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## **The Effect of Strategic Orientation and Dynamic Capability in Turbulent Environment on Commercial Bank Performance in Indonesia with Corporate Social Responsibility as Moderating Variable**

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### **Abstract:**

*This study aims to analyze factors that affect the performance of commercial banks in Indonesia in turbulent environment. The influencing factors analyzed are the external oriented strategic (Strategic Orientation, SO) and internal oriented strategic (Dynamic Capabilities, DC) and CSR (Corporate Social Responsibility) as moderating of the relationship between the two strategies on performance. Market orientation and entrepreneurial orientation strategies are used to describe SO. The object of this research is national commercial banks in Indonesia. The delivery of questionnaires was conducted to all national commercial banks totaling 108 banks, excluding 10 foreign banks operating in Indonesia. Twenty eight banks or about 26% of the population returned questionnaire. This study proves that both SO and DC affect bank performance. The influence of internal oriented strategic (DC) has greater effect on performance than SO. The CSR interaction as a moderating in each SO and DC relationship to performance is positively significant. Turbulent environment has a positive effect on SO, but it has no direct effect on DC. The influence of turbulent environment on DC is indirect, however through SO as its mediation, so in facing turbulent environment, the initial strategy used is strategic orientation. Application of SO will be followed by DC as the relationship influence of SO to DC which proved to be a positive significance. Banking practitioners should be focus on programs (indicators) of SO and DC that have a high degree of signification in order to improve performance more effectively. CSR does not merely fulfill its responsibilities or comply regulations, but it is also able to improve bank performance*

**Keywords:** *Turbulent environment, strategyorientation, market orientation, entrepreneurial orientation, dynamic capability, csr, company performance, banking*

### **1. Introduction**

The banking industry is characterized by rapid technological change, globalization and high competition which is the hallmark of turbulent environment. Banking is classified as an industry that directly touches the interests of society, businesses, all sectors of industry and Government, so that this industry is mostly regulated by the rules and regulations of Bank Indonesia (Central Bank of the Republic Indonesia) and *Otoritas Jasa Keuangan* (the Financial Services Authority). In addition, Indonesia banking are also influenced by global policies/guidelines, such as UCP (uniform costumers and practice for documentary credit), and Basel.

Technological change is strongly felt in the banking industry. The development and application of internet banking and mobile banking has been implemented by the majority of banks in Indonesia. Rapid technological developments enable customers to easily perform banking transactions either through computers (laptops) or with gadgets (mobile phones) anywhere and anytime.

The banking condition has been experiencing market turbulence in recent years. The less conducive macroeconomic developments and the liquidity dried up, making banks reducing expansion since mid-2013 (Infobank, 2015). Banks experiencing a crisis due to the decline in earnings in 2 years in a row need to restructure. This condition degraded the trust of shareholders, proven banks whose profits plummeted in 2014, most of its bankers have been replaced by Owners (Infobank 2016). Constraints faced by banks at least there are two things namely the slowing of credit growth and increased costs. By 2015, there are at least 12 banks with non-performing loans (NPLs) above 5% and should prioritize the settlement of bad

debts rather than provide new lending. The slow rate of loan growth underscores net income. The inflation makes the cost can not be reduced so that the ratio of operational cost compared to operating income (BO/PO) has increased. 86 banks of 118 existing commercial banks have increased BO/PO ratio, and 54 banks suffered a decrease in profit (Infobank, 2016).

The phenomenon of banking condition shows that there has been market turbulence in the banking industry. Changes in banking technology also occur either directly related to customers such as internet / mobile banking and technology in internal banking operations. Technological changes and market turbulence show turbulent environmental conditions. This phenomenon encourages to conduct research by testing the effectiveness of the strategy run in turbulent environmental conditions.

Companies in the face of turbulent environment must be market-oriented as responding to changing market demand and customer needs, with the intensity of competition also determine the success of company strategy. Customers do not have much choice in not tight competition, but in fierce competition there are many options that can be enjoyed by customers. So market-oriented companies will have a big chance to win the competition and get superior performance rather than non-market-oriented companies (Kohli and Jaworski, 1990; Jaworski and Kohli, 1993). On the internal side, the success of the company is also determined by the ability of its resources to meet the opportunities and challenges in conditions of rapid environmental change (Teece, 2007).

On the other hand, the global community trend of environmental and social concerns has transformed the business industry by conducting Corporate Social Responsibility (CSR), and now it is increasingly perceived that CSR as a reputation has an impact on competitiveness to improve company performance (Peloza, 2005). CSR is based on good business ethics with good treatment for employees, customer care, good for society, and Government and also environmentally friendly. Both internal and external stakeholder satisfaction will have an impact on the company's image and reputation. A good reputation will make it easier for bank management to run its business strategy, which ultimately can improve company performance.

In the theory of strategy known there are 2 models (madhhab) namely Industrial Organization (I/O model) and Resource-based (Ireland et al., 2013). I/O models argue that the external environment is a major factor in corporate strategy, while Resource-based is internally oriented with the view that resource and capacity factors are critical factors for the effectiveness of a strategy. This study combines the two schools that are external-oriented strategy (Strategic Orientation) and the internal-oriented (Dynamic Capabilities) as well as the indirect influence (moderating) company's reputation for social and environmental concerns represented by Corporate Social Responsibilities (CSR).

This study is interesting because it examines the effectiveness of 2 strategy models (external and internal orientation) and reputation (represented by CSR) on banking performance in turbulent environmental conditions. The direct influence of both the mazbah and the indirect effect of CSR on the performance of the company is tested simultaneously.

## 2. Literature Review

### 2.1. Turbulent Environment

The notion of a turbulent environment in this paper is in the business context, which refers to the unexpected and highly variable events occurring in the environment in certain industries operate. In this case, turbulent environmental may occur in three forms: i.e. technological turbulence, competitive intensity and market turbulence (Wong 2014). Tsai and Yang (2014) in his writing states that turbulent environments refer to unpredictability of change in company's external environmental, and affect the innovation that are marked by the many changes in market and technology in an industry.

The external environment has been shown to impact many different aspects of the organization. Environmental variations have been reported to have an impact on organizational strategy. The environmental volatility also affects the organizational structure (Duncan, 1972). The environment in general has a significant effect on an organization, so it is logical to believe that environmental will impact many company functions, such as marketing and company strategy.

### 2.2. Strategic Orientation

Strategic orientation provides the basis for long-term success for an organization and creates appropriate behavior within the organization to achieve superior performance (Hussain et al., 2013). The main inspiration of strategic orientation is to anticipate the uncertainty that occurs in the environment and to make a strategic match between internal enterprise resources and external forces.

There have been many constructions of strategic orientation i.e. entrepreneurial, market, learning, innovation, product, customer, marketing, sales, production and technology, as needs, indicating a scope of reconciliation of the strategic orientation literature (Hakala, 2011). The researchers found that market orientation and entrepreneurial orientation were positively related, and the companies adopting these two orientations were able to demonstrate superior performance (Balodi, 2014). In this case, market orientation and entrepreneurial orientation are two general categories of strategic orientation widely used in research (Hakala, 2011).

### 2.3. Market Orientation

Market orientation is defined as the company's ability to continue learning about customers, competitors and environmental factors in both existing and potential markets (Shavazi et al. 2015). Although many research has been

conducted on market orientation, the two views below are considered the most important: the behavioral perspectives and cultural perspectives.

Behavioral Perspective focuses on organizational characteristics such as strategy, structure, processes and activities. Kohli and Jaworski (1990) define market orientation from a behavioral perspective as follows: market intelligence organizations related to current and future customer needs, and intelligence dissemination across departments and organizations to respond to it.

The most significant study from a cultural perspective is narrated by Narver and Slater. They point out the idea that market orientation builds a culture that focuses on satisfying the needs and desires of the customers and striving to be better than their competitors. The cultural perspective of market orientation defines as an organizational culture that encompasses values and norms. This view brings about market orientation as the most effective organizational culture creates the behaviors necessary for superior value creation for buyers and makes sustainable superior performance for the company (Narver & Slater, 1990). Narver and Slater consider market orientation to be an organizational culture consisting of three components, namely, customer orientation, competitor orientation and inter-functional coordination.

#### *2.4. Entrepreneurial Orientation*

There are many different perspectives on entrepreneurship, at the organization level, the entrepreneurial style of top management in terms of their propensity for risk-taking, innovation, and proactiveness (Naman and Slevin, 1993). Innovation refers to a corporate environment that promotes and supports new ideas, experiments and creative processes that can lead to new products, techniques or technologies. Risk taking reflects the tendency to devote resources to projects that are likely to cause failure, or achieve high returns. Proactively describes the initiative's move, aggressively pursues business and is front-line in an effort to profit the company (Covin and Slevin, 1989).

Miller's (1983) perspective on entrepreneurial orientation as a combination of proactive taking opportunities, innovation and risk-taking has been widely adopted by researchers. This study also uses the dimensions of risk-taking, proactive, and innovation for the measurement of entrepreneurial orientation as much chosen by researchers, among others Al-Swidi and Al-Hosam (2012), Balodi (2014), Filser et al. (2014), Gupta & Gupta (2015), and Amin et al. (2016).

#### *2.5. Dynamic Capability*

Views that emphasize internal factors to gain competitive advantage include resource-based view (RBV). The views of RBV's streams exposed by Barney (1991) suggest that companies can achieve competitive advantage and superior performance if they have valuable resources, resources and capabilities that are hardly imitate. Recently, academics have broadened the RBV perspective to dynamic capabilities to address one of the concerns that RBV has not properly explained more specifically how and why certain companies achieve competitive advantage in a rapidly changing, new and unpredictable market environment (Makadok, 2001).

Dynamic capability view approach is emphasized on three aspects: sensing, seizing and reconfiguration in the face of environmental change (Teece, 2007). Dynamic capabilities can be defined as the company's ability to integrate, build, and reconfigure internal and external competencies to cope with rapidly changing environments (Teece et al., 1997). Dynamic capability not only allows a company to utilize resources in a more effective way, but also to renew and shape the company's strategic competencies so that it can answer challenges in facing environmental change (Protogerou et al., 2007). Inspiring understanding of dynamic capabilities by Teece, dynamic capability is measured in 2 dimensions: sense capability and intergrating capability (Tseng and Lee, 2014) (Wilden and Guldergan, 2015).

#### *2.6. Corporate Social Responsibilities (CSR)*

The term CSR was first created in 1950 and gained special attention in management studies in the 1970s. Activities under the umbrella of CSR fall into three categories, namely economic growth, ecological balance and social progress (Saeed and Arshad, 2012). Although there are many conceptual frameworks and operationalizing CSR, there are three main common dimensions: human responsibility, environmental responsibility, and product responsibility (Anselmsson and Johansson, 2007).

Reputation acts as an essential element for implementing the CSR. Currently accepted as a valuable intangible asset (Schmiedt and Epstein, 2005), and the reputation of the organization to transform it into a good corporate image (Pelozo, 2005) (Saeed and Arshad, 2012). In addition, reputation and image produce opportunities for innovation within organizations as a corporate branding thing, which in turn, builds corporate reputation, identity imaging (Fan, 2005). CSR give benefit to company in building their reputation and show that customers expect companies to engage in CSR activities and get rewarded for their efforts (Khojastehpour and Johns, 2014). CSR's image has also been shown to have an impact on consumer intentions to buy (Anselmsson and Johansson, 2007). Carroll (1991) draws on the dimensions of CSR to 4 responsibilities: 1) Economics; 2) Legal; 3) Ethical; 4) Philanthropic.

#### *2.7. Company Performance*

Company's performance in this research uses financial performance and non-financial performance as a measure of the company's overall success. Hooley et al. (2005) divides the company's performance into three groups: financial

performance (e.g. profit or compared to competitor's profit), market performance (e.g. increase in market share), and performance over customer (e.g. customer loyalty level). This view not only sees limited performance using financial indicators, but also considers non-financial indicators that will be able to contribute superior performance in the not-too-distant future.

The ranking of banks are often conducted by mass media such as Infobank magazine is to use financial performance as a reference rating of banking performance in Indonesia, that is by using the ratio of ratio of NPL (productive assets), LDR (liquidity), BOPO, NIM, ROA (earnings). The financial ratios are also widely used in research to measure banking performance as in research Arifin (2010), Sarkar and Sensarma (2010), Westhuizen (2014), Bertin et al.(2014), Muhmad and Hashim (2015).

### 3. Conceptual Framework

Based on the literature review, the conceptual framework model of this research is constructed as follows:

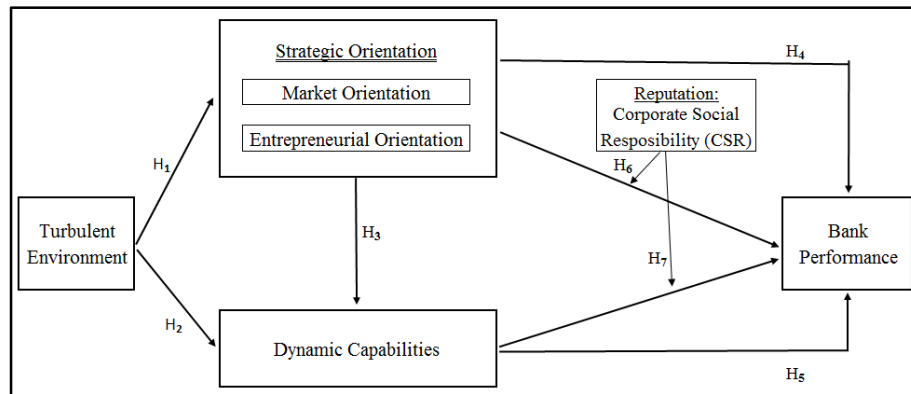


Figure 1

#### 3.1. Relationship between Turbulent Environment and Strategic Orientation

Previous research has shown that turbulent environment has a strong effect on 3 dimensions of entrepreneurial orientation that is innovation, proactive and risk taker in new product success (Wong, 2014). Market orientation is positively related to market fluctuation, turbulent technology and competitive intensity. Conversely, market orientation is negatively associated with market turbulence, rapid technological change, and competitive intensity (Wang et al., 2013). The dynamics of the technological and competitive environment are significantly predicated on the SMEs' corporate strategic orientation (Zhang et al., 2015). The environmental turbulence has a significant impact on entrepreneurial orientation and market orientation, which also has a significant impact on marketing ability (Qureshi and Kratzer, 2011). Referring to previous research and literature, we argue that:

H<sub>1</sub>: Turbulent environment has positive influence on strategic orientation.

#### 3.2. Relationship between Turbulent Environmental Relation and Dynamic Capabilities

Defee and Fugate (2010) revealed that environmental turbulence will increase the likelihood that the company realizes the need to repeatedly reconfigure its ability to remain competitive. Research by Moorman and Miner (1998) supports the assumption that organizations are more likely to improvise and experiment in turbulent environment. Protogerou et al. (2007) conducted a study that concluded dynamic capabilities have a positive effect on performance, and environmental dynamism have a significant effect on dynamic capabilities. These considerations suggest the following hypothesis:

H<sub>2</sub>: Turbulent environment is positively related to dynamic capabilities.

#### 3.3. Relationship between Strategic Orientation and Dynamic Capabilities

Research by Cromer (2008) concludes that dynamic capabilities are an additional source for companies to use their market orientation power in creating networks to achieve optimal firm performance. Research by Jiao et al. (2010) reveals that entrepreneurial orientation has a positive influence on dynamic capabilities. In Negeria concludes that there is a correspondence between the entrepreneurial orientation relationship with the ability of reconfiguration (dynamic capability) when environmental turbulence occurs, but less effectiveness when the relationship is in a stable environment (Samson and Mahmood, 2015). Hence, this study presents the following hypothesis:

H<sub>3</sub>: Strategic orientation relates positively to dynamic capabilities.

#### 3.4. Relationship between Strategic Orientation and Bank Performance

Research by Matear et al. (2002) the service companies in New Zealand developing new products, found that market orientation contributed to firm performance. Research by Zahra (2008) revealed that the interaction between entrepreneurial

and market orientation towards performance is significant only in high technology industries. The market orientation and entrepreneurial orientation has a positive influence on performance is the result of research by Muecke and Hofer (2015). The entrepreneurial orientation has a significant relationship with the market orientation, and the market orientation has a positive influence to performance, while the relationship between entrepreneurial orientation relationship and performance of the company requires market orientation as a mediator (Amin et al., 2016). Based on the results of these studies the following hypothesis is posited:

H<sub>4</sub>: The strategic orientation has a positive influence on bank performance.

### 3.5. Relationship between Dynamic Capabilities and Bank Performance

Research by Nedzinskas and Pundziene (2013) shows that dynamic capabilities has a positive effect on non-financial relative organizational performance, although it does not have a significant impact on financial organizational performance. Research results by Rungi (2014) concluded that significant capabilities have significant effect on financial performance and are less significant on project performance. Research by Cui and Jiao (2011) suggests that the ability to capture the opportunity (sensing), reconfigurability capabilities and technological flexibility capabilities have a significant impact on sustainable competitive advantage. In addition, it concludes also that the effects of sensing capabilities on sustainable competitive advantage are fully mediated by strategic alliances with stakeholders. Thus, we hypothesize that:

H<sub>5</sub>: Dynamic capabilities has a positive influence on bank performance.

### 3.6. CSR as Moderating of the Relationship between Strategic Orientation and Bank Performance

Liu et al.(2014) found the impact of CSR on stakeholders has the strongest influence among the three factors on Chinese customer brand preference. Mahmoud and Hinson (2012) conducted a survey with results indicating that market orientation and CSR levels have a significant impact on innovation, which then affects business performance. Furthermore, market orientation has a significant direct impact on CSR, which tends to be a mediator on the relationship of market orientation to business performance. Mukasa et al.(2015), the results of his research shows that CSR activities through charitable contributions have a positive effect on the company's reputation and shareholder benefits. Research by Perez and Bosque (2015) shows that CSR perceptions have positive impacts customers identification with banking company, in terms of emotions, satisfaction, recommendations and repurchase behaviours in both types of banks (saving bank and commercial bank), but CSR is perceived differently by customers depending on the type of banking company that implements them. CSR the effect of market orientation on performance is greatly reduced, so the effect of market orientation on organizational performance needs to be mediated by CSR. Therefore, we hypothesize the following:

H<sub>6</sub>: CSR as a moderating influences the relationship of strategic orientation to bank performance.

### 3.7. CSR as Moderating of the Relationship between Dynamic Capabilities and Bank Performance

Research by Fang et al.(2010) states the results of his research that stakeholder relationships on dynamic capabilities can determine the effective CSR strategy in the influence of organizational performance. Research by Torugsa et al.(2012) state 3 special capabilities (vision, stakeholder and strategic management) with proactive use of CSR, and subsequently proactive CSR is associated with improved financial performance. Research by Zali and Sheydayace (2013) reveals that CSR and dynamic capabilities have a positive effect on financial performance. Capital intensity, industry size, and firm size are positively related to CSR. Cantrell et al.(2015) says charity can be developed as dynamic capability and a competitive advantage over relationships among stakeholders importance both external and internal company. Hence, we hypothesize the following:

H<sub>7</sub>: CSR as a mediating affects the relationship of dynamic capability to bank performance.

## 4. Research Methods

Population of this study is all commercial banks operating in Indonesia except for foreign banks (bank that'sits head offices outside Indonesia). There are 108 commercial banks and 10 foreign banks operating in Indonesia (September 2016). The study sample is the population itself or census, and the observation unit are bank officials of the Board of Directors, Division Heads, and other executives who are considered to know both the strategy and the performance achieved at the bank where they work.

The questionnaires was sent to all 108 head offices of commercial banks throughout Indonesia, where previously the draft questionnaire was revised as per the pretest results. The timing of sending and receiving back questionnaires was conducted from November 2016 to March 2017. Twenty-eight banks returned questionnaires with 229 questionnaires received, and 158 questionnaires were used for data processing. Comparison of population (all commercial banks in Indonesia) and the bank returning the questionnaire are as follows:

No	Type	Number of Bank		%
		Questinaire	Population	
1	Book			
	Book 4 (Core Capital $\geq$ IDR.30 Trillion)	2	5	40.00%
	Book 3 (Core Capital Rp. 5T to < 30T)	7	18	38.89%
	Book 2 (Core Capital IDR 1T to < 5 T)	12	53	22.64%
	Book 1 (Core Capital < IDR 1 T)	<u>7</u>	<u>32</u>	<u>21.88%</u>
	Total .....	28	108	25.93%
2	Total Asset:			
	as of 30 Sep 2016 (Billion) .....	2,435,501	5,979,957	40.73%
3	Third Party Funds:			
	as of 30 Sep 2016 (Billion) .....	1,820,476	4,405,604	41.32%
4	Total Credit:			
	as of 30 Sep 2016 (Billion) .....	1,629,515	3,989,013	40.85%

Table 1

Sources based on financial report as of 30 Sept 2016 (Infobank Magazine (2017)).

## 5. Finding Research

All variables are measured by the Likert scale of modifications i.e. from 1 to 6. The environmental turbine variable scale, entrepreneurship orientation, market orientation, dynamic capability, and CSR are scale 1 (strongly disagree), 2 (disagree), 3 (slightly disagree), 4 (somewhat agree), 5 (agree), and 6 (strongly agree). Meanwhile, performance variable also uses Likert scale modification with criteria that is 1 (very disappointed), 2 (disappointed), 3 (somewhat disappointed), 4 (somewhat satisfied), 5 (satisfied), and 6 (very satisfied). The Likert scale is modified to even 6 points, with even consideration of scale to reduce social bias (Garland, 1991).

Test results of 158 questionnaires with SPSS program showed all the variables are reliable (Cronbach's Alpha above 0.7) with respondent perception as follows:

Variable	Item	Cronbach's Alpha	Mean	Category
Turbulent environment	9	0.822	4.59	Agree
Market Orientation	11	0.872	4.85	Agree
Entrepreneurial Orientation	12	0.917	4.25	Somewhat agree
Dynamic Capabilities	16	0.962	4.57	Agree
CSR	15	0.931	4.85	Agree
Performance	11	0.922	4.46	Somewhat satisfied

Table 2

SOCFA (Second Order Confirmatory Factor Analysis) approach is done with the results of Construct Reliability (CR) and Variance Extracted (VE) measurements for all dimensions are as follows:

No	Variable	Dimention	CR	VE	Comment
1	Turbulent Environment	Availability of resources	0,80	0,57	Good
		Speed of change	0,79	0,56	Good
		Complexity of change	0,91	0,76	Good
2	Market Orientation	Customer orientation	0,86	0,67	Good
		Competitor orientation	0,87	0,63	Good
		Inter-functional coordination	0,86	0,60	Good
3	Entrepreneurial Orientation	Risk-taking	0,81	0,53	Good
		Proactive	0,91	0,73	Good
		Innovative	0,93	0,94	Good
4	Dynamic Capabilities	Sensing capability	0,92	0,75	Good

		Integrating capability	0,96	0,69	Good
5	CSR	Economics CSR	0,87	0,77	Good
		Legal CSR	0,91	0,72	Good
		Ethical CSR	0,93	0,77	Good
		Philanthropic CSR	0,93	0,71	Good
6	Bank Performance	Financial performance	0,93	0,71	Good
		Market performance	0,90	0,75	Good
		Customer performance	0,92	0,80	Good

Table 3

The result of data analysis of Structural Equation Model (SEM) method with LISREL 8.8 application obtained t-value as follows:

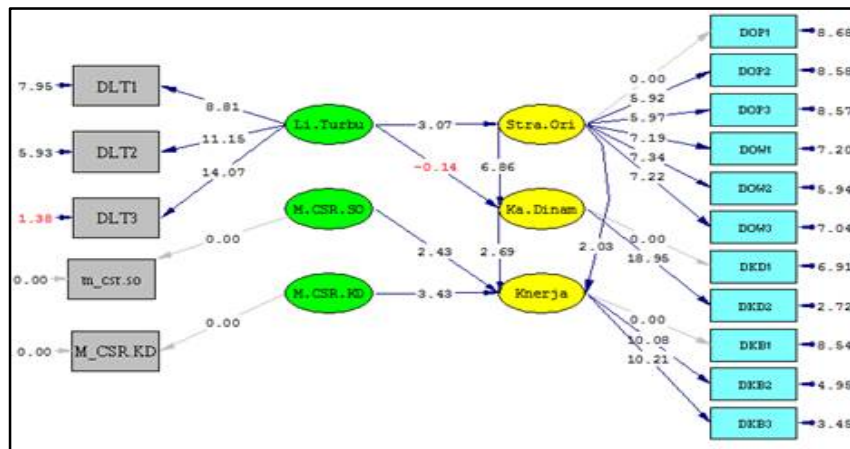


Figure 2

Hypothesis Testing as Follows:

	Hipotesa	Estimasi	T-Value	Noted
H <sub>1</sub>	TE → SO	0.28	3.07	Accepted
H <sub>2</sub>	TE → DC	-0.01	-0.14	Rejected
H <sub>3</sub>	SO → DC	0.91	6.86	Accepted
H <sub>4</sub>	SO → BP	0.33	2.03	Accepted
H <sub>5</sub>	DC → BP	0.43	2.69	Accepted
H <sub>6</sub>	SO → BP moderating by CSR	0.11	2.43	Accepted
H <sub>7</sub>	DC → BP moderating by CSR	0.18	3.42	Accepted

Table 4

Test results show that there are six hypotheses that have t-value > 1.96 i.e. hypothesis H<sub>1</sub>, H<sub>3</sub>, H<sub>4</sub>, H<sub>5</sub>, H<sub>6</sub>, H<sub>7</sub> which means six hypotheses are acceptable. Whereas only one produces t-value < 1.96 i.e. H<sub>2</sub> so this hypothesis is rejected.

Influence of the turbulent environment on the strategic orientation is positive and significant, which means that greater the level of turbulent environment (especially the complexity) to make the management progressively applied strategic orientation.

Influence of turbulent environment on dynamic capability is not significant. The occurrence of turbulent environmental conditions is not necessarily followed directly by the application of dynamic capability strategy or indirectly makes changes to the dynamic capability strategy that is running. Turbulent environmental conditions are not directly followed by changes in dynamic capability strategies, given that this internal strategy does not necessarily change when turbulent conditions occur. Changing dynamic capability program take longer time than change strategic orientation. Environmental change will be responded with strategic orientation in accordance with its more oriented external, then adjustment of strategic orientation will be applied with adjustment of dynamic capability strategy, so that the new internal

capability can face the external problem and seize the opportunity. In addition, the regulatory banking industry requires a longer time and process to change its internal capabilities especially related to banking operations.

Strategic orientation influences the dynamic capability of the national banking industry in Indonesia. The influence of the strategic orientation on dynamic capability is positive and significant, with the most dominant element of strategic orientation is entrepreneurial orientation. This indicates that the improvement of strategic orientation, especially entrepreneurial orientation will result in the increase of dynamic capability. The relationship of turbulent environment with positive strategic orientation is positive but turbulent environment relationship with dynamic capability is not significant, whereas the relationship of strategic orientation with dynamic capability is positive, turbulent environment indirectly affect the dynamic capability through strategic orientation as mediating variable. In other words, a strategic orientation is an intervening of relationship between turbulent environmental to dynamic capabilities.

Influence of strategic orientation on bank performance is positive and significant, with the most dominant element of strategic orientation is on the element of entrepreneurial strategic orientation. This influence shows that the improvement of strategic orientation especially on the element of entrepreneur orientation will improve bank performance.

Effect of dynamic capability on bank performance is positive and significant, with the most dominant dimension of dynamic capability is the integrating capability. This shows that the improvement of dynamic capabilities, especially integrating ability to improve bank performance. Dynamic capability has a greater level of influence on bank performance than the effect of strategic orientation.

Internal capability to be an important factor on bank performance. Influence of CSR as moderator on the relationship of strategic orientation with firm performance is positive and significant, which means that the higher interaction between CSR and strategic orientation will further strengthen the influence of the strategic orientation on company performance.

Influence of CSR as moderator in relationship between dynamic capability and company/bank performance is positive and significant. In other words, the higher interaction between CSR and dynamic capability hence strengthen the influence of dynamic capability strategy to bank performance. The correct implementation of CSR in the meaning of CSR program that has been implemented is known and perceived benefits by stakeholders can improve the effectiveness of the strategies implemented to improve performance

## 6. Conclusion

Turbulent environment influences the formulation of strategic orientation but not directly on dynamic capabilities. Whereas the relationship of strategic orientation has a significant effect on dynamic capability, in this case environmental turbulence in banking industry are not directly addressed to dynamic capabilities, but through strategic orientation, where the strategic orientation as mediation between turbulent environment and dynamic capabilities. Banking in facing turbulent environment is responded by strategic orientation and then the strategic orientation is transformed into a dynamic capability strategy. Although both of them have an effect on performance, but internal-oriented strategy (CD) is more influential to performance than external-oriented (SO). In practice, banking management needs to increase internal capabilities by increasing the ability of individuals to organizational capability. CSR as a moderator proves to increase the influence of both strategies on performance. Banks that implement the correct CSR program will increase stakeholder trust in the bank, so that the implementation of strategy will run more effectively which ultimately results in superior performance.

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