

ANALYSIS OF KNOWLEDGE MANAGEMENT AND STRATEGIC LEADERSHIP DIMENSIONS ON DYNAMIC CAPABILITY FOR SUCCESSFUL STRATEGY IMPLEMENTATION IN REGIONAL BANK OF SULSELBAR

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ABSTRACT

This study aims to investigate the role of strategic leadership in managing and empowering organization resources, as well as to review the effect of knowledge management as the constituent factor of organization dynamic capability which contributes to the success of organization strategy implementation in Regional Bank of PT. Bank Sulselbar, particularly in branches and work units spread in South Sulawesi, West Sulawesi and Jakarta. A sample of 115 leaders of Upper and Middle Managers in Bank Sulselbar was selected and administered 80-items of knowledge management, strategic leadership, dynamic capability and strategy implementation questionnaire. The collected data from the respondents were subjected to Structural Equation Modelling and path analysis. The results indicated that there is positive and significant influence of strategic leadership on dynamic capabilities and strategy implementation, yet there is no positive and significant influence of knowledge management on dynamic capability and strategy implementation in Bank Sulselbar.

Keywords: *Knowledge Management, Strategic Leadership, Dynamic Capability, Strategy Implementation.*

1. INTRODUCTION

National banking industry in Indonesia is currently facing a hypercompetitive situation, especially ahead to the entry of ASEAN Economic Community in 2015 for non-financial sectors and in 2020 for the financial sectors. The competition is not only sharp, but also complex with turbulent changes in business environment. National Bank Association (Perbanas) agreed that there is a need of specific strategies in banking sector, which aimed to face the intense competition with foreign banks. Specific strategies can be done by developing financial products according to customer needs and in line with the advances in banking technology. (FAT, 2014)

Not only facing the competitive situation and technological development, national banks also face complex risks. Each bank should at least be

alert and intelligent in managing its operation in managing the risks, namely credit risk, market risk, liquidity risk, operational risk, legal risk, reputation risk, strategic risk and compliance risk.

One of the state owned banks that also face such challenges of competition, technological development and regulation is the Regional Development Banks. The Central Bank of Indonesia have stated the initiative that Regional Development Bank should be able to contribute more to the national banking industry in general and to regional economy in particular. Therefore, Regional Development Bank is currently charge to transform and develop information technology and human resource development strategies to adapt to the competitive environment challenges and to realize the vision of respective organization transformation. (Otoritas Jasa Keuangan, 2014)

The initiative of Association of Regional Development Banks (Asbanda) and Central Bank

of Indonesia in Indonesian Banking Architecture Vision 2010 stated that to strengthen competitiveness and institutional, Regional Development Banks are currently required to transform and visioned to be the leading banks, center of excellence banks, and Regional Champion. One of the Regional Development Banks which facing such challenge is PT. Bank Sulsebar.

As already described previously, it is necessary for banking sector to have specific strategies aimed to improve the professionalism of state owned banks in facing the intense competition with foreign banks (FAT, 2014). Initiating a good strategy is the keyword that should be performed by a bank to be able to survive. Nevertheless, a good strategy is not always promising to superior organizational performance. The key to good strategic planning is the implementation of strategy concerned. Strategy implementation is a sum of activities and choices needed to be able to run a strategic planning (Hunger & Wheelen, 2003). Strategy implementation is the process of various strategies and policies which are transformed into actions through the development of programs, budgets, and procedures. Lawless et. al.(1991) found that the performance achieved by company is not solely due to a strategy it's owned, but rather caused by the company ability to implement strategy effectively.

One of the important thing in successful strategy implementation is leadership. Strategic leadership plays an important role in directing the resources of organization in achieving it's strategic vision. Mathura (2009) found that the phenomenon of strategic leadership has positive influence in a wide range of qualitative indicators in organization. Leadership is capable to change the cognitive paradigm of employees so as to create a conducive environment for the implementarian of strategic plans in achieving the organization's performance.

Jooste & Fourie (2009) conducted a study concerning the role of strategic leadership with various dimensions within strategy implementation in several organizations in South Africa, which stated that strategy implementation is an important management processes and at once complex, where the failure of transformation initiatives is usually due to poor implementation of the strategy. Strategic leadership has an important role in effective strategy implementation, because leadership can unify the understanding of all members of organization and move them toward a common goal.

In addition to strategic leadership, other factors that can affect the successful strategy implementation is knowledge management and

dynamic capabilities (Smith & Prieto, 2008). The rapid development of information and technology in banking industry indicates that the industry has evolved into a knowledge-based business (Triaji , 2010). Davis and Botkin (1994) stated that in the future, in business patterns there will be created conditions in which customers become learners and company become the educators. The implications of such business pattern is that company as the educator must be more intelligent (smarter) than the educated. The phenomenon of knowledge-based business industry is anticipated by many banking organizations through the implementation of knowledge management (Triaji , 2010).

Mosconi & Roy (2013) identified an approach that put the value of knowledge into organizational performance improvement through decision making and found that knowledge can improve the quality of decisions made by top, middle, and lower managers as well as employees within the organization. Literature of knowledge management in banking sector by Triaji (2010) revealed that it is the time for banking industry to continuously developing knowledge- based products in more targeted manners and thorough with knowledge improvement completion on four issues, namely it's integration in strategy, culture, human resource and technologies .

Smith & Prieto (2008) in their literature study reveals that there is a very close conceptual relationship between knowledge management and dynamic capabilities, and found that knowledge management has a strong influence on dynamic capability, where knowledge management determines organizational capability to adapt quickly with it's strategic environmental changes. Smith & Prieto also found the role of dynamic capability and knowledge management in strategy implementation the achievement of company performance.

Dynamic capability is a capability that enables organizations to adapt quickly in response to signs of environment changes. Past study by Zollo and Winter (2002) defined dynamic capabilities as "a learned and stable pattern of collective activities in which the organization systematically create and modify the routine operations to achieve increased effectiveness." The purpose of dynamic capability application is to maximize the value of company and the value provided to customers

Companies which operated in a very dynamic industry and a very open market should have the dynamic capability, namely the capability to sense market direction and environment (Sense Capability), the capability to utilize and capitalize on existing resources (Seize Capability), and the

capability to reconstitute or modify existing and new resources (reconfiguring Capability), would be beneficial to implement existing strategies (Nedergaard & Jones, 2011)

Various studies which have been revealed previously highlighted the importance of knowledge management for innovation, performance and competitive advantage on a wide range of private and public sector organizations. They indicate that knowledge management and dynamic capability are concepts that applicable in any organization. However, there still lack of literatures concerning knowledge management and dynamic capabilities in banking sector, especially in individual context of, rather than organizational. This research attempts to fill the gap with further investigation concerning the influence of knowledge management and strategic leadership on dynamic capabilities, strategy implementation in banking sector, particularly in government owned banks owned at regional level .

The key question expressed in the study is how the perception of upper and middle-level managers of Sulsebar Bank, related to the role of strategic leadership and knowledge management capabilities to the generation of a dynamic organization that determines the success of strategy implementation at Bank Sulsebar.

2. LITERATURE REVIEW:

2.1. Strategy Implementation

Strategy implementation is the method used to operationalize or implement the strategy within organization. Strategy implementation is a process where several strategies and policies transformed into action through the development of programs, budgets and procedures. Although implementation usually only considered after the strategy is formulated, but implementation is the key to the success of strategic management

According to Hariadi (2003), business strategy is a plan at divisional level and meant to to build and strengthen the competitive position of the company products or services within a particular industry or market served by the division. While the functional strategy is short-term activities implemented by each functional area within a company in order to implement corporate strategy. Functional strategy support the implement corporate strategy implementation identifying specific activities which will be implemented in each functional area. Thus, the functional strategy provides guidance where the activity will be done now or soon.

2.2. Knowledge Management

Knowledge Management (KM) in the literature is defined from various perspectives and also a meeting point of several disciplines, such as information science, strategic management, human resource management, information management and technology systems (Quintas, 2008). One of them defined Knowledge Management as a function that creates, identifies and manages organizational knowledge for long-term benefits (Darroch, 2003). Gold et.al. (2001) revealed that "Knowledge Management is the activity/complex activities involving the development of various structures that enable companies to identify, create, transform and distribute knowledge". Knowledge Management is also a collection of activities which organized and structured to achieve corporate objectives (Malhotra, 2001). Rivard and Roy (2005) defines Knowledge Management as "... the creation and use of organized knowledge carried out by members of organization with the aim to help the organization achieve its strategic objectives and to innovate".

Although there are many definitions of Knowledge Management, almost all have in common that the Knowledge Management consists of 'storage, sharing , dissemination and application of knowledge in the organization to achieve its objectives' and 'a series of activities, processes and technologies that support the collection, management and publication of information in any form but primarily through digital content (i.e. documents, multimedia files or other file types.'" Normally, Knowledge management has two components : a storage and means to support the work flow of company employees who are authorized to insert information into the storage (Smith , 2001).

2.3. Strategic Leadership

Strategic leadership is defined as "the ability to anticipate, visionary, and maintaining flexibility and to empower others to create strategic changes necessary" (Hitt, Ireland, & Hoskisson 2007). Based on that understanding it can be seen that strategic leadership means not only "personal" or individual leadership in leading others in an organization, but also covers other fields of leadership that is strategic for organization in achieving its goals. The fields included namely organizational leadership strategy, technology leadership strategy, quality leadership strategy, cost advantage strategy, entrepreneurial leadership strategy and so on. Strategic leadership requires the ability to accommodate and integrate both internal and external business environment of organizations,

as well as to manage and engage in a complex of information process.

Some acts that characterize strategic leadership positively contribute to the implementation of effective strategies by Hitt et.al. (2002), among others are:

- 1) Determine Strategic Direction
- 2) Managing a portfolio of organizational resources effectively
- 3) Maintaining Effective Corporate Culture
- 4) Emphasizing Ethical Practices
- 5) Establish Strategic Control

The fifth component of strategic leadership as described above must be animated by a leader in implementing strategic leadership. Strategic leadership poses a particular role in every strategic leadership actions mentioned above. In the end, each of the strategic leadership action contribute positively to the implementation of the strategy (Hitt et.al.; 2007).

2.4. Dynamic Capability

The concept of dynamic capabilities (Eisenhardt and Martin, 2000; Teece et.al., 1997) has evolved from resource-based view of the firm (Barney, 2001; Wernerfelt, 1984). Proponents of RBV argued that valuable, rare, difficult to imitate and irreplaceable resources can be the source of superior performance, and may enable the company to achieve sustainable competitive advantage (Barney, 2001). Dynamic capability has given value to the argument of RBV because it changes what is basically a static view into one concept that can encompass a competitive advantage in a dynamic context (Barney, 2001)

Dynamic capability is "the organization capacity to deliberately create, expand or modify its resource base" (Helfat et.al., 2007) and during the last few years the concept has received a lot of attention in the form of publications (e.g., Eisenhardt and Martin, 2000; Helfat and Peteraf, 2003; Teece et.al., 1997; Zollo and Winter, 2002) and in conference presentations (e.g. 2004-2006 Academy of Management meeting; 2004-2006 Strategic Management conference). However, as highlighted in the British Journal of Management Special Call for Papers on "The Practice of Dynamic Capabilities Theory Development and Research" and by Helfat et.al.(2007) this concept still requires the development of theoretical and empirical .

3. CONCEPTUAL FRAMEWORK OF RESEARCH

3.1. Conceptual Framework of Research

The conceptual framework of research can be seen as follows:

(Insert Figure 3.1. about here)

3.2. Research Hypotheses

Based on the above explanation, the research hypothesis can be stated as follows :

- H1 : Strategic Leadership has a positive and significant influence on Dynamic Capabilities of Bank Sulselbar.
- H2 : Knowledge Management has a positive and significant influence on Dynamic Capabilities of Bank Sulselbar.
- H3 : Strategic Leadership has a positive and significant influence on the success of Strategy Implementation of Bank Sulselbar.
- H4 : Knowledge Management has a significant influence on the success of Strategy Implementation of Bank Sulselbar.
- H5 : Dynamic Capabilities has a positive and significant influence on the success of Strategy Implementation of Bank Sulselbar.
- H6 : Strategic Leadership has a mediating influence on the Success of Strategy Implementation of Bank Sulselbar through Dynamic Capabilities.
- H7 : Knowledge Management has a mediating influence on the Success of Strategy Implementation of Bank Sulselbar through Dynamic Capabilities.

4. RESEARCH METHODOLOGY

The study is explanatory which aims to test the relationship between variables on conceptual model. Each variable has dimensions and particular effect on strategy implementation. Yet, the relationship intensity and direction are measured in order to identify the nature of relationships.

In data processing, the statistical model used to analyze the data of perception is multiple regression (multivariate regression analysis) with development models of Structural Equation Modelling (SEM). The processing is conducted after the data was collected by using software tool AMOS 20. The ranking scale used is Likert which ranging from 1 to 5 levels ranging from strongly disagree to strongly agree .

By using Slovin formula (Umar, 2001) it was obtained a total sample of 130 respondents from total population of 192 people, who are leaders at the upper and middle managerial level who served in various branches and work units of Bank

Sulsebar in Province of South Sulawesi, West Sulawesi, Jakarta and Central Office in Makassar. Data collection conducted through questionnaire surveys, interviews, and literature study.

5. RESEARCH FINDINGS AND DISCUSSION

After the data collection and verification of response samples, it is known that from the 130 questionnaires distributed, only 115 questionnaires are eligible for data processing. Further testing of hypothesis based on the proposed model using Structural Equation Modelling Analysis. Table 1 shows the results of model testing that shows the influence of each variable.

(Insert Table 5.1 about here)

Further analysis of indirect effect and to see the value of Total Effects can be seen in the following table :

(Insert Table 5.2 about here)

Based on the analysis in Table 1 and Table 2, then it can be explained as follows:

H1: Strategic leadership has significant and positive resources and establish the competence of organization to be able to analyze external environment, capture the value from external environment as well as to reconfigure and modify resources to take advantage of the value which becomes an advantage for Bank. Markku Sotarauta (2005) suggested that the capabilities of leaders and decision-makers must continually be developed so that they are able to look at the dynamics of the external environment as "stock" and use it in generating partnership with various stakeholders. Harreld et.al.(2006) states that organizational dynamic capability development is the fundamental task of executive leadership, primarily to prevent stagnation of strategy and organizational core competencies that normally only survive in the short term but in the long run can be fatal. In strategic terms, the dynamic capability has become a manifestation and commitment of leaders at IBM as a capability that was formed through continuous processes of discussion, a common language, and the development in problem-solving methodology. Pasaribu et.al. (2013) in his research regarding the effect of strategic leadership on dynamic capabilities in subsidiaries Multinational Corporation in Indonesia, found that strategic leadership competencies of multinational corporation subsidiaries affect the dynamic

capabilities of company, where strategic leadership is developing internal organization by adapting and aligning with the company's strategic impetus.

H2 : Knowledge Management does not have positive and significant effect on dynamic capability of Bank Sulsebar with $P = 0.677$ (> 0.05) and the value of CR (t value $< t$ table is $0.677 < 1.65$) and the coefficient of 0.078, these results suggest that the increase in knowledge management not directly will increase the dynamic capability of Bank Sulsebar. These results indicate that there are still obstacles in knowledge management, which causes it has not been able to form organizational dynamic capability. As stated by Gomez and Manzaranes, there are certain difficulties in the implementation of knowledge management in an organization, which could be influenced by the typology of knowledge management strategy executed, the age and size of organization, the characteristics of human resources, organizational rigidity, as well as the supporting facilities and infrastructure such as information technology and infrastructure .

H3 : Strategic leadership has significant and positive effect on Strategy Implementation of Bank Sulsebar with $P = 0.013$ (< 0.05) and the value of CR (t value $> t$ table is 2.488) and the coefficient of 0.700, these results suggest that the increase in Strategic Leadership will enhance the Implementation Strategy of Bank Sulsebar. This means that the role of leadership is crucial and relatively effective in Bank Sulsebar in directing, empowering, and integrating human resources with physical resources owned, within various operations and management as the implementation of Bank's strategy .

Lear (2012) found that strategic leadership can directly or indirectly affect positively with company's high performance level through six criterias of strategic leadership, namely the strategic direction, development of core competencies, human capital development, the maintenance of an effective organizational culture, emphasis on ethical practices and the development of strategic control organization.

Correspondingly, O'Reilly et.al.(2010) found that the effectiveness of leadership at different levels in organization have significant influence on performance improvement. Implications of these findings are that the leaders at various levels of different organizations collectively should consider on how their leadership will affect employee performance leadership. Jooste & Foorie (2009) found that in general, all acts of strategic leadership have positive contributions to the implementation

of effective strategies in organization. Determining the strategic direction for organization is strategic action that perceived to hold the most important role in strategy implementation in the organization. The development of human capital as well as the utilization and maintenance of core competencies also play an important role in the implementation of strategy.

H4 : Knowledge Management has no positive and significant effect on implementation Strategy of Bank Sulsebar with $P = 0.357 (> 0.05)$ and the value of CR (t value < t table is $-0.921 < 1.968$) and a coefficient of -0.140 , these results suggest that the increase in Knowledge Management is not always followed by an increase in Strategy Implementation. These results show that although the process of knowledge management goes well, it will not automatically improve the effectiveness and efficiency of strategy implementation. The processes of knowledge acquisition, knowledge structuring, knowledge dissemination and knowledge application in Bank Sulsebar Bank, have not been able to optimize the strategy implementation of service excellence, innovation strategy, corporate social responsibility strategy and mastery of information technology strategy. Many factors can be the distractors in the relationship, or there must be factors that encourage, stimulate or mediate the relationship between the two.

As an illustration, Griffith & Remenyi (2008) found that the effectiveness of the knowledge management process which integrated in the management and operational activities of an organization is dependent on organization characteristics and the level of technology used intensively.

H5 : Dynamic capabilities has positive and significant effect on the success of Strategy Implementation in Bank Sulsebar with $P = 0.049 (< 0.05)$ and the value of CR (t value > t table is $2.055 < 1.65$) and the coefficient of 0.409 , these results suggest that the increase of Dynamic Capabilities would improve the success of strategy implementation strategies of the Bank.

These results suggest that the ability of Bank Sulsebar (and the individuals within it), in terms of analytical system to study study, identify, filter, shape and quantify opportunities in the environment (sense capability), the Banks's ability to develop strategies and systems for effective decision making and to absorb and integrate resources in capturing/creating value from existing opportunities (seize capability), as well as the Bank's ability in updating and modifying resources to maintain its competitiveness (reconfiguring capability), have real and significant effects on the

improvement of Bank's strategy implementation process.

Almeida et.al. (2013) found empirical evidence that there is a relationship between organization dynamic capabilities with the implementation of various types of strategies. It was found the inter-relation between the generic strategy, which discloses the use of combination of strategies by various mill companies in Brazil. It was also found the relationship between the capabilities of strategy implementation with the quality of strategy formulation. In this study it was identified that management capability and market performance have statistically significant correlation with financial performance.

Ayuso et.al. (2006) proved that two simple dynamic capabilities that can be done namely dialogue with stakeholders and stakeholder knowledge integration contribute to the creation of innovation and understanding of strategy formulation according to the needs of stakeholders that will allow organizations to implement a strategy that is consistent with the interests of stakeholders.

H6 : Strategic Leadership has a positive effect on Strategy Implementation of Bank Sulsebar through Dynamic Capabilities. In line with the results tested in Hypothesis 1, that strategic leadership has significant and positive effect on Bank's dynamic capabilities, where the Bank's leadership directing the resources and establish organizational competence to be able to analyze the external environment, capture the value of the external environment and reconfigure and modify resources to harness the value to become the competitive advantage of Bank. The increased dynamic capability will improve Implementation Strategy of the Bank. These results suggest that the ability of Bank Sulsebar (and the individuals within it), in the case of an analytical system for studying, identifying, filtering, shaping and quantify the opportunities in the environment (sense capability), Sulsebar Bank's ability to develop strategies and systems for effective decision making and absorb and integrate resources in capturing/creating value from existing opportunities (seize capability), as well as the Bank's ability in updating and modifying resources to maintain its competitiveness (reconfiguring capability), have a real and significant effect on the improvement of Bank's strategy implementation process.

Sotarauta (2005) found that the most important element of dynamic capabilities in company's strategy implementation are absorptive, strategic and institutional capabilities.

H7 : Knowledge Management does not have a positive and significant effect on Bank's Strategy Implementation through Dynamic Capabilities. These results indicate that there are still obstacles in the implementation of knowledge management in Bank Sulsebar so it can not influence the dynamic capabilities as well as the implementation of Bank's strategy. The obstacles can be derived from organizational paradigm regarding knowledge management, lack of socialization of knowledge management, obstacles in tacit and explicit knowledge, as well as obstacles in the process of knowledge creating process (SECI). Gomez & Manzaranes also found that differences in different typologies of Knowledge Management will generate the effect on the performance in different organizations.

Therefore, the Bank Sulsebar need to change the paradigm on knowledge management, rather than just a tool, instrument or human resource program, knowledge management should be adopted as cultural value or as a strategy that should be implemented in line with a variety of other Bank's business strategies. By knowing that Knowledge Management can be very useful but contextually do not have an influence on strategy implementation and performance excellence, which means that there is obstacles that should be handled in the implementation of Knowledge Management in Bank Sulsebar.

6. CONCLUSION & RECOMMENDATIONS

6.1. Conclusion

Referring to the analysis and discussion previously, then the next few conclusions can be drawn as follows:

1. Strategic Leadership significantly affect the dynamic capability and strategy implementation of Bank Sulsebar, which showed that the leaders in Bank Sulsebar are relatively good in developing core competencies, developing effective organizational culture, emphasizing ethical practices and conducting organizational control in implementing the strategy. Aspects of leadership involved in which research need to be strengthened and improve the other aspects of leadership, such as determining the organization's strategic direction and managing a portfolio of organizational resources effectively in order to optimally implement the strategy within the organization .
2. There are still obstacles in knowledge management implementation of Bank Sulsebar so it can not influence the dynamic capabilities as well as the Bank's strategy implementation.

The barriers can be derived from the organizational paradigm regarding knowledge management, lack of socialization of knowledge management, obstacles in tacit and explicit knowledge formalization, as well as obstacles in knowledge creation process. Gomez & Manzaranes also found that differences in the different typologies Knowledge Management will affect performance differently in different organizations .

6.2. Recommendations

Based on the discussion and conclusion of the study, the suggestions and recommendations can be given as follows :

1. Related to strategic leadership, increasing the role and effectiveness of leadership at Bank Sulsebar can be done with more attention to the appropriateness of perception between various leaders at different levels within organization and intensive communication should be well established between leaders. In addition to that the career management system of leaders should be improved by providing more attention on leader's experience and psychological maturity factors rather than just considering on whether a particular candidate has financial, certified in risk management or has passed in certain leadership training.
2. Bank Sulsebar need to changed the paradigm on knowledge management within the organization, from just a tool, instrument or human resource program, to become the strategy or value that be implemented in line with Bank's business strategy. By knowing that Knowledge Management can be very useful but contextually do not have an influence on the implementation of the strategy and performance excellence, it means the basic philosophy of Knowledge management should by understood more deeply.

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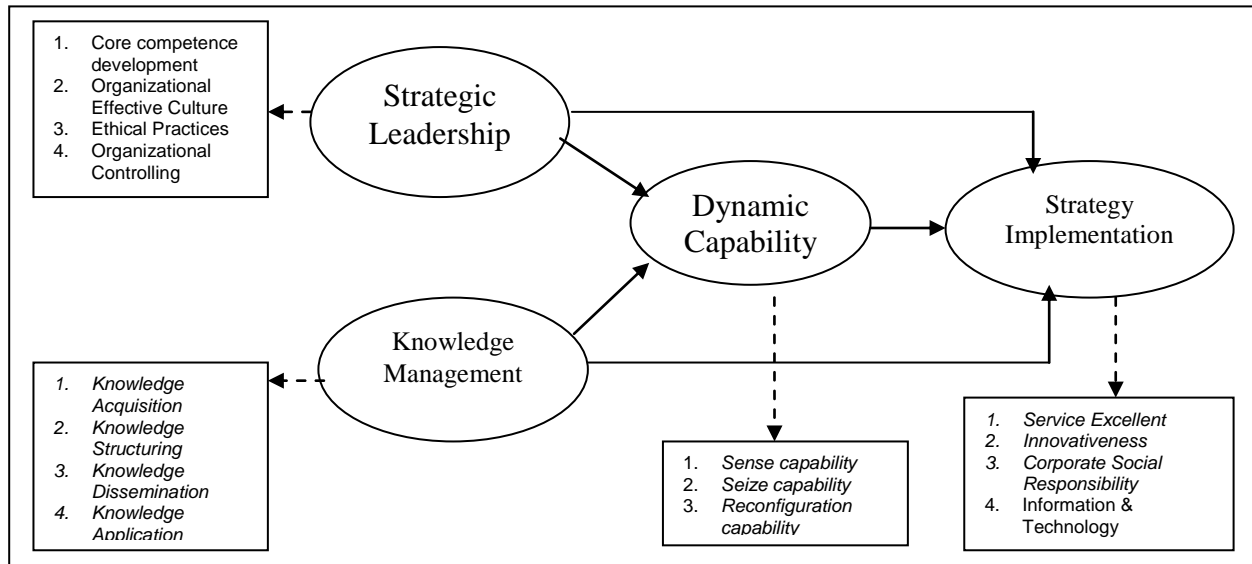


Figure 3. 1. Conceptual Framework

Table 5. 1. Estimated Results of Relationship between Strategic Leadership and Knowledge Management on Dynamic Capabilities and Strategy Implementation

Direct Effect		Coefficient	CR	P. value	Remarks	
Dynamic Capability(Y1)	←	Strategic Leadership(X1)	0,844	4,122	***	Significant
Dynamic Capability(Y1)	←	Knowledge Management (X2)	0,078	0,417	0,677	Not Significant
Strategy Implementation (Y2)	←	Strategic Leadership(X1)	0,700	2,489	0,013	Significant
Strategy Implementation (Y2)	←	Knowledge Management (X2)	-0,140	-0,921	0,357	Not Significant
Strategy Implementation (Y2)		Dynamic Capability (Y1)	0,409	2,055	0,040	Significant

Table 5. 2. The value of Indirect Effect and Total Effect

No.	Independent Variable	Intervening Variable	Dependent Variable	Indirect effect	Total effect
1.	Strategic Leadership	Dynamic Capabilities	Strategy Implementation	0,392	1,187
2.	Knowledge Management	Dynamic Capabilities	Strategy Implementation	0,033	-0,147