

# **DYNAMIC CAPABILITY MODEL TO INCREASE CREATIVE ECONOMY COMPETITIVENESS IN DEPOK CITY, WEST JAVA, INDONESIA**

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*Abstract : Depok is an autonomous region that supports the capital city of the Republic of Indonesia. This position has a strategic and complex value for the city of Depok. The value of strategy can be felt by changes in line with changes in development in the capital city. The complexity of changes in the strategic environment of Depok City, raises governance problems in the midst of a dynamic environment for the achievement of a competitive Depok City through the development of the creative economy. This dynamic environment requires resources that have dynamic capabilities. Capable human resources are a determining factor for the success of dynamic governance.*

*The purpose of this study is to describe the capabilities of government officials in supporting dynamic governance in Depok City, West Java Province and to offer a more precise model. This study followed a descriptive design with a qualitative approach, and observations, interviews, and documentation were carried out to be included in the process data analysis. The research took place between June and October 2019, the informants consist 9 government and 6 business man representation. The research focus includes the dynamic capabilities of the Depok City Government in achieving regional competitiveness through the development of the creative economy. This capability is related to the able people and agile process factors in Depok which have dynamic capability characteristics, namely think ahead, think again and think across. The data processing process uses NVIVO 21 software.*

*The findings show that the capabilities of the apparatus adopt the dynamics of governance, found the determinants of the success of dynamic governance and develop the dynamic capabilities model for increasing economics creative competitiveness in Depok City.*

*Keyword: Dynamic Capability Model, Economic Competitiveness, Depok City*

## **1. INTRODUCTION**

Increasing regional competitiveness in the era of regional autonomy is part of the direction of regional governance for the welfare of the community. Efforts to increase regional competitiveness carried out by the Government, in this case the Local Government of Depok City, are related to the implementation of Law No. 23 of 2014 article 9 point 4.

In Law No. 23 of 2014 article 9 point 4, states that concurrent governmental affairs submitted to the regions become the basis for implementing regional autonomy, which is related to the implementation of decentralization for the region concerned.

Depok City as a buffer city for the capital city of the Republic of Indonesia, DKI Jakarta, has accommodated the needs of residential expansion and service development. Therefore, in the regional economic development plans and processes of Depok City starting from 2012 - now the emphasis is on the development of the tertiary economic sector group, especially micro, small and medium enterprises (MSMEs) including the creative economy sector. This process reflects a dynamic mechanism in the governance of Depok City. This dynamic process is in the form of efforts to increase the competitiveness of the city for Depok through the development of the creative economy sector which takes place in the process of 2 (two) periods of Depok City government. This is one of Depok's strategic steps to build Depok City in the context of sustainable city development. The process in the first period took the form of efforts to be embodied in the Vision of the City Government of Depok for 2011 - 2016 in the form of the realization of a developed and prosperous Depok city, especially operationally described as Depok's 2nd Mission in 2011 - 2016, namely realizing local potential-based community economic independence. The vision of the Depok City government for 2011 - 2016 is the realization of a developed and prosperous Depok city.

Some of the problems of the capability of the Depok City Government above indicate the dynamics of the strategic environment of Depok City which encompasses the development of competitiveness in its creative economy sector. The decentralization system has resulted in autonomy for the city of Depok, so that Depok has the right and obligation to manage economic resources in its area as much as possible to achieve the vision and mission of Depok City. Increasing the competitiveness of Depok City is of course also related to innovation efforts in the strategic management of the Depok City Government.

The importance of collaborative development programs for the competitiveness of the creative economy sector between regional stakeholders, especially with universities, is a must. Experience in China (Zhao, et al., 2013: 184), collaboration between the government, universities or academics and the private sector is an important point for strengthening and developing regional innovation capabilities with entrepreneurial groups and local innovation actors. In fact, the role of universities as the main actors in regional innovation in China is carried out through innovation

activities and entrepreneurial groups (Zhao, et al., 2013: 184). By Zhao, et al., (2013: 184) regions and local innovation actors are conceptualized as a network or system of local innovation actors created from local resources, including the government. The benefit of this network or system is the transfer of knowledge on innovation between regions and their dissemination. From this conceptual model, the role of government is to support inter-regional cooperation by allocating resources that support the development of regional innovation systems. The model can be constructed by integrating conceptual and empirical data (Kismartini & Pujiyono, 2020).

## 2. LITERATUR REVIEW

### a. Dinamic Governance

Dynamic governance by Neo and Chen (2007: 8) is stated as: "Dynamic governance is the ability of a government to continually adjust its public policies and programs, as well as change the way they are formulated and implemented, so that the long-term interests of the nation are achieved." The capacity of the government on an ongoing basis to adapt public policies to its programs, as well as by changing the way in which it is formulated and implemented so that national interests (goals) are achieved, constitute dynamic governance or governance.

Dynamic governance includes a framework of governance in thinking ahead (Thinking Ahead), thinking again (Thinking Again) and thinking from studies across the boundaries of traditional approaches and other boundaries (Thinking Across) attached to strategic choices, policies and programs (Neo and Chen, 2007: 12-19). The essence of a dynamic governance or governance framework according to Neo and Chen (2007: 11) is in the form of culture combined with capability that can produce change. Therefore, to achieve the intended change, Neo and Chen (2007: 19) explained that able people and agile processes are needed, which are the driving keys for the development of 3 (three) capacities of dynamic governance, good, forward thinking (Thinking Ahead), think again (Thinking Again) and think across (Thinking Across).

When collaborative governance (Wanna, 2008) is juxtaposed with dynamic governance Neo and Chen (2007), then there are several substances of governance thinking that tend to be the same, including: (a) forward thinking capabilities in dynamic governance regarding the response to the demands for change environment and uncertainty, tend to be the same as the dimensions of collaborative planning and collaboration in the negotiation process in collaborative governance; (b) thinking reviews for responses to challenges in dynamic governance tend to be the same as cooperation building understanding - activity alignment, collaborative supervisory roles - centralizing coordination, collaborative development motivation - commitment to project or organizational goals or strategic goals in collaborative governance, (c) The cross-thinking capability in dynamic governance for response to adjustments to the environment tends to be the same, collaboration builds similarities, and the negotiation process in collaborative governance. Both dynamic governance and collaborative governance tend to have the same governance elements in

internalizing organizational culture which fosters and increases understanding of shared cultural values, and underlies adaptive (public) policy making.

b. Dynamic Capability

Dynamic capability (Teece, et al., 1997: 510) is an approach that combines sources of excellence and competence, which emphasizes certain internal and external competencies in dealing with rapid environmental changes. Dynamic capability is defined as the company's ability to integrate, build, and reconfigure internal and external competencies to cope with a rapidly changing environment (Teece, et al., 1997: 517); capacity to perceive opportunities and reconfigure knowledge assets, competencies, and complementary assets and technologies to achieve sustainable competitive advantage (Teece, 2008: 21).

From the four paradigms (researched by Teece, et al., (1997: 527), namely competitive pressure, strategic conflict, resource base-perspective and dynamic capabilities, it is explained the similarities and differences between competitive forces and conflict strategies. strategy), both of which show that benefits are obtained, starting from efforts to carry out strategies, namely from limiting competition through increasing competitor costs and exclusionary behavior. The difference lies in the tendency to old patterns (including increasing returns on capital and profits) and future technological opportunities. Successful competitiveness occurs due to the achievement of policies, experience and efficiency occurring at the beginning of time.

Competitiveness is formed due to economic action and strategic action, with an emphasis on economic action, except in special situations. Too many strategic actions will weaken investment in core competences, ignore dynamic capabilities and endanger long-term competencies (Teece, et al., 1997: 529). The focus is directed not on products but on competencies and capabilities. Products reflect competence. The capabilities approach emphasizes the internal processes, which are used by the company, to deploy and shape capabilities. Competence has a functional role, and is treated as an asset in the face of changing markets (Teece, et al., 1997: 530).

From several studies, Teece (2018) created a dynamic capabilities framework as a workable systems theory. The dynamic capabilities framework by Teece (2018: 363) is created to help organize and verify competing and conflicting information, in order to obtain a number of valuable information for the authorities (decision makers) to build competitive advantage.

Dynamic capabilities reflect organizational capabilities. By Neo and Chen (2007: 76-77) the organizational capabilities framework shows the relationship between routines, resources and resilience. Routines, resources and resilience represent the three forms of organizational capabilities that reflect the distribution of the organization's tangible and intangible assets to carry out tasks in a coordinative manner in order to achieve predetermined results, effectively. Routines are operational capabilities because they are defined by rules and procedures that are designed for regular, predictable, routine and high-volume organizational transactions. Resources are the core capabilities that enable an

organization to formulate and implement a unique value creation strategy to achieve its goals and mission.

c. Competitiveness

Competitiveness or competitive advantage is a factor or combination of factors that drives an organization to achieve its goals with better performance than other parties in a competitive environment (Chaharbaghi and Lynch, 1999). The definition of organizational competitiveness or competitive advantage, stated by Afuah (2009: 17), states that the competitiveness or competitive advantage of the company is the ability of the company (in this case the organization) to obtain a level of profit that is higher than the average level of market profit for the company (organization) is in competition or market competition.

The results of research by Liao, et al., (2017: 1431) in the financial and high-tech industry of Taiwan show that sustainable competitive advantage is achieved by developing absorptive capacity, transfer, and organizational learning. For organizations, the existence of competitive advantage is related to the resources, capabilities, and core competencies of the organization (Wang, et al, 2011: 100).

Three main forms of capital are used to gain a competitive advantage, namely from economic capital, cultural capital, and social capital (Downing, 2018: 5). Downing (2018: 6) explains that relationship networks are a product of an investment strategy to build and convert existing contingent relationships into long-term relationship bonds. The process of generating social capital includes a series of ongoing exchanges to build trust.

d. Dynamic Capability Model

The grand theory of local governance is derived from the power sharing theory, which is derived from the theory of delegation of power or the theory of decentralization as a medium theory. From the theory of decentralization, it is derived from the theory of local government as an application theory.

The influence of the external environment will affect dynamic capabilities. Dynamic capabilities are characterized by the capabilities of thinking ahead, thinking again and thinking across, which are driven by two elements of leverage, namely able people and agile processes. Dynamic capabilities can develop and seize opportunities and anticipate (dynamically adapt) external environmental challenges on the basis of organizational or institutional culture. Furthermore, Teece, et al. (1997: 510) stated that dynamic capability is the emergence of a potential integrative approach between the strategic management approach and the economic approach related to strategic management to understand the sources of newer competitive advantage. There are three factors that determine the rare uniqueness of the company's competitive advantage and dynamic capabilities according to Teece, et al., (1997: 519), namely the process, position and path. The important value of dynamic competitiveness and capability is contained in organizational processes. But the content of the ongoing process and the opportunities it creates to build a competitive advantage is shaped significantly by the company's assets both from within the company (endogenously) and by the market (exogenous) and by the evolutionary path (s) adopted

or inherited. This is constructed by Neo and Chen (2007: 80-81) which resulted in the findings of three levels of public sector capability. Thus, organizational processes are shaped by the position of the company's assets, and merged by the evolutionary path and the evolutionary pathway, which make clear the importance of dynamic capabilities and competitive advantage. For that, it is necessary to produce and have adaptive policies to respond to environmental changes by learning from best practices. The results of the dynamic capability system and adaptive policy mechanisms are used to develop competitiveness, so as to produce recommendations for the dynamic capability model of the local government for the development of the creative economy.

### **3. RESEARCH METHODOLOGY**

This study followed a descriptive design with a qualitative approach, and observations, interviews, and documentation were carried out to be included in the process data analysis. The research took place between June and October 2019, 15 informant came from the government, 9 people, 6 business people. Determination of research informants using purposive technique The research focus includes Depok's dynamic capabilities in achieving regional competitiveness through the development of the creative economy. This capability is related to the able people and agile process factors in Depok which have dynamic capability characteristics, namely think ahead, think again and think across. The data used in this study consisted of primary and secondary data. Primary data were collected through interviews. Secondary data made use of reports and literature from the city government of Depok The data processing uses NVIVO 21 software.

### **4. RESULT AND DISCUSSION**

#### **a. Governance Dynamics in the Development of Creative Industries in Depok**

The creative industry, which generally includes Small and Medium Enterprises (SMEs), is the backbone of the country's economy. UKM itself became a pillar of the economy that was quite resistant to the monetary crisis. The significance of the existence of these SMEs can be seen from the results of a study by the Asian Development Bank's Technical Assistant (2001) in Semarang and Medan which conducted a survey of 500 SMEs in both cities showing that 78% of SMEs stated that they were not affected by the monetary crisis.

SMEs as the backbone of the national economy have contributed significantly to the national GDP and absorb as much as 97.2% of the total workforce in Indonesia. With the number of SMEs of more than 55.2 million or the largest in ASEAN, Indonesia must be the main driver of SME development so that SMEs' access to capital, technology and markets will increase.

This opportunity was also taken advantage of by the Depok City Government in maximizing the potential of the creative industry in its scope. The capability of the Depok City Government in utilizing the existence of the creative industry is an indicator of the quality of the bureaucracy in maximizing the economic potential of its region in increasing Regional Original Income (PAD) and also for the welfare of the community, especially business actors.

The dynamic of governance in Depok city is divided into 3 elements, namely planning, monitoring and evaluation and synergy between institutions. A brief overview of the research results as follows:

a. Strategic Planning

The results of interviews with informants related to strategic planning found a number of issues raised by the speakers in the interviews conducted. These issues, namely: preparation and potential of the creative industry, preparation and planning, strategies, implementation and outcomes. Resource persons from the Depok City Government have always been the dominant speakers on strategic themes. The government of Depok City is the sole resource person who talks about outcomes. This means that the Depok City Government makes the impact of strategy implementation and planning related to the creative industry as an indicator that needs to be considered in seeing achievements. Meanwhile, speakers from the DPRD (legislative) were quite prominent on the theme of program implementation, particularly the discussion on legislation. This is related to one of the DPRD's functions, namely legislation.

b. Monitoring and evaluation

Monitoring and evaluation is related to the capability to rethink in a dynamic capability concept. The thinking again capability is the capability to measure the reality and implementation of the program with the initial design and targets, then it is evaluated until the process of re-designing strategies, policies and programs so that better quality and results are achieved. Rethink capability is a mechanism to rethink existing policies and programs as well as to assess whether existing policies are still relevant to the national agenda and the long-term needs of society. The results of the interviews that appear in wordcloud can be seen that the term "evaluation" is the term most frequently mentioned by the speakers. This shows that evaluation is one of the keys in the efforts and processes of stakeholders and policy implementers in building and developing competent creative industries in Depok City. The evaluation term is followed by the training, industry, program, creative, annual, market and business terms. This also shows that the evaluation is still related to programs, policy strategies related to the creative industry in Depok City.

Sources Pak Heri from AUKM Depok City and Pak Markiyad provided information that every year the government and private meetings are held. The goal of the work meeting is to improve the strategy and evaluate the programs needed to anticipate changes that are strategic in nature.

The results of the interview with Mr. Jumali as the Head of the Development Program at Bappeda Depok City, obtained information that evaluations related to the creative industry development program are carried out quarterly, semester and annually. In the evaluation, the program implementation will be reviewed based on the plans that have been made. In addition, it will also be evaluated regarding the obstacles found in the program implementation process so that solutions can be found together.

c. Synergy between institutions

The results of the interview with Mr. Jumali as the Head of the Depok City Development Program, obtained information that synergies related to creative industry development work programs are always built with other agencies. These agencies are the Office of Trade and Industry, DKP3, KUKM, the Office of Youth, Sports and Tourism, and the Office of Investment

and One Stop Services. The same thing was conveyed by Mrs. Dewi Indriati as Head of the Department of Cooperatives, UMKM Depok City, namely that policies are always carried out based on the initial design even though in the course of the leader being replaced, synergy between units is also needed to answer the question why there is a slice of business scale. Then Mr. Yuda who is the Head of the Depok City Investment and One Stop Integrated Service (DPMPTSP) Section said that internal synergy is not only between local government agencies, but also carried out with the provincial government.

Cooperation between government agencies in implementing policies for developing creative industries is still very limited. This is because the implementation of policies is generally still sectoral. Efforts to initiate this synergy are still at the discourse stage, awaiting the existence of a legal umbrella governing partnerships between agencies.

So far, cooperation between agencies has occurred at the level of implementation of activities, including: First, cooperation as presenters, that is, other agencies are invited as speakers in the activities carried out; Second, cooperation as a participant, that is, other agencies are invited to participate as participants in the activities carried out; Third, technical training cooperation, namely asking for assistance from other agencies to provide technical training in activities related to the development of creative industries; and fourth, cooperation in exchanging information, in which an agency requests information from other offices related to the development of creative industries in Depok City.

External synergy is needed not only about building networks, but also as a learning process in order to strengthen human resources. In an interview with Pak Jumali as the Head of Development Program at Bappeda Depok, he said that in program planning, third parties such as academics from the campus were also involved. Campuses such as the University of Indonesia and Gunadarma University are always invited to collaborate on the design of creative industry programs with the Depok City Development Planning Agency.

Capability is a key element because it is related to the ability of an institution (government) to respond to environmental conditions, especially to deal with environmental changes. This is because the capability of an institution can determine what it is capable of and how it can provide change in an effective and progressive manner (Teece, 2018: 363). By Amit and Schoemaker (1993) capability is defined as the capacity of various integrated resources to carry out activities or achieve set goals. Capability is also related to human resource development and management capacity development (Edoho, 1998: 237). So the capabilities that will be seen are the sensitivity of a government in seeing, capturing and maximizing its potential.

Based on the above description, it can be concluded that a government must have the capability in dynamic governance. There are two main levers to develop dynamic governance (governance) capabilities, namely the presence of capable people and agile processes.

Strategic planning related to the thinking ahead. Every program and policy must be directed at specific goals that are beneficial for the welfare of society. In a study related to strategic planning, it was found a number of issues raised by the sources in the interviews conducted. These issues, namely: preparation and potential of the creative industry, preparation and planning, strategies, implementation and outcomes. The strategic planning carried out by the Depok City

Government is in line with the forward thinking process based on the opinion of Neo and Cohen (2007) which is the reference for this study.

Monitoring and evaluation is related to the capability to rethink in a dynamic capability concept. The thinking again capability is the capability to measure the reality and implementation of the program with the initial design and targets, then it is evaluated until the process of re-designing strategies, policies and programs so that better quality and results are achieved. Rethink capability is a mechanism to rethink existing policies and programs as well as to assess whether existing policies are still relevant to the national agenda and the long-term needs of society.

In the wordcloud analysis made using NVivo on the theme of Monitoring Evaluation, it was found that a number of terms appeared most frequently in interviews conducted with resource persons. The following display image shows the results of the wordcloud analysis. In broad terms, the informants, the evaluation process carried out is sufficient to meet the "rethink" indicator according to Neo and Cohen (2007), namely: a) reviewing and analyzing actual performance data and understanding public input; b) further explore the causes of the emergence of public input, or observed facts, information and behavior, both found and missing targets; c) review existing strategies, policies and programs to identify which features and activities are working and vice versa; d) redesign policies and programs, partially or completely so that their performance is likely to be improved and objectives are appropriate; e) implement new policies and systems so that citizens and customers are better served and more comfortable with the impact of the policy and system.

Program supervision is included in the theme of monitoring evaluation. Program supervision regarding the capabilities and roles of each element responsible for the creative industry in Depok City in ensuring that everything that is designed can run well. According to Neo and Chen (2007), this is related to the purpose of rethinking capability to identify changes needed for improvement.

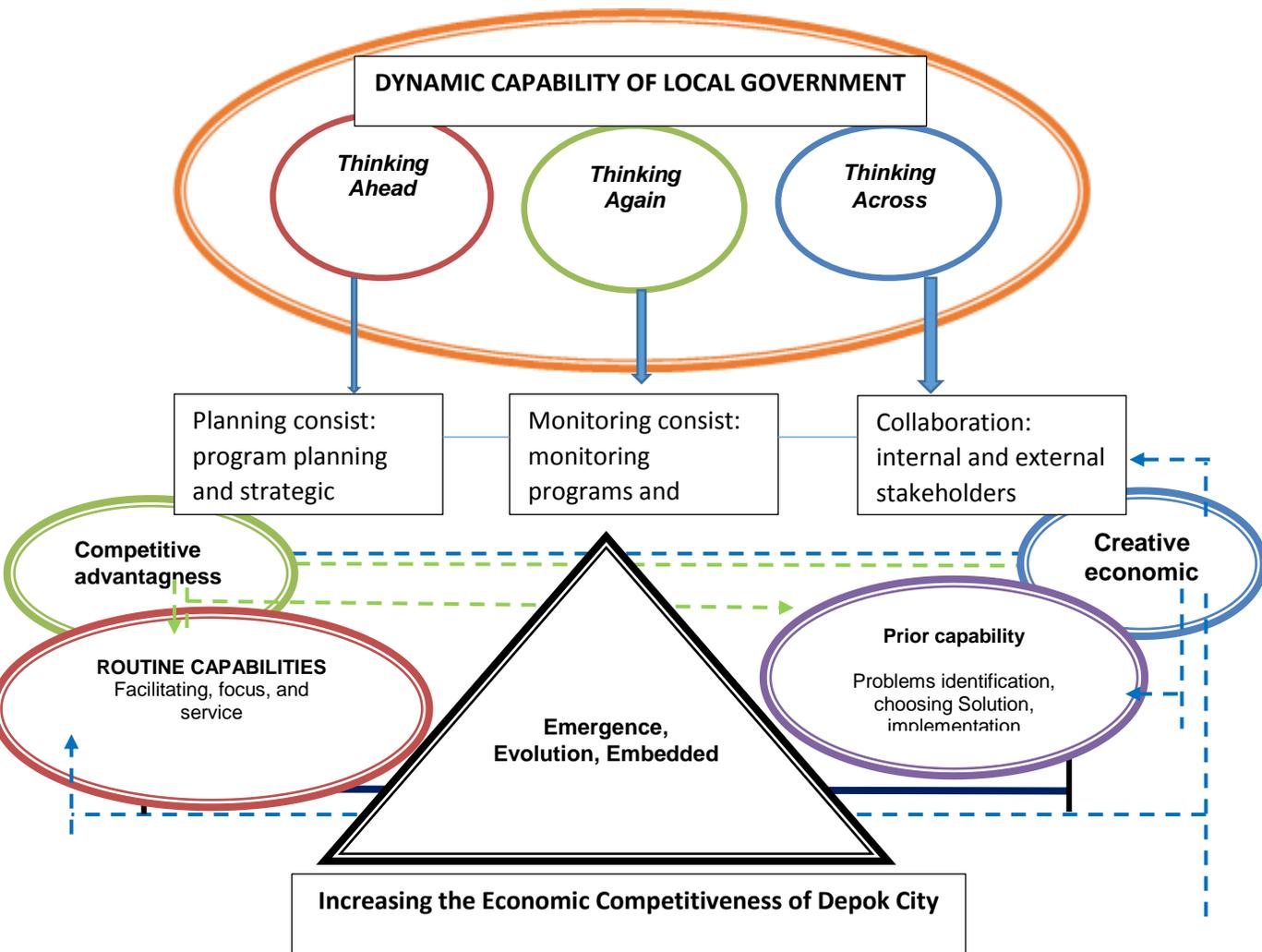
The theme of inter-agency synergy is related to the ability to think across in dynamic capabilities theory. According to Neo and Chen (2007: 40) the ability to think across is the ability of an institution to get out of the traditional zone and existing boundaries, and learn from the experiences of other parties who have ideas or rules and / or good practices. , which may be adopted or studied and adapted according to unique or specific needs in order to develop its potential.

#### **b. Dynamic Capability Model**

From the analysis of the interview data combined with the concepts referred to in the study, a pattern was found that formed the dynamic capabilities of the Depok City Government.

Strategic planning represents the thinking ahead concept which looks at how preparations and plans are made in relation to certain programs. In it there is awareness of the potential of the creative industry that is owned, then supported by preparation and planning in utilization, designing targeted strategies in achieving goals, the program implementation process and goals in the form of what outcomes are produced. Monitoring evaluation represents the concept of thinking again where there is a process of evaluation and supervision of the program being carried out. Then the synergy between institutions represents the concept of thinking across,

where internal and external cooperation patterns are built into a synergy in order to create a mutually supportive system to achieve program objectives, in this case the development of creative industries in Depok City.



**Figure 1. Dynamic CapAbilities Model for Increasing Economic competitiveness in Depok City**

## 5. CONCLUSION AND RECOMMENDATION

Dynamic governance with a dynamic capability approach requires capabilities that manifest in able people and agile processes. Able people related to the capacity of bureaucrats who are superior in terms of human resources so that every planning and implementation of policies is always on target. Meanwhile, the agile process is related to the capability of bureaucrats who are able to respond quickly to strategic issues in the work programs designed.

Depok in increasing the competitiveness of the creative economy uses the concept of dynamic capabilities. Dynamic capabilities are implemented when compiling strategic planning,

monitoring and evaluating development programs, and implementing synergy between internal and external institutions.

The recommendations given include:

Dynamic capability requires human resources who have talent so that they are able to respond to the dynamics of changes that occur in relation to the interactions and interrelationships between Depok and DKI Jakarta. The strategic plan of DKI Jakarta as the capital city of the State has a different development degree in terms of the complexity of its policies and programs, while Depok City must be able to balance its status as an autonomous buffer area.

### **Acknowledgements**

We are grateful to anonymous referees and editor of the journal for their valuable comments and suggestions an attempt to enhance the quality of article. We also thank to the promoter team of the Doctoral Program at the Faculty of Administrative Science, University of Brawijaya

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