The Effect of Change Management and Knowledge Management on Organizational Performance: The Mediating Effect of Innovation Capability

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ABSTRACT

This study investigates how change management and knowledge management affect organizational performance through the mediating influence of innovation capability in an Indonesian IT managed services provider navigating digital transformation challenges. The main objective of this research is to investigate the direct and indirect effects of change management and knowledge management on organizational performance through the mediating influence of innovation capability. A quantitative explanatory approach was employed, with data collected via structured questionnaires from 120 employees actively involved in relevant processes at the company. Variance-based structural equation modeling using SmartPLS software analyzed the relationships among the constructs. The results indicate that knowledge management has a strong positive effect on innovation capability, which in turn significantly influences organizational performance. Innovation capability partially mediates the relationship between knowledge management and organizational performance. In contrast, change management shows no significant effect on innovation capability or its mediation role, though it directly contributes to organizational performance. The model explains moderate variance in both innovation capability and organizational performance. In conclusion, knowledge management primarily drives innovation-led performance in this digital service context, whereas change management supports performance through operational alignment rather than creative mechanisms.

Keywords*: Change Management, Digital Transformation, Innovation Capability, Knowledge Management, Organizational Performance.*

INTRODUCTION

In the era of globalization and the Fourth Industrial Revolution, the advancement of Information Technology (IT) has progressed rapidly, significantly impacting various sectors, both private and public (Lee et al., 2018; Kova & Zulkifli, 2025). Information and Communication Technology (ICT) has become a core foundation for enhancing organizational efficiency, effectiveness, and competitive advantage (Roy, 2019). In Indonesia, digital transformation is a national agenda, with the government targeting digital economic growth of 3.17% to 4.66% by 2024 as part of post-pandemic recovery. However, Indonesia ranks 73rd out of 146 countries in digital readiness, reflecting the urgent need for businesses to adapt strategically.

The rapid adoption of digital technologies intensifies pressure on organizations to innovate continuously, as 72% of corporate clients now demand IT solutions that are not only reliable but also innovative and flexible. Delivering quality services in this

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environment requires strong employee involvement (Surya et al., 2023). Innovation Capability (IC), the ability to generate and implement new value-adding ideas, becomes essential for resilience amid disruption, with change management and knowledge management serving as two key strategic pillars that drive it (Nonaka & Toyama, 2003; Teece, 2007). However, real-world implementation often encounters significant challenges. Kotter (2011) reports that 70% of organizational change initiatives fail due to lack of urgency, internal resistance, and poor leadership, while Wavei (2023) notes that only 30% of companies have integrated knowledge management systems. These gaps in managing change and knowledge directly hinder the development of innovation capability and, ultimately, organizational performance (Kaplan & Norton, 1996). The managed services industry in Indonesia is particularly affected, with the market valued at around USD 364 million in 2025 and projected to reach approximately USD 537 million by 2030, growing at a compound annual growth rate of 6.68% (Mordor Intelligence, 2025). This expansion is driven by increasing needs for operational efficiency, cybersecurity, and cloud-based solutions in sectors such as banking, retail, and logistics, further pushing companies to enhance innovative and flexible service delivery.

Previous studies have tended to examine change management and knowledge management separately. For example, Bayhan et al. (2021) and Abbasi et al. (2022) analyzed the relationship between knowledge management and organizational performance without considering change as a critical factor. Conversely, Olubayo Thomas (2014) focused on change management in the telecommunications sector but did not incorporate the role of knowledge management. This separation highlights a clear research gap in integrating both strategic drivers within an innovative context. According to Inków (2020), organizations must theoretically integrate knowledge management and change management to build a sustainable culture of innovation, yet empirical research that combines both variables alongside innovation capability in a unified framework remains limited, particularly in the IT services industry. Most existing studies are either sector-specific (e.g., manufacturing or banking) or fail to test the mediating role of innovation capability in linking CM and KM to performance in dynamic digital settings like managed IT services in Indonesia.

PT ABC, a leading managed services and IT consulting provider in Indonesia for over 15 years, serves key sectors such as banking, retail, and logistics with 24/7 operations and strict Service Level Agreements (SLAs). Despite its strong track record, PT ABC has faced significant performance challenges over the past two years, driven by agile competitors and accelerating technological changes. These pressures highlight the need for strategic transformation, particularly in service innovation and operational efficiency. The main issue PT ABC faces is the lack of synergy between change management and knowledge management in building innovation capability to enhance performance. While prior studies such as Zaied et al. (2012), Olubayo Thomas (2014), and Al Taweel and Al-Hawary (2021) investigated KM, CM, or innovation separately, their findings may not fully apply to the IT managed services industry in Indonesia.

Addressing this research gap, the current study develops a comprehensive model to examine how the integration of change management and knowledge management influences innovation capability and ultimately affects organizational performance in a digital transformation setting. The main objective of this study is to analyze the direct and indirect effects (mediated by innovation capability) of change management and knowledge management on organizational performance at PT ABC. This study employs a quantitative explanatory approach using variance-based Structural Equation Modeling (SEM) via SmartPLS 4, which is appropriate for evaluating complex causal relationships among latent variables (Hair et al., 2019). This approach enables the analysis of both direct and indirect effects between the constructs, contributing both theoretically and practically to innovation and strategic management literature.

The growing complexity of business environments and rapid technological advancements demand that organizations continuously adapt through effective change management and knowledge management practices. The insights from this study are

expected to guide PT ABC in formulating more effective and integrated strategies, while also offering valuable support for improving innovation capability and strengthening competitive advantage amidst growing digital demands.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Change Management and Knowledge Management on Innovation Capability

Change Management (CM) helps organizations adapt to new conditions by restructuring processes, shifting culture, and gaining employee buy-in for transitions. Susanty et al. (2024) and Felix et al. (2024) investigated the effect of change management on organizational performance in the telecommunications industry and found that structured change initiatives with strong leadership commitment make organizations more agile and better able to handle environmental shifts. Jones et al. (2005) and Urbancová and Vnoučková (2021) added that a supportive organizational culture plays a big role in making change efforts successful, as it boosts employee readiness and helps achieve long-term goals. Welch (2020) and Njoroge et al. (2021) emphasized that leadership styles focused on participation and clear communication are key to reducing resistance during change processes. Sataić (2021) highlighted models like ADKAR, which guide individuals through stages of awareness, desire, knowledge, ability, and reinforcement to make change stick.

Knowledge Management (KM) refers to the processes of acquiring, sharing, storing, and applying knowledge to create organizational value (Zaied et al., 2012). Effective KM improves decision-making, problem-solving, productivity, and efficiency, enabling firms to remain competitive in dynamic and technology-driven environments (Sadq et al., 2020; Rafiq et al., 2021). Pramandita et al. (2021) further emphasize that leadership and strategic capabilities strengthen the impact of KM on organizational performance. Along with change management, KM supports innovation capability by facilitating the creation and implementation of new ideas that generate value. Cohen and Wills (1985) argue that integrating KM and CM is essential for building a sustainable innovation culture, as managed change improves knowledge flows. Guerra-López and Dallal (2021) highlight that KM plays a critical role in smoothing technological transitions, while Khan et al. (2021) show that KM practices combined with a learning culture enhance organizational adaptation and innovation.

H1: Change management has a positive influence on innovation capability.
H2: Knowledge management has a positive influence on innovation capability.

Factors Influencing Organizational Performance

Innovation Capability (IC) allows firms to develop new products, services, or processes that meet market needs and create competitive edges. Erdogan et al. (2020) and Ahmad et al. (2021) found that strong commitment to innovation in family firms leads to new production methods and better market adaptation. Kamalrulzaman et al. (2021) demonstrated a positive link between IC and operational outcomes like productivity and flexibility in Malaysian SMEs. Makhloufi et al. (2021) highlighted that absorptive capacity and organizational learning shape how entrepreneurial orientation turns into stronger IC. Swanson et al. (2020) and Sharif et al. (2024) showed that knowledge sharing combined with good leader-member relationships significantly boosts IC and advances performance.

IC directly contributes to Organizational Performance (OP) by driving efficiency, adaptability, and value creation in dynamic environments. Li et al. (2020) confirmed that robust KM practices build unique capabilities that foster innovation and improve OP. Al Taweel and Al-Hawary (2021) examined IC as a mediator in banking and found that it links strategic agility to better performance. CM also has a direct link to OP through better alignment of people, processes, and strategies. Felix et al. (2024) confirmed that committed leadership in change makes firms more agile and performant. Rahi et al. (2021) stressed that employee readiness to embrace change is crucial for successful

transformation and improved outcomes. Brumadyadisty (2025) showed how value-based change enhances professionalism and performance. Knowledge management directly influences OP by supporting better decisions and continuous improvement. Zaied et al. (2012) concluded that well-managed knowledge positively affects organizational outcomes. Sadq et al. (2020) argued that KM drives efficiency and productivity in competitive settings.

H3: Innovation capability has a positive influence on organizational performance.
H4: Change management has a positive influence on organizational performance.
H5: Knowledge management has a positive influence on organizational performance.

The Mediating Influence of Innovation Capability

Innovation capability represents an organization's ability to convert strategic inputs, such as knowledge management and change management, into innovative outcomes that enhance organizational performance. Accordingly, innovation capability frequently serves as a mediating mechanism between managerial practices and performance results. Studies in Malaysian manufacturing contexts show that strong knowledge resources lead to superior innovation only when firms possess adequate innovation capability to translate knowledge into action. Makhloufi et al. (2021), Wu et al. (2021), and Kastelli et al. (2024) find that absorptive capacity mediates the relationship between strategic orientation and innovation capability, thereby influencing overall organizational performance. Likewise, Krisprimandoyo et al. (2025) demonstrate that synergistic knowledge sharing and high-quality relationships strengthen innovation capability, which subsequently improves organizational performance.

Regarding change management, the mediating role of innovation capability is less consistent across empirical settings but remains theoretically important. Inków (2020) argues that ineffective alignment between change management and knowledge management limits organizational responses to disruption through innovation. In support of this view, Guerra-López and Dallal (2021) explain that knowledge management facilitates organizational change by disseminating critical knowledge, which can indirectly reinforce innovation capability and performance.

Empirical evidence further indicates a stronger mediation effect of innovation capability in the relationship between knowledge management and organizational performance. Li et al. (2020) show that knowledge management builds organizational capabilities that foster innovation and subsequently enhance performance. Similarly, Al Taweel and Al-Hawary (2021) confirm that innovation capability mediates the relationship between organizational agility and performance, suggesting comparable mediation patterns for knowledge management.

H6: Innovation capability mediates the relationship between change management and organizational performance.
H7: Innovation capability mediates the relationship between knowledge management and organizational performance.

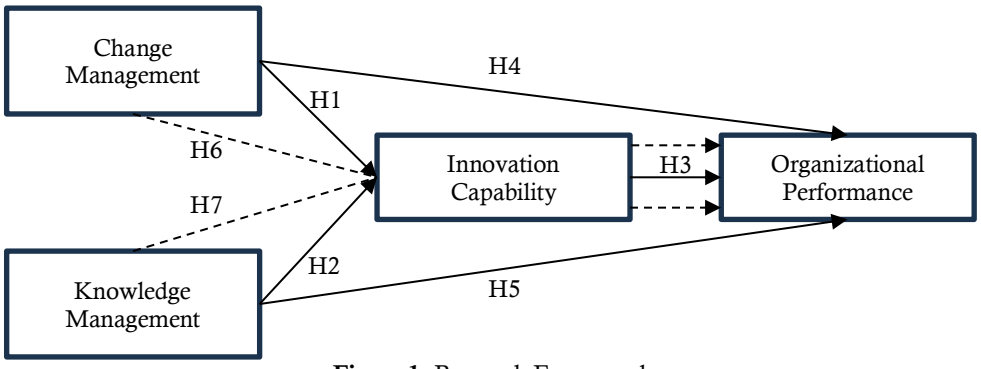

Figure 1. Research Framework

This study builds on the Knowledge-Based View (KBV) and Dynamic Capability Theory, which explain how organizations gain advantage by managing knowledge and adapting to change in fast-moving environments (Cui, 2025). KM provides the base for creating and using knowledge to spark innovation, while CM helps realign structures and people to support adaptation. IC sits in the middle as a mediator, turning these inputs into a better OP. Figure 1 illustrates the relationships among the constructs, including direct and mediated paths. The proposed framework integrates CM, KM, and IC as mediators and OP as the outcome. Direct paths run from CM and KM to IC and OP, with indirect effects through IC. This model tests how synergy between CM and KM builds IC to drive performance in a digital transformation context like PT ABC's IT managed services.

RESEARCH METHOD

This research adopts a quantitative explanatory approach to examine the influence of change management and knowledge management on organizational performance, with innovation capability serving as a mediating variable. The study was conducted at PT ABC, a prominent managed services and IT consulting provider in Indonesia that has operated for over 15 years. The company serves strategic sectors including banking, retail, and logistics, delivering 24/7 operations under strict Service Level Agreements (SLAs). The unit of analysis consists of individual employees who are actively involved in innovation-related activities, organizational change processes, or knowledge management practices, as these roles provide direct insight into the studied phenomena.

Data were collected through a structured questionnaire distributed using purposive sampling. A total of 150 questionnaires were distributed, and after applying a filter question to confirm respondents' active involvement in relevant processes, 120 valid responses were obtained (response rate of 84.5% among those who passed the filter). The measurement instruments were adapted from previously validated studies to ensure reliability and relevance. Change management was measured using indicators based on Lewin's three-stage model (unfreeze, change, refreeze), capturing aspects such as awareness of the need for change, leadership support, and employee engagement during transitions. Knowledge management indicators covered the core processes of knowledge acquisition, sharing, storage, and application. Innovation capability was assessed using constructs proposed by Yusr et al. (2014), focusing on the organization's ability to generate, develop, and implement novel ideas. Organizational performance was evaluated through non-financial indicators derived from the Balanced Scorecard framework, including customer satisfaction, internal process efficiency, learning and growth, and strategic alignment. All items were rated on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

A pilot test was conducted with 30 respondents to check the instrument's validity and reliability. The results confirmed that all constructs met acceptable thresholds, with Cronbach's Alpha and Composite Reliability values above 0.70, and outer loading factors exceeding 0.70, indicating good internal consistency and convergent validity. To test the hypotheses and the overall conceptual model, variance-based Structural Equation

Modeling (SEM) was employed using SmartPLS 4 software. This method is particularly suitable for analyzing complex causal relationships among latent variables, including mediation effects, especially with smaller sample sizes and non-normal data distributions (Hair et al., 2019). The analysis proceeded in two main stages: first, evaluation of the measurement model (outer model) to assess validity and reliability; second, evaluation of the structural model (inner model) to examine path coefficients, coefficient of determination (R^2), effect sizes (f^2), predictive relevance (Q^2), and mediation through bootstrapping with 5,000 subsamples. This approach allowed for a comprehensive assessment of both direct and indirect effects among the constructs.

RESULTS

This section presents the results of the data analysis conducted using SmartPLS 4, following the quantitative explanatory approach outlined in the methods. The analysis begins with an overview of the response rate and respondent characteristics to establish the sample's relevance and demographics. It then evaluates the measurement model (outer model) for validity and reliability, followed by the structural model (inner model) to test the relationships and hypotheses. All results are based on the 120 valid responses from employees at PT ABC who confirmed involvement in change management, knowledge management, or innovation activities. These findings provide empirical insights into how change management and knowledge management influence innovation capability and organizational performance in the context of Indonesia's IT managed services industry.

Table 1. Respondent Involvement in Organizational Processes

Involvement	Frequency	Percentage
Yes	120	84.5%
No	22	15.5%
Total	142	100.0%

Before diving into the core variables, a filter question was used to screen respondents for their active involvement in organizational change processes, knowledge management activities, or innovation initiatives within their units. This step ensured that only those with direct experience proceeded with the full questionnaire, enhancing the data's relevance and quality. Out of 142 initial respondents, 120 (84.5%) reported yes to involvement and completed the survey, while 22 (15.5%) indicated no and were excluded. As shown in Table 1, this high involvement rate strengthens the validity of the findings, as the sample closely aligns with the study's focus on employees engaged in these key processes. The filtering process effectively targeted the right participants, minimizing bias and ensuring the results reflect practical insights from those directly affected by the variables under study.

Table 2. Respondent Characteristics

Category	Classification	Frequency	Percentage
Gender	Male	81	67.5%
	Female	39	32.5%
Age	20–25 years	18	15%
	26–30 years	66	55%
	31–35 years	24	20%
	> 35 years	12	10%
Education	Bachelor's Degree	96	80%
	Master's Degree	24	20%
Years of Service	< 1 year	12	10%
	1–3 years	42	35%
	4–6 years	48	40%
	> 6 years	18	15%

The 120 valid respondents represent a diverse yet focused group from PT ABC, consisting mainly of young professionals in the managed IT services sector. Most were male (67.5%), aged 26–30 years (55%), and held a bachelor's degree (80%), with many having 4–6 years of service (40%). This demographic profile fits the dynamic nature of digital transformation roles, where tech-savvy, mid-career employees often drive innovation and change. As detailed in Table 2, these characteristics indicate a workforce that is educated and experienced enough to provide reliable insights into the study's variables. The distribution also suggests the sample captures a representative cross-section of PT ABC's employees involved in strategic processes, supporting the generalizability of results within similar IT firms in Indonesia.

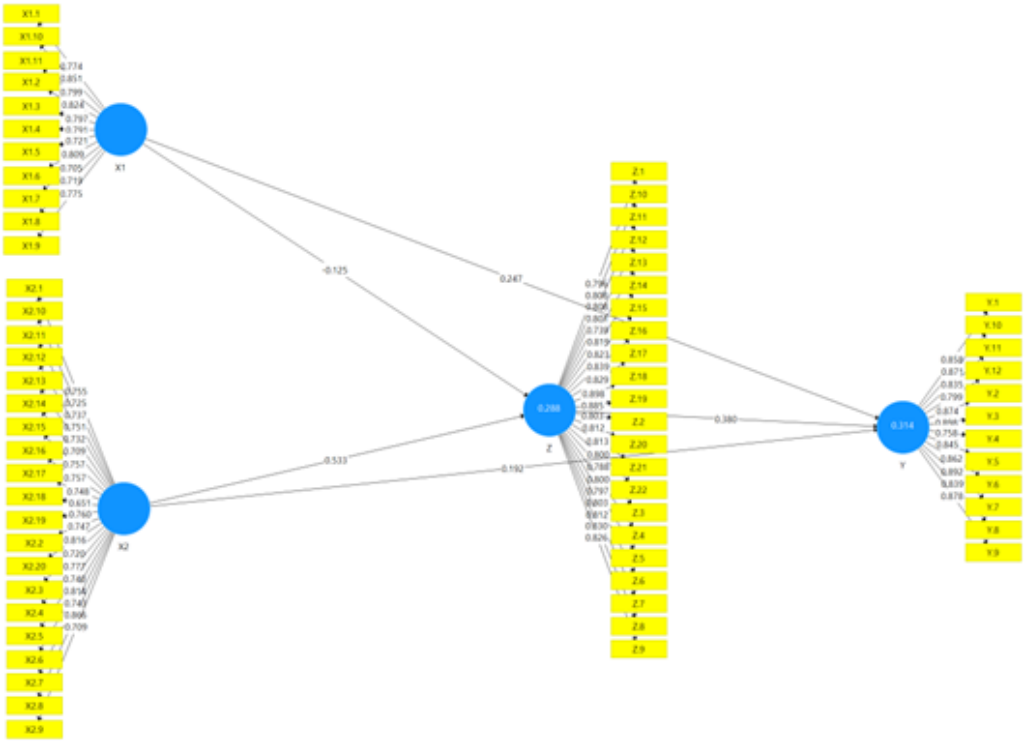

Figure 2. Outer Model

The outer model evaluation assesses the validity and reliability of the latent constructs, change management (X1), knowledge management (X2), innovation capability (Z), and organizational performance (Y). Figure 2 visualizes the outer model, showing the relationships between constructs and their indicators, with most outer loadings above 0.70, indicating strong convergent validity. Some indicators, such as X2.18 with a loading of 0.651, fell below the threshold and were removed to improve model fit, ensuring all retained items contribute meaningfully. This step aligns with standard PLS-SEM practices to maintain measurement quality without compromising the overall structure.

Table 3. Measurement Model

Variable	Indicator	Outer Loadings	AVE	Cronbach's Alpha	Composite Reliability
Change Management	X1.1	0.774	0.608	0.935	0.945
	X1.2	0.824			
	X1.3	0.797			
	X1.4	0.791			
	X1.5	0.721			
	X1.6	0.809			
	X1.7	0.705			
	X1.8	0.719			
	X1.9	0.775			
	X1.10	0.851			

Variable	Indicator	Outer Loadings	AVE	Cronbach's Alpha	Composite Reliability
	X1.11	0.799			
Knowledge Management	X2.1	0.755	0.565	0.959	0.963
	X2.2	0.747			
	X2.3	0.720			
	X2.4	0.777			
	X2.5	0.740			
	X2.6	0.814			
	X2.7	0.743			
	X2.8	0.866			
	X2.9	0.709			
	X2.10	0.725			
	X2.11	0.737			
	X2.12	0.751			
	X2.13	0.732			
	X2.14	0.709			
	X2.15	0.757			
	X2.16	0.757			
	X2.17	0.748			
	X2.19	0.760			
	X2.20	0.816			
Innovation Capability	Z.1	0.796	0.665	0.976	0.978
	Z.2	0.803			
	Z.3	0.788			
	Z.4	0.800			
	Z.5	0.797			
	Z.6	0.803			
	Z.7	0.812			
	Z.8	0.830			
	Z.9	0.826			
	Z.10	0.808			
	Z.11	0.808			
	Z.12	0.801			
	Z.13	0.739			
	Z.14	0.819			
	Z.15	0.823			
	Z.16	0.839			
	Z.17	0.829			
	Z.18	0.898			
	Z.19	0.885			
	Z.20	0.812			
	Z.21	0.813			
	Z.22	0.800			
Organizational Performance	Y.1	0.858	0.725	0.965	0.969
	Y.2	0.874			
	Y.3	0.898			
	Y.4	0.758			
	Y.5	0.845			
	Y.6	0.862			
	Y.7	0.892			
	Y.8	0.839			
	Y.9	0.878			
	Y.10	0.871			
	Y.11	0.835			
	Y.12	0.799			

As summarized in Table 3, all constructs meet the criteria, providing a solid foundation for the structural model. Convergent validity was tested through outer loadings and Average Variance Extracted (AVE), where loadings above 0.70 and AVE above 0.50 confirm that indicators adequately represent their constructs. For change management, loadings ranged from 0.705 to 0.851, with AVE at 0.608. Knowledge management had loadings from 0.709 to 0.866 (after dropping X2.18), yielding an AVE of 0.565.

Innovation capability showed strong loadings between 0.739 and 0.898, with AVE at 0.665. Organizational performance indicators ranged from 0.758 to 0.898, with AVE at 0.725. Reliability was confirmed via Cronbach's Alpha (all above 0.935) and Composite Reliability (all above 0.945), indicating high internal consistency.

Table 4. Discriminant Validity: Fornell-Larcker Criterion and HTMT

Test	Variable	CM	KM	OP	IP
Fornell-Larcker Criterion	Change Management (CM)	0.780	0.091	0.235	-0.076
	Knowledge Management (KM)	0.091	0.752	0.414	0.522
	Organizational Performance (OP)	0.235	0.414	0.852	0.462
	Innovation Capability (IP)	-0.076	0.522	0.462	0.816
HTMT Ratio	Change Management (CM)	-	0.141	0.246	0.109
	Knowledge Management (KM)	0.141	-	0.425	0.533
	Organizational Performance (OP)	0.246	0.425	-	0.471
	Innovation Capability (IP)	0.109	0.533	0.471	-

Based on Table 4, discriminant validity ensures each construct is distinct, tested via Fornell-Larcker Criterion (where √AVE > inter-construct correlations) and Heterotrait-Monotrait Ratio (HTMT < 0.90). The Fornell-Larcker matrix shows √AVE values on the diagonal (e.g., 0.780 for X1) exceeding correlations like 0.091 between X1 and X2. HTMT values are all low, such as 0.141 between X1 and X2, confirming no overlap. As presented in Table 4, these results affirm that the constructs are empirically unique, avoiding redundancy and supporting the model's integrity.

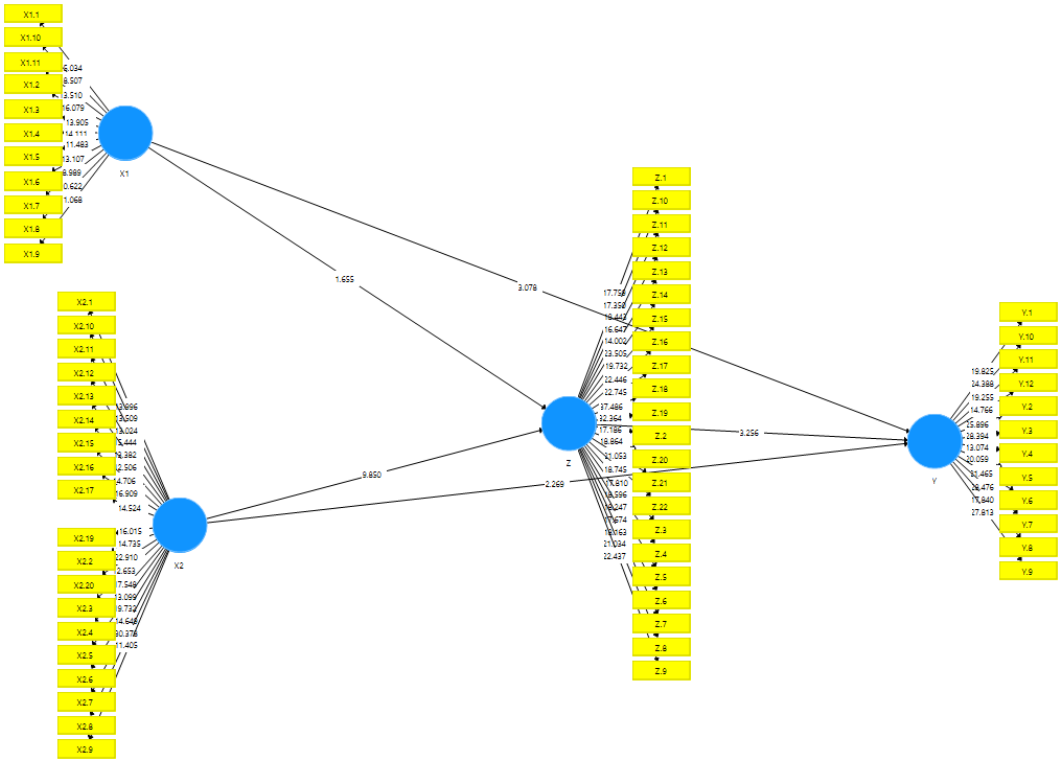

Figure 3. Inner Model

The inner model evaluation examines causal relationships, with Figure 3 illustrating path coefficients and R^2 values. The model shows moderate explanatory power, with Change management having a negative but insignificant path to innovation capability, while knowledge management has a strong positive path. Innovation capability then positively links to organizational performance. Direct paths from change management and knowledge management to organizational performance are also evident. This visualization highlights the key dynamics in the structural relationships.

Table 5. Model Fit and Predictive Metrics: R^2, Q^2, and f^2

Test	Metric	Variable	Value
Coefficient of Determination	R Square	Organizational Performance	0.314
	Adjusted R-Square	Organizational Performance	0.296
	R Square	Innovation Capability	0.288
	Adjusted R-Square	Innovation Capability	0.276
Predictive Relevance	Q^2 (Blindfolding)	Innovation Capability	0.220
	Q^2 (Blindfolding)	Organizational Performance	0.187
Effect Size (f^2)	X1 → Y	CM → OP	0.086
	X1 → Z	CM → IC	0.022
	X2 → Y	KM → OP	0.038
	X2 → Z	KM → IC	0.396
	Z → Y	IC → OP	0.150

The coefficient of determination (R^2) indicates that 28.8% of the variance in innovation capability is explained by change management and knowledge management, while 31.4% of organizational performance variance is accounted for by the predictors. Predictive relevance (Q^2) values above zero (0.220 for Z, 0.187 for Y) confirm the model's ability to predict outcomes. Effect sizes (f^2) show knowledge management has a large impact on innovation capability (0.396), while other effects are small to moderate. As outlined in Table 5, these metrics demonstrate reasonable explanatory and predictive strength for the model in this context.

Table 6. Hypothesis Test

Hypothesis	Relationship	Original Sample	Sample Mean	STDEV	t-statistics	p-values
H1	Change Management → Innovation Capability	-0.125	-0.121	0.076	1.646	0.099
H2	Knowledge Management → Innovation Capability	0.536	0.538	0.053	10.073	0.000
H3	Innovation Capability → Organizational Performance	0.380	0.376	0.115	3.295	0.001
H4	Change Management → Organizational Performance	0.247	0.256	0.084	2.922	0.003
H5	Knowledge Management → Organizational Performance	0.192	0.203	0.086	2.245	0.025
H6	Change Management → Innovation Capability → Organizational Performance	-0.047	-0.044	0.031	1.552	0.121
H7	Knowledge Management → Innovation Capability → Organizational Performance	0.203	0.203	0.067	3.031	0.002

Table 6 shows that these outcomes highlight knowledge management's stronger role in driving performance through innovation. Hypothesis testing via bootstrapping (5,000 subsamples) reveals mixed results. H1 (change management on innovation capability) is rejected with a negative coefficient (-0.125, p=0.099). H2 (knowledge management on innovation capability) is supported (0.536, p=0.000). H3 (innovation capability on organizational performance) is accepted (0.380, p=0.001). Direct effects H4 and H5 are both supported (0.247, p=0.003; 0.192, p=0.025). For mediation, H6 is rejected (-0.047, p=0.121), but H7 is accepted (0.203, p=0.002), indicating partial mediation for knowledge management.

DISCUSSION

The findings of this study highlight the central role of knowledge management in driving both innovation capability and organizational performance within PT ABC's context as an IT managed services provider. Knowledge management demonstrated a

strong and statistically significant positive effect on innovation, confirming that systematic processes of acquiring, sharing, and applying knowledge serve as a powerful foundation for generating new ideas and solutions. This result aligns closely with existing literature, such as Li et al. (2020), who showed that robust knowledge management practices create unique capabilities that foster innovation and subsequently enhance organizational outcomes. Similarly, Zaied et al. (2012) emphasized that well-managed knowledge becomes a strategic asset supporting continuous improvement and better decision-making, which in turn supports creative problem-solving in dynamic environments. The large effect size of knowledge management on innovation capability ($f^2 = 0.396$) further underscores its dominant influence in this setting.

Innovation capability itself emerged as a significant predictor of organizational performance, with a medium effect size ($f^2 = 0.150$). This finding reinforces the idea that the ability to develop and implement novel value-adding ideas directly contributes to improved efficiency, adaptability, and overall effectiveness. Ahmad et al. (2021) reported similar patterns, noting that strong innovation commitment leads to better market adaptation and operational gains. In the present study, knowledge management also exerted both a direct positive effect on organizational performance and a significant indirect effect through innovation capability. This partial mediation pattern suggests that knowledge management enhances performance not only through immediate efficiency gains but also by building the innovative capacity needed for long-term competitiveness, consistent with Krisprimandoyo et al. (2025), who found that knowledge sharing combined with supportive relationships significantly advances innovation and subsequent performance.

In contrast, change management did not significantly influence innovation capability, and its mediating role through innovation was also insignificant. This non-significant link may reflect contextual factors at PT ABC, such as change initiatives that prioritize operational stability and compliance with strict SLAs over experimentation and risk-taking, which are essential for innovation. Felix et al. (2024) noted that structured change with leadership commitment improves agility, yet the present results indicate that in highly regulated service environments, change efforts might focus more on risk mitigation than on fostering creative breakthroughs. However, change management did show a direct and significant positive effect on organizational performance, suggesting that well-executed change processes, such as clear communication and employee engagement, contribute meaningfully to operational outcomes even when they do not directly fuel innovation. Rahi et al. (2021) supported this view by stressing the importance of employee readiness in successful transformation and performance improvement.

Taken together, these results reveal a nuanced picture: knowledge management acts as the primary driver of innovation-led performance gains, while change management supports performance through structural and procedural alignment rather than through creative mechanisms. The moderate R^2 values (0.288 for innovation capability and 0.314 for organizational performance) indicate that other unexamined factors, such as organizational culture, resource availability, or external market pressures, also play roles in explaining the remaining variance. Inków (2020) theoretically argued for the need to synchronize change management and knowledge management to sustain innovation, yet the empirical evidence here suggests that in the IT managed services sector, knowledge management operates more independently as an innovation enabler.

CONCLUSION

This study concludes that knowledge management plays the most influential role in stimulating innovation capability and enhancing organizational performance at PT ABC. The strong direct and indirect effects of knowledge management, particularly through its partial mediation via innovation capability, demonstrate that effective acquisition, sharing, and application of knowledge serve as a critical foundation for generating new ideas and achieving sustainable competitive advantage in the IT managed services industry. Innovation capability itself acts as a vital bridge, significantly contributing to

performance outcomes by enabling the organization to adapt and deliver value in a rapidly changing digital environment. In contrast, while change management contributes directly to organizational performance through structured processes and employee alignment, it does not significantly influence innovation capability or mediate its effects on performance in this context. These findings suggest that in service-oriented settings with strict operational demands, knowledge management emerges as the primary strategic lever for innovation-driven success, whereas change management supports stability and efficiency more than creative breakthroughs.

The implications of these findings are both practical and theoretical. For PT ABC and similar organizations, managers should invest in robust knowledge management systems, such as centralized digital platforms and incentives for knowledge sharing, to enhance innovation capability and long-term performance. Change management may be strengthened by integrating explicit innovation objectives, for example, by allocating time for experimentation during organizational transitions. This study supports the Knowledge-Based View by confirming knowledge as a key driver of innovation and performance in digital transformation contexts. However, the study is limited by a small, single-organization sample and a cross-sectional design, which restricts generalizability and prevents capturing dynamic changes over time. Future research should employ longitudinal designs, include moderating variables such as organizational culture or leadership style, and expand samples across multiple IT firms in Indonesia or Southeast Asia to improve external validity.

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