

Dynamic Capabilities, Core Competence, and Competitive Advantage of Zakat Institution: Study in Rumah Zakat Indonesia

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Abstract

Previous studies of competitive advantage mostly discussed business entities, instead of public organizations or non-profit ones. Several products of public organizations already use a market mechanism such as in the case of zakat collection service in Indonesia. This research investigates the effect of dynamic capabilities and core competence on the competitive advantage of a zakat institution. The data analysis method employed in this research is path analysis to test the direct and indirect effect of dynamic capabilities on competitive advantage. The results of this research show that dynamic capabilities do not directly affect competitive advantage. Dynamic capabilities, however, affect competitive advantage through core competence.

Keywords: Dynamic Capabilities; Core Competence; Competitive Advantage; Zakat Institution

Introduction

The theory of competitive advantage was previously more dominant on the business entity. The implementation in public or non-profit organization was considered irrelevant since the public organization is monopolistic, and thus, there is no significance in discussing its competitiveness. Public organizations have evolved, and they are required to be market-based entities. This research aims to identify the effect of dynamic capabilities and competence on the competitive advantage of public organization.

Zakat plays an essential role in the Islamic economic system. In the spiritual aspect, zakat functions to purify the wealth of the owner. While in the economic aspect, it plays a role in reducing poverty and increasing social awareness and care for other people. Zakat can also minimize the gap between the rich and the poor. Islamic emphasizes the importance of paying zakat because it is

one of the pillars of Islam (the third after testimony of faith and prayer). Therefore, zakat contains spiritual, economic, and social values.

Zakat payment and management vary among countries, depending on the political system used by those countries. In Saudi Arabia or other countries applying Islamic ideology, zakat is fully managed by the government. In a country such as Malaysia, zakat is managed by the government, but society is also allowed to collect zakat. In a majority Muslim but secular country such as Turkey, zakat is mostly managed by society through philanthropic institutions without explicitly mentioning that they are zakat institutions. The sustainability of zakat institution depends mainly on the zakat system applied in a country. If the government manages and monopolizes zakat, the competitiveness aspect is not relevant to be discussed. However, if the zakat system is open for the public, the competitiveness aspect is relevant and interesting to be studied because there is no monopoly practice there. Zakat institutions operating in the countries applying open zakat system are the market-based institutions where the zakat payers (*muzakki*) have different places to choose for paying zakat.

Existence of zakat institution in a country depends mostly on the system prevailing in that country. In a nation where a government monopolizes zakat management, competitiveness issue is not relevant to be discussed. It is because zakat itself is imperative. It means the government will charge a fine for those who reject to pay zakat. This practice is different from the country such as Indonesia where the government allows the society to collect, manage, and distribute zakat fund from zakat payers. Therefore, the zakat institution implements various strategies for attaining competitive advantage. Zakat payers can choose any zakat institution without any force from anyone. Zakat institutions, thus, must have a good reputation in order to build social trust. To best of our knowledge, however, there has not been any research on how to establish a competitive advantage of the public organization managing zakat.

According to Porter (1986), a generic strategy for business entity consists of *cost-leadership* and differentiation for establishing core competence. In a public organization, however, the cost-leadership strategy is not relevant. It is sensible that the business entity considers price as one of the factors determining the competitive advantage of a product offered to customers. The customers of business entities are relatively sensitive to the price. While in market-based public

organizations, it is unknown what factors determining their competitive advantage. Empirically, market-based public organizations have evolved. In Indonesia, for instance, public organizations managing zakat are more than 1000 institutions (FOZ, 2016). Hence, the issues of competitive advantage and how zakat institutions can build core competence are relevant to be studied. This study uses a different approach as it employs public organization in discussing competitive advantage where most of the previous studies focused on business entities. Public organizations have evolved to be more market based so they can have better sustainability.

The discussion of strategy for public organizations adopting market-based strategy gains popularity in the recent period. It suggests that the activities of public organizations need to be market-oriented. The non-monopolistic public organizations should build their competitiveness so that they can maintain their existence. The public organizations capable of maintaining competitive advantage will increase public trust. This research employed zakat institution as an observation unit and zakat payers as the unit for analysis. Hence, this research aimsto explore the effect of dynamic capabilities on competitive advantage, both directly and indirectly through the core competence of zakat institution. The results of this research are expected to provide a model of competitive advantage of market-based zakat institutions.

Literature Review

Dynamic Capabilities

Dynamic capabilitiesare the ability of an organization to optimize the internal and external resources to create values and competitive advantage. The dynamic capabilities will result in core competence in attaining competitive advantage. Thus, managers of an organization need to consider how to optimize the capabilities. The factors shaping the dynamic capabilities of an organization are entrepreneurship orientation and organizational touch.

The dynamic capabilities were first initiated by Tierce et al.(1997). They explained that dynamic capabilities have unique features which distinguish an organization from its competitors. The uniqueness of a company is the source of attractiveness, and dynamic capabilities can build it.

Grant (1996) defineddynamic capabilities as the configuration of resources

appropriate with the product life cycle, started from introduction, growth, maturity, and decline. Eisenhard and Martin (2000) defined dynamic capabilities as the specific strategy resulting in a strategic recommendation for creating new values in a dynamic market condition, either by engineering or managing the existing resources so the organization can create new products. Helfat and Peteraf (2003) defined dynamic capabilities as the approach to understanding business based on the basic theory of resources, enabling a company to have uniqueness for keeping to grow.

Hansen (1999) pointed out that dynamic capabilities emphasize on the reconfiguration of internal resources of a company. Managers of a company may copy, transfer, and combine the owned resources to create unique and different values from other companies. All of these activities can be done by utilizing the knowledge of those managers. Grünbaum (2013) underlined the purpose of dynamic capabilities, i.e., to modify the existing resources to create the products accepted by the market. Dynamic capabilities focus on the internal process of a company. This idea is supported by Teece (2007), stating that dynamic capabilities can be categorized into entrepreneurship skill to adapt to the dynamic and changing market. This skill consists of tangible resource, intangible asset, human resources, ownership capabilities, control, and access. While Zollo and Winter (2002) opinioned that dynamic capabilities and learning pattern of collective operational activity can increase productivity. The dynamic idea based on Enkel (2012) is the adaptation of resources and regenerative capabilities to create an impactful activity for a company.

According to Nielsen (2006), dynamic capabilities are the integration of science and management, which can change, affect, and utilize the knowledge-based resources owned by a company. While Grant (1996) stated that dynamic capabilities are the ability of a company to either directly or indirectly create values in processing input to be output. Several concepts of dynamic capabilities are shown in Table 1 as follows:

Table 1. Concepts of Dynamic Capabilities

Author	Definition	Dimension
Barney (1991)	Dynamic capabilities are the process within a company, where the values become internal competence.	• Processes embedded in the value of a company

Eisenhardt and Martin (2000)	Dynamic capabilities are the process within an organization in using the unique resources to fulfill market demand.	<ul style="list-style-type: none"> • Unique resources • Responding to the changing
Jiao (2013)	Dynamic capabilities are the ability of management, which is difficult to be imitated by others, either in terms of organization, function, or technology. Thus the company can always perform customer acquisition for the improvement of the organization.	<ul style="list-style-type: none"> • Difficulty to be imitated in terms of organization, function, and technology • Ability to acquire new customers

Based on the statements of previous researchers above, dynamic capabilities can be summed up as the process attached to an organization in the form of unique resource for responding to the changing market. Besides, these capabilities are difficult to imitate in terms of organizational, function, and technology. Thus, the company can always acquire new customers in the long run. The following are the dynamic capabilities which can be done by managers, namely:

a. Change and innovation capability

Collis (1994) stated that the organization needs to integrate highly valuable resources. While Teece et al. (1997) added that a company needs to make changes and innovation so the customers will not be bored with the offered products.

b. Technology capability

According to Inanity and Clark (1994), the organization needs to select the appropriate strategy for attaining competitive advantage through advanced technology. Ability to utilize and maximize technology can support any organization to be more adaptable to the market.

c. Flexible organization capability

The flexible organizational structure will adapt to its function, and it is expected to direct an organization to make an appropriate decision, policy, authority, and information flow under the function. According to Chandler (1962), organizational structure should follow strategy, meaning that in a particular condition, strategy implementation does need to always the formal procedure. It can be more flexible and dynamic. This opinion is reinforced by Zollo and Winter (1999) stating that the organizational structure should be flexible, so the daily

routine will not trap the organization.

According to Peteraf (1993), dynamic capabilities are measured by measuring organizational ability in responding to the dynamic and changing market. Pisano (1994) portrayed dynamic capabilities as the organizational ability to create a strategy where the managers can transform and combine better resources to create new strategic values.

Core Competence

Competence is a tool used to win the competition. Thus, managers need to identify core competence needed to create added values. According to Leonard-Barton (2000), core competence is used to understand the organizational environment. Sanchez and Heene (1997) opined that core competence is a result of learning process applied in an organization. Javidan (1998) stated that core competence is the collection of various competencies owned by a company. This competence is the interaction result among business units with their different competence. Hence, the organization which has core competence is the one with the ability to create harmony and integration of various skills and knowledge. The idea of Javidan (1998) is reinforced by Prahalad and Hamel (1990) stating that core competence is a collection of learning within an organization, specifically regarding the coordination and integration of knowledge, skills, and technology utilization in responding any information. This information may include financial condition, performance effectiveness, production cost, or external information (supplier, customer, and competitor). This information is essential to the company so it can know its customers, effectively meet customers' needs, and create sustainable competitive advantage (Lai et al., 2006).

Managers need to identify the competencies required by their organization. Agha et al. (2012) mentioned that the needed competence is the one which gives more benefits to the company. While Hamel and Prahalad (1994; 1990) opined that core competence should have at least three criteria, namely customer value, differentiation, and extension. Customer value is about how core competence can give added value to the customers. Differentiation is about how this core competence can differ an organization from its competitors while the extension is about how core competence can be realized for different kinds of products.

The theory of competence-based competition explains the role of core

competence as the source of sustainable competitive advantage. It means competence should contain values and uniqueness and significantly contribute to adding the bargaining power of the organization relative to its competitors. Agha et al. (2012) explained how core competence could respond to any challenges, increase efficiency, and be dependable.

Competitive advantage

Competitive advantage is the ability of an organization to defend itself from the threats of its competitors in the long term. Competitive advantage is determined by how far a company can build core competence. Competitive advantage happens when a company applies the strategy, which is inimitable or too expensive for competitors to imitate. Competitive advantage means creating values which cannot be done by the current competitors (Barney, McWilliams, & Turk 1989). Competitive advantage refers to the benefit of market performance (such as market share and customer satisfaction) and well as financial performance (such as return on investment and firm value for the stockholder). Competitive advantage is a market-oriented strategy allowing a company to exploit the market and achieving higher performance (Ketchen et al. 2007 in Murray, 2009; 252). The source of competitive advantage is the ability to coordinate and integrate the knowledge within functional units of a company (Grant, 1996 in Murray, 2009: 253).

Skills and resources can be utilized to attain a competitive advantage, such as by setting a low-cost strategy or creating superior customer value in a product brand. The first step that needs to be taken is by setting the cost low. Second, the company needs to create superior differentiation advantage by offering unique products that the competitors do not offer. Ketchen et al. (2007) explained that competitive advantage could increase business performance in terms of marketing and financial aspect. Competitive strategy is the art in maintaining, collecting, and disseminating the resources for creating profit. Besides, it does not only focus on creating barriers to the new entrants (Foss, 1996, p. 1). A company may get “position advantage” (Day and Wensley, 1988) by investing in asset and capabilities. Thwaites et al. (1996) opinioned that dynamic environment needs the combination of cost position and differentiation to result in competitive advantage. The superior value is the result of balanced management activity and

triggering value of the asset and unique capabilities. Competitive advantage is value creation, which cannot be done by the current competitors (Baradwaj 1993; 84).

Competitive advantage includes a series of factors or organizational capabilities to make performance, which is better than the competitors (Sadri & Lee, 2011). Many successful organizations focus on maintaining a stable relationship with their customers, so the number of sales keeps stable. Relationship marketing (RM) provides an organization with a competitive advantage by reducing marketing expense, increasing sales, and creating word of mouth promotion. The organization can identify customers' needs, competitors' activities, market condition, and distribute the information to all layers of the organization. Thus, this kind of company will have more strength to survive in a changing and competitive environment. Zhou et al. (2009) stated that customer value might affect the market-oriented organization, competitive advantage, and finally, performance.

The relationship between dynamic capabilities, core competence, and competitive advantage

Griffith & Harvey (2000) stated that dynamic capabilities are the ability of a company to unite, develop, and configure the internal and external competencies to respond to the fast-changing environment. Kogut & Zander (1992) gave an idea that dynamic capabilities are the part of the organizational process where the organization can acquire knowledge to be combined with the existing resources. Clark (1994) pointed out that the effect of environmental change on a company needs to be seen from the dynamic perspective, so the resources and core competence can create competitive advantage. According to Jiao (2010), dynamic capabilities are the strategic foundation for creating, maintaining, and improving the sustainable competitive advantage.

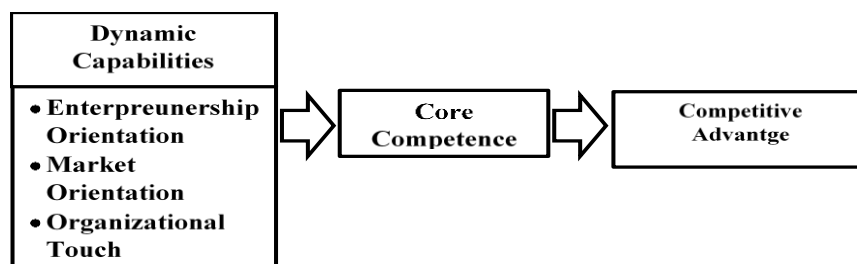


Figure1. Research Model

Methods

1. Research type

This research is explanatory research aiming at identifying the effect of dynamic capabilities on competitive advantage through competence at the public organization, namely Rumah Zakat Indonesia.

2. Measurement

In this research, the variables are supported by the concept, sub-variables, indicators, and measurement scale. The exogenous variable used in this research is dynamic capabilities (X), and the intervening variable is core competence (Y). While the endogen variable in this study is a competitive advantage. These variables were operationalized into several indicators so they can be measured. The following is the variable operationalization in this research.

Table2. Variable Operationalization

Variable	Indicator	No	Scale
Dynamic capabilities	Innovation in every program	P1	Interval
	Availability of new program	P2	Interval
	Different offered product	P3	Interval
	Response to technology	P4	Interval
	Response to zakat payer behavior	P5	Interval
	Having distinctive resources	P6	Interval
	The flexibility of the organizational structure	P7	Interval
Core competence	Having irreplaceable competence	P8	Interval
	The program which is rare to be done by other institutions	P9	Interval
	Very long to imitate	P10	Interval
	Very costly to imitate	P11	Interval
	Giving value/benefit to stakeholders	P12	Interval

Competitive advantage	Better organizational performance	P13	Interval
	Sustainability of zakat institution	P14	Interval
	Willingness to give more support	P15	Interval
	Performance improvement in the future	P16	Interval

3. Data collection technique

The data collection techniques used in this research are questionnaire dissemination and interview with the zakat payers. The population in this research is the zakat payers registered at Lembaga Amil Zakat Nasional in Jakarta province, and 100 of them were taken as the research sample.

4. Variable measurement

The variables in this research are dynamic capabilities, core competence, and competitive advantage. The variable measurement used is the numeric differential. In this numeric differential, the semantic space is replaced by the numbers. The following is the example of questionnaire table for the analysis.

Table 3. Example of scale measurement for numeric differential

No	Statement	Behavior							
1	Statement 1	Untested	1	2	3	4	5	6	Tested
2	Statement 2	Wrong	1	2	3	4	5	6	Correct
3	Statement 3	Poor	1	2	3	4	5	6	Good
4	Statement 4	Inappropriate	1	2	3	4	5	6	Appropriate

Source: Jogiyanto (2008:67) with modification and adaptation

This research used the interval scale of one to six. According to Jogiyanto (2008:67), the semantic differential scale provides space to the respondents to see the tendency of whether a statement is negative or positive.

Validity and reliability test

Validity is the level of appropriateness of a tool for analyzing a phenomenon. It shows to what extent a measurement tool can correctly measure the object. To test the validity of the questionnaire, we used a correlation product moment. The r-calculated values are compared to the r-critical values. The valid statements of dynamic capabilities variable areas follows:

Table 4. Results of validity test of dynamic capabilities variable

Item number	R-calculated value	R-critical	Decision
1	.887**	0.3	Valid
2	.912**	0.3	Valid
3	.828**	0.3	Valid
4	.877**	0.3	Valid
5	.882**	0.3	Valid

Source: Processed data (2018)

Table 4 shows that all statements of dynamic capabilities variable are valid because the r-calculated values are larger than r-critical values so that they could be used as the research instrument. The following is the results of the validity test of core competence variable.

Table 5. Results of validity test of core competence variable

Item number	R-calculated value	R-critical	Decision
6	.802**	0.3	Valid
7	.746**	0.3	Valid
8	.861**	0.3	Valid
9	.875**	0.3	Valid
10	.771**	0.3	Valid
11	.794**	0.3	Valid
12	.726**	0.3	Valid

Source: Processed data (2018)

Table 5 also shows that all statements of core competence variable are valid because the R-calculated values are larger than R-critical values so that they could be used as the research instrument. The following is the results of the validity test of competitive advantage variable.

Table 6. Results of validity test of competitive advantage variable

Item number	R-calculated value	R-critical	Decision
13	.895**	0.3	Valid
14	.882**	0.3	Valid
15	.895**	0.3	Valid
16	.802**	0.3	Valid

Reliability

Reliability is an index showing to what extent a measurement tool can be trusted or dependable. If a measurement tool is employed twice in measuring a similar phenomenon, and the result is relatively consistent, this measurement tool can be said reliable. To measure reliability, we used the following equation.

$$r_{II} = \left[\frac{k}{k-1} \right] \left[1 - \frac{\sum \alpha^2 b}{\alpha^2 t} \right]$$

Where:

r_{II} = reliability of the instrument

k = number of statement

α = total variance

$\sum \alpha^2 b$ = number of statement variance

According to Sugiyono (2009:178), the reliability of an instrument is categorized high if the average value of the coefficient is larger than 0.6. The larger the value of the reliability coefficient is, the more reliable the instrument will be. The following is the results of a reliability test of each variable in this research.

Table 7. Results of Reliability Test

Variable	R value	Criteria	Decision
Dynamic capabilities	0.924	$\geq 0,7$	Reliable
Core competence	0.903	$\geq 0,7$	Reliable
Competitive advantage	0.892	$\geq 0,7$	Reliable

Table 7 shows that all variables in this research have high reliability, meaning they are dependable to be set as the research instrument. This result allowed us to do the step in this research, namely, questionnaire dissemination to the respondents.

Method of analysis

The method of analysis used in this research is path analysis to identify both the direct effect of dynamic capabilities on competitive advantage and the indirect effect through core competence. The path analysis model was used to analyze the relationship between variables so we could know the direct and indirect effect of the independent variables on the dependent one. The following is

the equation of the path analysis in this research:

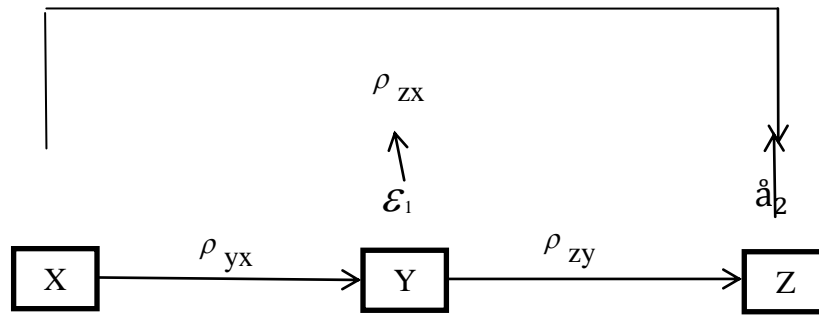


Figure 2. Path diagram of X on Z and X on Z through Y

$$Y = \rho_{yx} + \epsilon_1$$

$$Z = \rho_{yx} + \rho_{zy} + \epsilon_2$$

Notes:

X = Dynamic capabilities

Y = Core competence

Z = Competitive advantage

ρ_{yx} = Path coefficient of dynamic capabilities effect on core competence

ρ_{zy} = Path coefficient of core competence effect on competitive advantage

ρ_{zx} = Path coefficient of dynamic capabilities effect on competitive advantage

Results And Discussion

The test result of the structural model of dynamic capabilities, core competence, and competitive advantage

The hypothesis in this study states that dynamic capabilities (X) affect competitive advantage (Z), both directly and indirectly through core competence (Y). Based on this hypothesis, the model of path analysis can be portrayed as follows:

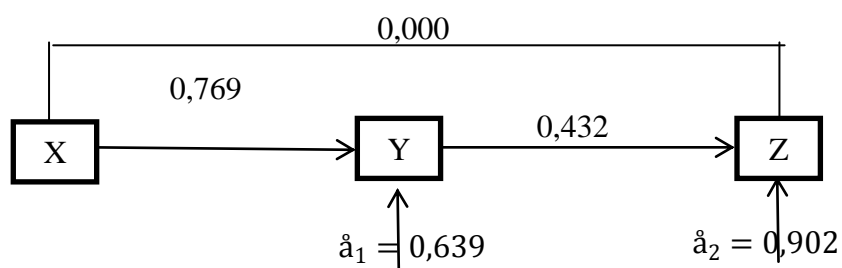


Figure 3. Path analysis of dynamic capabilities (X), core competence (Y), and competitive advantage (Z)

Source: Processed data (2018)

Effect of dynamic capabilities on core competence

The first hypothesis in this study is dynamic capabilities (X) positively affect core competence (Y). The result of the statistical test reveals that dynamic capabilities directly affect core competence by 59.1 percent, shown by the t-calculated value of 9.089 (larger than t-table) and p-value of 0.000 (smaller than 0.05). Therefore, H_0 is rejected and H_a is accepted. This result indicates that zakat institution needs to keep the flexibility of its organizational structure, make innovation and new programs, respond and adopt new technology, respond to the market needs as well as the wants of zakat payers, and finally maintain its distinctive resources. These capabilities are expected to be able to build core competence of zakat institution.

Effect of core competence on competitive advantage

The second hypothesis in this research is that core competence (Y) affects competitive advantage (Z). The result of the statistical test reveals that core competence directly affects competitive advantage by 18.7 percent, shown by the t-calculated value of 3.017 (larger than t-table) and p-value of 0.003 (smaller than 0.05). Therefore, H_0 is rejected and H_a is accepted. This result emphasizes that core competence is required by the zakat institution to create unique and superior values offered to its customers (in the context of zakat institution they are called *muzakki* or zakat payers).

Core competence is the ability of zakat institution for resulting something new and different from what the competitors can offer. This thing should be scarce, irreplaceable, too expensive for competitors to have and imitate, and valuable for the zakat payers. Hence, managers of zakat institution should deeply explore the factors which can increase the core competence of zakat institution.

Effect of dynamic capabilities on competitive advantage

The third hypothesis in this research is that dynamic capabilities (X) affect competitive advantage (Z). The result of the statistical test reveals that dynamic

capabilities do not affect competitive advantage, shown by the t-calculated value of -0.005 (smaller than t-table) and p-value of 0.996 (larger than 0.05). Therefore, H_0 is accepted and H_a is rejected. This result indicates that indirectly, dynamic capabilities do not positively and significantly affect competitive advantage. It can also be said that having dynamic capabilities does not guarantee that a zakat institution can create a competitive advantage. The ability of zakat institution in managing internal and external organizational resources is not sufficient in this zakat institution only depends on the presently-owned resources.

Effect of dynamic capabilities on competitive advantage through a core competence

The fourth hypothesis in this research is that dynamic capabilities (X) affect competitive advantage (Z) through core competence (Y). The result of statistical test reveals that dynamic capabilities affect competitive advantage through core competence by 33.2 percent, shown by the F-calculated value of 141.797 (larger than t-table) and p-value of 0.000 (smaller than 0.05). Hence, H_0 is rejected and H_a is accepted. This result indicates that dynamic capabilities positively affect competitive advantage through core competence. As outlined earlier, dynamic capabilities do not significantly and positively affect competitive advantage. It can be said that dynamic capabilities are not the determining factor in building a competitive advantage of zakat institution. This empirical result evidences that the core competence of zakat institution mediates the effect of dynamic capabilities on competitive advantage. Managers of zakat institution should discover core competence in the constructed value chains. If they are failed to do so, it would be difficult for the zakat institution to obtain a competitive advantage.

Conclusions

Based on the results of this research, it can be concluded that:

1. Dynamic capabilities positively and significantly affect core competence. Hence, managers should perform an in-depth analysis to obtain core competence by considering owned capabilities. The core competence of zakat institution is built by its dynamic capabilities.
2. Core competence positively and significantly affects competitive

advantage. A zakat institution which has core competencies such as unique and innovative programs, reliable information system, and competence employees, will obtain more opportunity for obtaining a competitive advantage. Therefore, further research is suggested to deeply identify the factors which become the foundation in building core competence of zakat institution.

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