
The Influence of Innovation Capability, Organizational Culture, and Government Policy on Project Performance through Innovation Performance (A Study at PT. Brantas Abipraya)

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Abstract

This study examines the influence of innovation capability, organizational culture, and government policies on project performance through innovation performance at PT. Brantas Abipraya (Persero). Motivated by the increasing complexity of the construction industry in the digital economy era and the need for adaptive strategies to ensure project success beyond traditional time, cost, and quality metrics, this research applies the Resource-Based View (RBV) theory as the grand framework. Using a quantitative approach with a purposive sampling technique, data were collected from project leaders through structured questionnaires. The analysis was conducted using Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) method. The results demonstrate that innovation capability, organizational culture, and government policies significantly influence project performance, both directly and indirectly, through innovation performance as a mediating variable. The study also highlights the strategic role of dynamic capabilities, an adaptive organizational culture, and supportive government regulations in enhancing innovation processes and achieving superior project outcomes. These findings offer theoretical contributions to the RBV extension and practical recommendations for strengthening innovation ecosystems within state-owned construction enterprises to achieve sustainable growth and competitiveness.

Keywords: Innovation Capability, Organizational Culture, Government Policy, Innovation Performance, Project Performance, Resource-Based View (RBV)

1. Introduction

The transformation of the digital economy and the development of Industry 4.0 technologies have placed increasing pressure on businesses to innovate in order to maintain competitiveness and improve operational efficiency. This is especially true in the construction sector, a key player in national development. Project success is no longer measured solely by time, cost, and quality but also by an organization's ability to adapt, innovate, and collaborate in response to project complexity and policy changes (Cornwell et al., 2023). Innovation capability is

therefore a strategic asset that contributes to sustainable value creation (Nurcholifah & Chadhiq, 2022).

As project complexity and efficiency demands increase, companies like PT Brantas Abipraya (Persero) recognize the importance of strengthening innovation capabilities, building a responsive organizational culture, and aligning corporate strategies with government policy. These elements are interrelated and collectively influence project performance (Fred R. & David, 2017). Innovation within project organizations reflects the capacity to create and implement new ideas in technology, work methods, and business models (Martinsuo & Killen, 2023). However, this capability is contingent on an organizational culture that promotes cross-functional collaboration, risk-taking, and learning from failure (Denison, 2023).

Government policy also plays a critical external role. Supportive regulations and incentives can create opportunities for innovation, while inconsistent policies can obstruct project efficiency (Li et al., 2023; Rifai et al., 2024). Furthermore, organizational culture is a key factor influencing creativity and innovation, as innovation cannot occur without creativity (Ali Taha et al., 2016).

PT Brantas Abipraya (Persero), a state-owned enterprise in construction, was established on November 12, 1980, in Malang, East Java, originating from the Brantas River Development Project. The company relocated its headquarters to Jakarta in 1995 to strengthen its national presence. Over the years, the company has received numerous awards for tax compliance, financial growth, green construction, and safety management, and has diversified into energy and concrete production.

Organizationally, Brantas Abipraya operates through three main divisions focused on buildings, water resources, and roads/bridges, supported by subsidiaries in property, equipment, and precast concrete. The company prioritizes innovation and has integrated it into key performance indicators (KPIs) at all levels. This focus is reflected in the fluctuating financial performance from 2018 to 2022 and the summary of innovation activities in 2022.

Table 1.1: PT Brantas Abipraya (Persero) Financial Performance (2018–2022)

Year	Revenue (in million IDR)
2018	4,729,278
2019	3,636,437
2020	2,434,915
2021	2,663,513
2022	4,012,546

Based on the financial reports of PT. Brantas Abipraya (Persero) from 2018 to 2022, there were significant fluctuations in revenue. In 2018, the company recorded revenue of 4,729,278, which declined to 3,636,437 in 2019 and further dropped to 2,434,915 in 2020, indicating potential market challenges. However, revenue began to recover in 2021, reaching 2,663,513, and rose significantly to 4,012,546 in 2022. This suggests the company successfully overcame challenges and improved its performance.

These revenue fluctuations had substantial operational impacts. The declines in 2019 and especially 2020 likely forced the company to adjust its strategies—possibly cutting operational costs, postponing projects, or reducing the workforce—potentially affecting employee morale and productivity. Additionally, limited revenue may have constrained

investments in technology, innovation, and human resources, affecting future competitiveness. However, the recovery in 2021 and 2022 enabled the company to reinvest, enhance operations, and strengthen its market position, boosting investor and partner confidence. These fluctuations highlight the importance of adaptive strategies, innovation, and internal resilience for sustainable growth.

The national construction industry faces significant challenges amid digital transformation and an increasingly dynamic business environment. PT. Brantas Abipraya (Persero), a state-owned enterprise in this strategic sector, is under pressure to remain competitive amidst fluctuating revenues, efficiency demands, and evolving government policies. These challenges reflect structural and strategic issues that require in-depth analysis to improve project performance.

The first issue is financial instability, as shown by significant revenue fluctuations between 2018 and 2022. Sharp declines in 2019 and 2020 suggest both internal and external pressures affecting operations. While there was a recovery in 2021 and growth in 2022, the instability points to unresolved structural risks. Second, although innovation is a Key Performance Indicator (KPI) across all organizational levels, 93% of innovation efforts are concentrated at the project level, with only 7% coming from the head office. This suggests a disconnect between strategic innovation planning and its operational implementation, limiting innovation's impact on project performance. Third, the organizational culture has not yet fully supported sustainable innovation. A rigid or hierarchical work culture can hinder the exploration of ideas and flexibility, which are essential for ongoing innovation. Fourth, dependence on government policy—often inconsistent or reactive—poses external challenges. Misaligned or unpredictable regulations can slow project execution by creating uncertainty in decision-making processes. Fifth, while there is progress in technical innovation, the integration of these innovations into project management systems remains limited. With 43% of innovations still in progress and 7% in the planning stage, the innovation cycle is not yet mature enough to deliver substantial performance impact without a robust monitoring and evaluation system.

The core issues include the gap between innovation strategy and field implementation, weak alignment between organizational culture and innovation needs, and limited support from adaptive government policies.

Research Questions

1. Does innovation capability influence project performance at PT. Brantas Abipraya?
2. Does organizational culture influence project performance?
3. Do government policies influence project performance?
4. Does innovation performance mediate the relationship between innovation capability and project performance?
5. Does innovation performance mediate the relationship between organizational culture and project performance?
6. Does innovation performance mediate the relationship between government policy and project performance?
7. Does innovation performance significantly influence project performance?

Research Objectives

1. Analyze the impact of innovation capability on project performance.
2. Analyze the impact of organizational culture on project performance.
3. Analyze the impact of government policy on project performance.
4. Examine the mediating role of innovation performance between innovation capability and project performance.
5. Examine the mediating role of innovation performance between organizational culture and project performance.
6. Examine the mediating role of innovation performance between government policy and project performance.
7. Analyze the direct impact of innovation performance on project performance.

2. Theoretical Framework and Conceptual Model

2.1 Resource-Based View (RBV) Theory

The research is grounded in the Resource-Based View (RBV) Theory, originally developed by Barney (1991; 2023). RBV posits that an organization's sustainable competitive advantage is derived from its unique resources and capabilities that are valuable, rare, inimitable, and non-substitutable (VRIN). In the context of PT. Brantas Abipraya (Persero), innovation capability, organizational culture, and alignment with government policy are seen as strategic internal resources that influence project performance. RBV theory is further extended through the lens of dynamic capabilities, emphasizing an organization's ability to integrate, reconfigure, and renew its internal and external competencies in response to rapidly changing environments (Teece, 2021; Wang et al., 2023).

2.2 Key Constructs and Definitions

Innovation Capability: The firm's capacity to generate, integrate, and implement new ideas for value creation (Wang et al., 2023; Martinsuo & Killen, 2023). Dimensions include knowledge creation, knowledge integration, innovation strategy, and dynamic interaction with the external environment.

Organizational Culture: Shared values, beliefs, and assumptions that influence behavior within the organization (Schein, 2024; Denison, 2023). Key dimensions are involvement, consistency, adaptability, and mission.

Government Policy: External regulatory, allocative, institutional, and normative dimensions that support or constrain innovation and project outcomes (Anderson, 2023; Peters & Pierre, 2023).

Innovation Performance: The extent to which innovations are effectively created, disseminated, and implemented in organizational processes, covering dimensions such as innovation output, process efficiency, and learning capacity (Dziallas & Blind, 2024).

Project Performance: Success of projects measured beyond traditional constraints (time, cost, quality), including customer satisfaction and business impact (Kerzner, 2023; Mirza et al., 2023).

2.3 Hypotheses

H1: Innovation Capability → Project Performance

Innovation capability plays a strategic role in achieving project success by enabling efficient problem-solving, adaptive strategies, and enhanced competitiveness. Studies (e.g., Chen et al., 2019; Cherian et al., 2021) show that organizations with strong innovation capabilities improve cost-efficiency, execution speed, and project outcomes.

H2: Organizational Culture → Project Performance

Organizational culture influences team behavior, decision-making, and communication. A positive, innovative culture enhances employee commitment and creativity, leading to better project performance (Rezaei et al., 2021; Santoso et al., 2021).

H3: Government Policy → Project Performance

Government policies, including regulations and fiscal support, critically affect project planning and implementation. Well-structured policies improve efficiency and ROI in projects, especially in regulated sectors (Chen et al., 2022; Omotayo et al., 2024).

H4: Innovation Performance Mediates Innovation Capability → Project Performance

Innovation performance acts as a bridge, translating innovation capability into tangible project results. Effective innovation performance enhances the impact of innovation capability on project outcomes (Peng et al., 2022; Al-Sharif et al., 2023).

H5: Innovation Performance Mediates Organizational Culture → Project Performance

An innovative organizational culture fosters a supportive environment for idea generation and implementation. Innovation performance strengthens the link between such a culture and project success (Osman et al., 2023; Maqdlıyan et al., 2023).

H6: Innovation Performance Mediates Government Policy → Project Performance

Government support (e.g., R&D funding, training, innovation-friendly regulations) facilitates innovation performance, which in turn enhances project outcomes (Jeong et al., 2021; Koomson et al., 2024).

H7: Innovation Performance → Project Performance

Innovation performance significantly contributes to project success by improving adaptability, resource efficiency, and output quality. Organizations that embed innovation into project management achieve more sustainable and superior results (Mir & Pinnington, 2021; Papke-Shields et al., 2022).

2.4 Conceptual Framework

The research conceptual model investigates both direct and indirect (mediated) effects among the constructs. This framework aligns with the RBV theory by positioning innovation-related competencies and enabling environments as strategic resources that drive competitive advantage through improved project outcomes.

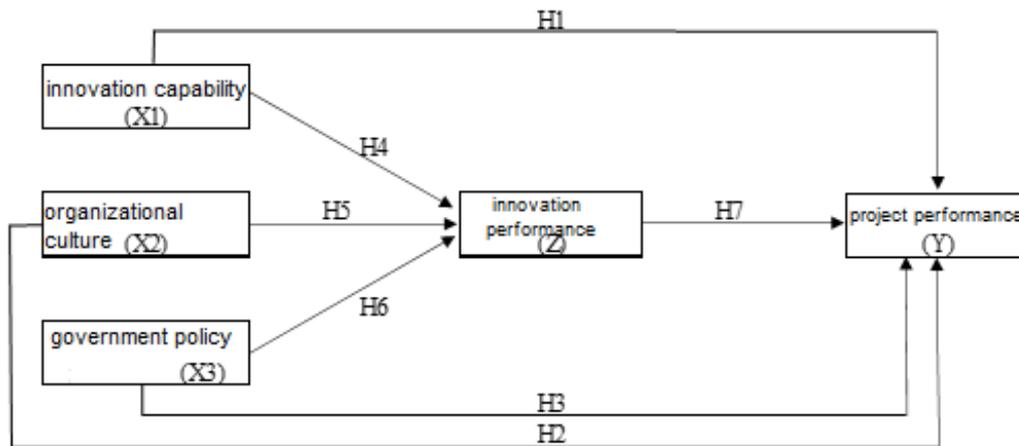
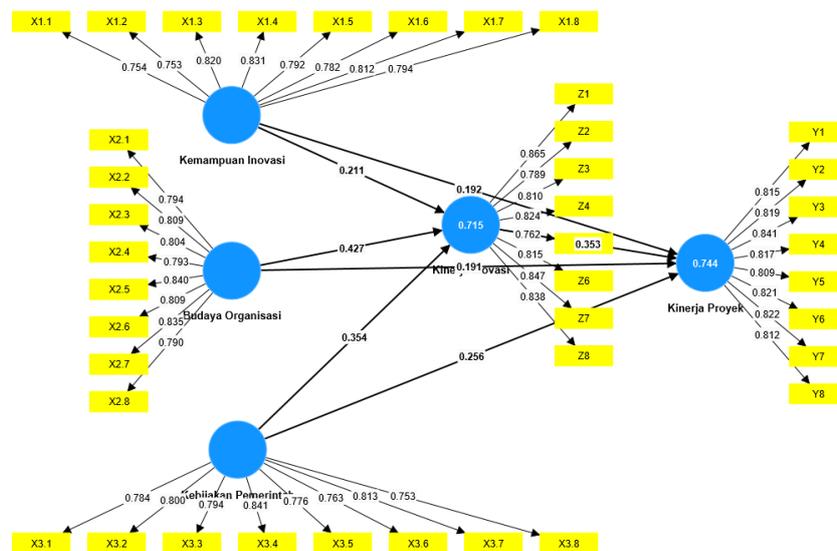


Figure 2.1 Conceptual Framework

3. Methodology

The research methodology used in this study, which employs a quantitative approach with an explanatory design to examine the influence of innovation capability, organizational culture, and government policy on project performance through the mediating role of innovation performance at PT Brantas Abipraya (Persero). The research strategy involves a survey method with data collected using structured questionnaires and a cross-sectional time horizon. The unit of analysis focuses on project managers, and purposive sampling is applied to select respondents. Data sources include primary data from questionnaires and secondary data from company reports and literature reviews. A Likert scale is used for measurement. The research instruments were developed based on established indicators from previous studies. Data analysis involves descriptive statistics, reliability testing, and hypothesis testing using Partial Least Squares - Structural Equation Modeling (PLS-SEM), which is chosen due to its ability to handle complex models and smaller sample sizes. The analysis covers both the outer model (validity and reliability of indicators) and the inner model (path coefficients, R² values, and mediation effects).

4. Result and Discussion



The results of the outer loadings analysis show that all indicators have significant loading values on their respective constructs, with original sample (O) values ranging from 0.753 to 0.865, T-statistics values exceeding 14.306 (above the critical threshold of 1.96), and p-values of 0.000, indicating statistical significance at the 99% confidence level. The standard deviations (STDEV) are relatively small (0.029–0.053), suggesting consistent estimates, while the confidence intervals (including bias-corrected) further confirm the validity of the indicators, with no zero values present. These results confirm that all indicators strongly and significantly represent their respective latent constructs, such as Innovation Capability, Organizational Culture, Government Policy, Project Performance, and Innovation Performance.

Relationship	HTMT Value
Government Policy <-> Organizational Culture	0.618
Innovation Capability <-> Organizational Culture	0.595
Innovation Capability <-> Government Policy	0.669
Innovation Performance <-> Organizational Culture	0.802
Innovation Performance <-> Government Policy	0.786
Innovation Performance <-> Innovation Capability	0.717
Project Performance <-> Organizational Culture	0.76
Project Performance <-> Government Policy	0.801
Project Performance <-> Innovation Capability	0.745
Project Performance <-> Innovation Performance	0.869

The Heterotrait-Monotrait Ratio (HTMT) values indicate the level of discriminant validity between constructs, where all values fall below 0.90 (the commonly accepted threshold), suggesting that each construct is unique and distinct from one another. The strongest relationship is observed between Project Performance and Innovation Performance (0.869), which is still acceptable as the two may share conceptual similarities. Meanwhile, the weakest relationship is between Innovation Capability and Organizational Culture (0.595), indicating good discrimination between these two variables. Overall, the HTMT results validate that the construct measurements in this model meet the criteria for discriminant validity.

Fornell-Larcker Criterion

	Organizational Culture	Government Policy	Innovation Capability	Innovation Performance	Project Performance
Organizational Culture	0.810				
Government Policy	0.573	0.791			
Innovation Capability	0.555	0.614	0.793		
Innovation Performance	0.746	0.727	0.664	0.819	
Project Performance	0.708	0.740	0.690	0.810	0.819

The Fornell-Larcker Criterion is used to assess discriminant validity by comparing the square root of the AVE (bold diagonal values) with the correlations between constructs (off-diagonal values). The results show that all AVE square roots (e.g., 0.810 for Organizational Culture and 0.819 for Project Performance) are higher than their correlations with other constructs (e.g., the correlation between Organizational Culture and Project Performance is 0.708), indicating that each construct is more strongly related to its own indicators than to other constructs. However, some high correlations—such as between Innovation Performance and Project Performance (0.810)—should be examined further as they approach the AVE square root, although they still meet the Fornell-Larcker criterion. Overall, the model satisfies the requirements for discriminant validity.

Composite reliability indicates that all constructs in this study demonstrate excellent reliability and validity, with Cronbach's Alpha, rho_a, and rho_c values all exceeding 0.90 (well above the minimum threshold of 0.70), which suggests a high level of internal consistency. In addition, AVE values above 0.50 (ranging from 0.626 to 0.671) confirm that each construct explains more than 50% of the variance in its indicators, thereby meeting the criteria for convergent validity. These results confirm that the measurement constructs—such as Organizational Culture, Government Policy, Innovation Capability, Innovation Performance, and Project Performance—are statistically reliable and valid.

The R-Square values from the Smart PLS analysis show that 71.5% of the variance in Innovation Performance and 74.4% of the variance in Project Performance can be explained by the predictor variables in the model. The adjusted R-Square values, which are close to the original R-Square values (0.708 for Innovation Performance and 0.735 for Project Performance), indicate that the model is not overfitted and is stable. With both R-Square values above 0.70, the model is considered highly effective in predicting both dependent variables, demonstrating that factors such as Innovation Capability, Organizational Culture, and Government Policy have significant impacts.

The Q-Square value of 0.927 indicates that the model has a very high predictive relevance based on the blindfolding procedure, where values above 0.50 are already considered good. A Q-Square value this close to 1 implies that the model not only explains relationships statistically but also predicts them with great accuracy. This further strengthens the overall validity of the model.

Effect size (f-square) measures how strongly an independent variable influences a dependent variable in the model. f-square values are categorized as small (0.02), medium (0.15), or large (0.35). In this study, Organizational Culture has a large effect on Innovation Performance (0.387) and a small effect on Project Performance (0.062). Government Policy has a medium effect on Innovation Performance (0.240) and a small effect on Project Performance (0.112). Innovation Capability and Innovation Performance show small to medium effects (ranging from 0.075 to 0.139), indicating a more limited contribution compared to Organizational Culture and Government Policy. Overall, the f-square values help identify the most critical predictor variables in the model.

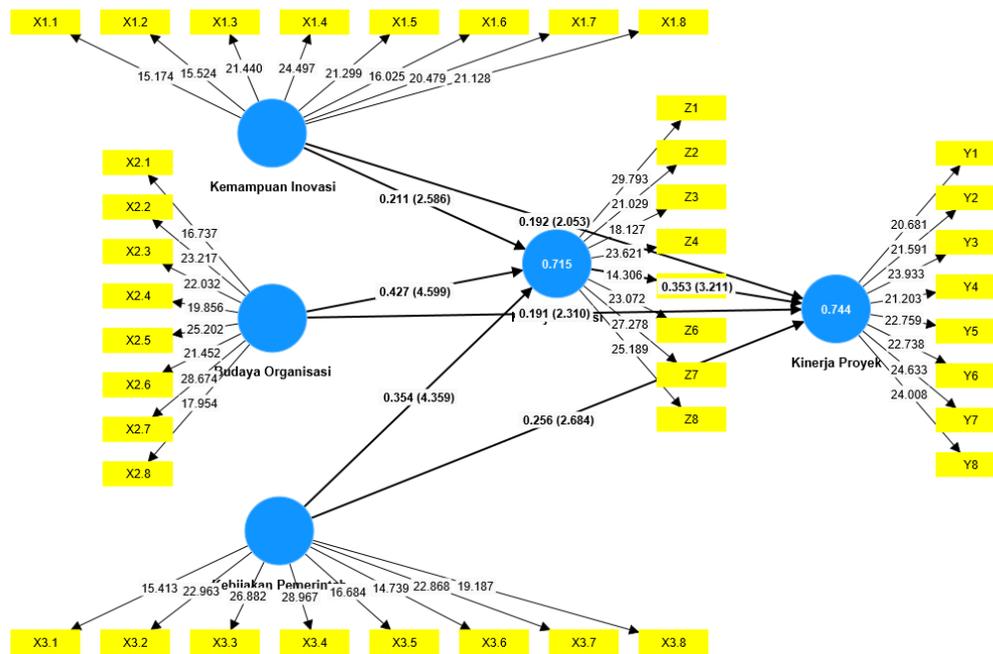


Table: Path Coefficients, T-Statistics, and P-Values

Relationship	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Organizational Culture → Innovation Performance	0.427	0.419	0.093	4.599	0.0
Organizational Culture → Project Performance	0.191	0.187	0.083	2.31	0.021
Government Policy → Innovation Performance	0.354	0.355	0.081	4.359	0.0
Government Policy → Project Performance	0.256	0.258	0.095	2.684	0.007
Innovation Capability → Innovation Performance	0.211	0.216	0.081	2.586	0.01
Innovation Capability → Project Performance	0.192	0.2	0.094	2.053	0.04
Innovation Performance → Project Performance	0.353	0.348	0.11	3.211	0.001

Table: Indirect Effects – Path Coefficients, T-Statistics, and P-Values

Relationship	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Organizational Culture → Innovation Performance → Project Performance	0.151	0.15	0.066	2.294	0.022
Government Policy → Innovation Performance → Project Performance	0.125	0.123	0.047	2.672	0.008
Innovation Capability → Innovation Performance → Project Performance	0.074	0.072	0.032	2.315	0.021

H1: Innovation capability has a positive and significant effect on project performance.

This hypothesis is accepted with a path coefficient of 0.192, a T-statistic of 2.053, and a p-value of 0.040. This indicates that innovation capability significantly enhances project performance.

H2: Organizational culture has a positive and significant effect on project performance.

Accepted with a path coefficient of 0.191, T-statistic of 2.310, and p-value of 0.021. Organizational culture directly contributes to improved project performance.

H3: Government policy has a positive and significant effect on project performance.

This hypothesis is accepted with a path coefficient of 0.256, T-statistic of 2.684, and p-value of 0.007. Among the direct effects, government policy has a stronger impact than organizational culture and innovation capability on project performance.

H4: Innovation performance mediates the effect of innovation capability on project performance.

The hypothesis is accepted as the specific indirect effect is 0.074, significant with a T-statistic of 2.315 and a p-value of 0.021. This shows that innovation capability influences project performance both directly and indirectly through innovation performance.

H5: Innovation performance mediates the effect of organizational culture on project performance.

Accepted with a significant indirect effect of 0.151 (T-statistic 2.294, p-value 0.022), indicating that organizational culture also affects project performance through innovation performance.

H6: Innovation performance mediates the effect of government policy on project performance.

This hypothesis is accepted with a significant indirect effect of 0.125 (T-statistic 2.672, p-value 0.008). Government policy influences project performance indirectly by improving innovation performance.

H7: Innovation performance has a positive and significant effect on project performance.

Accepted with a path coefficient of 0.353, T-statistic of 3.211, and p-value of 0.001. This highlights the critical role of innovation performance as a direct predictor of project performance.

5. Conclusion and Recommendation

This study confirms that innovation capability, organizational culture, and government policy have direct and significant effects on project performance. Among them, government policy shows the strongest direct impact. Additionally, innovation performance plays a crucial mediating role, strengthening the indirect effects of these three variables on project performance. The findings also highlight that innovation performance itself significantly influences project outcomes, reinforcing its role as a key success factor. These results demonstrate the importance of fostering an environment that supports innovation, both internally within organizations and externally through supportive government policies.

Recommendations

1. Enhance Innovation Capability:

Organizations should invest in developing employee creativity, adopting new technologies, and encouraging experimentation. Strengthening innovation capabilities will directly and indirectly improve project performance.

2. Foster a Supportive Organizational Culture:

Leadership should cultivate a culture that supports learning, collaboration, and risk-taking. A strong innovation-oriented culture can contribute to better project outcomes, both directly and through enhanced innovation performance.

3. Leverage Government Policies:

Policymakers should design and implement policies that encourage innovation, such as tax incentives, funding programs, and innovation-friendly regulations. These policies significantly impact organizational performance.

4. Strengthen Innovation Performance Mechanisms:

Organizations should establish systems to monitor, measure, and continuously improve innovation performance. This includes setting clear innovation goals, investing in R&D, and fostering cross-functional collaboration.

5. Integrate Innovation into Project Management:

Project managers should embed innovation strategies into their planning and execution processes to ensure that innovative outcomes translate into superior project performance.

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