factor analysis (CFA), average variance extracted (AVE), composite reliability, aggregation reliability testing, coefficient of determination (R^2), and path coefficient analysis. This comprehensive approach ensures robust validation of both measurement and structural models in examining the relationships among variables across multiple levels.

Table 3. Respondent demographic profile

Profile	Individual (n=147)	%	Organization (n=49)	%
Age				
< 30 years	18	12.2	0	0.0
31–40 years	44	29.9	14	28.6
41–50 years	62	42.2	30	61.2
51–60 years	23	15.6	5	10.2
Education				
High School	16	10.9	0	0.0
Diploma (D3/D4)	37	25.2	0	0.0
Bachelor (S1)	52	35.4	27	55.1
Master (S2)	36	24.5	13	26.5
Doctorate (S3)	6	4.1	9	18.4
Gender				
Male	107	72.8	31	63.3
Female	40	27.2	18	36.7
Years of Service				
< 5 years	10	6.8	0	0.0
5–10 years	28	19.0	11	22.4
11–15 years	33	22.4	20	40.8
16–20 years	40	27.2	7	14.3
21–25 years	24	16.3	6	12.2
> 25 years	12	8.2	5	10.2
Position (Organization Level)				
Echelon IVa	–	–	42	85.7
Echelon IVb	–	–	7	14.3
Position (Individual Level)				
Head of Department/Agency	–	–	27	55.1
Regional Secretary	–	–	1	2.0
Legislative Secretary	–	–	1	2.0
Hospital Director	–	–	2	4.1
Sub-district Head	–	–	18	36.7
Department Secretary	27	18.4	–	–
Division Head	20	13.6	–	–
Section Head	17	11.6	–	–
Sub-section Head	16	10.9	–	–
Sub-district Secretary	18	12.2	–	–
Staff/Employee	49	33.3	–	–

Source: Primary data (2025)

4. Results

4.1 Common Method Bias

The assessment of common method bias was conducted using Harman's Single Factor test across each group of respondents, as presented in Table 7 below.

Table 4. Harman's single factor test

Sample Group	% Variance Explained	Interpretation
Individual Level	37.626%	No Common Method Bias
Organizational Level	38.835%	No Common Method Bias

Source: Processed Primary Data (2025)

Based on Table 4, the total variance explained at the individual level (37.626%) and organizational level (38.835%) are both below the 50% threshold. These results indicate that common method bias is not a significant concern in this study.

4.2 Confirmatory factor analysis

1. Validity test

The validity of the measurement instrument was assessed using Confirmatory Factor Analysis (CFA), as presented below.

Table 5. Confirmatory Factor Analysis – Individual Level

Variable	Indicator	Loading Factor	Conclusion
Dynamic Managerial Capability	CC1	0.774	Valid
	CC2	0.794	Valid
	CC3	0.900	Valid
	SC1	0.709	Valid
	SC2	0.824	Valid
	SC3	0.671	Valid
	HC1	0.789	Valid
	HC2	0.835	Valid
	HC3	0.738	Valid
	HC4	0.612	Valid
	HC5	0.641	Valid
Transformational Leadership	TL1	0.795	Valid
	TL2	0.799	Valid
	TL3	0.862	Valid
	TL4	0.863	Valid
	TL5	0.799	Valid
	TL6	0.841	Valid
	TL7	0.883	Valid
Organizational Change Capability	OCL1	0.868	Valid
	OCL2	0.884	Valid
	OCL3	0.886	Valid
	OCL4	0.792	Valid
	OCL5	0.879	Valid
	OCL6	0.840	Valid
	OCL7	0.719	Valid
	CPC1	0.691	Valid
	CPC2	0.777	Valid
	CPC3	0.829	Valid

Variable	Indicator	Loading Factor	Conclusion
	CPC4	0.789	Valid
	CPC5	0.827	Valid
	CPC6	0.762	Valid
	CPC7	0.808	Valid
	CCC1	0.749	Valid
	CCC2	0.767	Valid
	CCC3	0.873	Valid
	CCC4	0.759	Valid
Innovative Performance	IP1	0.838	Valid
	IP2	0.901	Valid
	IP3	0.788	Valid

Source: Processed Primary Data (2025)

The results in Table 5 indicate that all indicators for dynamic managerial capability, transformational leadership, organizational change capability, and innovative performance at the individual level have loading factors greater than 0.50, confirming that all measurement items are valid.

Table 6. Confirmatory Factor Analysis – Organizational Level

Variable	Indicator	Loading Factor	Conclusion
Organizational Change Capability	OCL1	0.900	Valid
	OCL2	0.918	Valid
	OCL3	0.953	Valid
	OCL4	0.900	Valid
	OCL5	0.908	Valid
	OCL6	0.882	Valid
	OCL7	0.847	Valid
	CPC1	0.909	Valid
	CPC2	0.826	Valid
	CPC3	0.781	Valid
	CPC4	0.785	Valid
	CPC5	0.901	Valid
	CPC6	0.820	Valid
	CPC7	0.857	Valid
	CCC1	0.992	Valid
	CCC2	0.849	Valid
	CCC3	0.933	Valid
	CCC4	0.872	Valid
Innovative Performance	IP1	0.850	Valid
	IP2	0.830	Valid
	IP3	0.834	Valid

Source: Processed Primary Data (2025)

The results in Table 6 demonstrate that all indicators at the organizational level also exhibit loading factors above 0.50, confirming the validity of the measurement model. Overall, the confirmatory factor analysis results indicate that the measurement instruments used in this study are both valid and reliable for subsequent structural analysis.

Based on the results presented in Table 8, all indicators of the variables dynamic managerial capability, transformational leadership, organizational change capability, and innovative performance at the individual level exhibit loading factor values greater than 0.50, indicating that all indicators are valid. These findings are further illustrated in Figure 1 below.

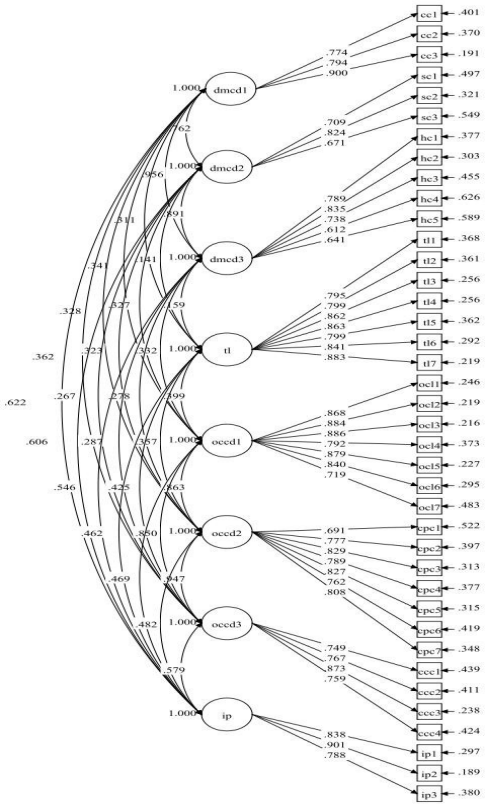

Figure 1. Confirmatory Factor Analysis – Individual Level
Source: Processed Primary Data (2025)

Table 7. Confirmatory Factor Analysis – Organizational Level

Variable	Indicator	Loading Factor	Conclusion
Organizational Change Capability	OCL1	0.900	Valid
	OCL2	0.918	Valid
	OCL3	0.953	Valid
	OCL4	0.900	Valid
	OCL5	0.908	Valid
	OCL6	0.882	Valid
	OCL7	0.847	Valid
	CPC1	0.909	Valid
	CPC2	0.826	Valid
	CPC3	0.781	Valid
	CPC4	0.785	Valid
	CPC5	0.901	Valid
	CPC6	0.820	Valid
	CPC7	0.857	Valid
	CCC1	0.992	Valid
	CCC2	0.849	Valid
	CCC3	0.933	Valid
	CCC4	0.872	Valid
Innovative Performance	IP1	0.850	Valid
	IP2	0.830	Valid
	IP3	0.834	Valid

Source: Processed Primary Data (2025)

Based on the results presented in Table 7, all indicators of the variables dynamic managerial capability, transformational leadership, organizational change capability, and innovative performance at the organizational level have loading factor values greater than

0.50, indicating that all indicators are valid. These results are further illustrated in Figure 2 below.

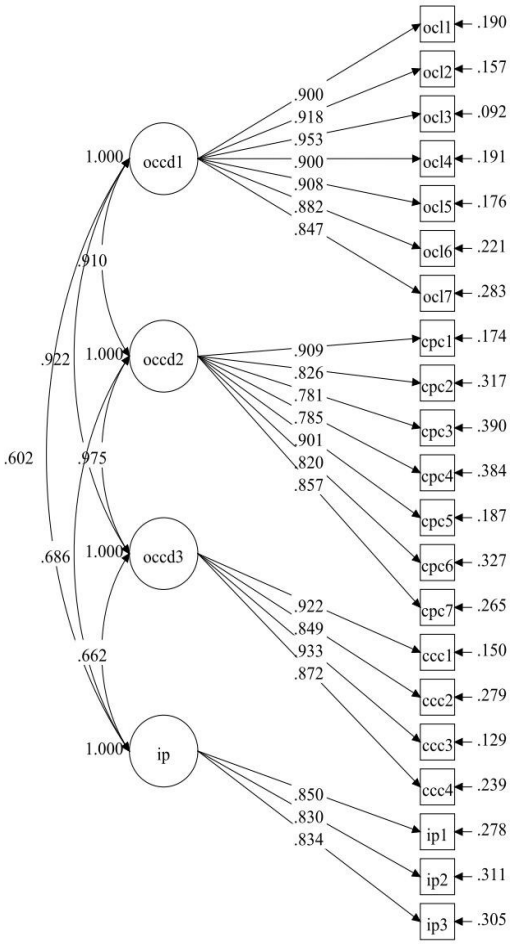

Figure 2. Confirmatory Factor Analysis – Organizational Level
Source: Processed Primary Data (2025)

2. Construct validity and reliability testing

Following the confirmatory factor analysis (CFA), the next step involves evaluating construct validity and construct reliability. Construct validity is assessed using the Average Variance Extracted (AVE), with a recommended threshold greater than 0.50. Meanwhile, construct reliability is evaluated using Composite Reliability (CR), which should exceed 0.70. The results of the construct validity and reliability assessment are presented in Table 8.

The results indicate that all AVE values exceed the threshold of 0.50, confirming that the constructs demonstrate adequate convergent validity. Furthermore, all construct reliability values are above 0.70, indicating that the measurement instruments exhibit high internal consistency and reliability. Therefore, all constructs used in this study are deemed both valid and reliable.

Table 8. Construct validity and construct reliability

Variable	Average Variance Extracted (AVE)	Construct Reliability (CR)
Dynamic Managerial Capability	0.517	0.921
Transformational Leadership	0.696	0.941
Organizational Change Capability (Individual Level)	0.650	0.970
Organizational Change Capability (Organizational Level)	0.791	0.985
Innovative Performance (Individual Level)	0.711	0.880
Innovative Performance (Organizational Level)	0.704	0.877

Source: Primary data processed (2025)

3. Overall goodness of fit evaluation of the multilevel model

The evaluation of the goodness of fit (GoF) for the multilevel model is essential to ensure that the proposed model adequately represents the empirical data. The results of the goodness of fit assessment are presented in Table 9.

Table 9. Goodness of Fit Model

GoF Index	Threshold	Result	Conclusion
CFI	0 – 1	0.980	Good
TLI	0.80 – 0.90	0.930	Good
RMSEA	< 0.08	0.072	Good
SRMR (Within Model)	< 0.08	0.007	Good
SRMR (Between Model)	< 0.08	0.061	Good

Source: Primary data processed (2025)

The estimated multilevel model yields an RMSEA value of 0.072, which is below the recommended threshold of 0.08. Additionally, the SRMR values for both the within-model (0.007) and between-model (0.061) are well below 0.08, indicating a good model fit. The Comparative Fit Index (CFI) is 0.980, and the Tucker-Lewis Index (TLI) is 0.930, both exceeding acceptable thresholds. Based on these indices, it can be concluded that the multilevel model demonstrates a strong overall model fit and is well-aligned with the observed data.

4. Coefficient of determination (R-Square)

The estimated multilevel model produces the following coefficient of determination (R^2) values:

Table 10. R-Square

Variable	R-Square (R^2)
Organizational Change Capability (Between Level)	0.689
Innovative Performance (Between Level)	0.790

Source: Primary data processed (2025)

The R-square value for organizational change capability (between level) is 0.689, indicating that approximately 68.9% of the variance in organizational change capability is explained by individual-level perceptions of dynamic managerial capability and transformational leadership. Meanwhile, the R-square value for innovative performance is 0.790, suggesting that 79.0% of its variance is explained by dynamic managerial capability, transformational leadership, and organizational change capability. These

results demonstrate that the model has substantial explanatory power, particularly in predicting innovative performance outcomes.

4.3 Multilevel Modelling

The data analysis in this study was conducted using Mplus 8.3. A comprehensive explanation of the multilevel modelling results is presented as follows:

1. Evaluation of Intraclass Correlation Coefficient (ICC1), ICC2, and RWg

The evaluation of the outer model in this analysis was performed based on the estimation results of the specified model algorithm, as presented in Table below.

Table 11. Evaluation of ICC (1), ICC (2), and RWg

Variable	ICC1	ICC2	RWg	p-value
Organizational Change Capability	0.42	0.62	0.98	< 0.001
Innovative Performance	0.28	0.61	0.94	< 0.001

Source: Processed primary data (2025)

Based on Table 13, the ICC(1) values for each variable range from 0.10 to 0.24. These values exceed the minimum threshold of 0.05, indicating that the data are appropriate for multilevel analysis. Furthermore, the ICC(2) values range from 0.61 to 0.62, which fall within the acceptable range of 0.40 to 0.75, suggesting that the reliability between groups is approaching a satisfactory level. The RWg values range from 0.94 to 0.98, exceeding the recommended threshold of 0.70, thereby supporting data aggregation for multilevel modelling. Overall, considering the ICC(1), ICC(2), and RWg values for each variable, along with p-values (F-ratio) that are all below 0.05, the dataset is deemed suitable and robust for multilevel model analysis.

2. Multilevel Mediation

The multilevel mediation analysis in this study was conducted at the workgroup level, consisting of 49 groups, using MPlus 8.3 software. The complete results of the multilevel mediation analysis are presented in Table 12 below.

Table 12. Multilevel Mediation Results

Path	Estimate	Est/SE	p-value
Dynamic Managerial Capability → Organizational Change Capability	0.569	4.515	< 0.001
Transformational Leadership → Organizational Change Capability	0.336	4.448	< 0.001
Organizational Change Capability → Innovative Performance	0.518	2.622	0.009
Dynamic Managerial Capability → Innovative Performance	0.488	2.620	0.009
Transformational Leadership → Innovative Performance	0.191	2.100	0.036
Dynamic Managerial Capability → OCC → Innovative Performance	0.295	2.537	0.011
Transformational Leadership → OCC → Innovative Performance	0.174	2.163	0.031

Based on Table 12, the evaluation of the multilevel mediation effects for hypothesis testing can be explained as follows:

1. The estimation results for the effect of dynamic managerial capability on organizational change capability show a positive coefficient (β = 0.569) with a

significant value (Est/SE = 4.515; p < 0.001). This indicates a positive and significant relationship; therefore, H1 is supported.

2. The effect of transformational leadership on organizational change capability is also positive and significant (β = 0.336; Est/SE = 4.448; p < 0.001). Thus, H2 is supported.
3. The relationship between organizational change capability and innovative performance yields a positive and significant effect (β = 0.518; Est/SE = 2.622; p = 0.009), supporting H3.
4. The direct effect of dynamic managerial capability on innovative performance is positive and significant (β = 0.488; Est/SE = 2.620; p = 0.009), confirming H4.
5. The effect of transformational leadership on innovative performance is also found to be positive and significant (β = 0.191; Est/SE = 2.100; p = 0.036), thus H5 is supported.
6. The indirect effect of dynamic managerial capability on innovative performance through organizational change capability is positive and significant (β = 0.295; Est/SE = 2.537; p = 0.011), supporting H6. Furthermore, this mediation is classified as partial mediation, as the direct effect of dynamic managerial capability on innovative performance remains significant.
7. Similarly, the indirect effect of transformational leadership on innovative performance through organizational change capability is positive and significant (β = 0.174; Est/SE = 2.163; p = 0.031), supporting H7. This mediation is also categorized as partial mediation, since the direct effect of transformational leadership on innovative performance is significant.

The results of the hypothesis testing can also be seen in Figure 3.

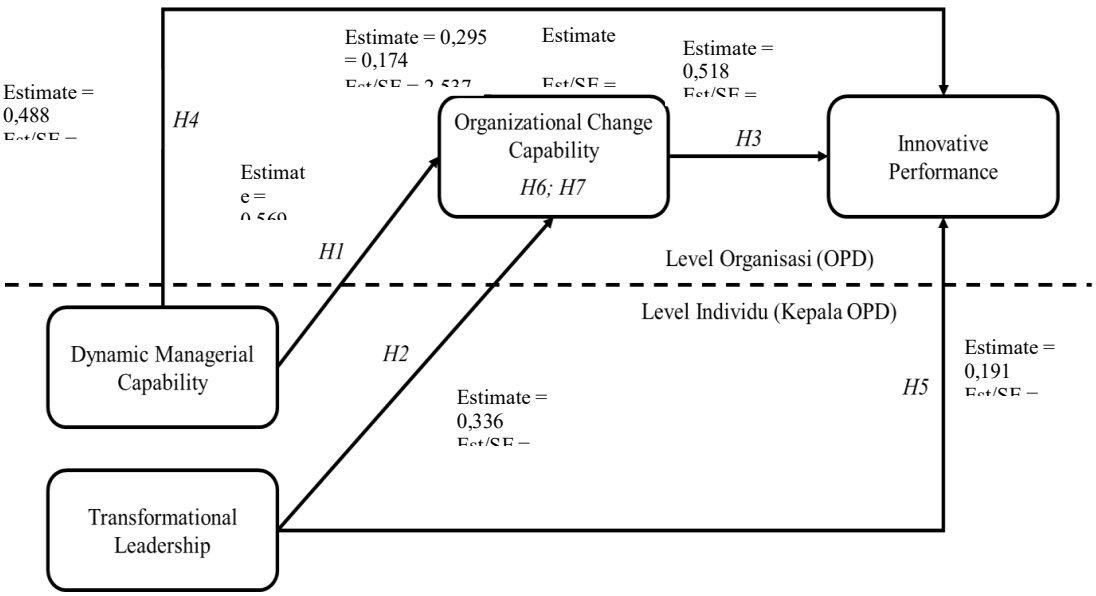

Figure 3. Results of research hypothesis testing
Source: Processed Primary Data (2025)

5. Discussion

The findings of this study provide strong empirical support for the Dynamic Capability Theory (DCT), particularly in explaining how organizational actors in the public sector develop and deploy capabilities to respond to environmental changes. The significant positive effect of dynamic managerial capability on organizational change capability ($\beta = 0.569$; $p < 0.001$) confirms that managerial competencies play a critical role as microfoundations of dynamic capabilities, enabling organizations to sense, seize, and reconfigure resources in response to evolving demands (Teece, 2007). In the context of public sector organizations, such as local government institutions, this capability is reflected in the ability of managers to interpret regulatory changes, societal expectations, and policy shifts, and translate them into adaptive organizational actions. This finding is consistent with prior studies emphasizing that dynamic managerial capability enhances organizational adaptability and change readiness (Helfat & Martin, 2015; Adner & Helfat, 2003). Moreover, the significant influence of transformational leadership on organizational change capability ($\beta = 0.336$; $p < 0.001$) reinforces the argument that leadership plays a pivotal role in facilitating change processes by shaping vision, commitment, and organizational alignment (O'Reilly & Tushman, 2008).

Furthermore, the results demonstrate that both dynamic managerial capability and transformational leadership significantly influence innovative performance, both directly and indirectly through organizational change capability. The significant effect of organizational change capability on innovative performance ($\beta = 0.518$; $p = 0.009$) highlights its role as a key mechanism within DCT, particularly in the reconfiguring dimension, where organizations transform internal processes and resources into innovation outcomes. This is especially relevant in the public sector, where innovation is often constrained by bureaucratic structures, making change capability a crucial enabler for overcoming rigidity and fostering service improvements. The direct effects of dynamic managerial capability ($\beta = 0.488$; $p = 0.009$) and transformational leadership ($\beta = 0.191$; $p = 0.036$) on innovative performance further indicate that both managerial competence and leadership behavior are essential drivers of innovation. These findings align with previous research suggesting that dynamic capabilities and transformational leadership significantly enhance innovation outcomes in both private and public organizations (Wang & Ahmed, 2007; Gumusluoğlu & Ilsev, 2009).

Importantly, the mediation analysis reveals that organizational change capability partially mediates the relationships between both dynamic managerial capability and innovative performance ($\beta = 0.295$; $p = 0.011$), as well as transformational leadership and innovative performance ($\beta = 0.174$; $p = 0.031$). This partial mediation indicates that while organizational change capability serves as an important pathway through which managerial and leadership factors influence innovation, there remain significant direct effects, suggesting the presence of complementary mechanisms. Within the DCT framework, this finding illustrates that sensing and seizing capabilities (embedded in managerial capability and leadership) do not solely operate through reconfiguring processes, but can also directly stimulate innovation. In the public sector context, this implies that leaders and managers can simultaneously drive innovation through direct strategic actions and through enhancing organizational adaptability. This result is supported by prior studies highlighting the mediating role of change capability in linking leadership and innovation, while also acknowledging the persistence of direct effects (Flatten et al., 2011; Jansen et al., 2009). Overall, these findings reinforce the integrated

role of leadership, managerial capability, and organizational adaptability in fostering innovation within bureaucratic environments.

6. Conclusion and recommendation

The findings of this study conclude that, first, dynamic managerial capability has a significant positive effect on organizational change capability. Second, transformational leadership has a significant positive effect on organizational change capability. Third, organizational change capability has a significant positive effect on innovative performance. Fourth, dynamic managerial capability has a significant positive effect on innovative performance. Fifth, transformational leadership has a significant positive effect on innovative performance. Sixth, organizational change capability mediates the relationship between dynamic managerial capability and innovative performance. Seventh, organizational change capability mediates the relationship between transformational leadership and innovative performance.

The results and discussions of this study offer several managerial implications for the Local Government Organization of Sidoarjo Regency. In the context of dynamic managerial capability, it is essential for addressing evolving challenges and opportunities, including changes in regulatory policies, technological developments, and public needs. Regarding organizational change capability, the Local Government Organization of Sidoarjo Regency is encouraged to engage more proactively in the change process to enhance organizational quality and ensure that reforms align with societal expectations and demands.

In terms of innovative performance, the Local Government Organization of Sidoarjo Regency needs to develop a data- and technology-based information system for monitoring regional government performance to support continuous improvement and adjustment aligned with the achievement of various governmental programs. By strengthening transformational leadership, the Local Government Organization of Sidoarjo Regency is expected to evolve into a more responsive, efficient, and effective public institution capable of delivering high-quality, innovative, and transformative public services, even amid ongoing challenges and environmental changes.

7. Limitations and future research

With regard to dynamic managerial capability, this study reflects the ability of the local government of Sidoarjo Regency to adapt to and manage environmental changes, particularly those arising from public demands and government policies, in alignment with the implementation of regional development programs aimed at serving all segments of society. In terms of transformational leadership, local government organizations in Sidoarjo are required to foster self-confidence, loyalty, and mutual respect, while continuously motivating and inspiring employees to exceed expectations and achieve organizational vision through proactive change initiatives. Regarding innovative performance, public sector organizations in Sidoarjo Regency need to further optimize their efforts in enhancing public service delivery and governance by leveraging technology, generating new ideas, and adopting creative approaches in executing their duties. Meanwhile, organizational change capability highlights the necessity for these institutions to continuously adapt to both internal and external environmental dynamics in order to achieve organizational objectives and deliver effective public services. This

capability encompasses the ability to manage change, learn from experience, and sustain performance improvement over time.

Future studies are encouraged to expand the scope of population and sampling to achieve broader coverage and more comprehensive data accessibility, particularly across provincial governments and ministerial institutions. Additionally, subsequent research is recommended to adopt mixed-method approaches in order to generate more detailed, generalizable, and comprehensive findings.

8. Limitations and future research directions

Despite these contributions, this study acknowledges several limitations. The cross-sectional research design restricts the ability to capture causal relationships and dynamic changes in employee motivation and engagement over time. The reliance on self-reported data may also introduce potential common method bias and subjective interpretation of work experiences. Future research is therefore recommended to employ longitudinal or multi-wave research designs to capture temporal motivational processes more accurately. Incorporating objective performance indicators, such as productivity metrics or behavioral engagement measures, would strengthen empirical validity. Additionally, future studies are encouraged to examine the moderating or mediating roles of job resources, leadership styles, organizational culture, and digital competence to provide a more comprehensive understanding of employee engagement mechanisms. Expanding research across different industrial sectors and organizational contexts would also improve the generalizability and robustness of these findings.

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