

Increasing Governance Innovation Capacity of Local Governments Through Knowledge-Seeking: The Moderating Effect of Transformational Leadership

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This study examines the relationship between governance innovation capacity, knowledge-seeking, and transformational leadership in two local government agencies in Indonesia. It highlights the underdevelopment of governance innovation capacity and proposes knowledge-seeking as a key driver. It suggests that transformational leader-

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ship may moderate the impact of knowledge-seeking on innovation, fostering practices that enhance governance innovation. Findings from two local government contexts highlight that transformational leadership strengthens knowledge-seeking processes, leading to enhanced governance innovation capacity, especially when transformational leadership is consistently implemented across political and mid-management levels. In contrast, inconsistent transformational leadership practices at certain leadership levels, as seen in South Konawe, limit its effectiveness in driving innovation. These results underscore the critical role of leadership in promoting knowledge-seeking and fostering innovation in local government, emphasizing the importance of leadership continuity and alignment across all levels of management.

Keywords: governance innovation capacity, knowledge seeking, transformational leadership, local government

1. Introduction

Local governments in many countries have consistently sought new ways to fulfill their public mission, with governance innovation emerging as one of the latest approaches. In developing countries, innovative initiatives have been underway in local governments since the 2000s (Odendaal, 2003). These initiatives have manifested in various forms, such as the implementation of e-government platforms to improve public service delivery and the adoption of participatory budgeting to enhance citizen engagement in decision-making processes (Li & Wu, 2020). Governance innovation is considered crucial for addressing wicked problems in local governments

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(Berge & Torsteinsen, 2023), improving efficiency to meet the growing demands of citizens and businesses (Agolla & Lill, 2013), and achieving positive public outcomes (Ohemeng & Christensen, 2022). Enhancing and maintaining innovative capacity is important for local governments to engage continuously in governance innovation (Daly, Chapman & Pegan, 2023). However, despite various innovative initiatives being implemented in local governments in developing countries, many still face challenges in enhancing their innovation capacity. In particular, local governments often fail to fully leverage innovation potential to solve complex problems or improve public service effectiveness, leading to delays in adopting innovative practices that could improve their performance (Söderström & Melin, 2019).

Research has shown that innovation capacity in local governments can be enhanced through knowledge-seeking (KS) approaches, which involve the gathering and application of external knowledge to develop innovative solutions for public service delivery. Additionally, transformational leadership (TL) plays a crucial role in moderating this process, fostering a culture that supports creativity and stakeholder collaboration, and facilitating the adoption of new technologies that accelerate innovation implementation (Naqshbandi & Jasimuddin, 2022). This approach has proven effective in strengthening local governments' capacity to adapt to complex challenges and enhance public service outcomes. KS, as a relatively new concept in public innovation literature, is believed to enable organizations to acquire and accumulate innovative knowledge. However, its influence can vary across organizations, with studies indicating that KS is not always impactful in every context (Cajková, Jankelová & Masár, 2021).

Previous research has explored the role of KS and TL in enhancing innovation capacity in the public sector. However, these studies have often focused on specific contexts or countries, with limited attention to local government settings, especially in developing countries like Indonesia. In Indonesia, the decentralization policies of the early 2000s granted greater autonomy to districts and cities, aiming to improve local governance. Despite these reforms, many local governments still face significant challenges in implementing practical governance innovations, particularly in adopting new technologies and building the necessary capacities; e.g., local governments in South Konawe Regency and Kendari City in Southeast Sulawesi continue to struggle with enhancing electronic governance systems, despite having educated civil servants and technical experts. Challenges such as limited data management capabilities, insufficient collaboration with external partners, and a lack of strategic inno-

vation initiatives hinder the development of efficient governance innovations. These issues are not isolated but reflect broader challenges across Indonesia, where decentralization has not always been accompanied by sufficient institutional support and resources at the local level.

This study aims to address these gaps by exploring the moderating role of TL in the relationship between KS and governance innovation capacity in local governments. While previous research has examined the relationship between KS, TL, and innovation capacity, there is limited focus on the moderating role of TL, particularly in local governance settings in developing countries. This study draws on the OECD (2019) report on innovation in city governments, which emphasizes the importance of strong leadership, collaboration, and the integration of knowledge-sharing practices in fostering innovation at the local level to provide a broader comparative perspective. The OECD report identifies key leadership strategies and governance practices that have been successfully applied in diverse city contexts, offering a relevant framework for understanding how these practices can be adapted to the specific challenges faced by local governments in Indonesia.

It is crucial to increase our understanding of the moderating effects of TL in enhancing governance innovation capacity through KS in local governments. This study aims to address the gap in current research by investigating the role of TL as a moderating factor in enhancing governance innovation capacity through KS in local governments. While previous studies, such as those by Le and Lei (2019), Al-Husseini, El Beltagi and Moizer (2021), and Phong (2021), have explored the relationship between KS, TL, and innovation capacity, these studies focus primarily on mediation effects, leaving the moderating role of TL underexplored, particularly in the context of local governance in developing countries.

This research also recognizes the importance of institutional differences in local governance, particularly in terms of leadership approaches and innovation strategies. These differences in governance priorities – such as the focus on agricultural development in South Konawe Regency and services and trade in Kendari City – provide a valuable contrast for understanding the factors influencing governance innovation capacity. However, it is important to note that while the study highlights these differences as a key context for analysis, this hypothesis regarding the moderating effect of institutional differences on innovation capacity is not fully tested in the empirical analysis presented in this article. This study primarily serves as an exploratory investigation, with the hypothesis being more

thoroughly explored in the full research report. The article focuses on the immediate findings related to the role of transformational leadership and knowledge-seeking in enhancing innovation capacity, while institutional contrasts are more comprehensively addressed in future research.

In line with the abovementioned, this research seeks to answer the following questions: (1) How does governance innovation capacity develop in local governments? (2) How do KS practices influence governance innovation capacity? (3) What is the moderating role of TL in enhancing governance innovation capacity through KS in local governments? By addressing these questions, this study contributes to filling the gap in the literature on governance innovation in local contexts, with particular reference to the application of best global practices and comparative case studies.

The following sections will provide a literature review, beginning with the theoretical foundations of public sector governance innovation capacity, knowledge management (KM), KS, and TL. Governance innovation capacity refers to the ability of public sector organizations to develop and implement new ideas, processes, and solutions that improve governance practices (Gieske, Van Buuren & Bekkers, 2016; Meijer, 2019). While this capacity can be observed at both the organizational and network levels, our study focuses on the individual level – encompassing the ability to generate and connect ideas, integrate innovation into organizational routines, and remain open to diverse perspectives (Gieske, Van Buuren & Bekkers, 2016). Transformational leadership, based on Burns (2012) and Bass and Riggio (2006), and KS, as described by Lai and Graham (2009), are also critical to understanding the framework of innovation capacity. The presentation of research methodology and results analysis is followed by a discussion of the study findings.

2. Theoretical Background

2.1. Public Sector Governance Innovation Capacity

Innovation describes the novelty of ideas and actions (Castaneda & Cuelar, 2020; Meijer, 2019). Originating in the private sector, the construct of innovation was linked to the public sector in the 1980s (Kim & Kim, 2022). A more general definition states that public sector innovation is about new ideas and ways of action for social challenges (Meijer, 2019) and achieving positive public outcomes (Kaur et al., 2022). Although

the concept of public sector innovation remains contentious (Boly et al., 2022), the authors seem to agree that it encompasses three elements: creating something new, applying this new element in practice (Fuglsang & Hansen, 2022), and respecting the law and due process (Meijer, 2019). Governance innovation, one type of public innovation (Magnusson, Koutsikouri & Päiväranta, 2020), was highlighted as an underexplored area by Hartley (2005). In his 2005 paper, Hartley expressed concern about the limited research on innovation in governance. As a recent development, governance innovation includes new forms of citizen involvement (de Vries, Bekkers & Tummers, 2016) and new institutions aimed at improving the quality of governance (Hendriks, 2021). Building on these developments, many local governments now face new governance challenges and dilemmas (Berge & Torsteinsen, 2023). In response, the capacity for governance innovation is essential for enabling agile responses to government priorities and addressing complex policy issues (Kaur et al., 2022). Governance innovation capacity is defined as the government's ability to generate and implement new ideas to address public issues and improve governance practices (de Vries, Bekkers & Tummers, 2016).

However, researchers acknowledge the multi-faceted nature of this concept. The multi-faceted innovation capacity of the public sector framework (Gieske, Van Buuren & Bekkers, 2016) anticipates three facets of innovation capacity, namely connective capacity, ambidextrous capacity, and learning capacity. The first is the capacity to connect and facilitate collaboration; the second is the capacity to balance exploitation and exploration; and the last is the capacity to absorb new knowledge and continue learning. All three facets can be examined at the individual, organizational, and network levels (Meijer, 2019), although this study specifically focuses on the individual level.

2.2. Knowledge Management and Knowledge-seeking

The primary source of public governance innovation capacity is knowledge, which enables public organizations to achieve the necessary innovations (Bouckaert, 2019; Pereira et al., 2021). Knowledge is defined as a justified true belief (Hössjer, Díaz-Pachón & Rao, 2022). Knowledge consists of tacit and explicit (Nonaka, 1994; von Krogh et al., 2013). Tacit knowledge refers to hands-on skills, best practices, unique know-how, heuristics, intuitions, and so on. In contrast, explicit knowledge resides in manuals, policies, standard operating procedures, documentation, in-

formation systems, databases, and reports. While both tacit and explicit knowledge contributes to innovation capacity (Sprakel & Machado, 2021), tacit knowledge is considered more critical for driving innovation (Chiu & Lin, 2022). A high level of tacit knowledge enhances the effectiveness of explicit knowledge in strengthening organizational capacity (López-Cabarcos et al., 2019).

The process of capturing, distributing, and effectively using knowledge within an organization is called knowledge management (Ghasabeh & Provitera, 2018). Organizations use KM to increase the value of their knowledge (Urban & Matela, 2022) and improve organizational performance (Zia, 2020). The construt of KS, a new part of KM, was introduced by Lai and Graham (2009) at a European Conference on Knowledge Management. KS is briefly defined as a knowledge-building process that results in an improved knowledge structure to meet various objectives. It covers the processes of creation, acquisition, and utilization of knowledge, while information management involves knowledge transfer, sharing, storage, and refinement (Lai et al., 2019; Lai & Graham, 2009).

Lai and Graham (2009) further define the concepts within the KS block by referring to several previous pieces of literature. Knowledge creation, as outlined by Nonaka (1994), involves processes such as socialization, combination, externalization, and internalization. Knowledge acquisition, based on Huber's (1991) framework, includes activities like searching, sourcing, and grafting. While knowledge creation is related to knowledge available within the organization, knowledge acquisition is more concerned with knowledge from external sources (Lai & Graham, 2009). Meanwhile, the use of knowledge, as described by King, Chung and Haney (2008), refers to its application through elaboration, infusion, and thoroughness to foster innovation, learning, and problem-solving.

Both external and internal knowledge play a crucial role in enhancing organizational innovation (Lai et al., 2019). While internal knowledge, including organizational experience and resources, provides a foundation for innovation, external knowledge – sourced from networks, research, and global best practices – is considered more valuable for enhancing innovation capacity (Audretsch & Belitski, 2023). Therefore, organizations must prioritize integrating external knowledge into knowledge-based systems while incorporating internal expertise, as these systems enable the capture, sharing, and application of insights, enhancing innovation capacity to effectively address evolving challenges (Lai et al., 2019; Simao & Franco, 2018).

2.3. Transformational Leadership

Transformational leadership, which was introduced by Burns in 1978 (Burns, 2012) and later revised by Bass in 1985 (Bass & Riggio, 2006), has been a prominent topic in management literature for over 30 years (Al-Husseini, El Beltagi & Moizer, 2021). According to Burns (2012), TL is a counterpoint to transactional leadership. TL is defined as internal relationship processes in which leaders change followers' values, beliefs, and attitudes to face common challenges and are open to fundamental change. While transactional leaders emphasize exchanges and meeting the current needs of followers, transformational leaders concentrate on inspiring and implementing changes that enhance organizational effectiveness and follower performance by shifting personal values and self-concept (Karimi et al., 2023).

TL is a multidimensional construct, consisting of four key dimensions: "idealized influence", where leaders serve as role models and gain trust through ethical behavior; "inspirational motivation", where they inspire and motivate followers with a clear vision and high expectations; "intellectual stimulation", where leaders encourage creativity, challenge assumptions, and foster problem-solving; and "individualized consideration", where leaders provide personalized support and mentorship to develop followers' potential (Bass & Riggio, 2006; Burns, 2012). Studies conducted in a variety of local government organizations in developing countries (Belrhiti et al., 2020; Chau, Tran & Le, 2022; Hoai, Hung & Nguyen, 2022; Mekonnen & Bayissa, 2023) have utilized all four dimensions of TL, emphasizing their importance in understanding leadership dynamics, organizational behavior, and performance outcomes across different contexts. While most research in this field employs quantitative methods, the value of qualitative methods in capturing deeper insights into leadership processes is increasingly recognized, as demonstrated by Belrhiti and colleagues (2020).

2.4. Governance Innovation Capacity, Transformational Leadership and Knowledge-Seeking

Numerous studies have explored the relationship between KS, TL, and innovation capacity in various organizational contexts. Le and Lei (2019), Al-Husseini, El Beltagi and Moizer (2021), Phong (2021), and Zia (2020) suggest that KS mediates the effect of TL on innovation capacity, while others, such as Afsar and Umrani (2019) and Karimi and colleagues

(2023), emphasize the direct positive impact of TL on innovation capacity. In addition, research by Kim and Park (2020) and Kazmi and colleagues (2021) highlights TL's influence on organizational climate and learning, both of which are critical for fostering innovation (Acosta-Prado, 2020; Barba-Aragón, Jimenez-Jimenez & Valle-Mestre, 2022). Khan and Khan (2019) suggest that TL influences employee innovation indirectly through knowledge seeking and knowledge sharing. Son, Phong and Loan (2020) present a different perspective, emphasizing the mediating role of KS in the TL-performance relationship. Despite these diverse findings, few studies have specifically investigated the moderating role of TL in the KS-innovation link, particularly in local government settings, which is the focus of the current study.

The importance of governance innovation in addressing public sector challenges has been widely recognized (Li & Wu, 2020; Ohemeng & Christensen, 2022). Several frameworks have been proposed to understand how innovation capacity can be enhanced through practices such as knowledge management and leadership styles. Although these frameworks are helpful, most studies have concentrated on specific sectors or countries, with limited cross-regional comparisons. Leadership styles in public organizations are notably diverse, with transactional leadership having been the dominant model for the past few decades (Al-Husseini, El Beltagi & Moizer, 2021; Karimi et al., 2023). However, the focus of TL on emotions, values, and expectations is seen as particularly conducive to fostering innovation.

Despite the growing interest in TL, few studies have explored its role in the relationship between governance innovation capacity and KS within local government, with notable exceptions including research in the private sector (Phong, 2021; Zia, 2020) and universities (Al-Husseini, El Beltagi & Moizer, 2021). Comparative studies, such as those by Lathong, Phong and Saeheng (2021) and Janssen and colleagues (2023), have provided valuable insights into how political, economic, and administrative contexts shape KS and TL practices, further highlighting the need for integrating diverse case studies to enrich our understanding of governance innovation.

3. Sources and Methods

This case study employs a multisite qualitative approach to investigate governance innovation capacity in two distinct local government con-

texts – South Konawe Regency and Kendari City, the capital of South-east Sulawesi Province. While both regions share similar administrative structures, they exhibit notable differences in governance priorities. South Konawe, a rural area, emphasizes agricultural development, while Kendari City, as the provincial capital, focuses more on services and trade. These institutional differences, particularly in leadership approaches and innovation strategies, provide a valuable contrast for understanding the varying factors influencing governance innovation capacity. Table 1 outlines the essential administrative and economic aspects of both regions, including their respective innovation indices, while Table 2 provides an overview of the characteristics of the agency leaders interviewed. These differences in leadership practices and institutional contexts are believed to significantly influence the regions' innovation capacities, which are central to the focus of this study.

The Indonesian government has actively encouraged local government innovation through the assessment and provision of awards and/or incentives for regional innovation, with the Ministry of Home Affairs regularly conducting the measurement of the Regional Innovation Index since 2018. Regional innovations are categorized into local governance innovations, public service innovations, and other innovations. Local government units report the innovations they have implemented on a specialised platform.¹ Depending on the diversity of innovations reported, a region can be categorized as innovative or less innovative.

The variation in innovation levels between Kendari City and South Konawe Regency is clear when reviewing the 2022 Regional Innovation Index, as illustrated in Table 1. South Konawe scored 27.20 (Less Innovative), while Kendari scored 57.28 (Innovative), due to differences in the diversity of innovations reported. South Konawe reported fewer innovations, primarily focusing on agriculture-related innovations such as livestock feed from fish and waste-based souvenirs, with no significant innovations in governance or public services. In contrast, Kendari's higher innovation score can be attributed to the broad range of innovations reported, involving multiple local government units. Coordinated by the Regional Secretariat since 2019, Kendari has introduced innovations like the *LAIKA* public service application, which integrates various local services, as well as governance innovations such as e-Planning, *Selancar RKBMD*, and digital-based employee performance optimization through Standard

¹ <http://indeks.inovasi.litbang.kemendagri.go.id/>

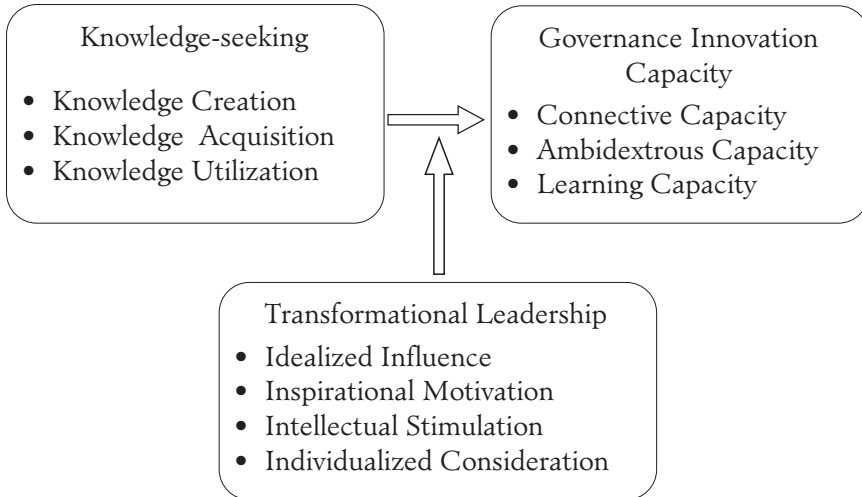
Operating Procedures (SOPs). These innovations have greatly enhanced service delivery efficiency and governance transparency. The differences in the scope and impact of innovations highlight the contrasting governance approaches and priorities in the two regions, with Kendari showing a more successful and extensive implementation of innovative practices. These variations in institutional contexts and levels of governance innovation provide a strong foundation for a comparative analysis.

In this study, governance innovation capacity is measured through three dimensions: connective capacity, which refers to the individual's ability to connect and facilitate collaboration; ambidextrous capacity, which is the individual's ability to balance exploitation and exploration; and learning capacity, which refers to the individual's ability to absorb new knowledge and continue learning. The indicators of KS are operationalized into three main categories: Knowledge Creation, Knowledge Acquisition, and Knowledge Utilization. Knowledge Creation refers to the generation of both tacit and explicit knowledge within the organization. This is done through methods such as internal seminars, further education (e.g., master's and doctoral programmes), and the development of organizational routines like Standard Operating Procedures. Knowledge Acquisition focuses on sourcing knowledge from external channels, such as internet searches, consultations with other organizations, and copying best practices from different regions. Knowledge Utilization refers to how acquired or created knowledge is applied in practice, particularly through the use of tacit knowledge in policy design and collaborative problem-solving efforts within the organization.

Additionally, the study observes the dimensions of TL in the local government agencies. The TL dimension observed is "idealized influence", which occurs when leaders demonstrate ethical behavior and gain trust, though this varies across agencies. "Inspirational motivation" was noted when leaders sought to inspire and align employees with the regional vision and goals, though this remained somewhat conceptual. "Intellectual stimulation" was observed as leaders challenged subordinates to think innovatively, promoting coordination and creative problem-solving. Lastly, "individualized consideration" was seen in efforts to provide personalized attention to employees' needs, but this was hindered by limited interactive feedback and instability in leadership positions.

To visually represent the relationships between KS, TL, and governance innovation capacity, the following figure outlines the conceptual framework of the study, showing how these dimensions interact and the moderating role of TL in enhancing governance innovation capacity.

Figure 1: *Conceptual framework for increasing governance innovation capacity in local government through KS and the moderating role of TL*



Source: Authors

The study is based on interviews with eight key informants: five men and three women, including senior bureaucrats in positions such as agency heads and regional secretaries (see Table 2 for clarification). Six of the participants held senior leadership roles, and most had advanced degrees, with five possessing master's degrees and one holding a PhD. The informants had varying levels of experience, ranging from less than five years to over a decade in their respective positions. This diversity in leadership experience enhances the quality of the study by providing a range of perspectives on governance innovation and the impact of TL practices on innovation capacity. Although the sample size is small, the selection of key informants from relevant agencies was intentional, given the exploratory nature of the study. Future research could be expanded by including a larger sample, incorporating case studies from other regions or countries, and exploring the long-term effects of leadership practices on governance innovation. A mixed-methods approach combining qualitative interviews with quantitative data (e.g., surveys, reports) could further enrich the understanding of the factors shaping innovation capacity in local governments.

Table 1: *Administrative and economic landscape of research context*

Indicator	South Konawe Regency	Kendari City
Population (2021)	308,524	350,267
Regional parliamentarians (2019–024)	34	35
Number of local government agencies (2021)	33 agencies + 20 sub-districts	29 agencies + 11 sub-districts
Number of employees (2021)	5,684	6,206
Index Electronic-based Governance System (2022)	2.01 (Sufficient)	2.02 (Sufficient)
Regional Innovation Index (2022)	27.20 (Less Innovative)	57.28 (Innovative)

Source: Authors

Table 2: *Characteristics of participants*

ID	Gender	Degree	Position in Organizational Hierarchy
1	Female	Master	Regent Expert Staff
2	Male	Master	Head of Agency
3	Female	Bachelor	Head of Division
4	Male	Master	Agency Secretary
5	Male	Ph.D.	Regional Secretary
6	Male	Master	Head of Agency
7	Male	Master	Head of Agency
8	Female	Bachelor	Head of Agency

Source: Authors

4. Results

4.1. How Does Governance Innovation Capacity Develop in Local Governments?

The following presents the findings from in-depth interviews regarding governance innovation capacity at the individual level conducted in two

different regions, South Konawe Regency and Kendari City. These interviews explore the capacity across three key facets of innovation: connective capacity, ambidextrous capacity, and learning capacity.

In the South Konawe Regency, a gap was consistently identified between the required and actual capacity to connect and facilitate collaboration, as noted by the participant:

“When the government encouraged regions to implement innovations in governance, I realized the importance of effective collaboration across all levels of the organization. However, collaboration between agencies in local government is still not well-established, reflecting the limited capacity of top leaders to manage coordination between departments. Budget management obstacles for innovation programmes often occur, where the department managing the budget is hindered by administrative procedures and financial reporting, while other departments require quick funding to run their programmes. This lack of synchronization indicates that top leadership has not yet been able to effectively bridge the gaps between agencies, which ultimately hinders the implementation of the planned innovations.”

This quote highlights the limited connective capacity at the top leadership level of local government agencies, which hinders coordination between departments in the implementation of innovation programmes. Top leadership has not yet been able to bridge the gaps between agencies, thus slowing down budget management and the allocation of funds for innovation.

“Mid-level administrators are expected to balance ambidextrous capacity by connecting innovative ideas to existing routines. However, in the South Konawe Regency, despite some bureaucrats’ initiatives in governance innovation, such as e-performance monitoring, there is no coordinated effort to align these innovations with existing systems. This results in subjective performance evaluations that are not formally used for promotions or placement, limiting effective and sustainable governance.”

This quote highlights the lack of coordination between new governance innovations and existing systems, coupled with limited ambidextrous capacity, which leads to ineffective performance evaluations and limits the potential for sustainable governance improvements.

The limitations in governance innovation capacity are evident in the aspect of learning capacity – the ability to acquire new knowledge and continue developing. One participant noted that:

“Lower-level employees need to be open to new ideas and adapt their tasks accordingly. However, a key barrier is the lack of adequate training opportuni-

ties and support for ongoing learning. Despite many employees holding master's and doctoral degrees, many struggle to apply their knowledge effectively due to the absence of structured professional development programmes or innovation-focused training. Although local governments have agreed to collaborate on e-planning and e-budgeting, preparations such as forming working teams and allocating initial budgets have yet to materialize."

A recurring issue identified by our informants is the need for skilled individuals to facilitate collaboration and connect ideas across organizational boundaries. The old work habits persist and employees are not fully prepared to adapt to new, more innovative ways of working. One leader observed:

"Old work habits continue to be applied, the prevalence of employee job crafting behaviours is still lacking, there is polarization based on interest orientation to regional political leaders."

This statement reflects the resistance to change that can often accompany attempts at innovation, mainly when deeply ingrained work habits and political dynamics create barriers to transformative learning. Another participant commented:

"Employees value new ideas and knowledge but do not demonstrate a strong disposition to behave according to the demands and direction of change; they are aware of changing public governance contexts but do not seek to prepare skills to exceed their organization's minimum demands."

This statement emphasizes the difficulty of cultivating a proactive, innovation-driven mindset among employees. Although the importance of change is acknowledged, many employees appear to lack the motivation or ability to actively participate in meaningful innovation. Several participants shared a desire for more individuals who could serve as connectors and facilitators within their organizations to promote innovation. One participant noted:

"Our organization needs more creative thinkers, connectors, and mediators for collaborative innovation. These roles are crucial for bridging gaps and fostering collaboration across departments."

Overall, the governance innovation capacity in South Konawe Regency remains limited at the top, middle, and lower levels. At the top level, a lack of coordination between agencies hinders the implementation of innovation programmes, while at the middle level, the lack of alignment between innovations and existing systems reduces their effectiveness. Additionally, at the lower level, the lack of adequate training and profession-

al development limits the application of employees' knowledge, hindering the progress of sustainable innovation.

Unlike the South Konawe Regency, there has been progress in both connective and ambidextrous capacities in Kendari City, with top leadership and mid-level administrators effectively coordinating innovations like e-planning and e-budgeting. One agency leader noted:

"The Secretary of the Region has played a crucial role in coordinating public service innovations, while the Head of the Regional Financial and Asset Management Agency has led the integration of e-planning and e-budgeting. Mid-level bureaucrats effectively balance ambidextrous capacity, linking innovative ideas like e-performance monitoring with established routines. However, challenges remain, as these innovations are not fully integrated with other systems, leading to issues like subjective performance evaluations not tied to promotions or placements. Despite this, the leadership's coordination and mid-level administrators' adaptability have positively impacted innovation efforts in Kendari City."

Furthermore, several lower-level administrators, including village heads (*Lurah*), district heads (*Camat*), and section heads (*Kepala Seksi*) in public service agencies, have shown a strong ability to learn and acquire new skills in the implementation of e-planning and e-budgeting. As one participant stated:

"Lower-level administrators' proactive engagement with the platform highlights their ability to adapt, contributing to more efficient and accessible services, as well as the provision and development of data for planning; however, due to frequent changes in positions, continued training and support are crucial for sustaining its success and maximizing its potential."

The data highlights that lower-level administrators' proactive engagement with the platform demonstrates their adaptability and contribution to the creation of more efficient services and data development for planning, but frequent position changes underscore the need for ongoing training and support to ensure sustained success and maximize the platform's potential. In particular, many participants pointed out the lack of sufficient organizational capacity to integrate innovation into daily operations despite the presence of well-educated staff. One interviewee further illustrated this point, stating that:

"We have successfully driven service innovation with intelligent service applications. However, the capacity needed to foster governance innovation remains insufficient. We lack the global skills and talent necessary for developing electronic government systems, integrating planning and budgeting,

designing business process management, collaborating on complex public issues, and managing inter-organizational relationships. Despite many personnel having master's and doctoral degrees, this level of education alone does not equate with innovative capacity."

This statement draws attention to a critical distinction between educational qualifications and the actual capacity to innovate at the organizational level. Although educational attainment is high among personnel, it is not sufficient in and of itself to drive the structural changes needed for practical governance innovation.

Despite the progress mentioned above, mid-level and lower-level administrators in Kendari City face similar challenges to those in South Konawe Regency, particularly regarding personnel instability and lack of structural support. In line with this, another participant pointed out that while there are policy entrepreneurs within the agency who have the potential to influence governance innovation, their impact is limited due to the absence of formal structural support:

"Our agency has several policy entrepreneurs who could leverage collaborative opportunities to influence policy outcomes, but they don't currently occupy any structural positions. This issue is further compounded by the fact that job placements and promotions at this level have not fully considered the relevant competencies needed for effective innovation."

These quotes reveal a gap in leadership and organizational structure, where potential innovators are not positioned effectively to utilize their capabilities. This is further compounded by insufficient structural support and a lack of consideration for relevant competencies in job placements and promotions at mid and lower levels, limiting their ability to drive and implement innovation.

Overall, in Kendari City, both top leadership and mid-level administrators have shown significant progress in their connective and ambidextrous capacities, effectively driving the integration of innovations like e-planning and e-budgeting. This progress is in contrast to South Konawe Regency, where similar advancements are still limited across all levels. However, challenges remain in fully aligning these innovations with existing systems, and continuous training and support are essential, particularly for lower-level administrators, to ensure the sustainability and full potential of these innovations.

While the study primarily focuses on the impact of transformational leadership and knowledge-seeking on governance innovation capacity, it is important to note the distinct institutional contexts in the two regions. South Konawe, with its agricultural development focus, and Kendari City, with its emphasis on services and trade, present different governance pri-

orities that influence innovation outcomes. These institutional differences are explored further in the full research report, where additional data and analyses delve deeper into how leadership approaches and institutional contexts shape innovation outcomes in these regions.

In summary, governance innovation capacity in local governments grows through leadership, organizational collaboration, and integrating innovations with existing systems. In Kendari City, both top and mid-level leaders have advanced innovation, especially in e-planning and e-budgeting. Lower-level administrators also contribute by adapting to new digital platforms. However, challenges remain in coordinating departments and integrating new ideas with existing systems, limiting the full potential of governance innovations due to administrative bottlenecks and gaps in professional development at lower levels.

4.2. How do Knowledge-seeking Practices Influence Governance Innovation Capacity?

The findings from the interviews highlight that knowledge-seeking practices – including the creation, acquisition, and application of knowledge – are present in the local government agencies of both South Konawe Regency and Kendari City. However, the effectiveness and integration of these practices into governance innovation capacity vary significantly across the two regions, revealing both challenges and opportunities for fostering a more robust KS culture that can drive innovation in local governance.

The first dimension of knowledge-seeking, knowledge creation, is crucial for governance innovation capacity in South Konawe and Kendari City. Both regions create tacit and explicit knowledge through formal and informal methods, but how these practices are implemented can either enhance or hinder innovation, depending on how well knowledge is integrated into governance processes.

In South Konawe, local government agencies create knowledge through internal seminars, advanced education, and organizational routines like SOPs. However, the lack of integration into broader governance limits their impact on innovation. A participant noted that slow adaptation to policy changes, with explicit knowledge creation being too formal and project-focused, hinders the dynamic responses needed for true innovation. This was highlighted in the following statement:

“While changes in government policy that require local implementation are rapid, local government agencies tend to be slow to respond. Moreover, some

modes of explicit knowledge creation are formalistic, project-oriented, and merely obligatory, while seminar assignments for tacit knowledge creation are generally directed toward lower-level leaders. However, there has been little support for fostering individual or group learning through discussion and consultation, which would further enhance the knowledge creation process.”

The lack of collaborative mechanisms, like group discussions or peer interactions, hinders effective knowledge creation. While tacit knowledge is generated through seminars and education, the absence of interactive platforms limits its potential to drive innovation. Knowledge remains fragmented and underutilized, posing challenges for improving public service delivery and governance innovation.

In Kendari City, on the other hand, the knowledge creation process is more structured and collaborative. The *Kendari Bergerak* morning coffee forum, which brings together government leaders, businesspeople, journalists, and academics, fosters an open exchange of both tacit and explicit knowledge. This informal setting promotes cross-sectoral discussions that allow government leaders to gain insights not typically available through formal channels. One participant from Kendari elaborated:

“In addition to internal academic forums such as seminars and research outcomes funded by local government agencies, the Mayor of Kendari fosters a more collaborative environment for knowledge creation within local government agencies through the *Kendari Bergerak* informal forum. In these sessions, senior leaders or employees who have recently completed their doctoral studies facilitate the exchange of both tacit and explicit knowledge. However, this initiative is not formalized in regulations, making it reliant on individual initiative.”

Despite Kendari’s advanced practices, the reliance on individual initiative limits the sustainability and institutionalization of knowledge-creation efforts. Without formalization, these forums may not consistently drive governance innovation, reducing their long-term impact. Even though Kendari is more advanced than South Konawe, it still faces challenges due to the lack of formalized systems and dependence on individual actions.

Both regions face a key challenge in knowledge creation: the lack of systematic mechanisms to integrate tacit and explicit knowledge into decision-making. This leads to fragmented efforts and reduced innovation. Additionally, insufficient support for collaborative learning limits creativity, leaving valuable insights underutilized in improving governance practices.

Moreover, the slow adaptation to policy changes and formalistic knowledge-creation processes hinder dynamic responses needed for innova-

tion. The lack of collaboration between those possessing tacit and explicit knowledge, along with reliance on individual efforts, limits knowledge creation. This highlights the need for formalized systems to ensure knowledge is effectively shared, integrated, and applied in governance practices. Kendari City exhibits more advanced knowledge-creation practices than South Konawe Regency, with informal forums like *Kendari Bergerak* fostering dynamic knowledge exchange and collaboration. However, Kendari faces challenges, such as the lack of formal systems to sustain these practices and reliance on individual initiatives. In contrast, South Konawe lacks structured mechanisms for acquiring and integrating knowledge, relying on top-down processes. This results in inconsistent knowledge sharing and limited innovation due to the absence of a formalized knowledge-creation process.

In both South Konawe and Kendari, knowledge creation is vital for governance innovation, but the lack of formal mechanisms and slow adaptation to policy changes hinder effective innovation. While Kendari faces challenges with reliance on individual initiatives, South Konawe struggles with structural gaps in knowledge creation. To foster sustained innovation, both regions must formalize knowledge-creation processes, establish collaborative learning platforms, and integrate tacit and explicit knowledge into governance practices to adapt to evolving challenges and drive sustainable innovation.

The second dimension of KS, knowledge acquisition, significantly impacts governance innovation in both regions. While both South Konawe and Kendari City engage in knowledge acquisition, their methods and effectiveness vary. In South Konawe, limited mechanisms for acquiring tacit knowledge, typically through external experts, result in strong reliance on explicit knowledge from higher authorities. However, this knowledge often lacks documentation and is not integrated into decision-making or implementation processes:

“There has been no forum for acquiring tacit knowledge through expert and practitioner speakers from external sources. Instead, local government agencies primarily rely on acquiring explicit knowledge through consultations with higher government authorities at the provincial and national levels. However, these processes generally involve senior leadership and the substance of the acquired knowledge is seldom reported or documented. As a result, valuable external knowledge is not effectively captured, limiting its potential contribution to organizational learning.”

The lack of systematic integration of acquired knowledge into daily governance practices hampers innovation. Tacit knowledge, gained through experience and external exchange, is crucial for creative problem-solving

and adaptive strategies. Without integration, the dynamic exchange of ideas essential for innovation is limited.

Kendari City takes a more structured approach to knowledge acquisition. In addition to consulting external stakeholders, the *Kendari Bergerak* morning coffee forum gathers government leaders, businesspeople, journalists, and culturalists to share both theoretical and practical knowledge. This informal platform promotes open discussions and cross-sectoral exchanges, providing insights often unavailable through formal channels. One participant elaborated:

“The *Kendari Bergerak* morning coffee forum brings together local government leaders, businesspeople, journalists, and culturalists to explore both theoretical and practical external knowledge. This informal setting fosters open discussions and the exchange of ideas across sectors, allowing government leaders to gain insights that may not be accessible through formal channels. By engaging with external stakeholders, the forum enhances the knowledge acquisition process, making it more dynamic and diverse, which ultimately supports decision-making and innovation in the local government.”

Despite these more advanced practices, Kendari City also faces challenges. Some agencies struggle to keep pace with frequent policy changes, revealing a key limitation: the lack of structured mechanisms to effectively acquire and apply relevant external knowledge in real-time. One participant noted:

“Some of our agencies work with universities on the production of regular organizational routines such as manuals, SOPs, and codes of conduct, and actively consult with higher governments. However, these efforts are hindered by the challenges of adapting to frequent policy changes, which limits the effectiveness of the knowledge acquisition process.”

Nevertheless, Kendari’s structured approach to knowledge acquisition stands in stark contrast to South Konawe’s less formalized methods. While both regions rely on individual initiative and informal channels (such as internet searches or imitating other regions’ practices), Kendari has built more dynamic and collaborative avenues for knowledge exchange that create a richer foundation for innovation.

The reliance on individual initiative in Kendari is still a challenge, as it sometimes limits the continuity and consistency of knowledge acquisition. Formal systems for integrating acquired knowledge are still underdeveloped, making valuable insights susceptible to being overlooked or inadequately documented. As one participant observed:

“The acquisition of knowledge, such as internet searches, is done randomly, typically related to programme preparation and planning, with SOPs being

transferred directly without any discussion. Some planning and programming outputs are simply imitations of other regions and organizations. The practice of consulting with experts or external sources who possess the desired knowledge has not yet been cultivated.”

This ad hoc approach to knowledge acquisition remains a challenge in both regions and severely limits their ability to adapt knowledge to their specific needs. It results in missed opportunities for creative and evidence-based policy development. Kendari, however, has made strides toward improving the knowledge acquisition process, fostering a more diverse and dynamic approach, despite the gaps still present.

A recurring issue in both regions is the failure to combine tacit and explicit knowledge to generate actionable insights. One participant noted:

“There is no mechanism yet to combine tacit knowledge through social interaction and shared experience to acquire new knowledge. Similarly, explicit knowledge is not yet effectively synthesized to create more comprehensive and useful knowledge for the organization.”

This gap underscores how the lack of integration between tacit and explicit knowledge acquisition hinders the generation of actionable and useful knowledge. Without systems that encourage collaboration and synthesis, valuable knowledge remains underutilized, reducing its contribution to improving governance practices and fostering innovation.

In conclusion, knowledge acquisition is crucial for innovation capacity in both South Konawe and Kendari City. Kendari’s more structured approach gives it an advantage in fostering governance innovation, while both regions face challenges due to the lack of formal integration mechanisms, reliance on individual initiatives, and inconsistencies in acquiring external knowledge. To enhance innovation, both regions must develop formal systems to acquire, document, and integrate tacit and explicit knowledge into decision-making and policy implementation, enabling better adaptation to evolving governance needs.

The third dimension of KS, knowledge application, plays a crucial role in the governance innovation capacity of both South Konawe and Kendari City. The capacity to apply tacit and explicit knowledge effectively is essential for adapting and innovating within local government agencies. However, challenges in applying this knowledge are evident in both regions, primarily due to the absence of formalized systems for integrating knowledge into operational processes, which leads to fragmented and inconsistent application.

In South Konawe, local government agencies face significant challenges in applying knowledge effectively. The lack of systematic mechanisms for

acquiring and integrating knowledge into day-to-day operations limits the ability to apply both tacit and explicit knowledge in governance. One participant noted:

“The use of new tacit knowledge, i.e., to inform policy and programme design, or collaborative problem-solving by mid-level leaders, is applied inconsistently, depending on individual preferences. There is no formal mechanism for testing policy and programme designs based on empirical and scientific evidence.”

This statement underscores the critical gap in the governance innovation process: without formal systems for integrating empirical and scientific evidence into policy and programme design, knowledge application is inconsistent and underutilized. The lack of structured knowledge application systems severely limits the innovation potential, as the knowledge that is acquired is not applied effectively to solve pressing governance challenges.

In Kendari City, the knowledge application process is more advanced but still faces significant barriers. While there are informal platforms like the *Kendari Bergerak* forum that encourage the sharing and application of knowledge, these practices depend heavily on individual initiative. One participant from Kendari described this:

“The application of knowledge, particularly in developing interpretations or integrating it into decision-making processes, does not occur systematically. There is a tendency for knowledge to remain unused, especially when leadership changes abruptly. As a result, new tacit and explicit knowledge is not consistently embedded in organizational practices, systems, or products.”

This points to the lack of formalized mechanisms for the consistent application of knowledge, which hampers the effectiveness of decision-making processes. Leadership turnover and individual-driven initiatives further disrupt the continuity of knowledge application, leaving valuable knowledge underutilized in the long term.

The absence of formal systems for applying both tacit and explicit knowledge is a major barrier to innovation in both South Konawe and Kendari. Knowledge application is fragmented, as tacit knowledge is applied inconsistently, often depending on personal preferences or individual initiatives rather than being embedded into systematic processes. Additionally, leadership turnover and the lack of structured transfer mechanisms for knowledge across organizational levels undermine the ability of local governments to apply knowledge consistently.

The reliance on individual initiative for knowledge application in both regions creates an environment where knowledge is often not applied effectively or remains underutilized. This severely limits the capacity of local government agencies to innovate and address evolving governance challenges with evidence-based solutions. Without formal mechanisms to ensure the integration of knowledge into decision-making processes, both regions struggle to realize the full potential of the knowledge they acquire.

Kendari City is more advanced than South Konawe in knowledge application. While both regions lack formal systems, Kendari uses informal initiatives like the *Kendari Bergerak* forum to apply tacit and explicit knowledge in decision-making. However, these efforts remain individual-driven and unsustainable. South Konawe faces greater challenges, lacking formal mechanisms for acquiring and applying knowledge, leading to a fragmented approach to governance innovation and missed opportunities to improve outcomes.

The application of knowledge is key to governance innovation in both South Konawe and Kendari. Formal mechanisms are necessary to consistently integrate tacit and explicit knowledge into governance practices. In Kendari, advanced practices exist, but individual initiative and leadership turnover hinder long-term effectiveness. South Konawe's lack of formal systems for knowledge application limits innovation and adaptation. Both regions must formalize knowledge application processes to embed knowledge into decision-making and policy implementation, improving governance and driving sustainable innovation.

4.3. What is the Moderating Role of Transformational Leadership in Enhancing Governance Innovation Capacity Through Knowledge-seeking in Local Governments?

Transformational leadership has been found to play a significant moderating role in facilitating the adoption of both external and internal knowledge, as well as promoting governance innovation, although challenges in consistent application remain. The following analysis explores how the four dimensions of TL – visionary leadership, intellectual stimulation, individual consideration, and inspirational motivation – are manifested across different local government agencies.

The political leader in South Konawe expressed a commitment to governance transformation by promoting governance innovation. However, this vision often struggles to be translated into concrete actions at the agency

level, which impacts the development of governance innovation capacity. One agency head explained the challenges in realizing this shared vision:

“The region is focused on shifting the governance paradigm, with the political leader emphasizing regional vision, global governance values, collective interests, and internal harmony. However, the leader struggles to communicate a long-term vision that inspires and empowers the organization. Instead, there is an overemphasis on short-term goals, with a focus on obedience through threats, such as job termination or position rotation for those not meeting expectations. These transactional practices have hindered the development of a leadership style that encourages collaboration, innovation, and strategic thinking.”

This statement highlights a key challenge in achieving the shared vision for governance transformation. The leader’s inability to develop and communicate an inspiring long-term vision limits the potential for real change. Instead, the focus on short-term goals and the use of transactional control hinders the creation of a collaborative and innovative work environment, leading to a dominance of transactional leadership, which prioritizes immediate compliance over sustained innovation.

In South Konawe, the transactional leadership approach focusing on immediate compliance exacerbates the problem and hinders the application of relevant knowledge for innovation. This transactional approach limits collaboration and the use of knowledge in policy-making processes. One participant explained:

“Assignments in the process of knowledge creation and acquisition are often based on formal positions, while appointments in positions do not consider functional knowledge. Those who occupy formal structural positions are the ones who are repeatedly assigned to inter-organizational coordination meetings, technical consultations with higher government, policy seminars, and other scientific forums, while those who do not occupy formal structural positions are neglected in these processes.”

This highlights how transactional leadership, which places more value on formal titles rather than functional expertise, undermines the potential for effective leadership and innovation. Without considering individuals’ functional knowledge, leadership roles become misaligned with the expertise required to drive meaningful change, stifling innovation and limiting cross-functional collaboration.

In Kendari, TL played a more prominent role in encouraging collaboration and governance innovation. Several agencies demonstrated more effective application of TL, with leaders actively involved in overseeing and guiding key organizational functions. One participant explained:

"I am consistently at the forefront of monitoring the strategic stages of the organization's functions and tasks. I often challenge my subordinates to test how well their proposed annual programmes align with the local government's vision, asking them about the accountability mechanisms they implement. I also manage the allocation of resources across units within the agency, particularly budgets, and look for opportunities to engage in inter-organizational activities that promote collective interests and internal harmony."

This finding shows that leaders who are proactive in monitoring and guiding strategic organizational functions tend to be more effective in applying TL. By encouraging employees to engage with the organization's vision and hold each other accountable, the leader fosters a culture of transparency, participation, and mutual responsibility. This approach not only strengthens the internal cohesion of the agency, but also enhances inter-agency collaboration, contributing to the achievement of collective goals.

Even in contexts where TL practices were more visible, like in Kendari City, there were still challenges related to the sustainability and consistency of leadership efforts. One participant noted the fluctuation in leadership support, which undermined long-term innovation initiatives:

"We experienced a different leadership situation in the last three years. In the beginning, we were stimulated to innovate through processes of coordination between different functional areas and perspectives. The head of the agency talked about the career improvement of employees for the long term. In recent years, we have also been encouraged to use relevant research results to come up with more innovative ideas and solutions to new problems, enter innovation competitions, and propose competitive programmes, but without motivation and intellectual stimulation. While the people in office continue to change in a short period, our leadership situation is also shifting."

This excerpt highlights a key issue with TL in local governments: the lack of leadership continuity and shifting priorities. Early leadership showed promise in fostering innovation through collaboration and research, but the lack of sustained engagement and motivation hindered long-term goals. Frequent leadership turnover, especially with interim leaders, caused instability and prevented the development of a cohesive innovation strategy.

Overall, TL plays a crucial moderating role in enhancing governance innovation capacity through KS in local governments. TL can facilitate long-term innovation by building an inspiring vision, providing attention to individual development, and encouraging cross-functional collaboration

and knowledge application. However, inconsistent leadership and transactional practices ultimately hinder progress. To foster sustainable innovation, leadership must focus on long-term vision, empowering staff, and promoting cross-functional collaboration that deeply integrates knowledge into governance practices.

5. Discussion

5.1. Development of Governance Innovation Capacity in Local Governments

The empirical data from South Konawe Regency and Kendari City show differing levels of governance innovation capacity development. Kendari has made significant progress across administrative levels, with both top leadership and mid-level administrators demonstrating strong connective and ambidextrous capacities. Leaders have effectively integrated innovations like e-planning and e-budgeting. As one agency leader noted, “The Secretary of the Region has played a crucial role in coordinating public service innovations, while the Head of the Regional Financial and Asset Management Agency has led the integration of e-planning and e-budgeting. Mid-level bureaucrats effectively balance ambidextrous capacity, linking innovative ideas like e-performance monitoring with established routines.” This ability to balance exploration and exploitation enhances innovation capacity, as highlighted by Gieske, Van Buuren and Bekkers (2016) and Meijer (2019), forming a foundation for sustainable governance reforms.

In contrast, South Konawe Regency has shown limited progress in governance innovation capacity. Informants noted challenges in inter-departmental collaboration, with one participant stating, “Collaboration between agencies in local government is still not well-established.” This reflects the limited connective capacity at the top leadership level, with poor coordination often leading to delayed or inefficient innovation implementation, as highlighted by de Vries, Bekkers and Tummers (2016), emphasizing the importance of aligning innovations with organizational structures.

At the mid-level, despite some efforts like e-performance monitoring, there is no coordinated effort to align these innovations with existing systems, as evidenced by subjective performance evaluations that are not tied to promotions or placements. This lack of integration and alignment further limits the effectiveness of governance innovations in South Konawe, showing a deficit in ambidextrous capacity at this level. The gap

in integrating innovations with established routines prevents the full potential of these innovations from being realized, as also emphasized by Söderström and Melin (2019), who argue that balancing the old and the new is essential for successful governance innovation.

At the lower administrator level, learning capacity – defined as the ability to absorb new knowledge and adapt to innovations – remains crucial in both regions. In South Konawe, lower-level administrators face challenges in developing this capacity. As one participant explained, while employees hold advanced degrees, “The primary barrier is the lack of adequate training and continuous learning support,” hindering their ability to apply knowledge effectively. Despite efforts in e-planning and e-budgeting, essential steps like team formation and budget allocation remain unimplemented, reflecting a lack of learning capacity needed for sustained innovation (Gieske, Van Buuren & Bekkers, 2016). Without structured professional development, lower-level administrators struggle to apply their skills, limiting the impact of governance innovations.

In Kendari City, lower-level administrators show greater engagement with platforms like e-planning and e-budgeting, demonstrating adaptability and contributing to more efficient service delivery. This proactive engagement reflects a higher learning capacity among administrators, allowing effective integration of new technologies. However, frequent position changes remain an obstacle. As one participant noted, “Lower-level administrators’ proactive engagement with the platform highlights their ability to adapt, contributing to more efficient and accessible services, as well as the provision and development of data for planning; however, due to frequent changes in positions, continued training and support are crucial for sustaining its success and maximizing its potential.” This underscores the need for continuous training and support to enhance governance innovation at lower levels, aligning with the findings of Gieske, Van Buuren and Bekkers (2016) and Meijer (2019), who emphasize the importance of continuous capacity building for sustaining innovation.

Both regions face organizational and structural barriers that hinder the development of governance innovation capacity. In South Konawe, outdated work practices and a lack of inter-departmental collaboration continue to impede innovation. As one participant noted, “The persistence of old work habits and political interests impede employees from fully embracing innovative practices.” These issues align with the findings of Ohemeng and Christensen (2022) and de Vries, Bekkers and Tummers (2016), who argue that successful governance innovation requires an adaptive and collaborative organizational culture. In Kendari City, despite progress, challenges remain in fully integrating innovations into ex-

isting systems. The lack of formal positions for policy entrepreneurs and insufficient structural support hinder the potential of governance innovations, as highlighted by Meijer (2019), who emphasized that innovations cannot achieve sustainable impacts without institutional support.

In conclusion, the development of governance innovation capacity in local governments is shaped by both individual and organizational factors. While Kendari City has made significant progress, particularly in integrating innovations like e-planning and e-budgeting, South Konawe faces challenges in developing connective and learning capacities. The development of ambidextrous capacity at the mid-level is crucial for effectively integrating innovations. Both regions also face organizational and structural barriers that hinder the full potential of governance innovation. As one participant noted, “Addressing these barriers, particularly by aligning job roles with innovation competencies and providing continuous training, is crucial to unlocking the full potential of governance innovations.” As Gieske, Van Buuren and Bekkers (2016) and Meijer (2019) suggest, overcoming these challenges requires ongoing investment in leadership, capacity-building, and adapting organizational structures to support innovation.

This study focuses on the moderating role of TL in enhancing governance innovation capacity through KS, but it is important to consider the institutional differences between South Konawe and Kendari City. South Konawe, with its focus on agricultural development, and Kendari City, oriented toward service and trade, have contrasting governance priorities that likely influence innovation capacity. While these differences were not directly tested empirically, they provide a valuable context for understanding variations in governance innovation practices. Future research could explore the impact of institutional priorities on innovation capacity more explicitly.

5.2. Influence of Knowledge-seeking Practices on Governance Innovation Capacity in Local Governments

Knowledge-seeking practices, including knowledge creation, acquisition, and application, are crucial for strengthening governance innovation capacity, as demonstrated by the examples of South Konawe and Kendari. In line with those by Bouckaert (2019) and Pereira and colleagues (2021), these findings also suggest that public governance innovation relies heavily on knowledge, especially tacit knowledge, which is critical for driving innovation (Chiu & Lin, 2022). In Kendari, the Kendari Bergerak forum

facilitates the exchange of tacit knowledge among leaders and external actors, enhancing innovation capacity. However, while Kendari's advanced knowledge-creation practices are notable, the lack of institutionalization leaves the innovation process vulnerable to disruptions (Nonaka, 1994).

In contrast, South Konawe Regency faces structural gaps in knowledge creation that limit its ability to leverage both tacit and explicit knowledge from formal and informal channels. This supports Nonaka's (1994) theory that tacit knowledge must be integrated with explicit knowledge through systematic processes to drive innovation. As one South Konawe participant noted, "While changes in government policy that require local implementation are rapid, local government agencies tend to be slow to respond." This aligns with Lai and Graham's (2009) assertion that KS, if not systematically structured, can fail to reach its innovation potential, with fragmented knowledge and slow adaptation hindering governance changes.

Both regions, South Konawe Regency and Kendari face significant barriers to effective KS practices, particularly in integrating tacit and explicit knowledge into day-to-day governance processes. This reflects the concerns raised by Lai and Graham (2009), who emphasize the importance of structured knowledge management systems to facilitate the seamless combination of tacit and explicit knowledge. South Konawe's reliance on formalistic, project-oriented knowledge creation is an example of how organizational routines, such as SOPs, can become isolated from broader governance practices, thus limiting innovation (Lai et al., 2019).

Similarly, the lack of collaborative mechanisms in South Konawe Regency, as highlighted by a participant: "Seminar assignments for tacit knowledge creation are generally directed toward lower-level leaders. However, there has been little support for fostering individual or group learning through discussion and consultation," – reinforces Nonaka's (1994) argument that knowledge creation processes must involve social interaction and be embedded in collective practices to stimulate innovation. In contrast, Kendari's knowledge creation through the informal Kendari Bergerak forum aligns with Ghasabeh and Provitera's (2018) view on knowledge management practices that enhance knowledge value and foster innovation. However, Kendari City faces challenges due to its reliance on individual initiative, contradicting the findings of King, Chung and Haney (2008), who argue that knowledge should be applied systematically within organizational structures to drive consistent innovation.

Kendari's approach to managing and applying knowledge for governance innovation aligns with Lai and Graham's (2009) KS framework, emphasizing the importance of structured knowledge creation, acquisition, and application. The Kendari Bergerak forum exemplifies Lai and colleagues'

(2019) assertion that integrating external knowledge with internal knowledge enhances innovation capacity. However, the informal, individual-driven nature of these exchanges limits long-term sustainability, as one participant from Kendari City noted: “The Kendari Bergerak morning coffee forum brings together local government leaders, businesspeople, journalists, and culturalists to explore both theoretical and practical external knowledge.” This highlights the challenge discussed by Lai and colleagues (2019), where the absence of formalized systems can hinder consistent application of external knowledge.

South Konawe’s challenges in integrating tacit and explicit knowledge into governance processes reflect concerns raised by Ghasabeh and Provitera (2018) and Urban and Matela (2022) about the need for formalized KM systems to improve performance and foster innovation. The fragmented knowledge management approach in South Konawe – “There has been no forum for acquiring tacit knowledge through expert and practitioner speakers from external sources” – limits its ability to leverage external knowledge for governance innovation, supporting Audretsch and Belitski’s (2023) view that external knowledge is crucial for innovation. This gap between theory and practice highlights how South Konawe’s top-down processes and lack of knowledge exchange mechanisms hinder its innovation capacity, unlike Kendari City, which fosters more dynamic and open knowledge-sharing practices.

In summary, both regions emphasize the importance of knowledge management in enhancing governance innovation. While Kendari City has made progress in integrating external knowledge and fostering collaboration, the lack of institutionalization and reliance on individual initiatives pose challenges to long-term sustainability. South Konawe faces more structural issues with its knowledge management practices, limiting its innovation capacity. These findings highlight the relevance of KS theories in fostering governance innovation.

5.3. The Moderating Role of Transformational Leadership In Enhancing Governance Innovation Capacity Through Knowledge-seeking in Local Governments

Transformational leadership is crucial for enhancing governance innovation through effective knowledge-seeking practices. As discussed, TL’s ability to inspire and communicate a compelling long-term vision is key for fostering innovation in local government. South Konawe’s political leader struggled to translate a broad governance vision into actionable

steps, highlighting the limitations of transactional leadership, which focuses on short-term goals and compliance over strategic thinking. As one participant noted: “There is an overemphasis on short-term goals, with a focus on obedience through threats, such as job termination or position rotation for those not meeting expectations”, which illustrates how transactional leadership hinders the development of a shared vision needed to align internal and external knowledge for sustainable innovation (Bass & Riggio, 2006; Burns, 2012).

In contrast, TL’s visionary dimension focuses on creating a future-oriented vision that motivates employees and stakeholders to engage in innovative behaviors. Zia (2020) highlighted that visionary leadership provides direction for effectively applying knowledge to solve complex governance challenges. In South Konawe, the lack of a coherent long-term vision weakens the ability to harness internal and external knowledge, as employees are unclear about organizational goals and their role in achieving them. TL’s ability to communicate a compelling vision is crucial for aligning knowledge-seeking practices with governance objectives (Acosta-Prado, 2020). This aligns with the OECD (2019) framework, which emphasizes that effective local leadership with a clear vision is essential for fostering innovation and guiding knowledge-sharing processes. Without such leadership, as seen in South Konawe, innovation efforts are hindered by confusion and short-term focus.

Intellectual stimulation and individual consideration, key components of TL, are crucial for fostering innovation in local governments. In Kendari, where TL practices were more prominent, leaders encouraged employees to challenge conventional thinking. One participant stated, “I often challenge my subordinates to test how well their proposed programmes align with the local government’s vision and accountability mechanisms,” demonstrating TL’s role in promoting critical thinking and collaboration. This aligns with the findings of Kim and Park (2020), who emphasized that intellectual stimulation fosters creativity by encouraging employees to question assumptions and develop innovative solutions.

Moreover, TL’s individual consideration dimension, which focuses on developing each employee’s potential, is vital for enhancing local governments’ ability to apply knowledge effectively. As Lai and Graham (2009) noted, leadership that nurtures personal growth and aligns it with organizational goals encourages active knowledge-seeking. In Kendari, the leader’s attention to staff development and performance monitoring fostered an environment where both internal and external knowledge were effectively integrated into governance processes.

Even in Kendari, challenges remain regarding the consistency and sustainability of leadership support. As one participant noted, “The lack of motivation and intellectual stimulation over time created uncertainty and hindered long-term innovation goals.” This highlights that while intellectual stimulation and individual consideration are crucial, their impact is reduced when leadership lacks consistency. This aligns with the findings of Lai and Graham (2009), who argue that stable leadership is key to sustaining knowledge-seeking behaviours and driving innovation. The OECD (2019) also emphasizes that leadership stability is essential for maintaining a collaborative environment that fosters innovation. Without consistency, even effective leadership may fail to create lasting change.

Transactional leadership in South Konawe hinders governance innovation by prioritizing short-term compliance over long-term strategic thinking. This approach uses rewards and punishments, such as job terminations and role rotations, to enforce conformity. As one participant noted, “Assignments in the process of knowledge creation and acquisition are often based on formal positions, while appointments to positions do not consider functional knowledge.” This limits knowledge use and discourages cross-functional collaboration, essential for innovation in complex governance environments. Zia (2020) criticizes transactional leadership for compartmentalizing knowledge, while Chiu and Lin (2022) highlight its neglect of tacit knowledge, which drives innovation. The OECD (2019) also emphasizes the lack of collaboration and long-term vision in transactional leadership, which limits the effectiveness of knowledge-sharing and inhibits innovation capacity.

The moderating role of TL in fostering governance innovation through KS is evident in both South Konawe and Kendari, though with differing outcomes. In Kendari, TL practices were more effectively applied, with leaders promoting cross-functional collaboration and knowledge integration. However, leadership inconsistency, as noted by participants, challenges long-term sustainability: “While we were initially encouraged to innovate, this motivation fluctuated with changing leadership.” This highlights that TL’s impact on innovation is not only about applying its dimensions but also requires stable, continuous leadership. Without sustained support, even effective TL practices lose their impact, leading to inconsistent knowledge-seeking and reduced innovation capacity. The OECD (2019) stresses the need for leadership continuity to foster innovation. Leadership turnover in Kendari, especially with interim leaders, created instability, preventing cohesive innovation strategies. This aligns with the observations of Kim and Park (2020) and Kazmi and colleagues

(2021), who emphasize the importance of leadership continuity in sustaining an innovation-focused climate. TL can enhance governance innovation through KS, but its full potential is realized only when leadership remains stable, vision-driven, and committed to long-term goals, as per Barba-Aragón, Jimenez-Jimenez and Valle-Mestre (2022). Sustainable innovation requires leaders to create a stable environment that continuously motivates knowledge-seeking behaviours, in line with the OECD's (2019) recommendation for strong, continuous leadership.

This study concludes that TL plays a crucial moderating role in enhancing governance innovation capacity through KS, though its impact is primarily observed at the individual level. This indicates the need for further research into organizational and network dimensions to support a more comprehensive innovation process. TL's role extends beyond individual innovation, fostering a culture of innovation at both organizational and network levels. Future research should develop a framework that includes the influence of distributed and transactional leadership, while also considering the role of organizational structure and inter-agency collaboration in strengthening governance innovation capacity. Additionally, the OECD (2019) highlights the importance of evidence-based policies and knowledge-sharing practices, which can enhance the innovation capacity of city governments by fostering stronger partnerships between the public, private sectors, and academia.

6. Conclusions

This study underscores the growing importance of governance innovation in local governments, with KS as a crucial driver of innovation capacity. As local governments face increasingly complex and evolving challenges, understanding the factors that enhance KS effectiveness is essential for improving public sector performance.

RQ1: How does governance innovation capacity develop in local governments?

The findings indicate that while governance innovation capacity in local governments is generally insufficient, TL plays a critical moderating role in enhancing the effectiveness of KS practices. In agencies where TL is present, KS processes – such as knowledge creation, acquisition, and utilization – are more open, interactive, and collaborative, leading to a more

substantial innovation infrastructure. Conversely, in organizations lacking TL, KS tends to be less effective, and governance innovation capacity remains underdeveloped. This highlights that the development of governance innovation capacity in local governments is not solely dependent on individual capabilities but is also influenced by leadership and organizational structures that support collaborative innovation.

RQ2: How do KS practices influence governance innovation capacity?

The empirical data from this study suggest that KS practices are integral to developing governance innovation capacity. In regions where KS practices are effectively implemented, there is a greater capacity for collaboration, which in turn drives innovation. This is particularly evident in local governments where TL fosters an environment conducive to open knowledge exchange and teamwork across departments and external partners. In the absence of effective KS practices, innovation efforts tend to remain fragmented, thus limiting their potential to drive systemic changes in governance.

RQ3: What is the moderating role of TL in enhancing governance innovation capacity through KS in local governments?

TL was found to significantly moderate the relationship between KS and governance innovation capacity. In agencies where TL was practiced, KS processes were notably more effective and led to stronger innovation outcomes. TL encourages open communication, collaboration, and a culture of continuous learning, which is essential for fostering innovation in local government. Leaders who embrace transformational leadership qualities can create an environment where knowledge-sharing can thrive and contribute meaningfully to governance innovation.

The empirical data collected through in-depth interviews provided rich, nuanced insights into how leadership influences KS and governance innovation at the local level. These qualitative methods were instrumental in capturing the experiences and perspectives of key informants, shedding light on the real-world challenges and opportunities in governance innovation. The qualitative approach allowed for an in-depth exploration of complex dynamics that may not be fully captured through quantitative methods alone.

The practical implications of these findings emphasize the need for local governments to invest in leadership, particularly TL, to drive innovation. TL should be promoted at all levels, including mid-level and operational

leaders, to foster collaboration, openness, and continuous learning. Local governments should prioritize leadership development programmes that cultivate TL qualities and establish mechanisms for knowledge-seeking and collaboration across departments and external partners.

The findings highlight differences between South Konawe Regency and Kendari City in applying TL and its impact on innovation. South Konawe has TL at the political level but lacks consistency at the mid-management level, limiting innovation. In contrast, Kendari City applies TL consistently across both levels, fostering collaborative KS practices. This emphasizes the need for leadership continuity and alignment to drive innovation, with Kendari City demonstrating stronger innovation outcomes due to consistent TL practices at all levels.

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INCREASING GOVERNANCE INNOVATION CAPACITY OF LOCAL GOVERNMENTS THROUGH KNOWLEDGE-SEEKING: THE MODERATING EFFECT OF TRANSFORMATIONAL LEADERSHIP

Summary

This study explores the relationship between governance innovation capacity, knowledge-seeking, and transformational leadership in local governments. Despite the importance of innovation in public governance, many local governments face challenges due to limited innovation capacity. Using a multisite case study approach, this study analyzes two local governments in Indonesia, involving eight agency leaders. The research suggests that transformational leadership can moderate the impact of knowledge-seeking on innovation, fostering practices that enhance governance innovation. Findings underscore the crucial role of leadership in promoting knowledge-seeking and fostering innovation within local governments, particularly highlighting the need for leadership continuity and alignment across all levels of management. However, the innovation capacity observed is limited to individual level, suggesting the need for further research into organizational and network dimensions to support a more holistic approach to innovation. The findings also highlight the need for local governments to invest in transformational leadership as a catalyst for innovation. To achieve this, leadership should be promoted not only at the political level but also within agencies, especially among mid-level and operational leaders. Local governments should prioritize leadership development programmes that foster transformational qualities and create mechanisms for the creation, acquisition, and application of knowledge across departments and with external partners. For future research, it is recommended that a framework be developed to explore the influence of transformational leadership, while also considering the role of transactional leadership – which remains dominant in some sites – as well as the organizational structure and inter-agency collaboration in strengthening governance innovation capacity. A qualitative approach could provide deeper insights into how differences in leadership styles impact governance innovation and help capture dynamics not fully addressed by quantitative methods.

Keywords: governance innovation capacity, knowledge seeking, transformational leadership, local government

JAČANJE KAPACITETA ZA INOVACIJE U UPRAVLJANJU KROZ POTRAGU ZA ZNANJEM: POSREDOJUĆI UČINAK TRANSFORMACIJSKOG VODSTVA

Sažetak

Ova studija istražuje odnos između kapaciteta za inovacije u upravljanju, traženja znanja i transformacijskog vodstva u jedinicama lokalne samouprave. Unatoč važnosti inovacija u javnom upravljanju mnoge se lokalne vlasti suočavaju s izazovima zbog ograničenog inovacijskog kapaciteta. Koristeći se pristupom studije slučaja na više lokacija, ova studija analizira dvije jedinice lokalne samouprave u Indoneziji te uključuje osam čelnika lokalnih agencija. Istraživanje sugerira da transformacijsko vodstvo može moderirati utjecaj potrage za znanjem na inovacije potičući prakse koje jačaju upravljačke inovacije. Nalazi naglašavaju ključnu ulogu vodstva u promicanju potrage za znanjem te u poticanju inovacija u lokalnim jedinicama, posebno ističući potrebu za kontinuitetom vodstva i usklađenošću na svim razinama upravljanja. Međutim, uočeni inovacijski kapacitet ograničen je na individualnu razinu, što sugerira potrebu za daljnjim istraživanjem organizacijskih i mrežnih dimenzija kako bi se ostvario cjelovitiji pristup inovacijama. Rezultati istraživanja također naglašavaju potrebu da lokalne vlasti ulažu u transformacijsko vodstvo kao katalizator inovacija. Da bi se to postiglo, vodstvo (leadership) treba promovirati ne samo na političkoj razini već i unutar agencija, posebno među menadžerima srednje i operativne razine. Lokalne jedinice trebale bi dati prioritet programima razvoja vodstva koji potiču transformacijske kvalitete i stvaraju mehanizme za stvaranje, stjecanje i primjenu znanja u svim odjelima organizacije te u odnosu s vanjskim partnerima. Za buduća istraživanja preporučuje se razvoj okvira u kojem bi se mogao ispitati utjecaj transformacijskog vodstva, uzimajući u obzir i ulogu transakcijskog vodstva – koje je i dalje dominantno na nekim lokacijama – kao i organizacijske strukture i međuagencijske suradnje na jačanje kapaciteta za inovacije u upravljanju. Kvalitativni pristup mogao bi pružiti dublji uvid u to kako razlike u stilovima vođenja utječu na inovacije u upravljanju i pomoći u prikazu dinamike koju kvantitativne metode nisu potpuno adresirale.

Ključne riječi: kapacitet za upravljačke inovacije, potraga za znanjem, transformacijsko vodstvo, lokalna samouprava