



AICIF

PROCEEDING 7TH ASEAN UNIVERSITIES

International Conference on Islamic Finance

Revival of Islamic Social Finance To Strengthen Economic
Development Towards A Global Industrial Revolution

Co Host:



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**PROCEEDING OF 7TH ASEAN UNIVERSITIES INTERNATIONAL
CONFERENCE ON ISLAMIC FINANCE (AICIF) 2019
“REVIVAL OF ISLAMIC SOCIAL FINANCE TO STRENGTHEN
ECONOMIC DEVELOPMENT TOWARDS A GLOBAL INDUSTRIAL
REVOLUTION”**

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“REVIVAL OF ISLAMIC SOCIAL FINANCE TO STRENGTHEN ECONOMIC
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PROF. DR. AMAL FATHULLAH ZARKASYI, M.A.
Rector of University of Darussalam Gontor

Assalamu'alaikum warahmatullahi wabarakaatuh

As the Rector of University of Darussalam Gontor, it is a great honour for us to welcome our distinguished guests from neighbourhood countries. Hence, I feel very grateful to Allah, I would like to thank you for your kind willingness to attend and participate in our 7th ASEAN Universities International Conference on Islamic Finance (AICIF) 2019.

The development of Islamic economics and finance not only concerns on commercial issues, but also social finance (such as zakah, infaq and waqf). Since the Prophet Muhammad Rasulullah period, Waqf has been developed and played a major role in the socioeconomic of Muslim. On his arrival at Madinah in the first year of Hijrah, he constructed a mosque known as Quba. Subsequently, the Prophet built a new mosque known as Masjid an-Nabawi due to the increasing number of people who converted to Islam. In addition, the example of waqf in practical level when the Prophet encouraged Utsman ibn 'Affan to buy Rumah well of water and finally he declared it as waqf to provide water for all citizens. Currently, this heritage has been extended to accommodate the need of society from across the world.

Based on the historical foundation, it would be extremely necessary supported by education and research related to Islamic social finance in an attempt to increase the welfare of the Ummah. Hopefully this conference will be one of the efforts in providing enlightenment and insight related to Islamic social finance and Islamic economics continues to grow worldwide, and provide benefits and prosperity for all mankind as well as the entire universe (rahmatan lil Alamein).

Therefore we all have a duty and responsibility to develop education and research related to Islamic economics. Let us pray to God for asking His assistance and guidance to carry out this duties and responsibilities together.

Finally, I congratulate all the faculty members in the Faculty of Syariah and Faculty of Economics & Management as well as all members of AICIF for organizing this conference. For the committees who have worked hard in preparing this conference, I suggested them to service all the guests very well. Make them feel like in their own homes. I would like to say good luck in joining the conference until completion. Thank you very much.

Wa'alaikumsalam warahmatullahi wabarakaatuh



INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

All praises due to Allah (swt), the Most Merciful, the Most Compassionate. May His peace and blessings be upon our beloved Prophet Muhammad (saw), his companions, descendants and all those who follow his steps.

On behalf of the IIUM Institute of Islamic Banking and Finance (IiBF), International Islamic University Malaysia, I would like to congratulate the University of Darussalam, UNIDA Gontor, for the successfully organizing and hosting the 7th ASEAN Universities International Conference on Islamic of Islamic Finance (AICIF 2019). IiBF, as the pioneering institution in organizing the AICIF, is indeed, very happy to note that the AICIF has already reached its 7th year of organization, with the consortium of universities joining the conference has increased to seven from only one when the IiBF first hosted it in Kuala Lumpur in 2013.

The theme of the conference “Revival of Islamic Social Finance to Strengthen Economic Development Towards A Global Industrial Revolution” highlights the remarkable contributions and guidance of our beloved Prophet Muhammad (saw) on his various efforts on social welfare and sustainable social development policies. These efforts have led to the remarkable economic development of Islamic societies, which needs to be emulated by our leaders today in the Islamic banking and finance industry. While there is a remarkable growth and expansion of the Islamic finance industry today, a pertinent issue to highlight is the role and contribution of Islamic finance in the achievement of socio-economic goals of the society. Islamic financial institutions need to continuously innovate and go beyond their traditional role in providing financing just to the bankable. Efforts should be intensified to expand their scope of services and aim to achieve better financial inclusion to all levels of the society.

The importance of technology in Islamic social finance could not be over-emphasized. Several important global cases borne out of the synergised approaches involving Islamic social finance with sustainable digital technology. The International Federation of Red Cross and Red Crescent Societies (IFRC) has recently developed an online blockchain technology application providing organizations and individuals with the ability to track and follow up their contributions in highly complex humanitarian settings. This has helped in providing transparency and laying a platform for increased trust between humanitarian organizations and those in Islamic social financing activities. This digital innovation has received universal acceptance and recognition and is the IFRC’s first foray into Islamic finance, advancing their cause to develop Islamic social finance strategies and fundraising tools in support of IFRC’s humanitarian aid programs.

Islamic social finance supported by mobilisation of digital technology has also brought about the effective distribution of zakat contributions from the Malaysian state of Perlis towards a relief project in Kenya. The project became successful and profitable as the cash value of the crop grown exceeded the value of the seeds purchased, which in turn allowed subsistence farmers to acquire a certain amount of disposable income that can be channelled towards other social impact areas focusing on food, healthcare, and education.

I would have to mention, however, that our goal of revitalizing and rejuvenating Islamic social finance and socially responsible finance may not be achieved without well-coordinated inter-countries synergy and cooperation. We are very much aware of the remarkable progress recorded in ASEAN, and especially Malaysia and Indonesia, in terms of Islamic banking and finance innovation and Islamic finance in general, which have proven to be veritable tools for social development of the Ummah. We hope that efforts are made for new inter-countries' cooperation within ASEAN and other destinations across the globe. It is high time that these vast experiences being shared to other parts of the world with more universities to join this consortium in efforts to remain abreast in the dynamic area of Islamic banking and finance.

Thank you. Wabillahi-tawfiq wal-hidayah, Wassalamu alaikum warahmatullahi wabarakatuh.

ASSOC. PROF. DR. SALINA KASSIM

Dean

IIUM Institute of Islamic Banking and Finance



STATE ISLAMIC UNIVERSITY SUNAN KALIJAGA YOGYAKARTA

Assalamualaikum Warahmatullah Wabarakatuh

Welcome to 7th AICIF 2019. We are very happy for the enthusiasm of all colleagues and participant to take part of the 7th ASEAN International Banking & Finance or 7th AICIF 2019. We are wholeheartedly grateful to University of Darusaalam Gontor Indonesia for organizing this event. AICIF has been held seven times in the Southeast Asia region. This event will took theme which highlighted the Revival of Islamic Social Finance to Strengthen Economic Development Toward a Global Industrial Revolution. We expect, this activity will increase the knowledge, abilities and role of stakeholders in facing the 4.0 industrial revolution. By strengthening the knowledge of Islamic social finance, hopefully it will be able to improve analytical skills to improve the welfare of Muslims. The challenges of Muslims today are very diverse, not only eradicating usury but also creating world welfare and hereafter. That's why, it is very important to understand Islamic social finance clearly.

Besides, we also looking for the academic result from this event such as increasing the transfer of knowledge of in Islamic economics, cooperation in the field of research, journal publications, guest lectures, student exchange and etc.

We also would like to thank all co-organizer who were invited to attend this conference and members of the procedural committee. We are deeply grateful for enthusiastic support from all units and individuals, and we appreciate all the participant who undertake preparation and reception services during the conference. We hope you granted benefit from the exchange of ideas and research at 7th AICIF 2019 through discussions with colleagues, participants and conference sessions and activities. We would like to take this opportunity to fulfill our success stepping stone as co-organizers. It is our sincere hope that this collaboration will continue in the future. May Allah SWT bless us and continue to guide us in all our efforts. Aamiin. Wassalamualaikum Warahmatullah Wabarakatuh

DR. H. SYAFIQ M. HANAFLI, S.Ag., M.Ag.
Dean of Faculty Islamic Economics and Business



SULTAN AGUNG ISLAMIC UNIVERSITY, SEMARANG INDONESIA

Assalamu'alaykum warahmatullahi wabarakatuh

A warmest word of welcome to the organizers and participants of the 7th Asian Conference on Islamic Finance (AICIF) 2019. Our honored to the main organizer of the 7th AICIF University of Darussalam (UNIDA) GONTOR, Indonesia.

Economic development in this digital age creates new challenges for Islamic finance especially Islamic social finance institutions in the ASEAN countries. The increase of market competition demanding the Islamic industry to innovate continuously so that it is able to serve customers and create maslahat. Financial technology (Fintech) is also part of the challenges that must be faced. In this case, the Islamic social finance industry must be able to answer the advancement of financial technology while maintaining applicable sharia principles. On this occasion, the 7th AICIF raised the theme of Revival of Islamic Social Finance to Strengthen Economic Development towards a Global Industrial Revolution. This theme is very urgent to be discussed today as in its system, Islamic finance is not only seen from a commercial point of view, but also a social point of view. Contemporary Muslim society in particular is an important subject that must be prepared to support this revival and make Islamic social finance as a milestone in the power of Islam in giving rahmat for everyone in today's era. 7th AICIF is part of an effort to push the Islamic social finance system achieving betterment. I am sure that with the collaboration of experts, researchers, academics and practitioners in this forum, various innovations will emerge. Issues from various national and cultural backgrounds relating to Islamic social finance will be discussed here. Thus, each other can exchange ideas and provide inspiration in order to form decisions and policies that are needed both for educational institutions and government as well as leaders of Islamic institutions. In addition, this forum is also an effort to strengthen good cooperation between various parties who have high concern in order to develop the Islamic social finance system.

Therefore, I do appreciate and thank you for significant contribution of many parties including the main organizer, co-organizers, support organizations and sponsors for the success of the 7th AICIF 2019. To all the speakers and participants, we wish you all the best for your perspective involvement. I hope that you will have pleasant and enjoyable learning experiences in the Forum. Finally, I wish that the participants will put to new journeys of learning, sharing, and growing for a common reason "to make our system, a better one".

We are really honored for your participation and we look forward to meet you again in 8th AICIF 2020. Terima Kasih

Wassalamu'alaykum warahmatullahi wabarakatuh

PROF. OLIVIA FACHRUNNISA, Ph.D
Dean of Faculty of Economics, UNISSULA
Indonesia



First of all, I would like to take this opportunity to welcome you all to the 7th ASEAN Universities International Conference on Islamic Finance (7th AICIF) and to extend out deepest gratitude to Universitas Darussalam Gontor, Indonesia for hosting this year's 7th AICIF held on 3rd and 4th December 2019.

Universiti Islam Sultan Sharif Ali (UNISSA), Brunei Darussalam, realized that this yearly conference served as an important platform with researchers, professionals coming in from all parts of the world in gaining further insights into the frontier of knowledge as well as understanding the broader scope of Islamic Finance.

I sincerely hoped that this conference will continue to play its role as an important platform for all stakeholders to meet and addressed issues related to Islamic Finance especially in this era of globalization where Islamic Finance industries have witnessed a significant growth over the past years. I also hope that this conference will be able to help in promoting and strengthening the networking and collaboration between researchers, academicians and professionals.

On behalf of UNISSA, I would like to extend my sincerest appreciation to the Main Organiser, Co-Organisers, sponsors and many thanks to everyone involved in organizing such a successful conference. To all participants and presenters attending this year's AICIF, I hope you will be able to benefit greatly from this conference and take part in strengthening the role of Islamic Finance so that it can contribute to a more sustainable and well-balanced economic growth in the society.

Sincerely,

DR ABDUL NASIR BIN HAJI ABDUL RANI

Dean

Faculty of Islamic Economics and Finance

Universiti Islam Sultan Sharif Ali, Brunei Darussalam



MINDANAO STATE UNIVERSITY PHILIPPINES

Assalamu Alaykom Warahmatullahi Wa Barakato.

My heartfelt congratulations to the organizers or people behind the 7th ASEAN International Conference on Islamic Finance (AICIF). People see only the finished product and are not likely to have an idea of the enormous behind-the-scene work that preparations for a grand activity like this entails.

The conference theme “Revival of Islamic Social Finance to Strengthen Economic Development Towards a Global Industry Revolution” cannot be more timely and auspicious. Hurting into a future of prodigious and rapid change, the Islamic world should take stock and determine how we are holding up, coping, and keeping pace with the challenges of a global industry revolution. Although Islamic Finance is anchored on principles and core values enshrined in the Holy Qur’an and the Sunnah, which are practically etched in stone, we recognize the fact that failure to adapt to present realities stands to leave us stranded and marooned on the shore, or lagging behind while the rest of the world eagerly sets sails or takes great strides in the march of progress.

On the other hand, the taking of stock seems crucial to ascertain how faithful we have been to the philosophical underpinnings of Islamic Finance, which means we go back to the primary sources. Much as we wish for seamless transitions or smooth passages from where we stand now to a global industry, for example, these do not come easy. In fact, there are issues and gray areas that I hope will be taken up in this Conference like the enforcement of zakah and how, and how it can help in alleviating poverty, the questions of profit, competition and control in business, and the line between halal and haram in investment (when does a halal investment become haram?).

It is my hope, too, that the Conference will be more productive of answers than of questions, and the discourses of the speakers bring greater enlightenment to the participants and all stakeholders.

Finally, the Mindanao State University looks forward to more collaborative efforts of this kind. Meaningful high-level discourse expected to ignite sparks can generate critical ideas for a more stable Islamic Finance and greater economic development.

My best wishes for the success of the Conference.

HABIB W. MACAAYONG
DPA President MSU System



Assalamu'alaikum Warahmatullah Wabarakatuh

It is a privilege for Tazkia University College of Islamic Economics to be co-hosted at the 7th ASEAN Universities International Conference on Islamic Finance that held on December 3rd & 4th 2019 at University of Darussalam Gontor. Tazkia University College of Islamic Economics is a pioneer of the development of Islamic economics and finance in Indonesia. Our joining in this event was a manifestation of our vision to become a world class university in 2025.

Tazkia University College of Islamic Economics has contributed to the development of Islamic Economics and Finance in Indonesia since 2 decades ago. We helped convert the 25 banks and conventional insurance to full fledged Islamic Banking. Besides that, Tazkia University College of Islamic Economics also empowers the grassroot by creating "Tazkia Islamic Village" located in Babakan Madang, Bogor Regency.

In the future, our joining in AICIF will contribute to strengthening Islamic Economic & Financial resilience in ASEAN through collaborative research, so that research is appropriate and supports the advancement of science in ASEAN moreover in the World.

We congratulate University of Darussalam Gontor as a Host from this conference and wish for the smooth running of this event so that the 7th AICIF theme is "Revival of Islamic Social Finance to Strengthen Economic Development Towards a Global Industry Revolution" can be achieved together.

Best Regards,

DR. MURNIATI MUKHLISIN M. ACC

RECTOR OF STEI TAZKIA

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SERVICE-DOMINANT ORIENTATION ON MARKETING CAPABILITY AND BUSINESS PERFORMANCE

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ABSTRACT

Academics and managers have struggled for a long time to understand and describe the role of the Service-Dominant (S-D) orientation in explaining business performance. Some theoretical approaches for every effort must be informed by strategic service management theory because the main question that strategic service management wants to answer is why several companies that have S-D orientation can produce different performance. This paper describes the process of the S-D orientation in influencing business performance. This framework is important for developing a theory-based conceptual framework that links service orientation with business performance.

JEL Classification: M31

Keywords: *S-D Orientation, Marketing Capabilities, Positional Advantage, Business Performance, Competitor.*

I. INTRODUCTION

Service becomes a center of competitive advantage because it acts as an alternative tool besides the "4P" of marketing mix that can maximize the value of the products offered to the market (Lusch *et. al.*, 2007). Because customers are value creators and companies are resource integrators, competitive advantage can be proactively increased by involving customers and value network partners (Lusch *et. al.*, 2007). In this context, attention to describing service as a special type of product (intangible goods) and as an increase in value-added for tangible goods becomes important to understand "service" as a stand-alone variable and role as the main focus of exchange. Currently, it seems that competing through services is more than just adding value to products, but also acting as part of collective marketing, strategic business, human resources, information systems, finance, and operations management to produce and distribute better products. Competing effectively through services can be done by involving all parts of the organization through the service-dominant (S-D) logic approach (Vargo and Lusch, 2008). This S-D logic believed that services are a process of interaction among actors who together create value, not services that produce intangible output to create value (Lusch and Vargo, 2016). S-D orientation is an important strategic behavior of a company which is a consequence of S-D Logic thinking that emphasizes customers as co-creators of value in the process of providing services (Inic and Petrovic, 2012; Karpen *et. al.*, 2015).

The role of service-dominant (S-D) orientation in explaining the company's business performance has got serious attention in the marketing discipline (Karpen *et. al.*, 2015; Wilden and Gudergan, 2017). The need to link the S-D orientation with business performance is becoming more pressing because marketers have been forced to maintain a value advantage amid increased business competition. Over the past decade, researchers have increased their conceptual understanding of the role of the S-D orientation that enables companies to be more able to create positional advantages and company performance. Recent advances related to marketing strategies have begun to provide more empirical evidence about the impact of the S-D orientation on business performance (Inic and Petrovic, 2012; Karpen *et. al.*, 2015; Wilden and Gudergan, 2017).

However, as a discipline, the authors often do a poor job of explaining increasing insights in empirical experiences regarding the relationship of S-D orientation to company performance. Though, this explanation helps better

understand various conceptual and empirical developments in service strategy research for researchers, managers, and students, also to inform how these developments can be integrated and developed to provide further roadmaps (Wilden and Gudergan, 2017). Therefore, by synthesizing several theories that exist in service strategic management and the marketing strategy literature to develop an integrated conceptual framework in linking the relationship between the S-D orientation and business performance becomes the purpose of this paper.

II. AN INTEGRATED CONCEPTUAL FRAMEWORK

2.1. Service-Dominant Orientation

S-D Orientation is the latest development of the S-D Logic (SDL) approach. In principle, S-D Logic is an engagement of producers, consumers, suppliers and other stakeholders of the service system (Liang, 2017). These groups integrate various types of resources and collaborate by sharing to build a value co-creation system (Vargo *et. al.*, 2008; Matthies *et. al.*, 2016). The SDL approach is developed through ten basic premises, which are: (1) service is a fundamental exchange, (2) indirect exchange covers the basics of exchange, (3) goods are a distribution mechanism for service provision, (4) operand resources are fundamental source for competitive advantage, (5) all economies are service economics, (6) customers are always value co-creation, (7) companies cannot provide value, but only offer value propositions, (8) a service-centered view is customer-oriented and relational, (9) all social and economic actors are resource integrators, and (10) values are always determined uniquely and phenomenologically by the recipient (Vargo and Lusch, 2008).

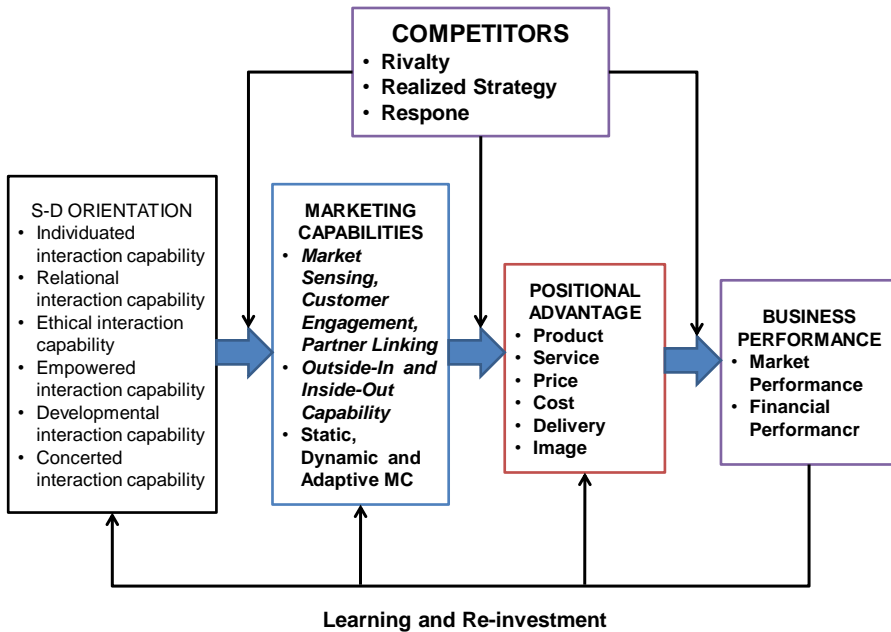


Fig. 1 A conceptual framework linking S-D Orientation and business performance

Value co-creation is a core concept of SDL, which requires active customer participation in service creation and integration of the resources of each entity through mutual exchange and institutions (Vargo *et. al.*, 2008; Xie *et. al.*, 2016; Waseem *et. al.*, 2017). Considering that the entity's need to be interdependent in reciprocal exchanges that produce value co-creation, there seems to be a clear consequence that businesses must work with customers and stakeholders to foster socially and sustainably cohesive relationships to get mutual benefits (Williams and Aitken, 2011). The mindset and perspective of value co-creation in SD logic offers normative guidelines for practice, such as; (1) companies must be transparent and make all information symmetrical in the exchange process, because customers who are invited to cooperation require total company honesty, (2) companies must try to develop relationships with customers and must take a long-term perspective, (3) companies must make the goods as transmitters of operant resources (embedded knowledge); companies must focus on selling service flows, and (4) companies must support and invest in developing specific skills and knowledge that are sources of economic growth (Kowalkowski, 2010).

S-D orientation was introduced by Karpen *et. al.* (2012) as the ability to enforce S-D logic by enabling organizations to create shared value through the exchange of services with network partners. Six capabilities are defined as service drivers, namely relational, ethical, individual, empowered, joint development and interaction. The six capabilities become high-level competencies that enable the practice of shared value creation (Karpen *et. al.*, 2012; Karpen *et. al.*, 2015).

First, individuated interaction capability relates to the ability of organizations to understand the process of integrating resources, context, and desired outcomes from individual customers and other value networks partners. This capability enables the organization to better anticipate and feel the unique circumstances of partners and desired experiences. In such conditions, value co-creation can be created through offers that are more appropriate to the special conditions of each partner.

Second, relational interaction capability is related to the ability of organizations to improve the connection between social and emotional relationships with customers and other value network partners. Relationship skills with partners support a conducive environment for building relationships. In such conditions, value co-creation can be created or enhanced through the fostering of social ties.

Third, ethical interaction capability is related to the ability of organizations to act fairly and non-opportunistically towards customers and other value network partners. Ethical interaction manifests an organization's ability to instill confidence in their partners that they will act in their best interests and not at their expense. Thus, value co-creation will be enhanced through organizational interaction with partners by not intimidating, exploiting, and deceiving.

Fourth, empowered interaction capability is related to the ability of organizations to enable customers and other value network partners to form the nature and content of exchanges. Empowered interactions discuss partner involvement in organizational processes so they can shape resources and experiences that benefit them. This allows the creation of shared values to be facilitated and/or improved because partners have a greater and more direct voice in actualized results.

Fifth, developmental interaction capability is related to the ability of organizations to help customers and develop knowledge and competencies of other value network partners. Developmental interactions demonstrate the organization's ability to educate partners and help them to be more ingenious. This will have an impact on the process of creating value co-creation because

more knowledgeable partners can make more informed decisions and make better use of resources.

Sixth, concerted interaction capability is related to the ability of organizations to facilitate coordinated and integrated service processes with actors and value network partners. The ability to synchronize service processes between partners is manifested in joint interactions. Thus, value co-creation is supported because service system partners work together seamlessly to avoid reducing values (e.g., time, effort, anxiety) that negatively affect their own experience gained from their partners.

The resource-based theory regards company resources and capabilities as a starting point for strategic decision making and is a key driver of organizational performance. Resources are inputs, or assets, that are used for service creation. Competing effectively through services must be done with the whole organization by seeing and approaching both itself and the market with service-dominant (SD) logic. Organizations need to develop business logic that leads to the conceptualization of the business mindset that shapes business decisions. Thus, the dominant (strategic) service orientation influences actions within the company and is related to strategic decision making aimed at achieving superior performance (Wilden and Gudergan, 2017). Previous strategy research on strategic orientation has questioned the direct relationship between strategic orientation and company performance. To encourage company performance, strategic orientation requires complementary capabilities and enables the implementation of activities needed in the company (Morgan *et. al.*, 2009).

2.2. Marketing Capability

The dynamic capability (DC) literature consistently explains the importance of marketing capabilities (MC) in exploiting resources to create competitive advantage and drive company performance (Qun and Carlos, 2015). The strategic marketing literature also explains the two main components of Marketing Capability (MC), namely resource and capability (Morgan, 2012) as a source of positional advantage and company performance. Resources relate to tangible and intangible assets such as information, physical, reputation, knowledge, experience, financial, etc. that are used to develop value creation strategies (Barney, 1991). Meanwhile, the capability is interpreted as the accumulation of knowledge and skills that enable companies to change and use

their resources better than competitors (Day, 1994). This MC theory also believes that it is very important to use the company's marketing capabilities as an alternative to obtaining positional competitive advantage (Day, 1994).

Marketing capability can be defined as an integrative process designed to apply the resources needed by the company to market needs related to the company, enabling companies to add value and meet competitive demands (Day, 1994; Martin *et. al.*, 2017). This capability continues to develop when individuals and groups repeatedly apply their knowledge and skills to combine and change resources by contributing to achieving company goals (Morgan, 2012). Therefore, marketing capabilities in the company occur at different levels from the individual to the company level (Morgan, 2012). At the lowest level in the company, individual specialists apply their unique knowledge to solve marketing-related problems facing by the company. Certain individual marketing knowledge can also be combined with other specialist knowledge in a variety of functional workgroups and cross-functional teams (Morgan, 2012).

The researchers describe marketing capabilities in a variety of views. *First*, marketing capabilities consist of four basic types of skills related to dynamic marketing capabilities, architectural marketing capabilities, specialized marketing capabilities, and cross-sectional marketing capabilities (Morgan, 2012). Marketing dynamic capabilities are related to a company's ability to learn from changing market environments, absorb various useful information from the market, adapt to these changes and develop creativity to create something new (Wang and Ahmed, 2007). Also, dynamic capability is related to the company's capacity to reconfigure and enhance resource placement that is beneficial for increasing the company's positional superiority (Morgan, 2012). Architectural marketing capabilities relate to a company's ability to make strategic decisions and their implementation to develop positional advantage and company performance (Morgan *et. al.*, 2012; Trez *et. al.*, 2012). Specialized marketing capabilities are related to skills to develop a company's routine in marketing products. These include skills in managing marketing mix, sales and market research (Morgan *et. al.*, 2012; Trez *et. al.*, 2012). Cross-functional capabilities are high-level capabilities owned by companies that involve various functions in the company, including new product development capabilities, brand management capabilities, and CRM capabilities (Morgan, 2012).

Second, marketing capabilities can be static, dynamic and adaptive (Guo *et. al.*, 2018). Static MC is an element of the basic marketing mix that is routinely carried

out by organizations. This includes capabilities in managing advertising, product development, channel management, marketing communications, sales, marketing information management, marketing planning, and marketing implementation (Vorhies and Morgan, 2005). Dynamic MC deals with the company's ability to respond effectively and efficiently to cross-functional business processes to create and deliver customer value based on market changes (Fang and Zou, 2009). Thus, dynamic MC is the company's ability to adjust its marketing process to cope with a changing market environment (Morgan, 2012). Whereas adaptive MC is related to a proactive approach in exploring market information and deep problems faced by customers to feel and act on market signals, continue to learn the market, and integrate or coordinate social network resources to adapt to market changes and predict industry trends (Guo *et. al.*, 2018). Adaptive MC consists of three components, (1) alert market capability, i.e. the use of technology and early warning systems to gather deep market insights to anticipate changes in market needs that have not yet been fulfilled; (2) adaptive market experiment ability, i.e. engagement of continuous learning through market experiments; and (3) open marketing capabilities, which help companies create and maintain relationships with partners through new media technology and social networking (Guo *et. al.*, 2018).

Third, marketing capability involves outside-in and inside-out marketing capabilities (Mu, 2015; Mu *et. al.*, 2018). Outside-in marketing capabilities reflect the fundamental values of organizations that create capabilities in an increasingly open market environment (Mu *et. al.*, 2018). It has three dimensions, which are; market sensing, customer involvement, and partner linking (Mu, 2015). Market Sensing is the ability of companies to anticipate future market evolution and detect opportunities that arise based on information collected from their business ecosystem (Day, 1994; Teece, 2007). Through market sensing, the company can reduce uncertainty through a structured risk analysis process, avoiding potential losses, and achieving superior results. Also, market sensing capabilities help companies to anticipate market trends and opportunity discovery (Mu *et. al.*, 2018). Customer engagement relates to the mechanism of adding customer value to the company, either through direct contributions (such as customer purchases) or indirectly such as referral incentives given by customers, social media conversations that customers have about brands, and customer feedback to the company (Kumar *et. al.*, 2010; Pansari and Kumar, 2016). Academics describe customer engagement as the intensity of customer participation with organizational representatives and with other customers in the

process of collaborative knowledge exchange (Vivek *et. al.*, 2012). Whereas partner linking is related to the company's ability to connect with partners and utilize partners' resources and capabilities in value creation. This capability is becoming more important in a more open market environment because providing complex customer solutions requires the management of complex interactions and the exchange of knowledge and resources between many partners (Mu *et. al.*, 2018). Value creation requires many partners to integrate their resources and capabilities for product innovation and customer experience creation (Mu, 2013). The capability to coordinate and utilize resources and various actors enables the company to be able to create a value creation ecosystem to serve the needs of customers.

Inside-out marketing capability refers to a set of marketing mix-based capabilities and interrelated organizational routines such as product management, pricing, sales, and marketing communications that companies employ to implement marketing strategies (Vorhies and Morgan, 2005). Price management capabilities include the ability to set prices to respond to market changes quickly; knowledge of competitors' pricing strategies; the ability to be effective in determining the price of products/services; and the ability to monitor changes in competitor prices (Trez *et. al.*, 2012). Product development capabilities include the ability to develop new products/services; developing new products/services to exploit R&D investment; testing new products/services marketing; the ability to launch new products/services; and ensuring that product/service development efforts are responsive to customer needs (Trez *et. al.*, 2012). Marketing communication capability concerns the ability to develop and run advertising programs, advertising management and creative skills, public relations, brand image management processes, and manage the company's image and reputation (Morgan *et. al.*, 2009; Trez *et. al.*, 2012). Selling capabilities include skills in providing salespeople with the training they need to be effective, planning sales management and control systems, selling to salespeople, managing sales, and providing salespeople with effective sales support (Morgan *et. al.*, 2009). The ability to design marketing involves skills in developing marketing plans, effectively segmenting and targeting markets, marketing management processes, developing creative marketing strategies, and thorough marketing planning processes (Morgan *et. al.*, 2009). The capability of implementing a marketing strategy involves skills in allocating marketing resources effectively, organizing to deliver marketing programs effectively,

interpreting marketing strategies into actions, executing marketing strategies quickly, and monitoring marketing performance (Morgan *et. al.*, 2009).

Inside-outside marketing capabilities allow companies to recognize gaps in inside-out marketing capabilities (Mu, 2015). Inside-out marketing capabilities help companies align internal processes such as pricing, marketing planning, and new product development with market requirements (Mu *et. al.*, 2018). Therefore, marketing capabilities from the outside act as a precursor to the development of marketing capabilities from the inside-out, through market sensing, relationships with partners and customer involvement (Mu *et. al.*, 2018).

The marketing strategy literature also shows that special marketing capabilities in the form of effective new product development, pricing, channel management, and marketing communication forming the company's marketing mix activities are important contributors to performance (Takata, 2016). As explained by RBV and DC theory, companies with superior marketing capabilities will achieve superior business performance because companies can give their target customers greater concrete value, such as new high-quality products, suitable selling prices, better customer service, and additional benefit information through better marketing mix decisions. This capability may be a valuable, rare, non-replicable and unsubstituted source of competitive advantage that can improve performance. Furthermore, because the adequacy of marketing mix activities is important, the effect of these activities will have a strong influence on performance (Takata, 2016).

2.3. Positional Advantage

Positional Advantage which is a relative value that is sent to the target market as a result of efforts to implement the company's marketing strategy decisions. Positional Advantage can be developed from a number of different value and cost dimensions, such as product-based positional advantages (such as features, quality, comfort, and packaging); service-based benefits such as before and after-sales services, and service quality; price-based advantages such as lower product offering prices; cost-based advantages such as unit costs and cost of goods sold, image-based advantages such as brand image, quality reputation, and company image; and delivery-based benefits such as product availability; service and accessibility, and delivery times (Morgan, 2012).

2.4. Business Performance

Positional gains realized through the company's offer are considered to lead directly to the company's business performance. There are two aspects of business performance, namely product market aspects and financial performance. Product market performance is related to the response of customer buying behavior and prospects in the target market to the company's superiority that is realized (Morgan, 2012). Companies that create positional advantages relative to available alternatives will be more positively felt by customers. Furthermore, this improved perception changes customer buying behavior by benefiting the company (Narver and Slater, 1990). Companies can improve product market performance through increased sales volume, increased customer satisfaction and behavioral loyalty, lower price sensitivity, and growth in the company's market share. From a financial performance perspective, organizational success is usually defined and measured in terms of indicator of cash flow accounting and profitability, and indicator of financial market from investor value. The efficiency that a company used to generate cash flow and profits can also be an important financial indicator of financial performance, such as return on investment, return on assets, and profit margins. From a financial market perspective, investors (shareholders) will value the company's shares and debts based on the net present value of the company's assets and expected future cash flows. In general, company performance is measured by sales volume, growth in sales volume, market share, growth in market share, profit margin, return on own capital, net profits (Wilden and Gudergan, 2017); return on assets (ROA), return on sales, return on investments (ROI), market share, and average rate of profit (Wei *et. al.*, 2017).

2.5. Competitor

The company is not the only one operating in the market. When a company tries to mobilize its marketing resources through its capabilities to achieve positive advantage and superior performance, competitors operating in the same market do the same thing. The competitor's actions will have an impact on the relationship between the company's S-D orientation and marketing capabilities, positional advantages and the performance achieved. This competitor's actions might moderate the relationship between S-D orientation, marketing capabilities, positional advantages, and company performance.

2.6. Learning and Re-investment

There are two main resources generated by the process created from mobilizing the S-D orientation to company performance; (1) money to re-invest in resources and capabilities to improve S-D orientation and (2) increase knowledge about the resources and capabilities of the service strategy, and market conditions that occur. To maintain superior performance over time, these two results must be linked. By observing market reactions to initial efforts in implementing a company's marketing strategy, and responding to adjustments made to correct observed implementation weaknesses or underperforming relative to service strategic objectives, managers must develop enhanced knowledge about the markets in which they operate.

III. CONCLUSION

Developing a comprehensive understanding of how service strategies are linked to business performance is very important for marketing academics and managers. Since there is no single empirical study that can explain the various variables and relationships that are important in linking service strategies with business performance, this requires a comprehensive framework that allows the findings of several studies to be integrated over time. The model described in this study integrates insight from the Service Dominant Logic and Dynamic Marketing approaches of service strategic management theory with the theoretical and empirical marketing strategy literature to provide a comprehensive framework.

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