

# Improving Business Performance through Operational Excellence and Value Co-Creation

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*Abstract:* This study aims to determine the effect of Customer Experience Management on Business Performance mediated by Operational Excellence and Value Co-Creation in the Information and Communication Technology (ICT) Industry in Indonesia. This research was conducted in two stages of study to fulfill the research objectives, namely exploratory and explanatory which focused on companies operating in the Greater Jakarta area. A total of 132 samples were taken using a proportionate random sampling method in three groups of companies. The results showed that Customer Experience Management formed by two indicators, namely virtual environment, and service interaction, had no significant effect on improving Business Performance, which was developed by two indicators, financial performance, and non-financial performance. Customer Experience Management has a significant effect on Business Performance through the mediation of Operational Excellence. Customer Experience Management significantly affects Business performance through the mediation of Value Co-Creation. Operational Excellence and Value Co-Creation have a substantial effect on increasing business performance.

*Keywords:* Business Performance, Marketing Performance, Customer Experience Management, Operational Excellence, Value Co-creation, Customer Experience, Digital Transformation

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## 1 Introduction

The Information and Communication Technology (ICT) industry all over the world, including Indonesia, faces tremendous challenges with increasingly complex and rapidly changing market competition beyond their control. These competitors are coming from companies known as Over The Top (OTT) providers which gained the latest technological innovations to provide free digital content with a different business model from telecommunication operators and Internet Service Providers (ISP). [1].

The OTT platform was formed as a push for changes in customer preferences, technology changes, and convenience that offers more customer experiences that are better than those offered by conventional services, [2]. The services provided by these OTT providers, such as WhatsApp and Telegram, have significantly affected the ICT sector, including a decrease in revenue from Short Messaging Services (SMS) and phone calls, which were initially the primary sources of income for telecommunications operators. The decline in revenue due to competition threatens the ICT industry with significant investments, while OTT providers dominate revenue.

The digital services provided by these OTT players also drastically increase internet bandwidth, which impacted Return on Invested Capital Expenditure (ROIC) decrease for ICT providers without a corresponding increase in revenue which in the end, impacted the bottom line, and a decrease in the company's profitability. Telecommunication companies such as Telkom Indonesia, Telstra and Singtel which must spend significant investments on ICT network infrastructure have declining service excellence problem, resulting in poor Customer Experience, and eroding their market share due to tight competition.

Low service satisfaction and customer loyalty may influence customer churn rates in the ICT industry and are the drivers of declining revenues and profits. Due to intense competition and deep quarterly revenue contractions, the average churn rate in the telecommunications industry is around 1.9% per month, but can increase to 67% per year for prepaid services, [3].

Customer Experience (CX) is gradually becoming an essential attention in marketing as a new formula to create competitive advantage. Several previous studies have found a conflict in journals and dissertation research results between

the influence of Customer Experience Management or abbreviated CXM, on marketing performance which companies usually mentioned as Business Performance. Some researchers look at this influence in various industries, such as telecommunications companies, retail companies, manufacturing, ICT companies, and financial services, at home and abroad.

According to Zaid, [4], in the market capitalization of US public companies' studies, customer experience indirectly affects customer satisfaction and loyalty. Mihardjo, [5], studies have proven that customer experience orientation has no direct influence on transformational performance where co-creation elements are part of business performance. Economic outcomes that may be counterproductive for service providers following the concept of co-creation include market performance, [6]. The Customer Experience dimension is measured for marketing results such as intentions of customer satisfaction and loyalty but not directly for financial performance, [7]. Other studies on a superblock lifestyle center, Ciputra World Surabaya, also fail to prove the influence of CX on customer satisfaction and loyalty, [8].

Previous research has shown that Customer Experience Management, or abbreviated CXM, which consists of three levels of CXM, namely pre, core, and post-service experience management, has a positive effect on business performance, [9].

CXM also affects business performance and the supply chain, [10]. This level of customer experience management investment raises the question of whether it is worth it. One of the basic principles for implementing customer experience is to try to meet customer expectations, [11].

The various previous studies mentioned above indicate discrepancy among researchers regarding the influence of CXM on Business Performance. The effect of customer service management on Business Performance was found to be inconsistent. The inconsistency in these results provides a gap that this study will fulfill. This contradiction is of course, also an opportunity for new topics for further research, especially for the ICT industry in Indonesia.

Based on phenomena and problems as well as theoretical studies and empirical results in the ICT Industry in Indonesia, a different model is needed to cover gaps and intensify previous research to improve Business Performance in this new digital era. It is not sufficient to have Customer Experience Management variables only but also needs two additional mediator variables, Operational Excellence, and Value Co-Creation, to evaluate the

influence of CXM on Business Performance. All the variables in this study will be tested on companies that have implemented digital technology.

Companies in this modern era are concerned with internal efficiency and progress in Operational Excellence in their fast-changing industry. In response, they put their efforts behind new systems that transform operations digitally, streamline internal processes, reduce information overload, integrate business applications with information storage and enter massive digital storage, [12].

On the other hand, Colli's, [13], research states that companies adopt various strategies to overcome obstacles in the digital transformation era by translating the adoption of old technology, integrating, and using new technology to enable the availability of information, and translating it into improving operational performance. Digital transformation is becoming a fundamental matter for global enterprises, [14]. The adjustment of operational activities has a significant role in the perceived value of marketing activity, [15]. The relationship between these two variables makes this research lift this variable as an independent variable to change Customer Experience in achieving operational excellence. No research specifically discusses the Digital Operation Excellence variable, so that this research will close the gap.

In addition, Digital Value Co-creation is a process in which customers and companies can collaborate on many activities by sharing knowledge, skills, and networks, thereby creating mutual synergistic value for both parties, [16]. Shared value creation mechanisms to support the delivery of the company's emotional customer value proposition need careful consideration, [17].

Companies must jointly create value with customers on digital platforms to improve performance, [18]. The critical role of shared value creation is also discussed in [19] which states that these indicators bridge the gap in marketing performance. The impact affects the relationship with customers and business performance. No research discusses the influence between Customer Experience Management and Digital Value Co-Creation, so that this research will close the gap.

Thus, this study was conducted to develop a new conceptual model and bridge the gap by including Operational Excellence and Value Co-Creation as meditations to improve Business Performance. This model was tested empirically on an ICT industry in Indonesia.

## 2 Problem Formulation

### 2.1 Research Hypotheses

Based on the background of this research, this study proposes five hypotheses in Figure 1 as follows:

1. **H1:** The direct influence of the Customer Experience Management variable on the variable of Business Performance
2. **H2:** The direct influence of the Customer Experience Management on Business performance through Operational Excellence
3. **H3:** The direct influence of the Customer Experience Management on Business performance through Value Co-Creation
4. **H4:** The direct influence of the Operational Excellence on Business performance
5. **H5:** The direct influence of the Value Co-Creations on Business performance

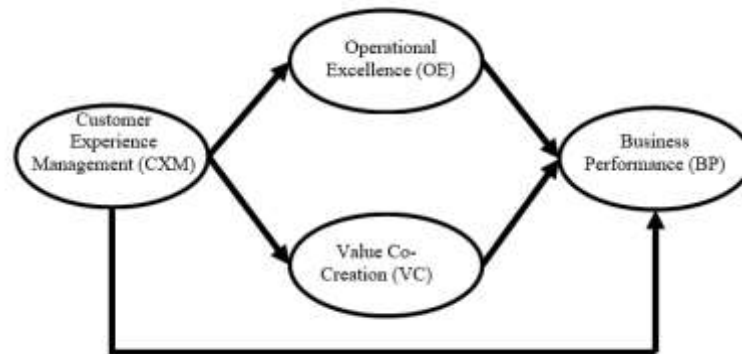


Fig. 1: Research Concept Framework

### 2.2 Research Methodology

This research was conducted in two stages of study to fulfil the research objectives, exploratory and explanatory. Based on Sekaran and Bougie, [20], this research uses a mixed approach, qualitative and quantitative (mixed method). The research data was gathered either through virtual or face-to-face meetings with the respondents representing a company with senior management positions including Assistant Vice President, General Manager, Vice President, or Director. This research started in October 2021 until its completion.

## 3 Results and Discussion

The researcher in this section elaborated on the study result, including explanatory study, instrument testing, and hypothesis testing. The discussion of the exploratory study includes the results of the Focus Group Discussion (FGD) from the expert panel to explore the indicators and items of each research variable. Researchers tested the instrument (validity and reliability) after distributing questionnaires to the first 30 respondents. Subsequently, the researchers conducted explanatory tests and hypothesis testing, then conducted a final Expert Panel from practitioners in the ICT industry through

FGD to validate the results of the research hypothesis testing.

### 3.1 Exploratory Study Results

Researchers conducted FGDs with three groups, containing participants who are ICT industry leaders, regulators, researchers, and academicians who meet the research respondents' criteria, including having a doctoral education, working in national companies & institutions, and holding senior managerial positions. Participants in the FGD came from companies and institutions that have implemented digital technology. The FGD was conducted to explore the views and opinions of the participants who were considered to represent the population in the ICT Industry in Indonesia. Researchers through the FGD received statements that could strengthen statement items or indicators on the variables Customer Experience Management (CXM), Operational Excellence (OE), Value Co-creation (VC), and Business Performance (BP) adopted from [21], [22], and [23]. In addition, through the FGD, new statement items or indicators emerged, which were then tested through CFA to determine the validity and reliability of each statement item so that the indicators formed were able to measure the latent variables tested in this study. Participants in the FGD stated that the

participating companies & institutions had implemented digital technology.

### 3.2 Explanatory Study Results

A component-based or variance-based approach with the Partial Least Square (PLS) method is used in this study. The results were tested using Structural Equation Modelling (SEM) with the PLS approach by examining the results of the outer model (measurement model) and the results of the inner model (structural model) of the model under study. Evaluation of the outer model aims to analyse

the correlation between items and latent variables, whereas the assessment of the inner model is to analyse the association among latent variables.

#### 3.2.1 Measurement Model

The path diagram result for the outer loading value of each statement item on the indicators and variables is presented in Figure 2 below. Furthermore, the validity results will be explained based on the outer loading value of each variable in the second-order analysis.

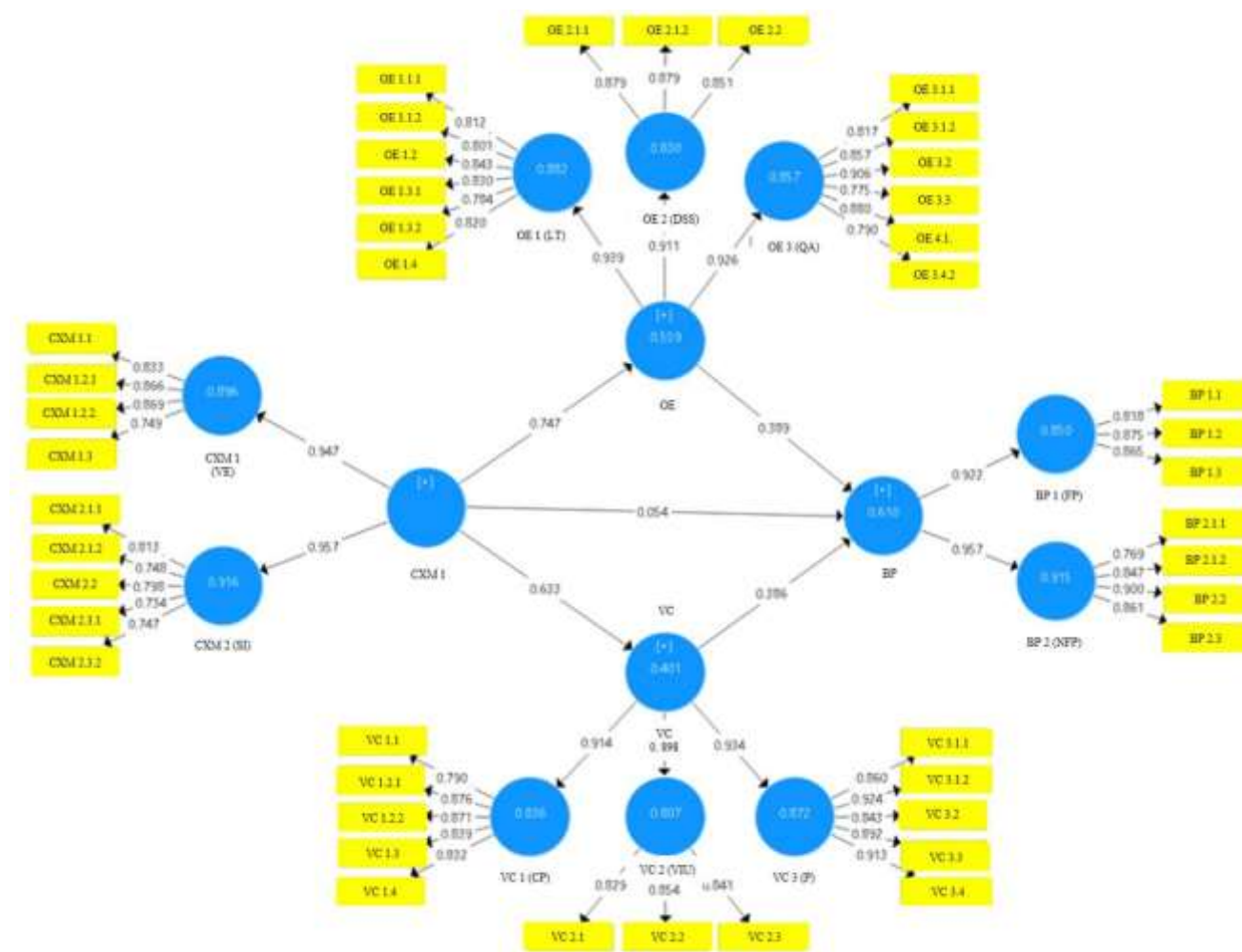


Fig. 2: Measurement model diagram

Items in each variable can be considered valid if the value of the outer loading indicator is more than 0.7. Based on the outer loading values and AVE obtained through the SEM-PLS Algorithm, it is found that each statement item is greater than 0.7 so it is considered valid in measuring indicators and variables. The results of the outer model test concluded that all variables and item constructs

were valid and reliable so that they could be used for further analysis.

#### 3.2.2 Structural Model

For the structural model analysis, the inner model analysis was conducted to evaluate the relationship between the latent variable constructs. In this study, the inner model was tested by analysing the value of R-square (R<sup>2</sup>) on the latent endogenous construct,

and the value of predictive relevance (Q2) to measure how well the observed values and parameter estimates generated by the model were.

Table 1. Evaluation of the inner model

Construct	R <sup>2</sup>	Q <sup>2</sup>
<i>Virtual Environment</i>	0.896	0.897
<i>Service Interaction</i>	0.916	
<i>Lean Transformation</i>	0.882	
<i>Decision Support System</i>	0.830	
<i>Quality Assurance</i>	0.857	
<i>Co-Production</i>	0.836	
<i>Value in Use</i>	0.807	
<i>Partnership</i>	0.872	
<i>Financial Performance</i>	0.850	
<i>Non-financial performance</i>	0.915	
<i>Operational Excellence</i>	0.559	
<i>Value Co-creation</i>	0.401	
<i>Business performance</i>	0.610	

The results of these calculations as in Table 1 indicate that the R-square value in this research model can be categorized into strong and moderately strong criteria, so it can be concluded that the variables in the model have a greater effect on the dependent variable than other factors coming from outside the research model. Meanwhile, the result of the Q2 calculation in this study is 0.897, so it can be concluded that the model in this study has a relevant predictive value.

In this section, the results of the research hypothesis testing will be shown, namely the test of direct and indirect effects (mediation) between latent variables. Hypothesis testing in PLS is done by bootstrapping the sample. Multigroup analysis as applied using the Partial Least Squares Structural Equation Model (PLS-SEM) is a way to test preselected data sets to determine if there are significant differences in the estimates of group-specific parameters. This method, as implemented in

Smart PLS, is an extension of the bootstrap-based multigroup analysis approach originally proposed for PLS-SEM, [24].

There are two models of analysis involving mediator variables: (1) full mediation: the independent variable is not able to significantly impact the dependent variable without involving the mediator variable; and (2) partial mediation: the independent variable is able to directly influence the dependent variable without going through the mediator variable, [24].

Table 2 below presents the results of the inner model evaluation by looking at the association between constructs. If the t-value is greater than t-table (1.96), it means that there is a significant influence on the relationship among the constructs of the latent variables being analyzed.

Table 2. Path coefficient value and t-statistic constructs

Construct	Path Coefficient	t-test /t-value	T-table	Results
H1: CXM -> BP	0.054	0.503	1.96	Insignificant
H2: CXM -> OE -> BP	0.291	2.945	1.96	Significant
H3: CXM -> VC -> BP	0.244	3.027	1.96	Significant
H4: OE -> BP	0.389	3.016	1.96	Significant
H5: VC -> BP	0.386	3.172	1.96	Significant
CXM -> OE	0.747	17.222	1.96	Significant
CXM -> VC	0.633	12.181	1.96	Significant

### **Hypothesis 1: The Effect of Customer Experience Management (CXM) on Business performance (BP)**

Based on Table 2, the t-statistic value on the Customer Experience Management path to Business performance directly is 0.466 which is smaller than the t-table value (1.96), so it can be concluded that hypothesis 1 is rejected, meaning that CXM has no significant effect on Business performance. The path coefficient value is 0.054 which indicates the direction of a positive relationship, which means that increasing CXM will cause an increase in BP, but the effect is not significant.

The test results are in accordance with [5] which states that customer experience orientation has no effect on increasing transformational performance in the Information and Communication Technology industry in Indonesia. In this study, customer experience orientation is formed by four indicators, namely image quality, customer engagement, trust personalization, and service potential, where customer engagement is one of the indicators used in measuring Customer Experience Management variables in this study.

Similar results also state that although there is an association between Customer Experience Management and Business Performance, there is no association between CXM and financial performance in the study of the Sri Lankan printing & publishing industry (Colombo Region), [25]. Other results can be seen in Chandra's research, [8], which states that the results of this study failed to prove that customer experience has a significance for customer loyalty through customer satisfaction mediation at a superblock lifestyle center Ciputra World Surabaya. Meanwhile, customer loyalty and customer satisfaction are used as items that measure non-financial performance indicators on the marketing performance variable in this study.

The ineffectiveness of Customer Experience Management on the performance of a company, both financial performance, and non-financial performance can be caused by various factors that also influence the scope of a company or industry. This makes it somewhat difficult to interpret whether there is an association between CXM and business performance in general because business performance consists of non-financial performance and financial performance.

In this study, it is stated that the influence of political factors and economic factors directly affects Business Performance rather than Customer Experience Management strategies when considering their financial performance. Meanwhile, financial performance is one of the indicators used

to measure the business performance variables in this research on the ICT industry in Indonesia.

### **Hypothesis 2: The Effect of Customer Experience Management (CXM) on Business performance (BP) through Operational Excellence (OE)**

Based on Table 2, the value of t-statistics on the path of Customer Experience Management through Operational Excellence towards Business Performance of 2.945 is greater than the value of t-table (1.96), so it can be concluded that hypothesis 2 is accepted, meaning that CXM through OE as mediation has a significant effect on Business Performance. The path coefficient value is 0.291 which indicates the direction of a positive relationship, which means that increasing CXM will cause an increase in OE which in turn causes an increase in BP. This shows that the relationship between constructs is a "full mediation" model meaning that the independent variable (CXM) is not able to significantly impact the dependent variable (BP) without involving the mediator variable (OE), [24].

Operational Excellence as a mediator between the effect of Customer Experience Management on Business Performance is a novelty in this research as the variables is tested in a digital context, where the results obtained are as expected, namely, Customer Experience Management can improve the Business Performance of companies in the Indonesia ICT industry Indonesia through the mediation of Operational Excellence.

Digital operational excellence improves business dexterity where digital business is not just about customer experience — it's also a way of driving operational agility, [26]. Digital operations can make employees more productive, promote leaner processes, intensify speed to market, and maximize asset utilization. Meanwhile, research by [27] shows that the adjustment of operational activities plays an important role in the perceived value of marketing activity.

This study is also in accordance with a case study of the banking industry in Africa, [27]. Around 2010, retail banks in Africa had improved their customer service beyond customer expectations indicating that the move was to increase customer satisfaction and customer loyalty. Based on this, the researcher sees that good digital platform management is one of the Operational Excellence efforts to improve Customer Experience and company performance.

### **Hypothesis 3: The Effect of Customer Experience Management (CXM) on Business performance (BP) through Value Co-creation (VC)**

Based on Table 2, the value of t-statistics on the Customer Experience Management path to Value Co-creation on Business Performance is 3.027 greater than the value of t-table (1.96), so it can be concluded that hypothesis 3 is accepted, meaning that CXM through variable VC mediation has a significant effect on Business Performance. The path coefficient value is 0.244 which indicates the direction of a positive relationship, which means that increasing CXM will cause an increase in VC which in turn causes an increase in BP. This shows that the relationship between constructs is a “full mediation” model meaning that the independent variable (CXM) is not able to significantly influence the dependent variable (BP) without involving the mediator variable (VC).

Value Co-creation as a mediator between the influence of Customer Experience Management on Business Performance is a novelty in this research, where the results obtained are as expected, namely Customer Experience Management can increase the Business Performance of ICT providers in Indonesia through the mediation of Value Co-creation in a digital context.

The results of this study are in conformity with [5] which states that customer experience orientation influence increasing co-creation strategy, and co-creation strategy influences transformational performance in the Indonesia ICT industry. In this study, the co-creation strategy was built by vision, collaboration sharing, and benefits value.

Similar findings also show a positive and significant effect of emphasizing value-creation strategies on company performance. Another study shows the relationship between Customer Experience Management can affect the co-creation of product and service value creation by customers.

### **Hypothesis 4: The Effect of Operational Excellence (OE) on Business performance (BP)**

Based on Table 2, the t-statistic value on the Digital Operational Excellence path to Marketing Performance directly is 3.016 greater than the t-table value (1.96), so it can be concluded that hypothesis 4 is accepted, meaning that Operational Excellence has a significant effect on Business Performance. The path coefficient value is 0.389 which indicates the direction of the positive relationship, which means that increasing OE will cause an increase in BP.

This study is in accordance with Ojha, [28], which states that operational excellence has a

greater impact on customer retention which is a business performance variable. Meanwhile, different findings are found in [5] where the distinctive operational capabilities built by digital leadership values, culture leaders, high technology assets, and adaptation to environmental agility have no effect in increasing transformational performance in the Indonesian ICT industry. There are other aspects that have a greater influence than distinctive operational capability in improving transformational performance, namely business model innovation and co-creation strategy. This indicates that there are associations between Customer Experience Management, Operational Excellence, and Business Performance initiatives, [28].

Similar results stated that innovativeness, creativity, business alertness, and risk-taking had a significant effect on the successful implementation of Business Process Management (BPM) and affected the performance of Bulgarian companies. The study concludes that management mindset or lack of it has a major influence on business performance and if any organization leans towards development and growth should embrace the concept of BPM.

### **Hypothesis 5: The Effect of Value Co-Creation (VC) on Business performance (BP)**

Based on Table 2, the t-statistic value on the Value Co-creation path to Business Performance directly is 3,172 greater than the t-table value (1.96), so it can be concluded that hypothesis 5 is accepted, meaning that Value Co-creation has a significant effect on Business Performance. The path coefficient value is 0.386 which indicates the direction of the positive relationship, which means that increasing VC will cause an increase in BP.

The results of this study are in conformity with [5] which states that the co-creation strategy built by vision, collaboration sharing, and benefits value influences transformational performance in the Indonesian ICT industry. Benefit value has the biggest influence in improving transformational performance, followed by collaboration sharing and vision.

The research from [19] also discusses the important role of shared value creation, where in the journal it is stated that these indicators bridge the gaps that exist in marketing performance. The impact affects the relationship with customers and business performance. In [18] the authors also mention that companies need to jointly create value with customers on digital platforms to improve performance to face competitiveness.



The finding of this research showed that Customer Experience Management has no significant effect on Business Performance. From a managerial perspective, this means that the capacity of the Indonesian economy to adopt and explore digital technologies that lead to transformations in government practices, business models, and society, in general, is still low, especially in terms of knowledge. Compared to other countries, the researcher looked at the countries in previous studies which showed that Customer Experience Management and innovation had a significant effect on company performance, namely the USA, Denmark, and Italy.

Based on [29] if we try to look at the rankings on each factor, USA was ranked 1st overall, ranked 3 for knowledge, ranked 4 for technology, and ranked 1 for future readiness. Denmark is ranked 4th overall, ranked 8th for knowledge, ranked 9th for technology, and ranked 2nd for future readiness. Italy is ranked 40th overall, ranked 40th for data, ranked 42nd for technology, and ranked 30th for future readiness. While in Indonesia, the country is ranked 53 out of 64 countries, ranked 60th for knowledge, 49th for technology, and 48th for future readiness from 64 countries.

Based on the data and the findings of this research, it is known that developed countries such as the USA, Denmark, and Italy have the better economic capacity to adopt and explore digital technologies compared to a developing country such as Indonesia. Therefore, the researcher concludes that the ability to adopt and explore a country's digital technology affects the transformation and implementation of Customer Experience Management in companies and organizations in that country, which has an impact on the performance of companies and organizations.

The novelty generated through the minor analysis in this study proved that the mediating factors could significantly affect the dependent variable, Business Performance (BP). The results of this study contribute to the development of theoretical knowledge, especially in the field of marketing management. It also contributes to the theoretical concept development of Customer Experience Management, Business Performance, Operational Excellence, and Value Co-creation. The results found in this study can be used as an alternative solution model to improve Business Performance, as well as a practitioner's consideration, especially in developing countries, to thrive in a competitive global market and to solve current problems faced by companies in this digital age.

## 4 Conclusion

This study intends to determine the effect of Customer Experience Management on Business performance in the ICT Industry in Indonesia, as mediated by Operational Excellence and Value Co-creation. Based on the results of research in the Information and Communication Technology industry in Indonesia, it can be concluded that Customer Experience Management does not significantly affect Business Performance. From a managerial perspective, this result makes Business Performance and Customer Experience Management somewhat difficult to interpret in general, because Business performance consists of non-financial performance and financial performance. This study also found that the influence of political factors and economic factors directly affects Business Performance rather than Customer Experience Management strategies when considering their financial performance. Meanwhile, financial performance is one of the indicators used to measure the Business performance variables in this research on the ICT industry in Indonesia.

This study found that Customer Experience Management has a significant effect on Business Performance through the mediation of Operational Excellence and Value Co-creation. Furthermore, this study also showed that Customer Experience Management has a significant effect on Operational Excellence and Value Co-creation. Based on these findings, it can be concluded that Customer Experience Management can affect the ability of a company's innovation advantage such as the ability to create other new marketing indicators that increase company profits or performance. This research has proven that a company's ability to adapt and explore digital technology in a country can create a transformation that influences the implementation of Customer Experience Management in that country, which has an impact on the company's performance itself.

The results of this study contribute to the development of theoretical knowledge, especially in the field of marketing management. This study can be used as a consideration for managers and policymakers in public organizations to prioritize enhancing Customer Experience Management on Marketing Performance, especially concerning Digital Operational Excellence and Digital Value Co-creation, which are relevant and very much needed nowadays.

The limitation of this study is data collection during Covid-19, which impacts economic stability and affects the stability of the condition and performance of companies in the Information and



Communication Technology industry in Indonesia. There are big challenges for companies in the ICT industry in Indonesia, most significantly because not all companies have dynamic and agile organizations to meet changing needs during the Covid-19 pandemic, and not all companies have institutions with proper Customer Experience Management. This condition can indirectly affect the mindset and point of view of the company's management, so possibly it might not reflect Customer Experience Management, Operational Excellence, Value Co-creation, and Business Performance data on companies in the Indonesia ICT industry in the new normal. Some data was obtained through online questionnaires due to restrictions on community mobility due to the Covid-19 pandemic, so it could not directly target some respondents from ICT company management.

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The authors have no conflict of interest to declare that is relevant to the content of this article.

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