INCREASING PUBLIC SERVICE PERFORMANCE THROUGH THE CAPITALIZATION OF DYNAMIC CAPABILITY AND INNOVATION PERFORMANCE: AN EMPIRICAL STUDY OF PUBLIC SERVICE AGENCIES IN INDONESIA

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Abstract

In Indonesia, agencification is practiced through the granting of autonomy to several community service centers (which main form of business is service), in the form of a Public Service Agency (BLU). The key success factors that need to be owned by the organization (Public Service Agency) to win the competition in the future are dynamic capability dimensions that are specifically focused on public service. As with dynamic capabilities, innovation performance is also one way to deal with stagnant conditions in the Public Service Agency to improve service efficiency (company and organizational performance). Hence, how public service can effectively apply its dynamic capability and develop innovation performance in order to provide a quick response to a dynamic environment has become an urgent need. The purpose of this paper is to discuss the abovementioned issues. In order to gain the best exploration on dynamic capability, innovation performance, and organizational performance, the questionnaires are distributed to 100 respondents and structural equation modeling (SEM) with Partial Least Square (PLS) is used to analyze the survey result. The results indicate that dynamic capability is an important basic organizational mechanism through which the benefits of innovation performance are converted into performance effects at the corporate level. That is, dynamic capability enhances the innovation performance of organizations. While dynamic capability, in turn, increases public service performance and provides competitive advantages.

*Keywords***:** Dynamic Capability, Innovation Performance, Public Service Performance.

1. Introduction

The idea of changing the pattern of management of government public services from bureaucracy to corporations continues to grow along with the development of new concepts in public services that began in Europe in 1982, through the concept of New Public Management with the concept of agencification (Moore, 1985). Agencification is a form of public service reform that aims to realize good governance in a government environment to increase income and services (Moore, 1995). In Indonesia, the concept of agencification is practiced through the granting of autonomy to several community service centers (whose main form of business is service), in the form of a Public Service Agency (BLU). This type of Public Service Body that is previously managed with strict bureaucratic rules has changed towards the management of corporate models, just like business institutions without separating ownership status.

As one of the spearheads in social and commercial services, BLU must be managed professionally. Furthermore, BLU is one of the public service providers owned by the government, thus, it is required to carry out the principles of management based on results and

profits. Based on the data from the Ministry of Finance, currently, there are many government agencies that have the concept of BLU. The types and number of BLUs in Indonesia, in every sector are presented in Table 1.

Table 1. Distribution of Public Service Agencies (BLUs)in 2019

No	Sectors	Amount
1	Health	91
2	Education	92
3	Other Goods/Services	25
4	Region	4
5	Funds	9

Source: Ministry of Finance, 2019

The key success factors that need to be owned by the Public Service Agency to win the competition in the future are dynamic capability dimensions that are specifically focused on the public service sector. Sensing capability includes the company's ability to recognize shifts in the environment that can affect the company's business based on its current capability position. Therefore, sensing is related to the introduction of opportunities and challenges and monitoring the current role of capability. In general, Teece et al. (2016) explain that dynamic capabilities support flexibility and agility, but there is a trade-off with efficiency.

Similar to dynamic capabilities, innovation performance is also one way to deal with stagnant conditions in BLU to improve its service efficiency (company and organizational performance). The company innovates to create a relationship between the utility value and price (monetary value),which is making better products for consumers and/or users (Estrin, 2009). According to Estrin (2009), there are five core values of innovation, namely questioning, risk-taking, openness, patience, and trust, whilethe dimensions are product innovation, process innovation, market innovation, strategy innovation and behavioral innovation (Wang and Ahmed, 2007).

Furthermore, it is important to analyze the influences of dynamic capabilities and innovation performance on public services (provided by BLUs). The public service sector is very attractive and has been used as an example of the implementation of public service management in government, especially in Indonesia. This sector has undergone many changes over the past few years, with changes in the logic of operations, expanding the number of services and competition in the face of intense competition intensity. The circumstances increasingly require them to have the ability to rediscover themselves, both through the process of renewal and innovation and turning it into a corporate organization.

The objective of this study is to analyze the effect of dynamic capabilities on improving innovation performance in BLUs, by analyzing the effect of dynamic capabilities on improving organizational performance, the effect of innovation performance on organizational performance and the effect of dynamic capabilities on organizational performance which has been moderated by environmental changes in BLUs. This study will contribute by providing insights into the application a public service agencies in the government environment by emphasizing the level of efficiency of dynamic capabilities within the Public Service Agency.The results of this study can also be used as a means to develop a strategy to create a service assessment system forPublic Service Agencies. The remainder of the paper is structured as follows. The theoretical framework is presented in Section 2, followed by an explanation of the

research model and hypotheses development in Section 3, the method in Section 4, results and analysis in Section 5, and conclusions in Section 6.

2. The Theoretical Framework

Dynamic Capability

The concept of dynamic capability has three basic elements, namely sensing, seizing and transforming (Teece et al. 1997).

In private sector literature, the dynamic capability approach has become a common theoretical framework for analyzing how a company change. In the dynamic markets, the dynamic capability is recognized as a source of sustainable competitive advantage and a precondition for the survival of long-term organizations (Ambrosini and Bowman, 2009; Eisenhardt and Martin, 2000; Zahra et al., 2006). As previously stated, many organizations in the public sector face more environmental changes than private sector companies (for example because of the frequent policy changes). This capability is increasingly seen as a determinant of success for the public sector.

Bryson et al. (2007) emphasize that the important keys to the public success of the sector are identifying and building the capacity to produce the greatest public value for key stakeholders at a reasonable and rational cost. Without continued updates, these capabilities through dynamic capabilities, they will find it difficult to respond effectively to changes in the environment. In previous studies, Fernandez and Rainey (2006) focus on individual level analysis, namely the role of top and middle managers or politicians in explaining innovation, adopting organizational-level perspectives to be able to contribute to the process of innovation in the public sector.

Bryson et al. (2010), on the other hand, question whether dynamic capabilities can be implemented in the public sector. Further research from Bryson et al. (2010) says that the application of dynamic capabilities is very limited because public managers have little control over the formulation and implementation strategies, compared to the private sector. This is also due to the dominance of the central government towards the public sector through auditing and targeting, making limited choices in the determination and implementation of strategies (Bryson, et al., 2010).

Some researchers use quantitative and qualitative approaches to analyze the dynamic capabilities and their impacts in the public sector. These studies show that the public sector benefits from having dynamic capabilities such as reshaping capabilities (Jones et al. 2005), knowledge sharing capabilities (Lee, 2001) or managerial capabilities (Carmeli and Tishler, 2004). For example, the ability to implement information technology in government is based on the re-establishment of existing capabilities based on practices for employee involvement, resource development, and management performance (Jones et al., 2005). Daniel and Wilson (2003) analyze the different dynamic capabilities that the industry needs in the e-business transformation of five organizations from different industries, including local governments in the UK. The results show that in order to develop successful e-business services, all organizations had to reconfigure and add resources by applying different dynamic capabilities. This capability refers to an organization's ability to build commitment both within the organization and with external stakeholders or its ability to integrate e-business processes into existing activities. The findings show that learning by doing is the main mechanism that builds the organization.

The same study is conducted by Pablo et al. (2007) that analyze how public managers use dynamic capabilities to improve performance, while being limited by lack of financial resources. The findings suggest that the process of developing and implementing dynamic capabilities occurs in three overlapping phases: Identification of dynamic capabilities (in this case, learning

ability of experiments), Using dynamic capabilities (e.g. supportive leadership styles to encourage personal initiative and trusting relationships) and managing the ongoing tensions. While Piening (2011) analyzes how dynamic capabilities can be improved through the implementation of the innovation process in five government-owned hospitals in Germany with a mixed method (qualitative and quantitative methods). His findings highlight that dynamic capabilities include comprehensive and performative aspects. The results also find that dynamic capabilities in hospitals consist of 'daily routines' such as communication procedures, and state that dynamic capabilities are indirectly related to organizational performance (both individuals and groups).

Innovation Performance

Regarding the concept of innovation, Barringer and Ireland (2013) state that innovation is the process of creating something new. In today's business world, innovation as a discipline, has not yet reached the expected development stage in meeting certain needs that are very urgent (de Bes & Kotler, 2011). Innovation is always related to a number of practices whose value is grounded, namely about making a new tool, product or process, giving birth to something 'new' that allows humans to achieve something that cannot be achieved beforehand (Tidd & Bessant, 2009). Innovation is not only about the emergence of new or better products, but more about solving problems that must appear first (Silverstein, et al, 2009). Effective organizations will be able to transform corporate entrepreneurial activities into their corporate strategies, which are fundamental in developing creative and innovative approaches, are designed to develop new ideas and ways of doing things (Hisrich & Kearney, 2013; Fein & Rasul , 2010).

According to Anthony et al. (2008), the challenge for companies that want to improve their ability to create growth through innovation is that many companies use metrics to measure innovation but in a wrong and high-risk manner. Innovation metrics can be divided into three categories, namely input, process, and output. However, the concept of innovation is influenced by the context of innovation itself. As Arundel and Huber (2013) point out, the measurement of innovation requires agreement on how to define innovation in the public sector. For example, Bloch (2011) argues that public sector innovation consists of new or significant changes in services and goods, operational processes, organizational methods, or the way organizations communicate with consumers. Innovation must create something new for the organization, even though they can be developed by others.

Likewise, Sahni et al, (2013), suggest that innovation in government must be able to respond to organizational conditions and managerial practices that are specific to the context of the public sector. Sahni et al. (2013) also introduce an explicit framework that identifies managerial conditions that are conducive to innovation in public organizations, namely experiments consisting of responding to low performers, feedback, motivation to make improvements, and the budget constraints (or costs). Sahni et al. (2013) survey hundreds of people in government, interview the public sector innovators, and collaborate with many academics in the United States.

The study is further strengthened by Demircioglu (2017),which does the same thing by focusing on the possibility of innovative activities in the public sector. Empirical evidence shows that important conditions specifically for public organizations influence the possibility of innovative activities. In particular, experiments, responding to low performers, the existence of feedback, and motivation to make improvements, increase the possibility of innovative activities. On the contrary, budget constraints do not have a significant effect on delinquent innovation. Thus, the results of this study indicate that the intrinsic factors, such as experimentation and motivation to improve performance, are very important to achieve innovation in the context of the public sector.

Organization Performance

Improving organizational performance is the focus of every manager in every company and organization. In order to successfully improve organizational performance, it is very important for organizations to establish a comprehensive measurement index that provides managers and staff with a clear direction and a set of objectives. Ruekert et al. (1985) divide the organizational performance measurement index into three dimensions: efficiency, effectiveness, and adaptability. Tseng & Lee (2012) also assume that performance can not only be measured based on financial measurement indices, but also by organizational performance, which can be measured based on financial performance, business performance, and organizational effectiveness. Financial performance is measured based on the following standards: return on investment, growth rate of sales, and income; while business performance includes not only financial measurement indices, but also operational performance,such as market share, product quality, new product introduction, marketing effectiveness, value added production, and other non-financial matters. Organizational effectiveness is the most widely used type of measurement, which covers the two types of measurement indices above, and resolves various internal conflicts to be fulfilled by various staff goals, such as staff morale and so on.

For example, Tippins and Sohi (2003) suggest profitability, investment returns, customer retention, and sales growth rates as indices of organizational performance measurement, while Lee and Choi (2003) suggest a level of market share, comparison of success with other companies, growth rates , profitability, and the ability to innovate as an index of performance measurement in organizations. Furthermore, Maltz et al. (2003) develop the dynamics of multi-dimensional performance and five measurements of organizational performance index including financial, market/customer performance, processes, human resource development, and the future to measure the success of various types of company management. Workman (2004) proposes the level of relative market share, relative sales value, relative rate of return on investment, relative income level, and target achievement level as five dimensions for measuring organizational performance. Shang and Marlow (2005) adopt pre-tax earnings, return on assets, and return on investment as three dimensions measuring organizational performance; and finally,

Based on the above theoretical framework, we conduct this research based on the above variables, namely Dynamic Capability in Public Sector, InnovationPerformance in Public Sector, Environmental Turbulence, and Organizational Performance.

3. Research Model and Hypotheses

This research investigates the relationship among dynamic capability, innovation performance, organizational performance and environment turbulence to understand how to apply public service's dynamic capability to enhance their innovation performance in order to enhance organizational performance for acquiring competitive advantage. Figure 1 shows the research model.
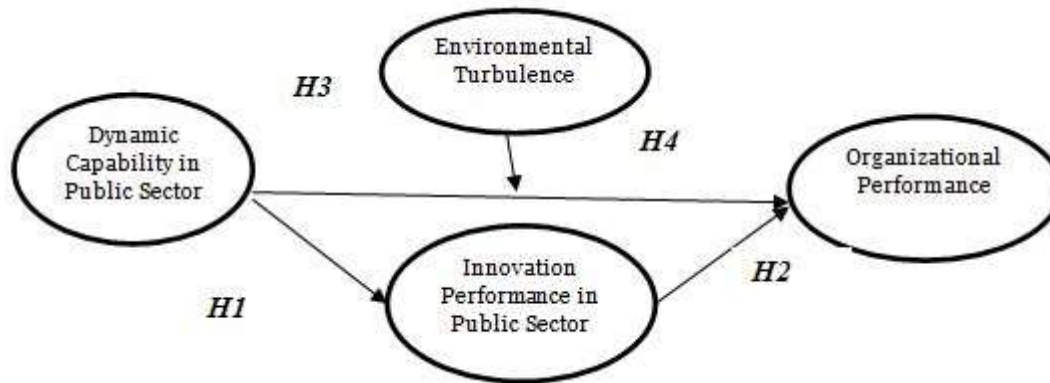
Figure 1. The research model

Some research results state that dynamic capabilities affect the innovation performance of a company (Cabral, 2010; Chang et al., 2012). Unlike the case with the public service sector (public sector) that measures the dynamic capabilities of each organization by paying attention to the level of path dependency, organizational routines (such as communication, coordination, integration, and internal learning etc.), implementation effectiveness and innovation effectiveness (Piening, 2011; Piening, 2013),in this case, public service directs its innovation strategy to focus on sustainable results, which dynamic capabilities are at the center of the development of organizational capabilities, resulting in a new and continuous level of continuity. Therefore, we propose the following hypothesis.

H1: Dynamic capability in public sector has a positive effect on innovation performance in public sector.

Based on several studies, it turns out that dynamic capability can also directly influence the performance of the company (Protogerou et al., 2008; Teece & Pisano, 1994; Stam et al., 2007; Ambrosini, Bowman, & Collier, 2009; Teece, 2007). According to Protogerou et al. (2008), dynamic capability is an antecedent for functional competencies which further influences the organizational performance, so that dynamic capabilities does have a significant direct effect on company performance. Therefore,we need to examine the relationship between dynamic capabilities and the performance of companies or organizations in the context of the Public Service Agency, and we conclude with the following hypothesis.

H2: Dynamic capability in public sector has a positive effect on organizational performance.

Some research results state that innovation performance influences company performance (Lawson & Samson, 2001; Gunday, 2010; Corsino, 2008; Gera and Gu, 2004; Vasquez, Santos, & Alvarez, 2001). According to Lawson and Samson (2001), developing organizations that invest in planned and explicit aspects of innovation capability, both individually and collectively, have a greater possibility of achieving sustainable innovation results as an engine of corporate performance. According to Gunday (2010), there is a positive influence of innovation on the performance of companies in the manufacturing industry. According to Corsino (2008), product innovations that are traded in quick time positively affect the company's revenue flow. However, Demircioglu (2017) mentions that innovation performance is very influential on organizational performance in the public service sector. Therefore, we conclude the following.

H3: Innovation performance in public sector has a positive effect on organizational performance.

In the proposed model, we also want to analyze the moderating effect of environmental turbulence on the relationship between dynamic capabilities and organizational performance.

The majority of dynamic capabilities research confirm that technology, regulatory and competitive conditions change rapidly according to environmental conditions. In such conditions, the ability to change and quickly develop new capabilities is seen as critical for long-term success (Zahra et al., 2006; Zollo and Winter, 2002). First, significance refers to the availability of resources such as income from taxes and costs in the geographical or public sector. Munificence is influenced by the intensity of competition as well as politics and social conditions. Complexity illustrates the homogeneity or heterogeneity of external conditions that deal with public organizations. Increased complexity refers to when an organization provides services to heterogeneous clients with different needs. Finally, the level of turbulence depends on uncertainty rather than the frequency of changes in the complexity, and the complexity of organizational environments (Boyne and Meier, 2009; Hendrick, 2003). Therefore, we draw the following hypothesis.

H4: Environmental turbulence positively moderates the relationship between dynamic capability in public sector and organizational performance.

4. Method

4.1 Sample and measures

As the objective of this research is to investigate the influence of dynamic capability and innovation performance on organizational performance in the public sector, this study is conducted with the context of Public Service Agencies (BLUs) in Indonesia. The sampling method applied in this research is purposive sampling. As for the respondents, the main target includes the managers or senior managers in 100 Badan Layanan Umum. The questionnaire is anonymous, mainly distributed on-site and online through e-mails. Simultaneously, in order to facilitate the questionnaire distribution and obtain high responsiveness, the BLUs are contacted via telephone and e-mails to inform the research objectives. Finally, the survey data is analyzed using structural equation modelling (SEM).

The measurement items of the questionnaire are based on relevant literature and verified by discussing them with some experts. Research variables, their dimensions and definitions, and number of indicators in each dimension are presented in Table 2. The language used in the questionnaire is Indonesian. The questionnaire includes measurement items for dynamic capability, innovation performance, environment turbulence and organizational performance, and also questions about the demographics of the respondents. A five-point Likert-type scale, ranging from 1 (strongly disagree) to 3 (neutral) to 5 (strongly agree), is used to measure the research variables.

Table 2. Research Variables and Dimensions

No	Variables	Dimensions	Definitions	References	Number of Indicators
1	Dynamic Capability in Public Sector	Path Dependency	Historical development which routine from time to time	Piening (2011)	8
		Organizational Routines	organizational routines can foster communication in teams, coordination and integration of knowledge		7
		Innovation Effectiveness	innovation can be used consistently and widely accepted by targeted organization members		3
		Implementation Effectiveness	The many outcomes of innovation that can be produced		3
2	Innovation Performance in Public Sector	Experiment	have a choice in deciding to do work and are given enough time and resources to try new ideas	Sahni et al. (2013)	3
		Response to low performer	handle less effective performance		3

		Feedback	receive adequate feedback about performance to provide the necessary results		3
		Motivation to improve Performance	Motivation to help achieve goals		3
		Budget Constraints	work at a certain classification level changes with respect to budget size		3
3	Environmental Turbulence	Munificence	A business environment full of opportunities for growth	Scheepers et al. (2008)	6
		Hostility	Environmental conditions that threaten the company's vision and mission		6
		Complexity	The business environment is influenced by vision and intervention from external parties		12
4	Organizational Performance	Financial Performance	Determination of sales growth rate, growth in market share, profit growth rate, return on investment	Tseng & Lee, (2012)	4
		Non-financial performance	The company is equipped with the ability to develop high-quality new products		11

Source: Analysis Result, 2019

4.2 Data analysis

The questionnaire is distributed in the months of March and April 2019. In total, we get 70 respondents. The factor analysis is then conducted to summarize a large number of criteria into smaller dimensions, which are the indicators that have the greatest influence in the formed dimensions. Only indicators with a factor loading larger than 0.5 are used to measurelatent variables (Hair et al. 2017). Reliability test based on composite reliability is used to examine whether the construct is consistent and reliable. Only construct with minimum value of composite reliability of 0.5 can be considered as having a satisfactory level of reliability (Churchill, 2010). The reliability and validity analysis are conducted using partial least square structural equation modelling (PLS-SEM). PLS-SEM has 2 (two) model specifications, namely inner and outer models. Inner model is a model that describes the relationship between latent variables that want to be evaluated, while the outer model, known as the measurement model, is a model that describes the relationship between indicators and latent variables. Outer model is also one of the most important parts in PLS processing, because the hypotheses relationships that occur in the inner model depend on the validity and reliability of the outer model (Hair et al. 2016). In this study ,the endogenous variables are Innovation Performance in Public Sector and Organizational Performance, while the exogenous variable are Dynamic Capability in Public Sector and EnvironmentalTurbulence.

5. Results and Discussions

First, this research applies item analysis to measure the relevance of each questionnaire item. The results show that the research variables (i.e. Dynamic Capability in Public Sector, Innovation Performance in Public Sector, EnvironmentalTurbulence and Organizational

Performance) are appropriate. Second, confirmatory factor analysis is employed and questionnaire items which have not reached the standard for factor selection are deleted.

Table 3 presents the results of the reliability and validity tests performed on the final questionnaire items. Composite reliability is obtained in order to assess the reliability of the measurement instruments. The loading factor is the magnitude of the correlation between indicators and latent variables. Indicators with high loading factors have a higher contribution to explain the latent construct. Conversely on indicators with low loading factors have a weak contribution to explain the latent construct. In most references, loading factor of 0.50 or more is considered to have sufficient validation to explain latent constructs (Hair et al, 2010). The content validity of the instruments was established by adopting the constructs that have already been validated by other scholars and experts. From the analyses mentioned above, it is found that the questionnaire items on each factor meet the requirements of reliability and validity.

Table 3. Validity and Reliability Results for Each Construct

No	Dimension	Variable	Item	Convergent Validity	Reliability
				Loading Factor	Composite Reliability
1	Dynamic Capability in Public Sector	Path Dependency	3	0.855; 0.857; 0.814	0.880
		Organizational Routines	3	0.678; 0.622; 0.723	0.715
		Innovation Effectiveness	3	0.902; 0.935; 0.862	0.927
		Implementation Effectiveness	3	0.664; 0.814; 0.701	0.771
	Innovation in Public Sector	Experiment	3	0.855; 0.857; 0.814	0,880
		Response to low performer	3	0.902; 0.935; 0.862	0,927
		Feedback	3	0.930; 0.964; 0.541	0,867
		Motivation to improve Performance	3	0.951; 0.926; 0.610	0,877
		Budget Constraints	3	0.557; 0.785; 0.737	0,193
	Environmental Turbulence	Munificence	4	0.893; 0.938; 0.840; 0.922	0,944
		Hostility	3	0.879; 0.786; 0.834	0,851
		Complexity	4	0.893; 0.938; 0.840; 0.922	0,872
	Organizational Performance	Financial Performance	3	0.855; 0.857; 0.814	0,880
		Non-financial performance	3	0.971; 0.931; 0.825	0,936

Source: Analysis with Smart PLS, 2019

There are four hypotheses in this study. The four hypotheses are tested using T-test statistics with the provision that H0 is rejected if T-value is greater than the critical value of 1.975 with a P-Value value above 0.05. Testing the inner model or structural model is done to see the relationship between variables or the significance of the research model. After knowing the

significant relationship between the variables, the hypothesis can be concluded. Hypothesis testing is done by bootstrap resampling method usingSmartPLS software. The results are presented in Table 4.

Table 4. The Hypotheses Test Results

Hypothesis	T-Value	P-Value	Result
Dynamic Capability -> Innovation Performance (H1)	53.727	0.000	Supported by data
Dynamic Capability-> Organizational Performance (H2)	3.426	0.001	Supported by data
Innovation Performance -> Organizational Performance (H3)	13.273	0.000	Supported by data
Environment Turbulence (Moderating Effect) -> Organizational Performance (H4)	3.474	0.001	Supported by data

Source: Analysis with Smart PLS, 2019

Hypothesis 1 states that dynamic capability has a positive effect on innovation performance. It can be seen from Table 4 that dynamic capability has a positive effect on innovation performance in the public sector. The relationship between the main variables is significant, because it has a T-value of 53.727. The results of this study are in line with what is stated by Cabral (2010) and Chang et al. (2012) which say that dynamic capabilities affect innovation performance. Cabral (2010) argues that companies with good levels of sensing, seizing, reconfiguring, learning, coordination, and integration, increasetheir innovations not only focusing on large levels of profit but also on the environment. But, it is different from the public service sector (public sector) which measures the dynamic capabilities of each organization by taking into account the level of path dependency, organizational routine including (communication, coordination, integration, internal learning etc.), implementation effectiveness and innovation effectiveness (Piening, 2011; Piening, 2013).

In the context of BLUs in Indonesia,the higher the level of specialization on a Public Service Agency, it will be very helpful to encourage compliance to the existing process routines. For example, the level of specialization of each hospital (as one of the BLUs) is very helpful in determining the direction of policies and procedures that exist in the work units. In addition, a good organizational structure also affects the motivation of employees to make innovations in the respective BLU. For the government-owned hospitals with the status of BLU, they begin to make breakthroughs such as improving the patient queue system and waiting list. This shows that in terms of improving public services, dynamic capabilities are the key to success in creating innovations.

Concerning the second hypothesis, dynamic capability has a positive effect on organizational performance,with the T- value of 3.426. This is in line with previous research results (such as by Teece & Pisano, 1994; Teece, 2007; Stam et al., 2007; Protogerou et al., 2008; Ambrosini, Bowman, & Collier, 2009). The results show that organizational performance is strongly influenced by dynamic capabilities, even though the effect is not as high as through innovation performance. In line with Teece et al. (2007) who argue that dynamic capability is not only a collection of influential resources, but a mechanism by which organizations learn and accumulate skills and capabilities, and define dynamic capabilities as the ability to integrate, create, and rearrange competencies internally and externally to adapt against dynamic environmental changes. A clear mechanism is formed from a clear organizational routine,

starting from the routine frequency of communication between employees and superiors and employees and employees. High level of specialization is also able to increase the level of ability of employees to create new innovations so as to increase profits and investment in BLUs. For instance, new programs that are launched by BLUs, such as the BLU of Forest Development Financing Center that organizes Field Officer IT Development as a step to familiarize field staffs, so that they understand the urgency of administrative requirements and financing requests being inputted to the system. With an increase in internal organization through increasing specialization in BLUs, the frequency of routine meetings can help to increase staff/employee resources which are the indicators of organizational performance improvement.

The results also show that Innovation Performance has a positive effect on Organizational Performance (H3 is supported by data),witha T-value of 13.273. The is in line with previous research results (such as by Lawson & Samson, 2001; Corsino, 2008; Gunday, 2010). Lawson and Samson (2001), for instance, find that advanced companies which invest in innovation capability, both individually and jointly, have a greater tendency to obtain sustainable innovations as a result of the company's financial and non-financial performance.This is consistent with the results of this research where high levelof motivation and experimentation are able to improve organizational performance both financially and non-financially. Demircioglu (2017) mentions the performance of innovation is very influential on organizational performance in the public service sector. In the context of BLUs, high levels of motivation, such as choices in deciding a direction, as well as new ideas are very helpful in improving performance in a public sector. Whereas clear directions and feedback are very helpful in improving innovation performance which in turncan maintain the best staff, motivate employees to innovate and indirectly improve financial performance. Budget constraints are often considered to influence and limit performance improvement. However, in the public service sector, the budget constraints actually encourage a BLU to look for other sources of income, for instance,by collaborating with private parties without expecting government funds. For example, the Kemayoran Complex management (a BLU that manages expo facilities in Central Jakarta) collaborates with JIEXPO and housing developers to develop their businesses.

The last hypothesis states that environmental turbulence positively moderates the relationship between dynamic capabilities organization performance. Based on table above, it can be seen that the moderating effect has a T-value of 3.474 (H4 is supported by data). The majority of dynamic capabilities research confirm that technology, regulatory and competitive conditions change rapidly according to environmental conditions. In such conditions, the ability to change and quickly develop new capabilities is seen as critical for long-term success (Zahra et al., 2006; Zollo and Winter, 2002).This is in line with the research results, or in the context of BLUs, whereby regulations from the government greatly influence the direction of policy and the level of organizational performance. Basically,the environmental turbulence in the public sector can be seen as a three-dimensional function, namely significance, complexity and uncertainty of change (Boyne and Meier, 2009 in Piening, 2013). Therefore, the results of the study support what has been delivered by Boyne and Meier (2009), which states that the level of turbulence depends on uncertainty rather than the frequency of changes in the complexity, and the complexity of environmental organizations. Competition between BLU and its competitors is also an example of hostility. BLU, as a public service agency, also maps its competitors to maximize their dynamic capabilities in achieving organizational performance. The CiptoMangunkusumo hospital (RSCM, the biggest hospital in Indonesia), for instance, uses two service standards,which aim at the characteristics of different communities. RSCM Kencanais formed to capturethe market share from the private hospitals.

6. Conclusion

This research is focusing in analyzing the influences if dynamic capability, innovation performance and environmental turbulence on the performance of BLUs in Indonesia. The results show that dynamic capability significantly affects innovation performance and organizational performance, innovation performance affect organization performance, and the environmental turbulence moderate the relationship between dynamic capability and organizational performance.

The results indicate that there are several aspects that need to be maintained and improved. Dynamic Capability is the ability to adapt, integrate, and properly reconfigure the internal and external skills of the organization, resources, and functional competencies to adapt to the requirements of environmental change. In improving the dynamic capabilities of the BLUs, they must be able to maintain the aspects of path dependency by paying attention to the urgency of implementing the program in BLU to improve dynamic capabilities. As for maintaining the level of specialization in BLU, it tends to encourage compliance with good process routines. Keeping the structure clear and not demanding a long hierarchy will also help to divide the work evenly and clearly. Other indicators that need to be considered are that in the public sector, internal conflicts often occur in terms of dissent. Organizational routines are also a determining factor in improving dynamic capabilities. This can be achieved by increasing the coordination between internal divisions and increasing the frequency of daily communication between subordinate and superiors to understand each other's goals and programs.

In addition to the above two factors, BLU must also pay attention to the effectiveness of implementation and innovation. This is deemed necessary to improve dynamic capabilities in the public service sector. Knowing the factors that hinder innovation is very important for BLU, given the high level of innovation from BLU. Dynamic capability or competencies that are continuously carried out and widely accepted by the community greatly help BLUs in improving their innovations asthey have short service times, high occupancy rates and many service users.

Aspects of innovation performance are also a concern. Innovation Performance is a new mechanism of the old mechanism in converting input into output so that it can produce a major change or drastic change to improve performance both financially and non-financially. This is due to the ability to experiment by means of BLU providing opportunities and choices for employees to innovate. Giving feedback (by superiors and subordinates) is a positive thing and must be maintained to improve innovation performance. The existence of motivation, inspiration to help achieving organizational goals and do the best in work, will also greatly help to improve innovation performance.

Lastly, environmental changes indirectly become things that influence the relationship between dynamic capabilities to organizational performance. The higher the level of complexity of an environment, the greater the effect on organizational performance. These things can be influenced by changes in the mission set by the BLU, changes in vision and program objectives set by BLU. This is also supported by the type of environment that requires a director or leader who is able to respond quickly to changes that occur. With the increase in the use of technology in the BLU, it will be able to predict customer needs/desires and also generate many opportunities to innovate technology in the public service sector. This study has limitations, it is deemed necessary to take more samples in order to get better results and strengthen research on public service performance for the development of further research.

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