

## Moderating Role of Management Commitment on the Value Co-creation Relation with Achievement of Competitive Advantage in Kenyan Financial Institutions

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### ABSTRACT

The current customer is more informed and educated, more selective and has a higher capacity of choice hence demands a more significant value generation from firms. The co-creation remains a vehicle for competitiveness and business growth but without co-creation, business tends to stagnate and eventually fail. This study objective was to assess the moderating role of management commitment on co-creation and the achievement of competitive advantage in the financial services sector in Kenya. The research design used was descriptive cross-sectional with a sample size of 340 managers working in financial institutions. A multi-stage sampling approach was used to attain the respondents in all the three clusters of financial service sectors in Kenya; banking sector, microfinance institutions, and savings and credit societies. The response rate was 92%, and the collected data attained the statistical assumptions for the multi-linear regression model. The result showed the management commitment as moderating variable significantly moderates value co-creation relation and the competitive advantage,  $R^2 = 0.645$ ,  $F(1, 297) = 38.951$ ,  $p\text{-value} < .05$  with significant coefficient value of Management commitment ( $\beta = .366$ ,  $t = 6.241$ ,  $p < .05$ ). The study reaffirms the importance of management commitment in the collaboration engagement as a catalyst to increased organizational performance and as a source of competitive advantage.

**Key Words:** Co-Creation, Competitive Advantage, Management Commitment, Financial Service Sector

## I. INTRODUCTION

Enterprises clamoring to create and maintain long-term competitive advantage and market reach are focusing on developing products and services that promote interdepartmental collaboration reaching out to internal and external stakeholders. By forming strategic partnerships and collaborations, some companies, realizing the shift of power towards customers, accord customers a say in determining the solution developed for them through a co-creation platform as a strategy to gain competitive advantage (Anna & Katarzyna, 2018). This partnership brings forth a collaborative or interactive engagement between the customers and the suppliers, otherwise known as co-creation (Prahalad & Ramaswamy, 2004).

Co-creation stands for innovating with users rather than users, assuming their active participation in the innovation process. Whether as individuals or as members of global communities, customers, and other stakeholders want to be involved with the firm's products in the creation of value (Khajeheian & Ebrahimi, 2020). Co-creation involves accommodating the customers by redefining organizations in value creation and unleashes individual creative energy by inviting and enabling customers to interact with the organization from a different perspective through their experiences and serves as a hub for identifying, visioning, researching, implementing, donating, and volunteering. It involves a significant rethink on how a business creates and retains value.

The customer is more informed and educated, more selective and demanding, and has a higher capacity of choice. This new consumer demands a more significant value generation from firms. Therefore, customer value creation has become more necessary than ever for the organization's survival. Likewise, recent studies show that the generated value can favor, among other things, customer satisfaction and business results (Vega-Vazquez et al., 2013). Customers have become more vocal using these online tools to make their ideas and opinions in the value creation process thus, becoming co-creators of value-seeking to personalize their experience to derive maximum benefit or value from a service (Felleson & Salomonson, 2016). According to Ramaswamy (2008), leading firms have perceived and seized this opportunity in the environment and responded by engaging their customers in the meticulous process of value co-creation. In the process, they are inventing new competencies and business practices.

According to Lacy et al. (n.d.) co-creation is linked with customer relations management as co-creation is deemed an effective avenue for obtaining and retaining relevant information feeding into the organization's system. With its emphasis on consumer content and opinion, co-creation is a natural funnel for information. Benson (2013) promulgated an argument into how organizations ought to tap into the collective insights vested in people outside the organization because of the potential these engagements bring into the organization through innovative ideas suitable to both parties in a co-creation process. Co-creation activities, therefore, involve the exchange of resources between firm and customer in a manner that allows the parties to obtain a solution that would not otherwise be available had they not interacted; hence value is created (Preikschas et al., 2017). Further, Haro, Ruiz, and Cañas (2014) and Martovoy and Dos Santos (2012) stated co-creation engagements help firms strategically to create common values that result in products or services that are beneficial to both parties by building unique experiences that are likely to accord the firm substantial new competitive advantage by developing solutions relevant to customer needs.

Benson (2013) notes that co-creation has become widely applied in Fortune 500 firms and smaller organizations globally. However, the co-creation engagements have more potent positive effects on firms in the service sector than manufacturers in terms of operational benefits and financial outcomes measured by ROI (Zaborek & Mazur, 2019). Similarly, the banking sector as a service industry needs to evolve in its strategy to include the customer in value creation for its sustainability. This calls for the need to devise a model of value co-creation as a strategy to analyze how organizations adopt innovation, market, and design strategies that achieve the performance goals through co-creation and reciprocal financial and non-financial benefits of co-creation engagement between the players (Hsu, 2016) especially in financial sectors which supports growth and development of significant macro and microeconomic sectors.

This article focused on the management commitment as moderating variable on value co-creation and competitive advantage of firms in Kenya's financial services sector, focusing specifically on banking, microfinance, and savings and credit societies institutions in Kenya as registered and regulated by the Central Bank of Kenya and the Sacco Societies Regulatory Authorities. The study's data collection was conducted between June and August 2020.

## II. THE PROBLEM

In Europe, 57% of senior executives and managers identified co-creation as a catalyst to transforming their organizations' approach to innovation, 52% viewed the co-creative approach to innovation reduced the cost of developing products and services in their businesses and lastly, 51% regarded co-creation as an improver of financial performance (Hitachi, 2016). Another study on customers and experienced management professionals, indicated 55% of customers are enthusiastic about paying more for a guaranteed favorable outcome, and 86% can upsell for a more superior experience generating increased revenue and bolstering customer loyalty of the customer (Afshar, 2019). Lastly, according to Roy et al. (2019), DHL's co-creation endeavors have resulted in over 80% increase in customer satisfaction and 97% increase in on-time delivery performance, reducing customer churn. The current customer is more informed and educated, more selective and has a higher capacity of choice hence demands a more significant value generation from firms. The co-creation remains a vehicle for competitiveness and business growth but without co-creation, business tends to stagnate and eventually fail. Therefore, customer value creation has become more necessary than ever for the organization's survival. This study seeks to identify the influence of co-creation knowledge application in enhanced mutual co-operation and collaboration in a long-run engagement platform beyond traditional customer engagement in solo, private innovations and further the moderating role of management commitment in the co-creation engagement to enhanced competitive advantage.

## III. LITERATURE REVIEW

### A. *Co-creation Theory*

As depicted by Haro et al. (2014), the outcomes of value co-creation are valued in use and value in exchange. Value in Use (Satisfaction, Trust, and Consumer Loyalty) speaks to customer satisfaction established as the long-term determinant of customer behavior. According to Haro et al. (2014), firms should appreciate the influence of co-creation on customer relationships, trust, fulfillment, and loyalty. They further adduce that engaging customers in production processes help firms create new products and services and establish long-term relationships with their customers.

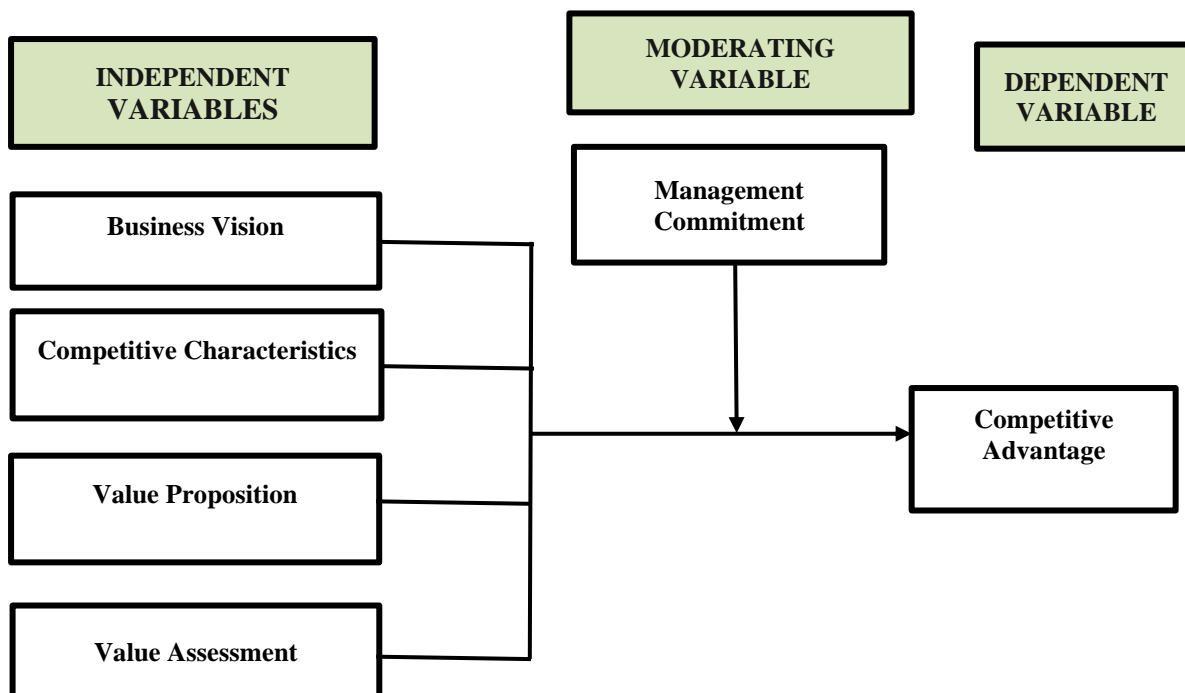
Coetzee (2016) puts forth the notion that value in use is created by the customer and not the firm as the customer draws benefit from the application of the product or service. There are several perils associated with co-creation, as positive outcomes are not always guaranteed. Increased customer participation reduces the control that a firm has over the outcome of the value creation process, which presents a high level of uncertainty (Tran, 2016). Additionally, customers may not readily demonstrate the necessary understanding and dexterities to agree with the suppliers' new value proposition. Therefore, value may not be created, which is compounded by legislative inhibitions that curtail value co-creation (Tran, 2016). Advancing ideas that promote customer participation in value co-creation has been pronounced as a disingenuous, double-edged sword for firms. Co-creation produces economic gains for customers and strengthens the customer's emotional bond to the firm, but may simultaneously increase employees' job stress and hinders their job satisfaction (Terblanche, 2014). According to Terblanche (2014), the value created through the joint collaboration between the customer and the firm is contingent on the cultural values of both the customers and employees; therefore, customers and employees should be partnered based on their cultural value orientations for successful value co-creation to take place.

In this study, the value co-creation process delivers benefits where the results of a complete co-creative process, whether it is a product, service, brand, or experience, generate highly attractive results to the participants. The process creates a marketing and quality advantage to the firm participating in the co-creation arrangement. Scientific research resonates with the notion of enhanced relevance of co-created output for end-users. As an open and interactive process, the co-creation process guarantees broad support among the stakeholders since they are directly involved with a positive impact on the quality of the result, which is endorsed by the user-groups firm and customer alike. Further, co-creation theories are relevant to this study as the concept of co-creation indicates a whole range of alternative ways to jointly create value with customers, which this study seeks to elicit. There is a shared creation of value between the firm and its customers, necessitating partners' combined efforts to develop a new offer through an interactive process.

### *B. Conceptual Framework*

The conceptual framework informing the study was derived from the value co-creation DART Model (Prahalad & Ramaswamy, 2004) and the strategic CRM Payne's five process model (Payne & Frow, 2006).

Figure 1: Conceptual Framework (Source: Author)



#### IV. RESEARCH METHODOLOGY

The research adopted a positivism philosophy, using descriptive research from a population of managers from the financial services sector (banking sector, microfinance institutions, and savings and credit societies). The probability sampling technique using a multi-step sampling technique was applied: stratification, proportionate sampling technique and simple random sampling were used to select the managers who participated in the study. Using Yamane (1967) formula, the sample size was determined at 309 respondents, and this was adjusted by an additional 10% to cater for non-responses due to the COVID-19 restrictions, to make 340 respondents. Primary data was collected by use of a five-point Likert scale questionnaire ranging from ‘strongly agree’ to ‘strongly disagree’. The response rate of 92% was achieved. The statistical assumption performed were the Normality test, Linearity test, Multicollinearity test, and the Homoscedasticity to determine the model to be used in answering the research hypothesis of the study. further, the inferential analysis used in this study consisted of factor analysis, correlation analysis, Analysis of Variance (ANOVA), and multi-linear Regression. The regression equation used:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

Where:  $Y$  = competitive advantage,  $\beta_0$  = constant,  $\beta_1 X_1$  = business vision,  $\beta_2 X_2$  = competitive characteristics,  $\beta_3 X_3$  = value proposition,  $\beta_4 X_4$  = value assessment,  $\beta_5 X_5$  = management commitment and  $\epsilon$  = error term

#### V. RESULTS AND DISCUSSION

The factor analysis was performed to determine the strength of the sampling adequacy, identify the total variance explained, and extract the pattern matrix that informed the viability of constructs included in the study.

The exploratory factor analysis was applied with principal component analysis as the extraction method. As depicted in Table 1, The Kaiser-Meyer-Olkin (KMO) value was .921, with significant ( $p < .05$ ) Bartlett's test of Sphericity at  $X^2 (153, N=311) = 2181.283, p < .05$ . This output shows the management commitment factors were adequate for extraction since the KMO was greater than 0.6, and Bartlett's test was significant ( $p < .05$ ).

**Table 1: KMO and Bartlett's Test on Management Commitment**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.921
	Approx. Chi-Square
	2181.283
Bartlett's Test of Sphericity	Df
	153
	Sig.
	.000

In Table 2 below, the correlation matrix produced a positive and significant correlation between the study's moderating variable on independent variables and the dependent variable. Management commitment correlated with: business vision  $r (307) = .694, p < .05$ , competitive characteristics  $r (307) = .672, p < .05$ , value proposition  $r (307) = .742, p < .05$ , and value assessment  $r (306) = .742, p < .05$ . This shows an increase in management commitment as the moderating variable has a positive and significant influence on other independent variables parameters. Further, competitive advantage correlated with management commitment as moderating variables  $r (304) = .749, p < .05$ . This shows an increase in competitive advantage as the dependent variable has a positive and significant influence on moderating variables.

**Table 2: Component Matrix on Management Commitment**

	Business Vision	Industry and Value Competitive Characteristics	Value Proposition	Management commitment	Competitive Advantage
Business Vision	Pearson Correlation 1				
	Sig. (2-tailed)				
	N 311				
Industry and Value Competitive Characteristics	Pearson Correlation .705**	1			
	Sig. (2-tailed) .000				
	N 311	311			
Value Proposition	Pearson Correlation .704**	.754**	1		
	Sig. (2-tailed) .000	.000			
	N 310	310	310		
Value Assessment	Pearson Correlation .685**	.706**	.751**	1	

	Sig. (2-tailed)	.000	.000	.000		
	N	308	308	308	308	
Management commitment	Pearson Correlation	.694**	.672**	.742**	.742**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	307	307	307	306	307
Competitive Advantage	Pearson Correlation	.647**	.687**	.716**	.682**	.749**
	Sig. (2-tailed)	.000	.000	.000	.000	.000
	N	306	306	306	305	304

\*\* . Correlation is significant at the 0.01 level (2-tailed).

To determine the type of regression to be used in answering the research hypothesis, different diagnostic tests were conducted. These diagnostic tests were guided by the statistical regression assumptions that included; Normality test, Linearity test, Multicollinearity test, and Homoscedasticity. The results were as follows:

Normality test on the management commitment tested using the One-sample Kolmogorov-Smirnov Test produced a result of  $M=4.49$ ,  $SD=.358$  with minimal difference in the values. The deviation from the normal was not significant ( $p>.05$ ), indicating the data on management commitment was normally distributed. Multicollinearity test conducted using the Variance Inflation Factor (VIF) produced a result of 1 meaning there was no multicollinearity between the management commitment and competitive advantage variables. The linearity test conducted using the analysis of variance (ANOVA) showed that management commitment had a significant and positive linear relationship with the competitive advantage ( $p<.05$ ). Further, the deviation from linearity was not significant ( $p>.05$ ); hence the management commitment was linearly distributed. The homoscedasticity test formed a pattern between the values of -2 to 2 of the regression standardized residuals. This shows that management commitment as an independent variable is not homogenous.

The variables attained the assumption of regression hence multi-linear regression model was used to answer the study hypothesis;  $H_{01}$ : Management commitment as a moderating variable has no significant influence on value co-creation relation with competitive advantage in the financial services sector in Kenya and accepts the alternate hypothesis. The alternate hypothesis was adopted based on the following results:

The first output was the model summary output, Table 3 below. The model summary shows the degree to which the independent variable influences the dependent variable and if the influence is significant. Model 1: The degree to which value co-creation influence the competitive advantage was statistically significant,  $R^2 = 0.599$ ,  $F(4, 298) = 111.136$ ,  $p$ -value  $<.05$ . This shows, 59.9% of competitive advantage can be attributed to value co-creation, while the remaining 40.1% can be attributed to other factors not included in the study and the error term.

Model 2: The degree to which value co-creation influences the competitive advantage with the inclusion of management commitment as a moderating variable was statistically significant,  $R^2 = 0.645$ ,  $F(1, 297) = 38.951$ ,  $p$ -value  $<.05$ . This shows, 64.5% of competitive advantage can be attributed to value co-creation with the inclusion of management commitment as a moderating variable, while the remaining 33.5% can be attributed to other factors not included in the study and the error term. Comparison of model 1 and model 2 shows the inclusion of management commitment as a moderating variable increased the degree to which value co-creation influenced competitive advantage by 4.6% (64.5% - 59.9%).

**Table 3: Model Summary on Moderating Role of Management Commitment on Achievement of Competitive Advantage**

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Change Statistics				
					R Change	Square Change	F Change	df1	df2
1	.774 <sup>a</sup>	.599	.593	.23166	.599	111.136	4	298	.000
2	.803 <sup>b</sup>	.645	.639	.21818	.047	38.951	1	297	.000

a. Predictors: (Constant), Value assessment, Business Vision, Competitive Characteristics, Value Proposition

b. Predictors: (Constant), Value assessment, Business Vision, Competitive Characteristics, Value Proposition, Management commitment

The regression ANOVA determines if the model used is the best to answer the study hypothesis. Table 4 below demonstrates that the regression model used was suitable for predicting the outcome variable on how: Model 1: The influence of value co-creation on the competitive advantage  $F(4, 298) = 111.136$ ,  $p <.05$ ). Model 2: The influence of value co-creation on the competitive advantage with the inclusion of management commitment as moderating variables  $F(5, 297) = 108.022$ ,  $p <.05$ ).

**Table 4: ANOVA Table on Moderating Role of Management Commitment on Achievement of Competitive Advantage**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.857	4	5.964	111.136	.000 <sup>b</sup>
	Residual	15.992	298	.054		
	Total	39.849	302			
2	Regression	25.711	5	5.142	108.022	.000 <sup>c</sup>
	Residual	14.138	297	.048		
	Total	39.849	302			

a. Dependent Variable: Competitive Advantage

b. Predictors: (Constant), Value assessment, Business Vision, Industry and Competitive Characteristics, Value Proposition

c. Predictors: (Constant), Value assessment, Business Vision, Industry and Competitive Characteristics, Value Proposition, Management commitment

The last output was the coefficient output of the management commitment parameters on competitive advantage. The coefficient indicates the Beta values of the parameters. Model 1: All the value co-creation independent variables had a significant influence on competitive



advantage. The business vision influenced the competitive advantage ( $\beta = .158$   $t = 2.745$ ,  $p < .05$ ). Similarly, the competitive characteristics influenced the competitive advantage ( $\beta = .207$   $t = 3.359$ ,  $p < .05$ ), value proposition influenced the competitive advantage ( $\beta = .272$   $t = 4.155$ ,  $p < .05$ ), and lastly, Value assessment influenced the competitive advantage ( $\beta = .229$   $t = 3.715$ ,  $p < .05$ ). From these results, value co-creation variables had a significant influence on competitive advantage. Comparing the value co-creation variables, the value proposition had a higher influence on the competitive advantage with a Beta of .273 followed by value assessment with a Beta of .229, competitive characteristics with a Beta of .207, and lastly, the business vision with a Beta of .158.

Model 2: with the inclusion of management commitment as moderating variables, only two independent variables of co-creation had a significant influence on competitive advantage. The business vision does not influence the competitive advantage ( $\beta = .080$   $t = 1.438$ ,  $p > .05$ ) and value assessment does not influence the competitive advantage ( $\beta = .110$   $t = 1.799$ ,  $p > .05$ ). The two independent variables were; the competitive characteristics influenced the competitive advantage ( $\beta = .182$   $t = 3.122$ ,  $p < .05$ ), and value proposition influenced the competitive advantage ( $\beta = .165$   $t = 2.576$ ,  $p < .05$ ). Management commitment as moderating variable was also significant ( $\beta = .366$   $t = 6.241$ ,  $p < .05$ ). From these results, management commitment as moderating variable had significant influence on how value co-creation interacts with competitive advantage.

Comparison of model 1 and model 2 shows that all the value co-creation variables influence the competitive advantage without the management commitment. However, with the inclusion of the management commitment, business vision and management commitment are not significant.

**Table 5: Coefficient Table on Moderating Role of Management Commitment on Achievement of Competitive Advantage**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.531	.194				
	Business Vision	.159	.058	.158	2.745	.006	.045 .273
	Competitive Characteristics	.194	.058	.207	3.359	.001	.081 .308
	Value Proposition	.285	.068	.272	4.155	.000	.150 .419
	Value assessment	.255	.069	.229	3.715	.000	.120 .390
2	(Constant)	.417	.183				
	Business Vision	.081	.056	.080	1.438	.152	-.030 .191
	Competitive Characteristics	.171	.055	.182	3.122	.002	.063 .278
	Value Proposition	.172	.067	.165	2.576	.010	.041 .304
	Value assessment	.122	.068	.110	1.799	.073	-.011 .256
	Management commitment	.371	.059	.366	6.241	.000	.254 .488

a. Dependent Variable: Competitive Advantage

The general form of the regression model used was:

$$\text{Model 1: } Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$$

$$\text{Model 2: } Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \epsilon$$

Where;  $Y$  = competitive advantage,  $\beta_0$  = constant,  $\beta_1X_1$  = business vision,  $\beta_2X_2$  = competitive characteristics,  $\beta_3X_3$  = value proposition,  $\beta_4X_4$  = value assessment,  $\beta_5X_5$  = management commitment and  $\epsilon$  = error term

$$\text{Model 1: } Y = .531 + .158X_1 + .207X_2 + .272X_3 + .229X_4$$

$$\text{Model 2: } Y = .417 + .182X_2 + .165X_3 + .366X_5$$

From the above findings and equations, the management commitment significantly moderates the value co-creation: the business vision and values assessment have been dropped from the equation. The beta values were reduced: competitive characteristics (from .207 to .182) and value proposition (from .272 to .165) with the management commitment's inclusion. Thus, the study rejects the null hypothesis of the study  $H_{01}$ : Management commitment as moderating variable has no significant influence on value co-creation in generation of competitive advantage in the financial services sector in Kenya and accepts the alternate hypothesis  $H_1$ : Management commitment as moderating variable has significant influence on value co-creation relation with competitive advantage in the financial services sector in Kenya. Thus accepts the alternate.

## VI. DISCUSSION OF RESULTS

The study found a moderating role of management commitment between value co-creation and competitive advantage. This finding is collaborated by Urgal et al. (2013), who identified management commitment as a moderator to firms' innovation performance. Mulyani et al. (2016) established a positive relationship between top management support, the quality of business intelligence systems, and Ladewi and Mulyani (2015) found a significant effect of management commitment and change management implementation. Management commitment starkly impacts the implementation of programs within the firm. Management commitment moderates the sway on the performance of new product development programs on the firm's ability to acquire, retain and integrate new knowledge. Management commitment is closely linked to knowledge within the firm because it ensures the creation and integration of the knowledge needed for developing successful innovations.

The study found out that the management's key focus is to commit to obtain the right talent, which is crucial for an organization's performance. This was agreed on by Chadwick et al. (2015) recommended that top leadership and specifically the CEO incorporate strategic human resource management, which affects firm performance through commitment. Management of the right cadre of staff also enhances collaborative engagement.

As the middle and lower-level managers' primary role is to implement top management's strategic initiatives, the top management should focus more on procuring the right talent to perform these tasks. The acquisition of the right talent is a prerequisite to strategy implementation success in the firm. The inclusion management commitment as a moderating variable positively influenced the performance of two independent variables: competitive characteristics and value proposition as influencing the competitive advantage. Management commitment did not significantly influence the business vision and value assessment in generating the competitive advantage of firms in the financial services sector. Business vision points organizations in the direction they should go; however, commitment from management is what makes for the attainment of the vision without which business vision is foiled. According to Pujara et al. (2011) lack of management commitment as the most significant barrier to the implementation of the vision of a firm.

## VII. CONCLUSIONS

The study sought to show the moderating role of management commitment on the effect of value co-creation in achieving competitive advantage. The study rejected the null hypothesis and concludes that management commitment has a significant moderating influence on value co-creation relation with competitive advantage of the financial sector in Kenya. The co-creation was measured by the following factors; business vision, value assessment, competitive characteristics, and the value proposition. From the results, without the inclusion of management commitment, all the value co-creation factors influence the competitive advantage. However, with the inclusion of management commitment as moderating variable, business vision and value assessment have no significant influence on the competitive advantage. Only Competitive characteristics and value proposition influenced the competitive advantage. This concludes, with management commitment, the firm's business vision and value assessment diminish. Instead, the more important attributes are the firm's value proposition and competitive characteristics in the co-creation engagement to delivering a competitive advantage.

## VIII. RECOMMENDATIONS

This study has confirmed that management commitment has a significant influence and mediates value co-creation and competitive advantage for firms in the financial services sector in Kenya. The importance of management commitment in the collaboration engagement increases the firm's performance capability. The study recommends that financial institutions should strategically enhance their investment in the management commitment involvement. Focusing on the collaborative capability of management, business vision, and value assessment will wane in response to a more attuned and committed management. Further, they should enhance the management commitment on the value proposition and competitive characteristics when considering the collaborative engagement.

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