CUSTOMER EXPERIENCE MANAGEMENT: TOPOLOGY, ANTECEDENTS, AND OUTCOME

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CUSTOMER EXPERIENCE MANAGEMENT: TOPOLOGY, ANTECEDENTS, AND OUTCOME

by

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LIST OF ABBREVIATIONS

BEM	Brand Experience Management
CEE	Customer Experience Engineering
CEM	Customer Experience Management
CIMB	Commerce International Merchant Bankers
CLC	Customer Lifetime Cycle
CLV	Customer Lifetime Value
CORCRM	Organization
CRM	Customer Relationship Management
EC	Experiential Communication
EE	Experience Economy
EM	Experiential Marketing
EEM	Employee Experience Management
HSBC	Hong Kong and Shanghai Banking Corporation
IEM	Interface Experience Management
IM	Innovation Management
IT	Information Technology
MEPU	Malaysia Economic Planning Unit
MLE	Maximum Likelihood Estimation
MP	Marketing Performance
PLS	Partial Least Squares
SE	Service Experience
SEM	Structural Equation Modeling
SIA	Singapore Airlines
SCRM	Social Customer Relationship Management (System)

PENGURUSAN PENGALAMAN PELANGGAN:

TOPOLOGI, LATAR BELAKANG DAN HASIL

ABSTRAK

Penyelidikan akademik dalam Pengurusan Pengalaman Pelanggan (CEM) masih belum menemui kesimpulan yang muktamad walaupun ia merupakan elemen penting dalam meneroka pengalaman pelanggan. Keterbatasan ini memerlukan teori dan pengoperasian sistemik CEM. Berdasarkan pandangan ini, kajian ini menggunakan kaedah metodologi berturut-turut untuk mengenal pasti topologi CEM dan antecedent serta hasilnya dalam industri hotel Malaysia. Kajian penerokaan ini pertama kali dijalankan dalam pembangunan model ini berdasarkan triangulasi antara data dari satu set kajian amalan terbaik, wawancara, dan pemerhatian. Model yang dicadangkan kemudian diuji melalui teknik pemodelan dan dianalisis menggunakan pemodelan persamaan struktur melalui SmartPLS. Kajian ini membincangkan pengalaman pelanggan dalam konteks industri perkhidmatan berdasarkan nilai-nilai pengalaman yang dapat dikesan, diingati, diurus, dibezakan, dan dipersonalisasi. Secara dasarnya, topologi CEM telah beroperasi berdasarkan kecekapan organisasi dalam menguruskan penciptaan nilai-nilai pengalaman (emosi, sensorial, tingkah laku, intelektual, relasi, dan nilai interaksional). Pengurusan perhubungan pelanggan, Pengurusan pengalaman pekerja, Pengurusan inovasi, dan pemasaran Eksperimen dikenalpasti sebagai penyebab utama manakala prestasi Pemasaran dilihat sebagai hasil utama. Penemuan ini mendedahkan kepentingan relatif kehadiran CEM. Secara dasarnya, CRM memacu perilaku, pengurusan hubungan dan pengalaman interaksi, sementara pengurusan inovasi mendorong pengurusan pengalaman emosi, sensor, dan intelektual. Pengurusan pengalaman pekerja membolehkan pengurusan pengalaman

relasi dan interaksi, dan pemasaran pengalaman adalah prasyarat yang diperlukan untuk menguruskan pengalaman sensorial, intelektual, tingkah laku, dan relasi. Kajian ini juga mendedahkan bahawa pengalaman pengurusan emosi dan pengurusan pengalaman antara muka adalah peramal prestasi pemasaran yang lebih baik. Implikasi kajian ini menunjukkan bahawa hotel lebih cenderung untuk mencapai prestasi pemasaran dengan melabur dalam pengalaman emosi dan interaksi pelanggan mereka. Walaupun kajian ini menggunakan industri hotel Malaysia sebagai proksi bagi industri perkhidmatan, model yang dicadangkan adalah rangka kerja khusus yang inklusif dan tidak spesifik yang berguna untuk penyiasatan pengurusan pengalaman perkhidmatan pada masa akan datang.

CUSTOMER EXPERIENCE MANAGEMENT:

TOPOLOGY, ANTECEDENTS, AND OUTCOME

ABSTRACT

Academic research on Customer Experience Management (CEM) is still inconclusive although it is an important element in exploring customer experience. This limitation calls for a systematic theorization and operationalization of CEM. To this end, this study employed a sequential mixed-method methodology to identify the CEM topology and its antecedents and outcome in the Malaysian hotel industry. An exploratory study was first conducted to develop this model based on the triangulation between data from a set of best-practice reviews, interviews, and observations. The proposed model was then tested through a survey and analyzed by using structural equation modeling via Smart PLS. This study reconceptualized customer experience in the context of the service industry based on the experiential values that are detectable, memorable, manageable, distinguishable, and personalizable. Accordingly, CEM topology was operationalized as an organizational competency to manage experiential values co-creation (emotional, sensorial, behavioral, intellectual, relational, and interactional values). Customer relationship management, employee experience management, innovation management, and experiential marketing were identified as the key antecedents and marketing performance as the main outcome. The findings revealed the relative importance of the CEM antecedents. Apparently, CRM drives behavioral, relational and interactional experience management whilst innovation management drives emotional, sensorial and intellectual experience management. Employee experience management enables relational and interactional experience management, and experiential marketing is a necessary prerequisite for

managing sensorial, intellectual, behavioral, and relational experiences. The study also revealed that emotional experience management and interface experience management are better predictors of marketing performance. The implications of this study suggest that hotels are more likely to achieve greater marketing performance if they invest in their customers' emotional and interactional experiences. Although this study used the Malaysian hotel industry as a proxy for the service industry, the proposed model is an inclusive and non-industry-specific framework that is useful for future investigations of service experience management

CHAPTER 1 - INTRODUCTION

1.1 Introduction

Customer Experience generally refers to what customers feel, learn, and remember from the interactions or involvement with an offering and its context. Customer Experience Management (CEM) is defined as the process of managing customer experience formation in an integrated fashion with the goal of improving customer lifetime value. CEM initiatives basically strive to support customers in co-creating their own desirable experience through a set of experiential values.

Despite the recent development in understanding customer experience, marketing research has failed to provide a framework to systematically design, orchestrate, and evaluate customer experience (e.g. Arkadan, Macdonald, & Wilson, 2017; Homburg, Jozić & Kuehnl, 2017; Hwang & Seo, 2016; Kandampully, Zhang & Jaakkola, 2018). Therefore, it is worthwhile to investigate the antecedents and outcomes of CEM and suggest an integrated model capturing a better picture of customer experience from the managerial perspective.

This study defines CEM as a set of organizational competencies –not a process per se– and focuses on customer experience in service industry (aka service experience), particularly in hotel industry where CEM adaption has been growing increasingly (Line & Runyan, 2012; Kandampully et. al, 2018; Yoon & Lee, 2017).

1.2 Background

The definition of CEM in the marketing literature is mainly associated with differentiating the process of customer experience co-creation (Jaakkola, Helkkula & Aarikka-Stenroos, 2015). Therefore, designing, monitoring and evaluating experience

co-creation process become a critical organizational capability, which can potentially enhance business outcomes (Brakus, Schmitt & Zarantonello, 2009; Kranzbühler, Kleijnen, Morgan & Teerling, 2017). Previous research showed the positive influence of CEM on business outcomes such as customer attitude, satisfaction, loyalty and fervent advocacy (Fatma, 2014; Grønholdt, Martensen, Jørgensen & Jensen, 2015).

Likewise, in practice, CEM is regarded as a new strategic approach to deal with traditional marketing challenges such as low customer lifetime values, high switching rate, and lack of emotional bond (Verhoef, Lemon, Parasuraman, Roggeveen, Tsiros, & Schlesinger, 2009; Walden, 2017). A study by Gartner (2017) showed that customer experience is the new marketing 'battlefront' , where more than 65% of marketers believe their companies compete mostly on the basis of CEM (Pemberton, 2017). A survey by PwC reported that CEM is the key strategy as one in three customers discontinue their business after only one negative experience (PwC, 2018).

In service industries, the prominence of offering positive customer experience is growing as well (Carù & Cova, 2015; Jaakkola, Helkkula & Aarikka-Stenroos, 2015). Managing customer experience has turned into the top priority for many service providers (McColl-Kennedy, Cheung & Ferrier, 2015). For example, there is an increasing interest in upgrading service offerings with supplementary experiential benefits to avoid commoditization of the offerings (Bitner, Ostrom & Morgan, 2008; Gross & Pullman, 2012).

1.3 Research Context

This study focuses on the Malaysian hotel industry as a proper proxy for a modern and progressive service industry. The hotel industry is a proper representative for the service sector due to its various touchpoints, several tangible experience cues, and a wide range of services shared with other service industries (Hwang & Seo, 2016;

Kandampully et al., 2018). The following section addresses the background of the service industry, tourism and hotel industry in Malaysia, and the importance of CEM in this industry.

1.3.1 Malaysia Service Industry

The service industry is a reliable indicator of economic development, particularly for growing economies like Malaysia (Lovelock et al., 2002). Malaysia is known for sustainable development in its service sector (J.P. Morgan Treasury Services, 2012; MEPU, 2008; World Bank, Malaysia Economic Monitor, 2011). According to 10th Malaysia Plan, Service industry is the significant source of growth in Malaysia national strategy with 7.2% annual growth and 61% contribution to GDP. Only in 2017, the approved investment in the services sector showed a significant increase of 20% from 2016 (MIDA, 2018). Malaysia' s service sector contributes more than 50% of GDP and employment, which is a sign of the post-industrial phase of development (Economy Watch, 2010). It is predicted that the Malaysia service economy will be expanded due to (1) service demand growth, (2) socioeconomic shift, (3) lifestyle change, (4) women in workforce, (5) rising in education and income, (6) demographic alteration, and (7) developing in less capital-intensive industries (Haigh, 2007; Lee & McKibbin, 2018). Globalization, notable growth in the local service market capitalization and intense competition are other reasons behind this prediction (Banducci & Keneally, 2001). To maintain this growth, it is essential for the service sector in Malaysia to think over offering a distinctive customer experience. (Roy, Mutum & Nguyen, 2017).

Starkey et al. (2002) reported the status of managing customer experience across service sectors in Malaysia (Figure 1.1). While some service industries, such as insurance and banking, perform relatively well in many aspects of customer

management, all the selected sectors fail to deliver proper customer experience (Starkey et al., 2002). More recently, Raydar Research Institute (2011) conducted a survey in Malaysia – the State of Customer Service in Malaysia – that showed 72% of respondents did not receive satisfactory customer experience in the last 3 months and 54% said service experience was below their expectation (Wong, Lim &Ying, 2011).
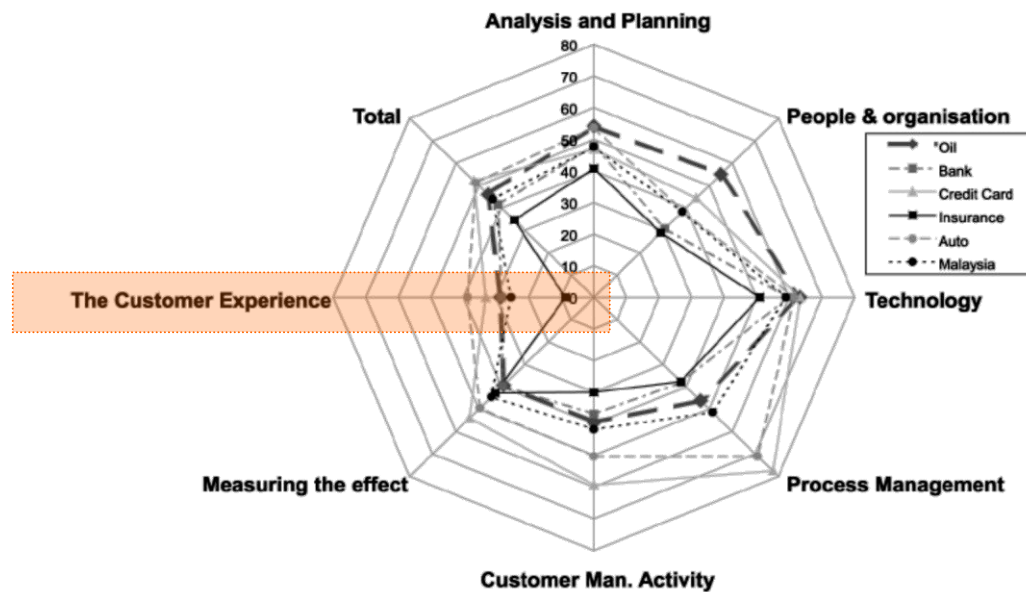
Figure 1-1: The State of Customer Management Performance in Malaysia

Source: based on *Customer Management Assessment Tool* (CMAT) developed by QCi (Starkey et al., 2002)

1.3.2   Malaysian Hotel Industry

The tourism industry plays a significant role in economic prosperity and economic development (Kandampully et al. 2018). According to World Travel and Tourism Council, tourism is one of the world' s largest industries, accounting for over 9% of global GDP, 98 million direct employment, and $8.27 trillion global economy contribution (World Travel and Tourism Council, 2018). Worldwide international tourist arrivals increased from 528 million in 2005 to 1.19 billion in 2015 with the prospect of 1.8 billion by 2030 (Statista, 2018).

In the *Malaysia Plans*, tourism is a determinative factor in driving economic growth, investment, entrepreneurship, and employment (MEPU, 2012). According to

the Malaysia Tourism Promotion Board, the Malaysian tourism industry is the third largest source of income for foreign exchange. With a sustainable increase in revenue over the recent years, tourist annual arrivals increased to 26 million in 2017 (MEPU, 2018). The expansion of the tourism requires the mobilization of resources to improve the essential infrastructure and market more innovative offerings in the related activities like food, accommodation, entertainment, and shopping (MEPU, 2018). Among these resources, tourism development highly depends on the hotel industry.

Datuk Dr. Victor Wee, former Chairman of the Tourism Malaysia stated that customer experience is of 'paramount' importance in Tourism Malaysia's agenda and it would have a very high impact on the Malaysian economy (Wong et al., 2011). The hotel industry currently deals with a transformation in customer expectations, which goes beyond just asking for quality service (Kandampully et al. 2018; Wang et al., 2012). Therefore, it is essential that hotels, like other service providers, go beyond service excellence and stage innovative experiences to remain competitive (Atilgan, Akinci, & Aksot, 2003; Obenoura, Patterson, Pedersen, & Pearson, 2006; Yoon & Lee, 2017). This necessity encourages academics and practitioners to explore this concept from a managerial perspective for more reliable and practical understanding (Hwang & Seo, 2016; Nasution & Mavondo, 2008; Obenoura et al., 2006; Kandampully et al. 2018; Shaw, Bailey & Williams, 2011; Wua & Liang, 2009; Xu, 2010).

Studying customer experience in the Malaysian hotel industry can lead to valuable insights contributing to the current progress and intense competition (Lau et al., 2005). CEM as an effective marketing strategy is significant for enhancing market shares and tourist retention (Poon & Low, 2005). In line with the 11th Malaysia Plan, CEM can help the hotels enhance Malaysia's position as a preferred global tourist destination by improving tourist sites and developing new iconic tourism products. In

addition, CEM can be a solution to the current challenges in the Malaysian hotel industry such as managing customer expectation competitive advantage, service employment, relational quality, social and emotional values in service and service innovation (Akbar, & Fie, 2006; Bhuvanes, 2009; Choon & Tan, 2017; Ha, Abu-Bakar, & Jaafar, 2007; Hui, Chern, & Othman, 2008; Lahap, Ramli, Said, Radzi & Zain, 2016; Mohammed, Rashid & Tahir, 2014; 2017).

1.4   Research Problem

Verhoef et al. (2009, p. 39) noted, "The domain of customer experience management offers a rich agenda for future research." CEM is a topic that warrants further exploration, both from academic and practitioner perspectives. Marketing literature as yet falls shorts in offering a comprehensive and realistic picture of CEM –especially in the service industry– despite all the recent development (Carù & Cova, 2015; Schmitt & Zarantonello, 2013).

In the hotel industry, the key question is 'how' hotels can design, deliver, and enhance distinctive experiences. Although, many studies have addressed customer experience from a consumer behavior perspective (e.g. Brakus et al., 2009; Gentile, Spiller, & Noci, 2007; Kwortnik & Thompson, 2009), reflection from the organizational angle is yet limited (Arkadan et al., 2017; Kandampully et al., 2018; Kranzbühler et al., 2017). Recent debates on CEM structure and implementation were also limited to conceptual studies (e.g. Grewal et al., 2009; Lee, 2009; Schmitt & Rogers, 2009; Winther & Bieler, 2009). Marketing scholars thus call for fundamental research addressing managerial aspects of customer experience such as experience design, experiential service, experience co-creation, employee experience, experience delivery, experiential promotion, CEM strategy, CEM technology, CEM operation strategy, organizational alignment, and CEM related measurement (e.g. Ailawadi,

Beauchampb, Donthu, Gauri, & Shankar, 2009; Hwang & Seo, 2016; Voss, Roth, & Chase, 2008; Walden, 2017; Wu & Liang, 2009; Yuan & Wu, 2008).

Likewise, in practice, there is no a comprehensive practical approach to CEM (Pullman & Gross, 2004; Patrício, Fisk, & Cunha, 2008; Stuart, 2006). Gentile et al. (2007, p. 397) noted, "*Many [firms] are still far from the level of success that can potentially be obtained by leveraging on the customer experience.*" AMA (2009) reported 83% of organizations do not have any standard for CEM. IBM (2005) alerted that 78% of firms in Europe incorrectly monitor customer experience by functional (operational) information or confuse the issues with satisfaction. *Bain & Company* proclaimed that 80% of firms assert they convey a superior experience, while only 8% of their customers have the same opinion (Allen, Reichheld, & Hamilton, 2005).

The aforementioned theoretical and practical gaps and limitations can be summarized in six research priorities motivated this study. Firstly, a lack of formal studies to explain the CEM concept, especially in the service context, is evident in the literature. Bitner et al. (2008, p. 70) claimed, "*The terms 'customer experience' , and 'service experience' are frequently mentioned in the business press without explicit definitions.*" Holbrook (2006) criticized previous studies and asserted CEM has a general lack in conceptual foundations because of insufficient fundamental academic studies. Due to the lack of reliable and robust conceptualization of service experience, the literature still contributes little to our understanding of the CEM in the service context (Bitner et al., 2008; Caru & Cova, 2015; Voss et al., 2008).

Secondly, recent systematic literature reviews showed that there has been no successful empirical attempt made to date to model CEM (Arkadan et al., 2018; Kandampully et al., 2018). In particular, there is no clear understanding regarding CEM construct measurement (Benzarti & Mili, 2017; Fatma, 2014; Hwang & Seo,

2016). Some studies have been conducted to operationalize CEM (e.g. Grewal et al., 2009; Kwortnik & Thompson, 2009) but none of them crystallizes the comprehensive picture with verified measurements (Verhoef et al., 2009). The literature also inhibits or misleads implementation due to its failure to measure the level of success, or mistaking CEM for a technological solution (Gentile et al., 2007 Kandampully et al., 2018; Yoon & Lee, 2017).

Thirdly, many scholars call for attention the implementation of CEM in the service industry (e.g. Caru & Cova, 2015; Meyer & Schwager, 2007). While some theoretical evidence suggested how firms could manage customer experience in an integrated fashion (e.g. Verhoef et al., 2009), there are limited empirical studies on the role of experiential values in service experience formation (e.g. through servicescape; Bolton, Grewal, & Levy, 2007), service employee experience (Harris, 2007), service experiential interface (Verhoef et al., 2009), service experience innovation (Kwortnik & Thompson, 2009), and the social aspects of service experience (Harris, et al., 2000). Moreover, service experience is poorly understood and there are only a few limited studies on the service experience design and management (Caru & Cova, 2015; Jaakkola et al., 2015; McColl-Kennedy, Cheung & Ferrier, 2015; Kwortnik & Thompson, 2009).

Fourthly, the immediate outcome of CEM is a pivotal question for both academia and practitioners (e.g. Brakus et al., 2009; Grønholdt et al., 2015; Xu & Chan, 2010). While there are a few empirical studies on the influence of CEM on business outcomes (Yoon & Lee, 2017), several conceptual studies remarked the customer experience association with brand equity, satisfaction, loyalty, and fervent advocacy (e.g. Berry, Wall, & Carbone, 2006; Brakus et al., 2009; Goode, Davies, Moutinho, & Jamal, 2005; Homburg, Koschate, & Hoyer, 2006; Wu & Liang, 2009; Xu & Chan, 2010).

Fifthly, CEM requires several prerequisites in the form of organizational capabilities and internal practices (e.g. Ailawadi et al., 2009; Fatma, 2014; Schmitt, 2009b). CEM failures emanate from the lack of insights into these organizational requirements (Verhoef et al., 2009). Therefore, the identification of CEM antecedents may lead to more successful implementations of CEM (Fatma, 2014). Even though marketing literature suggests some practices such as CRM, the nature of associations have not been empirically determined yet and if so, the disagreements have arisen over their impacts (Homburg et al., 2017).

Finally, there is no concrete understanding of the concept of CEM in the hotel industry, although the vital function of experience management is frequently highlighted (e.g. Gopalan & Narayan, 2010; Kandampully et al., 2018; Wang et al., 2012; Yoon & Lee, 2017). The erroneous CEM adoption in the hotel industry may be associated with the lack of theoretical evidence guiding the implementation (Yoon & Lee, 2017). There is no general roadmap for the hotel industry to implement CEM, since to date, there is only a little empirical research regarding the guest experience rather than managerial practices (e.g. Knutson, Beck, Kim, & Cha, 2009). There is also not enough capability among service providers like hotels to combine process, people, and technology to create an engaging experience and an emotional bond (Lloyd, 2006).

In summary, the importance of customer experience, particularly in the hotel industry, necessitates the identification of CEM topology as well as its antecedents and outcome, which in return can facilitate CEM meaningful operationalization and successful implementation.

1.5 Research Objectives

The following objectives helped answer how customer experience could be managed in the hotel industry:

- Determine the topology of CEM as a set of organizational competencies in managing experiential value proposition in the hotel industry

- Identify the relevancy as well as the influence of the CEM key antecedents namely customer relationship management, employee experience management, innovation management and experiential marketing in the hotel industry.

- Identify the immediate outcome of CEM as well as the relative influence of each CEM component on that outcome in the hotel industry.

1.6 Research Process

A sequential mixed-method methodology was used in this exploratory study (Creswell, 2013; Teddlie & Tashakkori, 2008). This design is recognized as a reliable approach to study a newfangled, complex, and undeveloped concept (Nachmias & Nachmias, 1981). The first phase of the study was a preliminary qualitative exploration of CEM to overcome the limitations in the literature in building a more precise and realistic model (Brannen, 2004). The research model and hypotheses were then formulated after triangulation between the best practice reviews, interviews, and observations. The research model was consequently developed in accordance with both theoretical and practical evidence. Subsequently, the quantitative phase followed the qualitative phase with the aim of testing the emerged model. The research model was tested in the hotel industry using Partial Least Square (PLS) modeling technique due to the exploratory nature of the research. The data were collected through a questionnaire survey from 4- and 5-star hotels in Malaysia. The summary of the research process is illustrated in Figure 1-2.
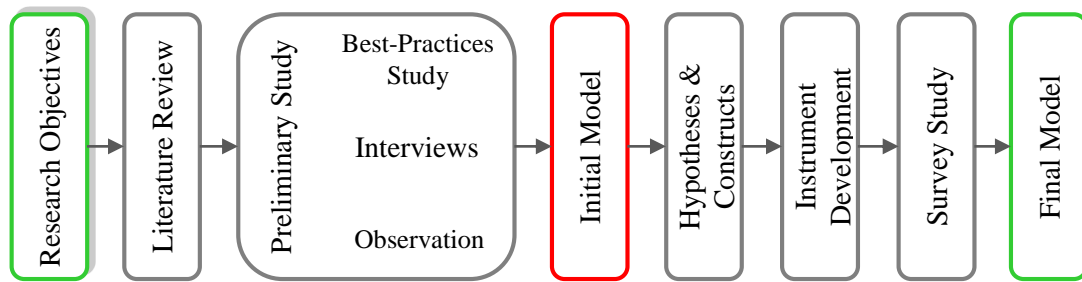
Figure 1-2: Summary of Research Process

1.7 Research Significance

This research narrowed the theoretical gaps discussed earlier and provided valuable insights into practice. The theoretical and practical contributions are reviewed below.

1.7.1 Theoretical Contribution

This study is a response to the call for further empirical investigations of CEM (e.g. Homburg et al., 2016; Jaakkola et al., 2015; Lemon & Verhoef, 2016). To set a common ground to research CEM, this study reconceptualized customer experience in service context (service experience) based on the experiential values and unique characteristics, namely detectability, memorability, manageability, personalizability, and distinguishability. Moreover, this study provides empirical insights into a CEM topology and constructs measurement by identifying six CEM competencies: managing sensorial experience, emotional experience, intellectual experience, relational experience, behavioral experience, and interactional (interface) experience. The outcomes shed light on the relevancy and the relative importance of each competency in the service industry and hotel industry in particular.

This study not only proposes an empirically-tested CEM topology but also clarifies the role of innovation, experiential marketing, employees, and relationships in enabling CEM in the hotel industry. In particular, this study identified and tested the major CEM antecedents namely customer relationship management (CRM),

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employee experience management (EEM), innovation management and experiential marketing in the hotel industry. The findings clarified the role of CRM in enabling action-oriented CEM competencies (i.e. managing behavioral, relational and interactional experience). The study also offers a new perspective on EEM and proposes three dimensions to measure its effectiveness (i.e. employer brand management, employee engagement program and experiential workstyle). According to the findings, EEM is the main enabler of emotional experience and interface experience management. The study also highlighted the role of innovation management in driving CEM competencies that require creative design and delivery (i.e. managing sensorial, intellectual and emotional experience). Experiential marketing in terms of understanding, designing, and communicating experiential values, was also identified as one of the key antecedents for CEM, which mainly drive managing sensorial, intellectual, behavioral and relational experience in the hotel industry.

The study also tested the influence of CEM on marketing performance. Managing emotional experience and interface experience was identified as the most prominent predictors of customer-based marketing performance. By identifying and testing CEM outcomes, this study opened up an opportunity to further develop a middle-range theory for CEM (Bryman & Bell, 2007; Pawson, 2008).

1.7.2 Practical Contribution

There is a general need for insights into the constituent parts of CEM to lead its systematic implementation. Addressing this need, this study was an attempt to suggests an integrated model facilitate CEM implementation in the service context, focusing on the hotel industry. The research outcomes can assist in creating, delivering, and enhancing financially optimal experiential values for the entire consumption life cycle.

Identifying the CEM antecedents, the findings provide a practical guideline for hotels to recognize and manage the internal capabilities required to facilitate the systematic and sustainable CEM implementation. The study also makes a valuable practical contribution to understanding the impact of CEM on today's business success by driving marketing performance.

In particular, the study suggests that hotels are better off to direct their resources to manage their employees' wellbeing and their guest relationships in order to build emotional bond– rather just initiating (untargeted) relationship or following-up transactions. The study also showed that sensorial, emotional, and intellectual experience in hotels can be triggered by novelty, and originally which can be enabled by innovation management. Sustaining behavioral and relational experience as well as interface experience, however, depends more on the pragmatic values of experience rather than its originality. Finally, the results confirmed that experiential marketing is a significant medium to enable CEM by which hotels can monitor customers' experiential desires to increase CEM effectiveness.

The study also benefits the Malaysian tourism sector in general and the hotel industry in particular by facilitating the differentiation and innovation of 'experience-enriching' services highlighted in the 11th Malaysia plan. The results can be utilized to address some local hotels' challenges such as customer satisfaction and switching rate (e.g. Chen, Kerr, Chou, Ang, 2017; Choo & Tan, 2017; Kasim, Ekinci, Altinay & Hussain, 2018). For example, the study showed that investing in employees' experience is the key to the successful implementation of CEM in terms of marketing performance. The findings furnish the Malaysian hotels executives with insight into how to (1) modernize their marketing strategies, (2) differentiate their offerings, (3) internationalize the country's unique image, (4) save the industry from the

commoditization or homogeneity of service across the region and (5) enhance the country's position as a leading global tourist destination.

1.8 Research Assumptions and Scope

To define the scope of this study, it was assumed (1) the participating hotels are customer-centered, (2) their service quality meets the satisfactory level defined by the industry standard, and (3) their service offerings are similar across the high-end hotels and therefore commoditization is a foreseeable challenge. The first assumption was based on the fact that CEM is fundamentally a customer-centered practice (Lemon & Verhoef, 2016) as experience is co-created by customers and experiential values are evaluated by customers (Vargo & Lusch, 2008c). The second assumption was required because the service quality should meet the appropriate standard before the hotels are able to differentiate the offerings with experiential values (Kandampully et al., 2018). Therefore, concepts such as service process, service delivery, service functionality and service reliability did not play a significant role in this study. Lastly, customer experience can be considered as the main differentiation strategy in the hotel industry only when there is a high chance for service commoditization (Bharwani & Jauhari, 2017).

Customer experience was also reconceptualized in the service context to define the scope of this study. Marketing literature presumes that any direct and indirect interactions between customer and brand lead to experience formation (Kranzbühler et al., 2017). That means experience is formed not only by service consumption but also by customer interactions with all the brand-related stimuli before and after receiving the service. Since this viewpoint is relatively broad for a research from a managerial perspective, this study focused on customers' experiences that are phenomenologically co-created by them through purposefully designed stimuli. Since

hotels cannot manage the subjective aspects of experience acquisition, as experience formation is internal and subjective, it was also assumed that CEM is limited to the experiences with five characteristics of detectability, memorability, manageability, personalizability, and distinguishability.

This data collection was mainly limited to the hotel industry as a proxy for the service sector. The hotel industry provides useful insights into CEM concept since it renders various interactions and accordingly various meaningful experiences (Kandampully et al., 2018; Lovelock et al., 2002). Moreover, the different forms of experience co-creation in hotels generate more holistic and meaningful results for the further interpretation of the findings and future applications in other service contexts. Since CEM was studied from an organizational perspective, hotels were selected as the unit of analysis. However, the role of strategy and leadership was not examined as CEM is defined as a strategic marketing competency rather than an alternative marketing strategy.

1.9   Definition of Key Terms

The key terms are defined as follows:

- *Customer Experience*: psycho-cognitive sentiment (perceptual-memory) about the experiential values of a branded offering and its context.
- *Customer Experience Management*: organizational competency in managing phenomenological (experiential) value proposition for experience co-creation.
- *Customer Relationship Management*: data-driven organizational capability in building customer relationships to support customer acquisition/retention.
- *Employee Experience Management*: organizational capability in addressing employees' needs of an experiential work process, environment, and outcomes.

- *Innovation Management***:** organizational capability in designing, testing, and commercializing new opportunities or customer experience co-creation.

- *Experiential Marketing*: organizational capability in understanding, designing and communicating customer experiential needs.

1.10 Organization of Thesis

This thesis is organized as follows. The current chapter makes an introduction to the research background, objectives, process and significance. In Chapter 2, the relevant literature is critically analyzed. The third chapter addresses the research methodology. The results of the exploratory study and the model development process are respectively reported in Chapters 4 and 5. Chapter 6 presents the results of the survey and quantitative analyses. Discussion on findings, contributions, limitations, and future research avenues are presented in Chapter 7.

CHAPTER 2 - LITERATURE REVIEW

2.1   Introduction

This chapter discusses the theoretical foundation of customer experience and customer experience management as summarized in Figure 2-1.
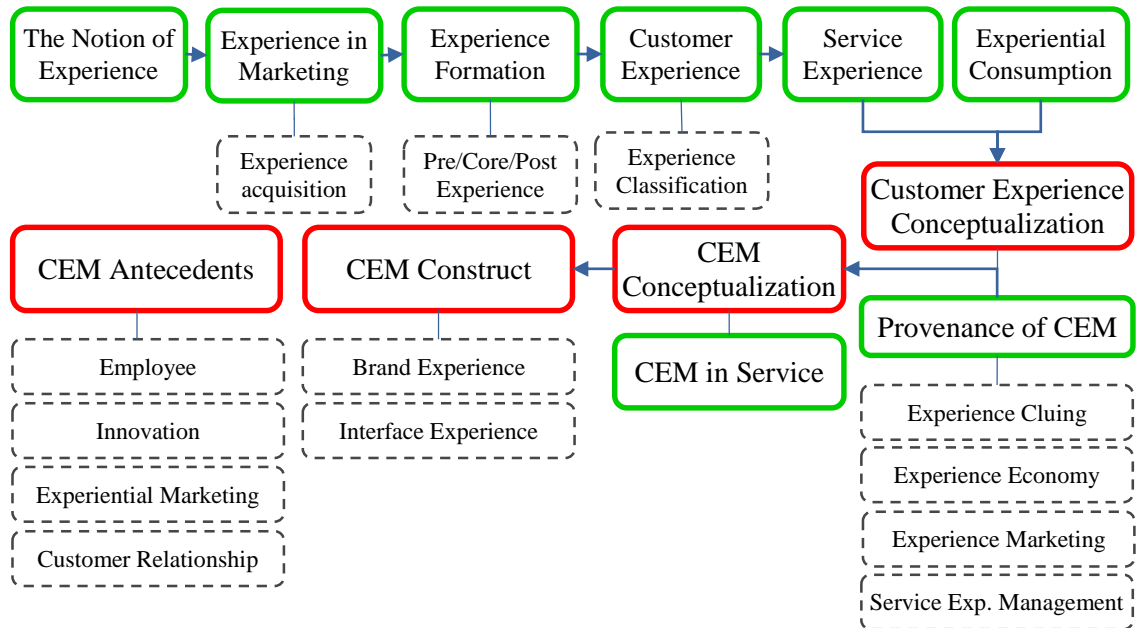
Figure 2-1: Summary of the Literature Review

Source: Author original based on *progressive coherence approach* (Golden-Biddle & Locke, 1993; 1997)

The literature review began with the analysis of experience notion. The different conceptual definitions of customer experience were analyzed, and the most fitting conceptualization was then concluded. The review was followed by the analysis of service experience, different stages of experience formation and experiential aspects of consumption. The second part of this chapter examines the origin of CEM by critically analyzing experience engineering, experience economy, experience marketing, and service experience management. After conceptualizing CEM in the service industry, possible CEM components, its antecedents and outcomes were reviewed. The results of this chapter helped with the model development, theory selection, and construct categorization, which is reported in Chapter 5.

2.1 Experience

Marketing literature emphasizes customer experience as an inevitable marketing reality. In essence, the word, 'experience' , refers to the dynamic acquisition of knowledge and feelings during everyday life. *American Heritage* depicts experience as "*The feeling of emotions, and sensations as opposed to thinking; involvement in what is happening rather than an abstract reflection on an event*." The different facets of experience definitions can be juxtaposed to get to a reliable connotation (Jaakkola et al., 2015). According to Encarta (2005), experience is an active involvement of an individual in activities, or exposure to events or peoples over a period of time that influences both thoughts and feelings and leads to sensation, knowledge, or skill acquisition. Therefore, it is reasonable to define experience as a personal, intellectual, and emotional acquisition of perceptual memory by a customer during both direct and indirect interactions with a firm' s offering over a specific period of time (Brakus et al., 2009; Lemon & Verhoef, 2016).

2.1.1 Experience Definition outside Management Literature

In sciences, experience is defined as an experiment-based fact to generalize an objective and provide specific understanding. Science presents experience as a common sense with universal acceptance (Caru & Cova, 2003). On the contrary, experience in philosophy, refers to a personal experiment and an individual trial. Philosophically, experience is an individual phenomenon in action and addresses the combination of trying something and accumulating of knowledge (cf. Heidegger, 1953). In sociology, experience is a cognitive phenomenon, which helps the individual to improve. Experience is commonly based on cognition to construct and verify an external reality (Caru & Cova, 2003). Playing a social role is the key part of experience formation, as it demands personal involvement. Constructing personality thus highly

depends on the nature of individual experiences (Richardson, 1999). In anthropology, experience refers to individual behavior. Everyday life is interpreted as the set of experiences involving daily activities and personal feelings. Hence, it is not directly accessible for an anthropologist to explain experience as an external reality (Bruner, 1986). Among these different approaches, modern marketing literature uses a combination of philosophical, sociological, and anthropological understandings to defining customer experience.

2.1.2 Experience Definition in Marketing Literature

For a long time, marketing literature defined experience as familiarity (e.g. Alba & Hutchinson, 1987; Maclnnis & Price, 1990) or cognitive response (Thompson, Locander, & Pollio, 1989). Pioneers elaborated experience as a personal occurrence, based on consuming products and interacting with stimuli (Holbrook & Hirschman, 1982). Later, academics expanded the concept by adopting some ideas from psychology and sociology to go beyond the rationality to comprise emotional, social, and behavioral aspects (Dubé & LeBel, 2003). More recently, experience is addressed in connection with value co-creation, as customers perceive values through co-creating their desirable experience (e.g. Jaakkola et al., 2015; McColl-Kennedy et al., 2015).

In the customer-behavior literature, experience refers to total customer experience (TCE), which comes from not only functional features of offerings, but anything provides value during pre-, core, and post-consumption (Brakus et al., 2009). TCE is created by deeds, events, activities, interaction or details that may convey values, lead to differentiation and result in satisfaction (Kranzbühler et al., 2017). From this point of view, customer journey including consumption, product attributes, and post-purchase service encounters can be sources of customer experience (Lemon & Verhoef, 2015).

Meyer and Schwager (2007) portrayed experience as the internal and subjective response that customers have to any direct or indirect interaction. Gentile et al. (2007) defined experience as the result of interactions with the experiential aspects of an offering that prompt responses. The recent studies have depicted experience as the outcome of experiential involvement in value co-creation (Brakus et al., 2009; Kranzbühler et al., 2017). The following sections broadly discuss the different viewpoints and then suggest a more comprehensive conceptualization.

2.2 Customer Experience

2.2.1 Theoretical Foundation

In the 1950s, marketing scholars discussed that competitive advantage could be established by the symbolic aspects of an offering (e.g. Gardner & Levy 1955, Levy, 1959). Abbott (1955), for example, discuss the relationship between consumption experiences and customer value proposition. Around the same time, Alderson (1957) emphasized the importance of the consumption experience in his work on customer behavior. During the 1960s, researches highlighted the relationship between the lifestyle, customer attitude, and the symbolic meaning of products (Levy, 1963). During the 1970s, scholars went further and turned their interest to the esthetic, intangible, and subjective aspects of consumption like hedonic facets (e.g. Holbrook, 1980). Since the 1980s, customer behavior textbooks started recognizing the role of emotional stimuli in customer experience (e.g. Woods, 1981).

Customer experience in terms of hedonic consumption has been penetrated into marketing with Holbrook and Hirschman in the 1980s. They reformulated the concept in 1982 and published two papers on *the experiential aspects of consumption* and *hedonic consumption* by emphasizing on Fantasies, Feelings, and Fun. Park, Jaworski, and Deborah in 1986 also highlighted the experiential benefits and its impact on brand

image and its role in brand management. One year later, Alba and Hutchinson (1987) published a paper on product experience. After these attempts, there were considerable studies on customer experience in terms of learning and familiarity. For example, Hoch and Deighton (1989) underlined the relationship between decision-making process and customer's experiences. There was also a study by Thompson, Locander, and Pollio in 1989 presented *existential-phenomenology* as an alternative paradigm for conceptualizing customer experience. According to Hoch and Deighton (1989), consumption experience has become the important theme in consumer behavior studies since the late 1980s.

In the early 1990s, for the first-time customer experience was studied from an organizational perspective and it was recognized as a competitive advantage. Tucker (1991) initially presented the factors contributing to the customer experience enhancement in order to achieve competitive advantages. Later, Lebergott (1993) published a book 'Pursuing Happiness' to highlight the consumption experience impact. This line of thinking was followed by Carbone and Haeckel (1994) and come into practice in terms of Customer Experience Engineering. After that, Pine and Gilmore (1998) conceptualize customer experience as a unit of offering in the series of publications on Experience Economy. Later, the notion of *Experiential Marketing* entered into marketing practices by emphasizing customer behavioral and subjective needs (Schmitt, 1999).

Marketing concepts including customer experience were revived in the 2000s (Prahalad & Ramaswamy, 2000). Marketing scholars studied customer experience in different contexts: Retailing (e.g. Grewal et al., 2009; Puccinelli et al., 2009), Consumer Product (Brakus et al., 2009; Gentile et al., 2007), Hospitality and Tourism (Kwortnik & Thompson, 2009; Lally & Fynes, 2006; Mitchell & Orwig, 2002;

Pullman & Gross, 2004; Williams, 2006), Advertising (Braun-LaTour & LaTour, 2005), Art (Petkus, 2002), Sport (Kao, Huang, & Yang, 2007), Banking (Rahman, 2005), Information Technology (Burke, 2002; Dawes & Rowley, 1998; Sun & Lau, 2007), Health Care (Lutz & Foong, 2008), and B2B (Crosby & Johnson, 2007). Similarly, in practice, Schmitt (2003), Shaw and Ivens (2002), Smith and Wheeler (2002), and Millet and Millet (2001) as pioneers, published managerial books, which were respectively entitled 'Customer Experience Management' , 'Building Great Customer Experiences' , 'Managing the Customer Experience' , and 'Creating and Delivering Totally Awesome Customer Experience'. Managing customer experience has become an eminent concept after 2010 with emphasis on experience co-creation especially in the service industry (e.g. Caru & Cova, 2015; McColl-Kennedy et al., 2015) and customer experience management (e.g. Hwang & Seo, 2016; Homburg et al., 2017; Kranzbühler et al., 2017). However, the focus was mainly on the outcomes rather than organization and structure (Fatama 2014; Grønholdt et al., 2015).

2.2.2 Conceptual Definitions

The notion of experience can be summarized based on two linked acts, namely, test, and gain (Caru & Cova, 2003). Test refers to 'receive and accept' , while gain reflects 'learning and ensuing changes'. According to Caru and Cova (2003), customers typically test offering, and brand, then, gain information and sensation. An experience thus causes two separate but consecutive responses in the cognitive system (Brakus, 2001). In the initial level, customers react to the experience provider and rationally respond to what learned and acquired (Brakus, 2001). The second level is the encoding process when customers start to remember and evaluate experience (Berry et al., 2006; Schwarz & Clore, 2003). This experience is s a subjective response to branded stimuli

as the customer cognition analyzes the experiential stimuli and memorize the experiential values (Poulsson & Kale, 2004).

Löfgren (2005) defined customer experience regarding two moments-of-truth: (1) obtaining customers' attention via communicating the benefits and (2) providing opportunities to experience these benefits. In this view, experience is again a personal response to some purposefully designed stimulation, which is not limited to only functionality, but to entire synergetic behavioral triggers (Caru & Cova, 2003; Voorhees et al., 2017). This fact was simply depicted by Schembri (2006) in purchasing tangible products. In his example, a car is not merely a package of features or solely a service for transportation, but it is an experience in form of − for example − pre-purchase process, lifestyle, and pragmatic experience. Therefore, it is not reasonable to restrict a car experience only to its features and benefits.

On the other hand, customer experience lies at the root of customer journey (Kranzbühler et al., 2017; Lemon & Verhoef, 2016). Customers experience an offering during two types of interactions: (1) Intentional, experience acquired because of a direct consumption and (2) Incidental, experience acquired by accident or without much effort (Lemon & Verhoef, 2016). Customers look for subtle indicators during these two types of interaction to judge an offering. Customer future decisions automatically take effect from the judgment between expectations, and their journey (Knox, 2004; Meyer & Schwager, 2007). To do so, they evaluate the combination of the firm's functional and emotional performance (Zahay & Griffin, 2004). Hence, firms should send the right signal to give customer clues to help them with their evaluation (Berry & Bendapudi, 2003; Berry & Carbone, 2007).

2.2.3 Comparison of Different Conceptualizations

Previous CEM studies conceptualized customer experience from different perspectives:

- Total Customer Experience

- Value-added experience (secondary offering)

- Experiential values of an offering

- Unit of output (core offering)

- Customer relationship

- Extraordinary offering (flow experience)

In this section, these common approaches to conceptualizations are reviewed and then a more reliable and inclusive definition is suggested.

Experience as Total Customer Experience: Lemon and Verhoef (2016) suggested that customer experience includes all the customer interaction throughout the customer journey. Some earlier studies also implied that all aspects of offerings generate experience, regardless of their sources, impacts, and manageability (e.g. Mascarenhas et al., 2004). In this view, customer experience is associated with all facets of an offering and it is characterized by the customers' subjective cognitive response after all interactions (Meyer & Schwager, 2007). This definition involves all possible memories that influence customer perception (MacMillan & McGrath, 1997; Sandström et al., 2008; Rowley, 1999). In service literature, McColl-Kennedy et al., (2015) called to manage every aspect of customer experience. From this viewpoint, any kind of experience can be a source of value, regardless it comes from core offering or supplementary one. The main issue with the total customer experience approach is that for businesses with numerous touchpoints, managing all experiences is not only costly but also unfeasible.

Experience as Value-added Offering: Experience is also defined as values that can be adjoined to an offering to make it competitive (Berry et al., 2002; Voss et al., 2008; Walden et al., 2017). Form this viewpoint, an experience is shaped (triggered) by a group of stimuli (cues), which trigger both customer' s cognition and emotion (Berry et al., 2002; 2006). These stimuli create values that can be added to the core offering in forms of functionality, environment, or interaction (Nyberg & Soini, 2017; Wiedmann, Labenz, Haase & Hennigs 2018). These stimuli highlight how much firm cares about customer emotion and remark the merits in comparison with competitors (Berry & Carbone, 2007). On this account, the clear goal of managing experience is delivering the right set of clues to evoke specific feelings. While this outlook is clearer than the previous total customer experience approach, unfortunately, it does not systematically conceptualize the nature of experience clues and explain how to manage them.

Experience as Experiential Offering: Some scholars have portrayed experience in form of experiential values (Holbrook & Hirschman, 1982; Griffin & Hayllar, 2007; Schembri, 2009; Pencarelli, Conti & Splendiani, 2017). Gentile et al. (2007), for example, conceptualized product experience with reference to experiential aspects of consumption. Kotler and Keller (2006) defined experience as a collection of experiential service and goods and cited Walt Disney World' s Magic Kingdom and conducting the Chicago Symphony Orchestra as experiential offerings. The main problem with this approach is that the unclear relationship between the experiential values and the functional benefits of a service offering. Features of a service offering such as reliability and responsiveness are typically defined by the service provider without a direct involvement of the customer (Caru & Cova, 2015). However, classifying the values of service offerings into two groups of experiential and