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The Impacts of Information Technology Investment and Organizational Capabilities on Organizational Performance: Evidence from Indonesian Public Sectors

Wiwik Supratiwi[1], Dian Agustia[1*], Ahmad Rizki Sridadi[1], Muhammad Syukri Abdullah[2], Zulkefli Muhammad Hanapiyah[2], Irfah Najihah[2]

[1] Department of Accounting, Faculty of Economics and Business, Universitas Airlangga, Indonesia
[2]Faculty of Business and Management, Universiti Teknologi MARA (UiTM) Cawangan Melaka, Malaysia

wiwik_s@feb.unair.ac.id, dian.agustia@feb.unair.ac.id (Corresponding author), ahmad-r-s@feb.unair.ac.id, syukriabdullah@uitm.edu.my, zulkeflihanapiyah@ymail.com, irfah@uitm.edu.my

Abstract. This study aims to empirically investigate the mediating role of Organizational Capability in the relationship between IT investment and organizational performance within local government entities. This research is quantitative methods using primary data obtained through questionnaires. The research is conducted on all district/city governments in Indonesia, with a sample of 38 districts/cities selected from East Java using convenience sampling—data processing and testing using WrapPLS version 6. The unit of analysis is at the organizational level, specifically focusing on the district/city level. The results highlight that Organizational Capability partially mediates the positive relationship between IT investment and Organizational Performance in the local government sector. Notably, the impact of IT investment on Organizational Capability is weaker than the influence of Organizational Capability on Organizational Performance. These findings provide valuable insights into the dynamics of IT investment, Organizational Capability, and organizational performance within the context of local government. The study contributes to the existing literature and offers practical implications for local government entities aiming to improve their performance through effective IT investments and the development of organizational capabilities.

Keywords: Information Technology Investment; Organizational Capabilities; Organizational Performance; Management Information System.

1. Introduction

The Government of the Republic of Indonesia has utilized Information Technology (IT), namely by developing *e-government* in governance to improve the quality of public services effectively and efficiently. The government's efforts were carried out by issuing INPRES Number 3 of 2003 concerning National Policy and Strategy for *e-Government Development* (RI, 2003). The implementation *of e-government* in local governments is different from one another, so the level of success is also different. This condition is overcome by requiring local governments to implement *e-government* as stipulated in Presidential Regulation Number 95 of 2018 concerning Electronic-Based Government Systems (RI, 2018). Several local governments in the East Java Province have implemented *e-government* and received regional, national, and international awards. In 2009, the City Government of Blitar won the title of the best city in East Java to implement e-government (Sekretariat, 2010). The city of Surabaya, Malang City, Lamongan Regency, and Bojonegoro Regency received the award for the best national e-government implementation (Kominfo, 2012).

Every organization needs adequate IT, one of which is to improve the quality of its information. Information affects organizations at various levels and in various ways (Anaam, Haw, & Palanichamy, 2022; Banker & Kauffman, 2004). Orlikowski and Barley (2001) state that IT and organization are two disciplines that have been widely studied together. IT and the organization have a reciprocal relationship or influence each other. Research on IT and research on organizations influence and learn from each other. Research on organizations can refer to the results of research on IT and vice versa. The reciprocal relationship between IT and the organization is mediated by several factors: environment, culture, structure, business processes, politics, and management decisions (Laudon & Laudon, 2016). Based on the studies conducted by the researchers, it is clear that no studies examine the interrelationships between IT and organizations. The two research areas remain independent even though they are conceptually and practically related (Robey, Boudreau, & Rose, 2000).

Disclosure of the benefits of IT investments in local governments is seen as crucial as what companies do because it can reduce information asymmetry between managers and investors (Khallaf, 2012). IT investment is often associated with organizational performance, both financial and non-financial. Measurement of organizational performance concerning the implementation of IT investments serves as feedback for necessary improvements in order to achieve the goals and objectives that have been set. Breitbarth, Mitchell, and Lawson (2010), performance measurement is a philosophy of continuous learning Breitbarth, Mitchell, and Lawson (2010) evidenced by the paradigm shift used by government organizations from traditional bureaucracy to *e-government* which impacts public services. Paradigm shifts are viewed from several aspects, namely orientation, organizational processes, management principles, leadership style, internal and external communication, and ways and principles of service delivery (Tat-Kei Ho, 2002). The adoption of IT by local governments is still in its early stages and has yet to receive the expected benefits (Burinskienė & Burinskas, 2021; Ju & Park, 2022; Sivarajah, Irani, & Weerakkody, 2015).

Every organization that invests in IT always aims to improve its performance (Laudon & Laudon, 2018). Organizations or companies create their capabilities by using *tangible* and *intangible resources*. IT investment in an organization or company is expected to increase Organizational Capability, which an increase will then follow in organizational performance. The higher the IT investment will enlarge Organizational Capability *so th*e company can improve its performance. Meanwhile, the results of the meta-analysis of Liang, You, and Liu (2010) show that Organizational Capability (internal and external) mediates the impact of organizational resources (proxied by IT and organization) on company performance (financial and efficiency).

The theory used in this research must be used to see the theoretical constructs and actual problems being studied (Robey & Zmud, 1992). Process *theory* can be used in this research. The reason for the suitability of *process theory* with this research, as suggested by Soh and Markus (1995) is to help

understand that IT investment does not continuously improve organizational performance, providing a framework for examining the conditions and processes of IT investment related to improving organizational performance. Measurement of IT investment can be done in various ways. Based on a meta-analysis of the effect of IT investment on company financial performance conducted by Lim, Dehning, Richardson, and Smith (2011) there are three ways to measure IT investment, namely in terms of IT acquisition expenditure, IT strategy, and IT capability/management. IT investment in government organizations encourages a shift in public service delivery from a bureaucratic paradigm to an *e-government paradigm* (Ju & Park, 2022; Tat-Kei Ho, 2002).

The resources owned by the organization can be grouped as tangible and intangible assets and Organizational Capabilities. Organizational capability is a complex combination of assets, human resources, and processes that organizations use to transform inputs into outputs (Collis & Montgomery, 2005). Information Technology owned, controlled, or accessible by an organization is one of the organization's assets or resources. Optimizing the use of IT as one of these resources shows the organization's capability to achieve specific goals (Helfat & Peteraf, 2003). The ability of an organization or company to manage resources shows efficient and effective management, faster, more responsive, better quality, and so on in all organizational activities (Collis & Montgomery, 2005). Such management will enable the achievement of competitive advantage, resources include internal and external resources (Chung, Wang, Huang, & Yang, 2016).

Organizational capability refers to a set of principles that are stable over time and affect the application of management to the organization (Ulrich & Lake, 1991). Organizational capability is essential in achieving the goals set, so the organization must create them through certain expenses (Collis & Montgomery, 2005). One form of this expenditure is investing in Information Technology as the best tool organizations can use to create or enhance Organizational Capabilities (Li, Chen, & Huang, 2006; Liang et al., 2010; Luo, Fan, & Zhang, 2012). Information Technology is one of the resources that organizations can use to improve their performance. The value of Information Technology is better explained with Organizational capability than without Organizational Capability as a mediating variable. Liang et al. (2010) concluded that Organizational Capability mediates the relationship between organizational resources and firm performance. Sambamurthy, Bharadwaj, and Grover (2003) stated that previous studies had linked IT investment and increased performance but still needed to explain how and why this performance increased. *Organizational capabilities,* which consist of *agility, digital options*, and *entrepreneurial alerts,* play a role in influencing investment relations and IT capabilities to company performance.

IT research is important to conduct in accounting because IT and accounting influence each other (Barras &; Swann, 1984). Research on IT investment is still limited, especially in local governments despite the growing IT investment. Effective guidelines for IT investment are not yet adequately available, especially when associated with improving organizational performance (Ali et al., 2015). Based on the statement above, it can be stated that with the increasing IT investment does not guarantee improved performance, this study needs to use several variables that play a role in the relationship between IT investment and organizational performance (Liang et al., 2010). IT research needs to test mediating variables as a process considering that so far IT research on government has tested output rather than process (Yildiz, 2007). This is also supported by research results which state that organizational factors related to IT investment in local governments are interesting to study (Bigdeli et al., 2013; Ebrahim &; Irani, 2005). Holden et al. (2003) suggest that the larger the size of the government, the greater the IT investment made. Thus, this research also needs to ensure the correctness of the relationship between IT investment and organizational performance in local governments through Organizational Capabilities (Creswell, 2014).

The results of previous research regarding the relationship between Information Technology investment and organizational performance show that this topic is still worthy of research. The reasons

are: 1) inconsistent research results; 2) differences in the theory used; 3) the increasing number of local governments investing in Information Technology, but its effectiveness still needs to improve. This study uses mediating variables that play a role in the relationship between IT investment and organizational performance in local government by adopting mediating variables from IT research and organizational performance in commercial companies. Organizational capability is mediating variable (Lee, 2012; Luo et al., 2012). The purpose of this study is to prove empirically that Organizational Capability can positively mediate the relationship between IT investment and organizational performance in local government.

2. Literature Review and Hypothesis Development

2.1 Information Technology Investment, Organizational Capability, Organizational Performance

Based on the results of IT research identification between 1954-2003 conducted by Banker and Kauffman (2004) there are five IT research groups, namely decision support and design science, the interaction of computer systems and humans, information value, IT organization and strategy, as well as the economic value of IT. The theory used in IT research borrows a lot from other disciplines because IT methodology is plural and still a new field (Becker, vom Brocke, Heddier, & Seidel, 2015). The choice of theory used in IT research must be adjusted to the research objectives, namely theories for analysis, explanation, prediction, explanation, and prediction, as well as design and action (Gregor, 2006). *Process theory* is often used in organizational research because it can explain how and why organizational change occurs sustainably (Van de Ven, 1992) and show models of organizational change processes (Van de Ven & Sun, 2011).

Process theory elements are the main elements used to transform IT investments into organizational performance. The main elements include the necessary conditions and processes that may occur sequentially, i.e., the organization spends on IT investment and fulfills various levels of effectiveness during the IT management process to acquire IT as an asset. IT will have a beneficial impact when the quality of IT assets is combined with the proper use of IT processes. If IT has a positive impact during its use, it will improve organizational performance (Soh & Markus, 1995). *Process theory* can be used in this research. The reason for the suitability of *process theory* with this research, as suggested by Soh and Markus (1995)is to help understand that IT investment does not continuously improve organizational performance, providing a framework for examining the conditions and processes of IT investment related to improving organizational performance. The process in this study is the explanation of the causal relationship between independent variables, mediating variables, and dependent variables. Government organizations have made significant IT investments to improve the quality of their *ICT infrastructure* and service delivery to the community (Ju & Park, 2022; Pan, Pan, & Devadoss, 2008). Initiation of IT investment in government organizations, according to Arduini, Denni, Lucchese, Nurra, and Zanfei (2013) is generally associated with a sizeable government organizational structure, information staff capabilities, adequate support and training, and combined with a dynamic usage environment. Information Technology owned, controlled, or accessible by an organization is one of the organization's assets or resources. Optimizing the use of IT as one of these resources shows the organization's capability to achieve specific goals (Helfat & Peteraf, 2003). Information Technology has become an efficient and effective tool for creating Organizational capability, an *intangible asset* in this modern era. So that organizations that have invested in IT, are then required to be able to manage IT so that Organizational Capability increases. That follows the statement of Li et al. (2006) IT investments can improve organizational performance if accompanied by complementary organizational investments, namely new business processes, skills, and organizational structures. Even in the long term, this rate of return is five times greater than the rate of return in the short term or one year (Brynjolfsson & Hitt, 2003). Based on the results of the *meta-analysis* (Lim et al., 2011), IT investment with a measure

of IT spending or IT strategy shows a stronger relationship between IT investment and financial performance compared to using IT capability measures. IT investment decisions made by the government must be accountable. In this accountability, it is necessary to measure the performance of IT investment. According to de Lancer Julnes (2006), accountability is carried out through program evaluation and performance measurement. This accountability is intended to improve service delivery to the public. Program evaluation can increase the reliability of performance measurement systems.

2.2 Information Technology Investment, Organizational Capability, and Organizational Performance

Previous studies have proven that dynamic organizational capability, PO, and company performance are related. However, the relationship between the three simultaneously still needs to be clarified. Then a model was created which illustrates that PO and innovation mediate the relationship between dynamic capabilities and organizational performance. Even so, other variables can still mediate dynamic capabilities and organizational performance (Giniuniene & Jurksiene, 2015).Organizational capabilities are required to be dynamic in order to be able to respond to environmental changes quickly and make it easier to achieve a competitive advantage. IT is needed to improve organizational capabilities (Luo et al., 2012). Speed of response, or called *business agility*, according to Lee (2012)can be achieved by placing and utilizing IT. Placement and utilization of IT are carried out, emphasizing organizational IT management activities. IT will not directly improve organizational performance, as stated by Liang et al. (2010) and Bharadwaj (2000) that organizational capabilities mediate the relationship between IT and organizational performance. Likewise, research conducted by (Ravichandran & Lertwongsatien, 2005) also revealed that variations in company performance could be explained by using IT that supports and increases the company's *capability* or *core competence*.

Organizational capability is built with the aim that organizations can manage their resources effectively and efficiently, which in turn will improve organizational performance (Gold & Arvind Malhotra, 2001). Organizational capability is essential in achieving the goals set, so the organization must create them through certain expenses (Collis & Montgomery, 2005). One form of this expenditure is investing in Information Technology as the best tool organizations can use to create or enhance Organizational Capabilities (Li et al., 2006; Liang et al., 2010; Luo et al., 2012).

An organization's IT investment is also intended to increase organizational capability. Increasing Organizational capability means increasing the ability of the organization to respond to environmental changes. If the organization can respond quickly to changes in its environment, it can improve its performance. So IT investment will improve organizational performance if IT is able to increase Organizational Capability. Sambamurthy et al. (2003) stated that previous studies had linked IT investment and increased performance, but had not explained how and why this performance increased. *Organizational capabilities* caused the increase in performance. *Organizational capabilities* which consist of *agility, digital options*, and *entrepreneurial alerts* play a role in influencing investment relations and IT capabilities to company performance.

IT investment is one of the *capital investments* that can be used to maintain, improve or create organizational capabilities (Maritan, 2001). When associated with the logical *process theory criteria* synthesized by Soh and Markus (1995), IT investment will result in the maintenance, improvement, or creation of Organizational Capability. That is following the *teleology change model* because organizations can overcome their problems by creating critical thinking capabilities (Van de Ven & Sun, 2011) so that organizations can improve their performance. IT investment has a positive impact on Organizational capability, which in turn improves organizational performance. Based on the description above, the following hypothesis can be formulated:

H_1: *Organizational capability* positively mediates the effect of Information Technology investment on organizational performance in local government

3. Research Methods

This study aims to obtain empirical evidence of the role of Organizational Capability in mediating the relationship between Information Technology investment and organizational performance in local government. The population of this study is all district/city governments in Indonesia. The sample of this research is 38 districts/cities in East Java. Sampling was carried out using the *convenience sampling method* (Etikan, Musa, & Alkassim, 2016). The unit of analysis for this research is the organizational level, namely the district/city. Respondents from a predetermined Regional Apparatus will represent each district/city. Government Regulation Number 18 of 2016 concerning Regional Apparatuses explains that district/city regional apparatuses consist of 1) agencies; 2) bodies; 3) other than services and agencies; 4) territorial devices. Dinas are all the tools that carry out local government affairs. Dinas is tasked with assisting regional heads in government affairs that become regional authorities and assistance duties given to districts/cities. Agencies are all regional devices that provide technical support to all regional devices. The agency has the task of assisting regional heads in carrying out the supporting functions of government affairs, which are the authority of the district/city. In addition to agencies and agencies are the regional secretariat, the DPRD secretariat, and the regional inspectorate. The regional secretariat assists regional heads in formulating policies and coordinating administrative duties of regional apparatus and administrative services. The regional apparatus is a sub-district formed to improve the coordination of governance, public services, and empowerment of village or kelurahan communities (RI, 2016).

The variables in this study are latent or construct variables that cannot be measured directly. This study uses Information Technology investment (ITI) as an exogenous variable and Organizational Performance (KO) as an endogenous variable. In addition, there is a mediating variable, Organizational Capability (KpO). This study considers using control variables, namely variables that are not hypothesized but have the possibility of influencing endogenous variables. Control variables are intended to ensure the correctness of the relationship between exogenous and endogenous variables (Creswell, 2014). This study uses the size of the local government (UP) as a control variable. In this study, the control variables were included in the mediation model to minimize bias and obtain a model that could confirm the data.

This study uses *SEM-PLS* to analyze data because it can be used for small sample sizes and can estimate complex models (Sholihin & Ratmono, 2013). While processing data using *software applications*, *Warps PLS* 6.0. The reason for using *Warp PLS is* that this software application can identify *non-linear relationships* between latent variables and correct *path coefficients* based on these relationships. The sample for this research is 38 regencies/cities in the province of East Java. Each district/city government was given 16 questionnaires, and each OPD received four questionnaires, so a total of 608 questionnaires were distributed. Because there were regions that returned more than 16 questionnaires because they duplicated themselves, the number of questionnaires distributed became 613.

3.1. Variable Operational Definition

Each latent variable in this study uses more than one indicator (multiple indicators) to eliminate the bias effect of wrong measurements (Kenny, 2014).

3.1.1. Information Technology Investment

IT investment in this study is defined as the availability of *hardware*, *software*, network, and improvement of HR competencies in local governments related to IT implementation both for internal communication and coordination as well as for community services or communication with external parties (Aral & Weill, 2007; Smith & McKeen, 1991). The questionnaire was developed based on IT

measurement indicators (Smith & McKeen, 1991). Specifically for software capability indicators, a questionnaire was developed from the IT construct used by Aral and Weill (2007). The questionnaire developed for IT investment variables is shown in Table 1 below.

Table 1. Information Technology Investment Variable Questionnaire

Indicator	Indicator Description	Statement	Measurement
		At my work,	*semantic differential* points)
Hardware ownership	Computer ownership in terms of the availability of hardware which includes *client computers, server* computers, connectivity devices for transferring data, and other hardware as a complement to IT	an adequate number of *client* computers available.	1 = Very inadequate; 7 = Very adequate.
		adequate *server* computers are available.	1 = Very inadequate; 7 = Very adequate.
		available *hardware* (connectivity device) to transfer data in sufficient quantities.	1 = Very inadequate; 7 = Very adequate.
		There is LCD Projector hardware	1 = Very inadequate; 7 = Very adequate.
		There is Scanner hardware	1 = Very inadequate; 7 = Very adequate.
		There is Printer hardware	1 = Very inadequate; 7 = Very adequate.
Software/software application capability	The capability of software applications is reviewed from HR capabilities in the IT field, the intensity of using software applications, and internet capabilities	there are HR users of IT who understand IT adequately.	1 = Very inadequate; 7 = Very adequate.
		high intensity of using *software applications* for internal purposes.	1 = Very low; 7 = Very high.
		high intensity of using *software applications* for external purposes.	1 = Very low; 7 = Very high.
		there is adequate internet capability.	1 = Very inadequate; 7 = Very adequate.
		adequate training or technical assistance is provided to improve/ *update* skills in the IT field.	1 = Very inadequate; 7 = Very adequate.

Types of internet technology-based *software* based on function	Type *software* in terms of internet technology-based *software applications based on their functions that have been owned and used by local governments.* The software application is used for planning, budgeting, procurement of government goods/services, public services, monitoring and evaluation, and reporting.	there is a *software application* that adequately prepares development plans (*e-planning*).	1 = None; 7 = Very adequate.
		there is a *software application* that functions adequately for budgeting (*e-budgeting*).	1 = None; 7 = Very adequate.
		there is a *software application* that functions adequately for procuring goods/services (*e-procurement*).	1 = None; 7 = Very adequate.
		At my workplace, there is a *software application* that functions adequately for regional asset management.	1 = None; 7 = Very adequate.
		are adequately functioning *software* applications for accounting.	1 = None; 7 = Very adequate.
		there is a *software application* that functions adequately for services to the community (*e-service*).	1 = None; 7 = Very adequate.
		there is a *software application* that functions adequately for monitoring and evaluation (*e-monev*).	1 = None; 7 = Very adequate.
		there is a *software application* that functions adequately to prepare reports (*e-reporting*).	1 = None; 7 = Very adequate.
It Features	It features our IT characteristics in	*Software* applications are easily accessible	1 = Can't; 7 = Very easy.

	terms of ease of access, ease of use, system integration, devices that can access, and system security.	by users from various places.		
		software application easy to use (user friendly)	1 = Very difficult;	
			7 = Very easy.	
		Software applications are integrated between one application and another.	1 = None;	
			7 = Highly integrated.	
		Software applications can be accessed using various communication devices.	1 = Can't;	
			7 = Very easy.	
		secure *software* applications.	1 = Very insecure;	
			7 = Very secure.	
		website content is dynamic.	1 = Very static;	
			7 = Very dynamic.	

Source: Processed research data, 2023

3.1.2 Organizational Performance

Organizational performance is the achievement of local government on the implementation of activities to achieve the goals and objectives that have been set. Organizational performance in this study uses non-financial performance measures. The non-financial performance of the local government is the performance of the activities carried out/ *work performance* (Yang, Wang, & Niu, 2007). The questionnaire was adopted and adjusted from the question items for the *work performance indicators* and added question items for indicators of the ability to meet the goals and objectives of (Kuhlmann, 2010) as shown in Table 2 below.

Table 2. Organizational Performance Variable Questionnaire

Indicator	**Indicator Description**	**No.**	**Statement**	**Measurement**	**Source**
			At my work,	*semantic differential* points)	
operational efficiency	Operational efficiency is seen from the reduction in office administration costs and the reduction in the cost of procuring goods/services.	1	Office administration costs are efficient.	1 = Very Inefficient;	(Yang et al., 2007)
				7 = Very efficient.	
		2	There is cost efficiency in the process of procuring goods/services.	1 = Very Inefficient;	
				7 = Very efficient.	

Adherence to schedule	Adherence to the schedule is reviewed from the timeliness of planning, budgeting, budget absorption, and accountability reporting.	3	We are planning it completed on schedule.	1 = Very unsuitable; 7 = Very suitable	(Yang et al., 2007)
		4	Budgeting is finalized on schedule.	1 = Very unsuitable; 7 = Very suitable.	
		5	Implementation of activities/ budget uptake completed according to schedule.	1 = Very unsuitable; 7 = Very suitable.	
		6	Accountability reports are completed on time.	1 = Very imprecise; 7 = Very precise.	
Speed of work completion	The speed at which the work is completed confirms the level of speed	7	Work can be completed quickly.	1 = Very slow; 7 = Very fast.	(Yang et al., 2007)
Budget adherence	Compliance with the budget is reviewed from the suitability of the budget and its allocation.	8	There is conformity in spending and its allocation (budget).	1 = Very unsuitable; 7 = Very suitable.	(Yang et al., 2007)
Number of activities	The number of activities is reviewed on its suitability with the available capacity.	9	The number of activities according to the available capacity.	1 = Very unsuitable; 7 = Very suitable.	(Yang et al., 2007)
Ability to meet goals and objectives	The ability to meet goals and objectives in terms of the effectiveness of their achievement.	10	Goals and objectives are achieved effectively	1 = Very ineffective; 7 = Very effective.	(Yang et al., 2007)
		11	Complaints of public dissatisfaction with the services received have decreased	1 = Greatly improved; 7 = Very decreased.	(Kuhlmann, 2010)

Source: Processed research data, 2023

3.1.3 Organizational Capability

Organizational Capability (KpO) is the ability of local governments to carry out activities and utilize their resources to achieve certain goals (Collis & Montgomery, 2005). This study adopted and modified the Organizational Capability Questionnaire (KpO) from Buis and Boex (2015).

Table 3. Organizational Capability Variable Questionnaire

Indicator	Indicator Description	Statement	Measurement
		At my work,	*semantic differential* points)
Act and commit	The ability to act and commit is seen in the transparency of decision-making, the willingness of leaders to clarify decisions, the willingness to clarify policy-making, and the relationship between the executive and legislature.	the decision-making process is carried out in a transparent manner for all stakeholders.	1 = Very opaque; 7 = Very transparent.
		regional heads are always willing to clarify reasons if there is a change in the decision-making process.	1 = Never willing; 7 = Always available.
		the head of the OPD and his staff are always willing to clarify the process of making and implementing policies.	1 = Never willing; 7 = Always available.
		the working relationship between the legislature, the executive, and the staff under them is good.	1 = Very unfavorable; 7 = Very good.
Deliver development goals	The ability to convey development goals is seen from the clarity of goal delivery, the availability of staff with adequate knowledge, the availability and completeness of documents or strategic plans for community services, and the availability of a budget.	goals are clearly stated.	1 = Very unclear; 7 = Very clear.
		there is a sufficient number of staff with adequate knowledge and skills to support the achievement of objectives.	1 = Very poor; 7 = Very enough.
		there are various policy documents or strategic plans for services to the	1 = Very incomplete; 7 = Very complete.

		community in a whole.	
		sufficient funds are available to realize the budget that has been set.	1 = Not always available; 7 = Always available.
Adapt and self-improvement	The ability to adapt is seen from politicians' responses to new laws or regulations or community demands, lobbying or advocating for new laws and regulations that affect regional performance or policies, as well as follow-up on monitoring and evaluation results.	Politicians (DPRD members and regional heads) and their subordinates responded satisfactorily to and followed up on new laws or changes in community demands.	1 = Very unsatisfactory; 7 = Very satisfactory .
		lobbying and advocacy strategies are carried out to overcome changes that affect local government policies and performance.	1 = Never done; 7 = Always done.
		the results of monitoring and evaluation activities become the basis for decision-making.	1 = Never underlying; 7 = Always underlying.
Relations with external stakeholders	The ability to relate to external *stakeholders* in terms of the inclusion of *stakeholders* in planning, IT support in relations with *stakeholders*, as well as the ability to mobilize resources to maintain relationships.	all relevant stakeholders with objectives or policies have been listed in the activity plan.	1 = Never listed; 7 = Always listed in full.
		able to maintain relationships with stakeholders with the support of information technology.	1 = Very incapacitated; 7 = Very capable.
		able to cope with changing circumstances	1 = Very incapacitated; 7 = Very capable.

		concerning stakeholders.	
		able to mobilize effectively and efficiently the necessary human, institutional, and financial resources.	1 = Very incapacitated; 7 = Very capable.
Achieve coherence	Ability to achieve consistent coherence between local government vision, strategy, and operations, accommodation of external party demands on policies, ability to handle external party support for programs/activities, as well as a balance between consolidation and innovation.	Politician leadership (DPRD members, regional heads, or OPD heads) can maintain consistency between local government ambitions, vision, strategy, and operations.	1 = Very incapacitated; 7 = Very capable.
		there is the ability to overcome pressure or demands from various external parties and put it into policy.	1 = Very incapacitated; 7 = Very capable.
		there is the ability to handle national or international support (in the form of projects, programs, and budgets) coherently so that it is following local government strategies or policies.	1 = Very incapacitated; 7 = Very capable.
		there is the ability to integrate external support in the form of projects, programs, or budgets that must be placed logically in the existing strategy or the activities being carried out.	1 = Very incapacitated; 7 = Very capable.
		there is a balance between innovation and consolidation.	1 = never existed; 7 = Always There.

source: processed by researchers, 2023

4. Results

4.1. Descriptive statistics

This research model uses *a second-order construct* of *reflective first-order* and *reflective second-order*. In the *second–order construct model*, latent variables consist of multidimensional constructs. The *first-order components* (indicators) form the *second-order components* (variables or constructs). Table 4 below describes the descriptive statistics of each indicator that reflects the variable. Each indicator has a standard deviation (SD) <1, and the value is below the mean (>4), indicating that respondents' answers to each indicator vary less. That shows the consistency of the respondents' answers.

Table 4. Descriptive statistics

	Min	Max	Means	Mode	Median	SD
KPK	4,519	6,271	5,378	5,083	5,344	0.418
KAPS	3,894	6,200	5,091	4,575	5,046	0.443
JS	3,484	6.305	4,956	3,484	4,995	0.581
FIT	3,569	6,427	4,936	5,073	4,976	0.594
TOP	4,625	6,500	5,389	5,375	5,375	0.368
KJW	4,507	6,250	5,436	5,859	5,357	0.403
KPEK	4,528	6,375	5,435	5,188	5,431	0.405
KPMG	4,556	6,438	5,638	5,625	5,646	0.406
JMAK	4,556	6,250	5,340	5,375	5,335	0.384
KMTS	4,583	6,313	5,320	4,875	5,271	0.360
BKOM	4,257	6,328	5,271	5,083	5,372	0.510
MTP	4,236	6,234	5,197	5,125	5,125	0.396
ADAP	4,424	6,021	5,159	4,792	5,143	0.397
HBEKS	4,347	6,266	5,327	4,813	5,300	0.437
KOHR	4,211	6,175	5.207	4,775	5,218	0.418
UP	27,494	29,726	28,33	27,494	28,371	0.486

Source: research data, processed, 2023

4.2 Discriminant Validity

Based on the results of the *first-order discriminant validity test*, each indicator is considered valid because it has a higher *cross-loading* value to the indicator itself than to other indicators. Especially for the indicators of KPEK, KPAG, and JMAK the *cross-loading value* is 1,000 because each of the three indicators is only reflected by one question. Each indicator is considered to be able to explain the relevant indicator better than other indicators. These results indicate that each indicator used in this study shows good discriminant validity or is unique. Each indicator is proven to be different from one another.

Table 5. *First-Order* Discriminant Validity Test Results

Indicator	Cross Loading	Results	Indicator	Cross Loading	Results
KPK	0.795	Valid	KT	0.959	Valid
KAPS	0.818	Valid	pp	0.938	Valid

JS	0.770	Valid	PS	0.972	Valid
FIT	0.868	Valid	PSP	0.970	Valid
TOP	0.962	Valid	PSG	0.972	Valid
KJW	0.943	Valid	POSTS	0.883	Valid
KPEK	1,000	Valid	PDK	0.709	Valid
KPAG	1,000	Valid	BKOM	0.946	Valid
JMAK	1,000	Valid	MTP	0.912	Valid
KMTS	0.883	Valid	ADAP	0.928	Valid

Source: research data, processed, 2023

4.3 Internal Consistency Reliability

Internal consistency reliability testing is used to ensure that statement items can measure indicators consistently. Based on the results of *Composite Reliability* (CR) and *Cronbach's Alpha* (CA), each indicator is declared reliable because each value is >0.60 as required (Hair Jr, Hult, Ringle, & Sarstedt, 2016). These results indicate that statement items can measure indicators consistently.

Table 6. *First-Order* Reliability Test Results

Indicator	Composite Reliability	Cronbach's Alpha	Avrg. Var. Extracts	Results
KPK	0.910	0.881	0.631	Reliable
KAPS	0.909	0.875	0.669	Reliable
JS	0.920	0.900	0.594	Reliable
FIT	0.948	0.934	0.753	Reliable
TOP	0.962	0.920	0.926	Reliable
KJW	0.970	0.958	0.889	Reliable
KPEK	1,000	1,000	1,000	Reliable
KPMG	1,000	1,000	1,000	Reliable
JMAK	1,000	1,000	1,000	Reliable
KMTS	0.876	0.717	0.779	Reliable
BKOM	0.972	0.961	0.895	Reliable
MTP	0.952	0.932	0.831	Reliable
ADAP	0.949	0.920	0.861	Reliable
HANKS	0.962	0.947	0.863	Reliable
KOHR	0.964	0.953	0.843	Reliable

Source: research data, processed, 2023

4.4 Second-Order Analysis

Reflective second-order shows that 1) the indicators used are a consequence of latent or construct variables; 2) latent variables are explaining indicators; 3) if the latent variable assessment changes, then all indicators also change; 4) indicators are interchangeable (Sholihin & Ratmono, 2013).

4.4.1 Convergent Validity

The convergent validity test requires that each indicator has a *loading factor* > 0.70 (J. F. Hair, Black, Babin, & Anderson, 2014)if the test results show 0.4 < *loading factor value* <0.7, then it can still be considered for a newly developed question (J. Hair, Hult, Ringle, & Sarstedt, 2013).

The results of the convergent validity test, as shown in Table 5.13 show that all indicators have a loading factor <0.7, except for PDK with a *loading factor* of 0.465 or > 0.4. All indicators have a p value <0.001.

Table 7. *Second-Order* Convergent Validity Test Results

Indicator	Loading Factor	P Value	Results
KPK	0.861	< 0.001	Valid
KAPS	0.895	< 0.001	Valid
JS	0.816	< 0.001	Valid
FIT	0.901	< 0.001	Valid
TOP	0.849	< 0.001	Valid
KJW	0.933	< 0.001	Valid
KPEK	0.929	< 0.001	Valid
KPMG	0.935	< 0.001	Valid
JMAK	0.942	< 0.001	Valid
KMTS	0.881	< 0.001	Valid
BKOM	0.946	< 0.001	Valid
MTP	0.962	< 0.001	Valid
ADAP	0.913	< 0.001	Valid
HBEKS	0.961	< 0.001	Valid
KOHR	0.956	< 0.001	Valid

Source: research data, processed, 2023

1) Indicators of Hardware Ownership (KPK), Software Application Capability (KPAS), Types of Internet Technology-Based Software by Function (JS), and Information Technology Features (FTI), which reflect IT Investment variables, are considered to meet convergent validity because they have a high *loading factor*, that is >0.80.
2) Operational Efficiency Indicators (EOP), Schedule Compliance (KJW), Work Completion Speed (KPEK), and Budget Compliance (KPAG), Total Activities (JMAK), which reflect Organizational Performance variables, are considered to meet convergent validity because they have a high loading factor, that is >0.80.
3) Indicators of Acting and Commitment (BKOM), Delivering Development Goals (MTP), Adapting and Self-Improvement (ADAP), Relations with External *Stakeholders* (HBEKS), and Achieving Coherence (KOHR) which reflect Organizational Capability variables, are considered to meet convergent validity because they have *loading* very high *factor, that is> 0.90.*

4.4.2 Discriminant Validity

Based on the *second-order discriminant validity test* results, each research variable is declared valid because it has a lower *cross-loading to other variables than to the variable itself.* Each latent variable used is considered to have unique properties.

Table 8. *Second-Order* Discriminant Validity Test Results

Variable	*Cross Loading*	Results
IT	0.869	Valid
KO	0.912	Valid
K	0.948	Valid

Source: research data, processed, 2023

1) Based on the AVE of the Information Technology Investment (ITI) variable of 0.755 or > 0.50 and a *cross-loading* of 0.869, which is more significant for the ITI variable itself than for other variables. That shows that this construct is different from other constructs.
2) Based on the AVE of the Organizational Performance (KO) variable of 0.832 or > 0.50 and a *cross-loading* of 0.912, which is more significant for the KO variable itself than for other variables. That shows that this construct is different from other constructs.
3) Based on the AVE of Organizational Capability (KpO) of 0.899 or > 0.50 and a *cross-loading* of 0.948, which is more significant for the KpO variable itself than for other variables. That shows that this construct is different from other constructs.

4.4.3 Internal Consistency Reliability

second-order reliability test was carried out on ITI, KO, PO, TO, and KpO variables. Based on *Composite Reliability* and *Cronbach's Alpha* results, each variable is declared reliable because each value meets the requirements, namely > 0.6. These results indicate that indicators can measure latent variables consistently.

Table 9. *Second-Order* Reliability Test Results

Variable	*Composite Reliability*	*Cronbach's Alpha*	*Avrg. Var. Extracts*	Results
IT	0.925	0.891	0.755	Reliable
KO	0.967	0.959	0.832	Reliable
K	0.978	0.972	0.899	Reliable

Source: research data, processed, 2023

1) The ITI variable or construct has a *CR* and *CA* of 0.925 and 0.891, respectively. These results indicate that hardware ownership, software application capabilities, types of internet technology-based software by function, and IT features consistently reflect the Information Technology Investment construct.
2) Organizational Performance (KO) variables or constructs have *CR* and *CA* 0.967 and 0.959 respectively exceeding the specified limit, which is > 0.70. These results indicate that operational efficiency, adherence to schedules, speed of completion of work, adherence to budgets, number of activities, and the ability to meet goals and objectives consistently reflect the Organizational Performance construct.
3) Organizational Capability variables or constructs have *CR* and *CA* 0.978 and 0.972, respectively. These results indicate that the indicators act and are committed to conveying development goals, adapting and improving themselves, relating to external stakeholders, and achieving coherence and have consistent reliability reflecting the Organizational Capability construct.

4.5. Structural Model Analysis

4.5.1 Model Fit and Multicollinearity Tests

In the analysis of mediation models, multicollinearity problems are common and cannot be avoided (Kenny, 2014). *Software* application *The PLS warp* can test fit and multicollinearity models. The test yielded *p-values* for *APC, AARS* <0.05, and *AVIF* <3.3. These results indicate that data support the model in this study. The three mediation models are considered to fulfill the multicollinearity test because *AVIF* <3.3 as presented in Table 10.

Table 10. Model Fit and Multicollinearity Testing

Model	*Average Path Coefficient* (APC)	*Average Adjusted R-Squared* (AARS)	*Average Block Variant Inflation Factor* (AVIF)
ITI-KpO-KO Mediation	0.460**	0.702**	2,354

Source: research data, processed, 2023
**p<0.01 *p<0.05

Model Fit and Multicollinearity testing for *the full model* yields a *p-value* of 0.002 (<0.05) for APC. *P-values AARS* of <0.001 (<0.05). These results indicate that data support the model in this study. This *full model* has an *AVIF* of 3.680 (≤5) so it passes the multicollinearity test.

4.5.2 Collinearity Test

Collinearity testing ensures that the model is free from collinearity problems with vertical, lateral, and *standard method bias* (Kock, 2017). The *Average Full Collinearity VIF* (AVIF) value is 4,550. This test requirement is acceptable if AVIF < 5. That means no vertical, lateral, *or standard method bias collinearity problems* exist.

4.6 Hypothesis testing

Table 11 below presents the results of the PLS for testing direct, indirect, and *full model relationships*. Panel A shows the results of testing the direct relationship between latent or construct variables. Panel B shows an indirect or mediating relationship using the control variable Local Government Size (UP). Panel C shows *the full model* of indirect or multi-mediation relationships using the UP control variable.

Table 11. PLS results (path coefficient (t statistic), *p-value* , and R^2)

Panel A: Direct Connections	
Variable	To Lane
	Organizational Performance
Information Technology Investment	0.805 (7.072) * **
R^2	0.647
Variable	To Lane
	Organizational Capabilities
Information Technology Investment	0.750 (6.433) * **
R^2	0.562
Variable	To Lane
	Organizational Performance
Organizational Capability	0.918 (8.487) * **
R^2	0.843

PANEL B: Indirect Relationships			
Variable	To Lane		
	Organizational Learning		Organizational Performance
IT investment	0.750 (6.433) * **		0.243 (1.669) *
Organizational Capabilities			(6.657) * **
Local Government Size			-0.078 (-0.496)

R^2	0.562		0.865

PANEL C: *Full Model*

Variable	To Lane			
	Organizational Learning	Organizational Transformation	Organizational Capabilities	Organizational Performance
IT investment	0.744(6. 363) ** *	0.253 (1.745) * *	0.750 (6.433) * **	0.189 (1.268)
Organizational Learning				0.196 (1.319)
Organizational Transformation				0.156 (1.031)
Organizational Capability				0.709 (5.970) * **
Local Government Size				-0.098 (-0.629)
R^2	0.553	0.064	0.562	0.966

Source: research data, processed, 2023 *** p<0.01 * * p <0.05 * p<0.10

Based on Table 11 above, the following is an explanation of the PLS results for the direct effect test (Panel A), indirect effect (Panel B), and the full model (Panel C). Each test will obtain a *path coefficient* (t statistic), *p-value* , and R^2 .

4.6.1 Direct Effect Test (Panel A)

The direct effect test was carried out to ensure that the following test results indicated a significant positive effect as the basis for the mediation test (Baron & Kenny, 1986; J. Hair et al., 2013).

1) Information Technology Investment (ITI) has a significant positive effect on Organizational Performance (KO) in local government with *a path coefficient* = 0.805, *p-value* <0.01, R^2 = 0.647. That shows that the greater the IT investment, the better the organizational performance of local government.
2) Information Technology Investment (ITI) has a significant positive effect on Organizational Capability (KpO) in local government with *a path coefficient* = 0.750, *p-value* <0.01, R^2 = 0.562. That shows that the more significant the IT investment, the better the impact on increasing Organizational capability in local government.
3) Organizational Capability (KpO) has a significant positive effect on Organizational Performance (KO) in local government with *path coefficient* = 0.918, *p-value* <0.01, R^2 = 0.843. That shows that the increasing Organizational Capability, the better the Organizational performance of local government.

4.6.2 Indirect Effect Test (Panel B)

The indirect effect test in this study was to see whether or not there was a positive mediating effect of exogenous variables on endogenous variables using control variables. The positive role of mediation is seen from the comparison of *the path coefficient* of the effect of exogenous variables on endogenous variables before (c) and after (c') the existence of a mediating variable (Kenny, 2014).

The results of testing the effect of IT investment on Organizational performance by including Organizational Capability as a mediating variable, *path coefficient* (c ') = 0.243, *p-value* = 0.05 or <0.10, R^2 = 0.865. These results show that *the path coefficient* (c') is lower than *the path coefficient* (c), the

total effect or effect before entering the mediating variable, meaning that there is positive partial mediation. These results can be confirmed using the VAF method to obtain a result of 71.2% or 20%≤VAF≤80% indicating partial mediation. This partial mediation shows that Organizational Capability is not the only variable mediating IT investment's effect on local government organizational performance (Baron & Kenny, 1986). Thus, H3, which states that Organizational Capability positively mediates the effect of IT investment on organizational performance in local government, is supported.

5. Discussion

The empirical test results of the direct effect of IT investment on Organizational Capability show a significant positive. Local governments are required to be able to respond to environmental dynamics by optimizing the use of IT (Lee, 2012). The more optimal use of IT will increase Organizational capability, meaning that IT itself functions as a tool to build Organizational Capability (Li et al., 2006). The implementation of IT invested by the local government is considered to be able to increase the ability of the local government to 1) act and transparently make commitments; 2) convey development goals clearly; 3) adapt and improve the organization; 4) have better relations with external stakeholders; and 5) achieving coherence both within the organization and with external parties. The results of this empirical test support the research of Luo et al. (2012)which states that IT supports the increase in Organizational capability. Thus, IT investments can increase organizational capability in commercial companies and local governments.

Empirical evidence of the influence of IT investment on Organizational capability in local government supports the characteristics of *process theory* which includes *outcomes*, logical forms, assumptions, and time sequences (Markus & Robey, 1988; Mohr, 1982; Soh & Markus, 1995). Based on the *outcome* obtained from the IT investments made by the local government, the *outcome* is an increase in Organizational capability. Almost all district/city governments have an average tendency to have moderate to high Organizational capability, as reflected in the answers ranging from 4-7. Based on the logical form, it is acceptable if they do not invest in IT, so district/city governments cannot or will find it challenging to increase Organizational Capability. This logic follows the statement of Liang et al. (2010)that using IT in local government will increase *internal* and *external* Organizational capability. The assumption from process theory is that even though the required conditions already exist, in this case, an IT investment, it does not guarantee that the local government concerned will obtain the expected outcome. The cause of failing to achieve the *outcome is* that IT as an organizational resource and Organizational capability is dynamic (Helfat & Peteraf, 2003). The time sequence is also met; the local government is thirsty to invest in IT first. This information technology is implemented and can support the creation or improvement of local government capabilities to create transparency in decision-making and policies, clarity in the delivery of development goals, respond to new laws and regulations, establish relationships with external *stakeholders*, and integrate external demands with the vision, mission, programs, and activity.

Organizational capability's direct effect on local government performance has been empirically proven to be significantly positive. Local governments that are considered to have organizational capabilities based on 5 dimensions, according to Buis and Boex (2015)can improve organizational performance. According to Bowman and Kearney (1988), organizational capabilities help local governments achieve success, namely being able to act effectively, efficiently, and responsively and manage conflict. The results of this empirical test support the results of a meta-analysis (Krasnikov & Jayachandran, 2008; Liang et al., 2010)which concludes that there is a significant positive relationship between Organizational Capability and organizational performance. The difference is that the two meta-analyses are based on research on commercial companies, while this research is on local governments. Thus, in both commercial companies and local government organizations, there is a significant favorable influence of Organizational Capability on organizational performance.

Based on the results of empirical tests of the direct effect of Organizational Capability on

organizational performance in local governments, it shows its support for *process theory in* terms of its characteristics (Markus & Robey, 1988; Mohr, 1982; Soh & Markus, 1995). Based on the *outcome* according to *process theory* in the form of a different event, namely, the increase in Organizational capability of the local government resulted in better organizational performance. Local governments with adequate organizational capabilities can achieve efficient operations, timely implementation, fast completion of work, compliance with budgets, appropriateness of activities and capabilities, and effective achievement of goals and objectives. Based on the logical form according to *process theory*, if there is no Organizational Capability in local government, it cannot or is difficult to improve organizational performance. Local governments with adequate organizational capabilities can manage resources, as stated by Gold and Arvind Malhotra (2001)both *tangible* and *intangible,* effectively and efficiently so that it becomes easier to improve organizational performance. Based on the assumptions used in the *process theory*, even though the local government has sufficient Organizational Capability, more is needed to guarantee an increase in organizational performance. That is due to the dynamics of both organizational resources and organizational capabilities (Helfat & Peteraf, 2003). Organizational capability must be able to keep up with the dynamics of local government resources in order for local governments to improve their organizational performance. The results of this study indicate that Organizational Capability can follow the dynamics of its resources to improve organizational performance in local government. Based on the time sequence according to *process theory*, that organizational performance in local government can be improved by first having Organizational Capabilities.

The results of the indirect effect test prove that Organizational Capability partially mediates the effect of IT investment on organizational performance in local government. Organizational capability can explain the increase in organizational performance after IT investment in local government. These results indicate that IT investment must be able to increase Organizational Capability, which in turn impacts organizational performance in local governments. The results of this empirical test support the results of research (Bharadwaj, 2000; Liang et al., 2010; Ravichandran & Lertwongsatien, 2005; Sambamurthy et al., 2003)which concludes that Organizational Capability mediates the relationship between IT investment and organizational performance. The difference is that commercial companies conducted these studies, and local governments conducted this research. Thus, there is no difference in the role of Organizational Capability in the influence of IT investment on organizational performance in both commercial companies and local governments. This mediation model can be categorized as a *distal mediator* because *the* effect of IT investment on Organizational Capability (a=0.750) is smaller than *the* effect of Organizational Capability on Organizational Performance (b=0.769). However, (a) and (b) are almost balanced, meaning that the effect of IT investment on Organizational capability is only slightly lower than that of Organizational Capability on Organizational Performance in local governments.

The role of Organizational Capability in the influence of IT investment on organizational performance in local government supports the notion of process as expressed by Van de Ven (1992). First, this research can explain the causal relationship between IT investment, Organizational Capability, and organizational performance in local government. IT investment has a direct effect on organizational performance in local government. IT investments also have an impact on creating or increasing Organizational Capabilities, and Organizational Capabilities have an impact on improving organizational performance in local governments. Empirical testing shows that Organizational Capability mediates the relationship between IT investment and organizational performance in local government. Second, this study shows that Organizational Capability is an act of local government to manage both *tangible* and *intangible resources* with adequate capabilities to improve organizational performance. Third, a sequence of processes occurs in district/city governments, namely investing in IT, increasing organizational capabilities, and improving performance.

Organizational changes in local governments related to the role of Organizational Capability in the

relationship between IT investment and organizational performance can be classified into the type of *teleology change process*. *Teleology* is a planned change process; goals are set as guidelines for such change in district/city governments (Van de Ven & Poole, 1995). The only entity involved in this change process is the district/city government concerned. Changes in local government begin with IT investments as planned changes, including setting goals to be achieved. This *teleology* change process focuses on the goals that have been set, so it is necessary to build components to achieve them. The *teleology model* assumes that organizations, in this case, local governments, are creative. This creative nature must be supported by adequate Organizational capability as an essential component to achieve the set goals. In this study, there are varying levels of IT investment in district/city governments. District/city governments have a low to high propensity for IT investment. Most local governments still have a low tendency, significantly investing in internet-based software applications according to their function or use. Referring to Van de Ven and Sun (2011)local governments make these changes to overcome the problems they face by creating Organizational capability to think critically to accommodate environmental changes. The implemented information technology is also a component that functions to create or even increase the Organizational Capabilities of local governments (Maritan, 2001). The organizational capabilities of local governments in this study have a moderate to the high tendency in terms of ability to act and commitment, clarity in the delivery of development goals, adaptability, relations with external parties, and the creation of coherence between external demands and internal capabilities. The application of IT can encourage the creation or improvement of Organizational Capabilities, which in turn impacts organizational performance in local government. Organizational performance in local governments have a moderate to high trend in terms of operational efficiency, adherence to schedules, speed of completion of work, compliance with budgets, compatibility between capacity and number of activities, and fulfillment of goals and objectives. Thus, the IT investment is able to change local government organizations with better performance through the process of increasing Organizational capability. These changes in three variables or components occur sequentially, as in the *teleology-type organizational change model*.

6. Conclusion

This study aims to empirically prove that Organizational Capability can positively mediate the relationship between IT investment and organizational performance in local government. The results of this study support the developed hypothesis. Organizational capabilities are proven to partially positively mediate the effect of IT investments on organizational performance in local governments. Further analysis using the full model proved that Organizational Capabilities together fully mediate the effect of IT investment on Organizational Performance in local governments. IT investment in local government can support Organizational Capability capacity building in the form of 1) the ability to act and commit; 2) the ability to convey development goals; 3) adaptability and self-improvement; 4) the ability to relate to external stakeholders; 5) the ability to achieve coherence of vision, strategy and policy consistency. Increasing organizational capabilities capacity will further improve local government's performance. This research contributes to theoretical and empirical support showing that Organizational Capability as an organizational approach has a role to play on the influence of IT investment with organizational performance in local government. The government as a regulator must be faster in providing laws and regulations that accommodate the implementation of IT in local governments. Regional heads must include a commitment to the application of IT in the mission formulation. Local governments in making IT investments must be able to create or improve Organizational Capabilities in order to improve the performance of their organizations. The limitations of this study are the sample nature of the convenience sampling method allows limiting the generalization of research results, data from survey methods that allow bias, SEM-PLS is not able to analyze structural models if there is a nonrecursive or reciprocal relationship.

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