International Journal of Economics, Business and Innovation Research
https://e-journal.citakonsultindo.or.id/index.php/IJEBIR
E-ISSN : 2964-0865
IJEBIR

Analysis The Bargaining Power Of Telecommunications Companies With Public Sector Customers Regarding Value-Capture Innovation: A Case Study Of Telkom Witel Yogya Jateng Selatan

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Abstract

This study aims to analyze the bargaining power of telecommunications companies toward public sector customers and its implications for value capture innovation, with a case study at PT Telkom Indonesia (Persero) Tbk Witel Yogyakarta Jateng Selatan. The background of this research is based on the characteristics of the public sector, which is oriented toward formal regulations and price considerations, thereby limiting the company's flexibility in creating and capturing value. This study employs a qualitative approach through observation, interviews, and documentation conducted during an internship in the Government Service Division. The analysis focuses on factors influencing bargaining power, such as state-owned enterprise status and institutional legitimacy, operational and infrastructure advantages, as well as government procurement regulations. The results indicate that the company's bargaining power is relatively limited due to the dominance of price-based tender systems and administrative compliance, which constrains value capture innovation. Nevertheless, there are opportunities to enhance bargaining power through collaborative strategies, such as service co-creation, strengthening customer relationships, and developing solutions tailored to the specific needs of government institutions. These findings highlight the need for companies to move beyond formal tender approaches by leveraging non-formal interaction spaces, through understanding latent customer needs, building relational proximity, and delivering contextualized solutions to expand value capture amid the constraints of rigid procurement structures.

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Keywords: Bargaining Power, Value Capture Innovation, Public Sector, Telecommunications, Business Strategy, Government Customers, Co-creation Services

INTRODUCTION

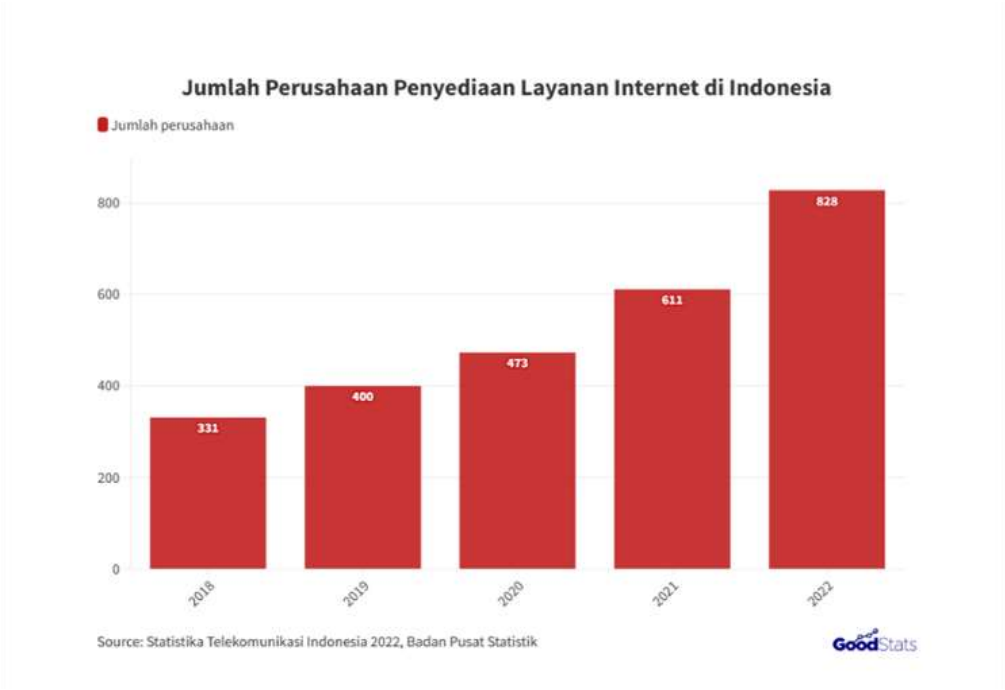


Figure 1. Internet Service Providers in Indonesia

Based on DB-IP data above, Indonesia's internet service provider (ISP) industry remains dominated by major firms with substantial IPv4 allocations. PT Telekomunikasi Indonesia Tbk leads with 8,161,280 addresses, reflecting extensive infrastructure and market dominance, followed by PT Telekomunikasi Selular (6,734,080) and Link Net Tbk (2,267,392), underscoring the critical role of mobile data and fixed broadband. Other operators, including PT Indosat Tbk, PT XL Axiata Tbk, and PT Mora Telematika Indonesia Tbk, also hold significant IPv4 blocks, indicating intense competition in national data and telecom services. Overall, IPv4 distribution highlights vast service capacities and a pronounced gap between the top three ISPs and other providers, reinforcing IP

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resource ownership as a key indicator of telecom operational scale and market strength (DB-IP, 2026).

In an increasingly competitive and rapidly evolving digital landscape, firms must not only innovate in product and service development (value creation) but also effectively capture economic returns from these innovations (value capture). A critical determinant of value capture capability is bargaining power the extent to which a firm can negotiate favorable terms with customers, partners, and competitors. According to Porter (2008), bargaining power is a core component of Porter's Five Forces, which collectively shape industry competitiveness through threats of new entrants, buyer and supplier power, substitute threats, and industry rivalry. This framework enables firms to assess their competitive positioning and understand how these forces influence profitability and strategic decision-making. Drawing from internship experience at the Government Service Division of Telkom Witel Yogya Jateng Selatan, bargaining power proves crucial in Business-to-Government (B2G) interactions. Telkom must negotiate product and service value amid pricing pressures, alternative vendors, and specific institutional needs. Here, value capture from digital solutions depends heavily on both technical bargaining power (e.g., infrastructure and service superiority) and non-technical factors (e.g., institutional relationships and collaboration track records). A recurring issue in telecom B2G contexts is the misalignment between generated innovations and the actual value captured by the firm.

Telkom Witel Yogya Jateng Selatan faces challenges in optimally converting innovations into captured value, making bargaining power toward institutional partners, suppliers, and clients a decisive factor. As Bouncken and Fredrich (2021) note, imbalances between value creation and value capture in innovation alliances can trigger instability and competitive tensions among partners. Such imbalances stem from asymmetric benefit distribution both private and common benefits which distorts negotiation dynamics. In highly competitive environments, expert power or technical superiority may even become less effective or counterproductive for firms seeking service bundling or product expansion innovations. Furthermore, the absence of a formal system to measure government customer perceptions, satisfaction, and future needs results in a unidirectional innovation process: products are developed and offered without co-creation or client feedback. This often leads to a mismatch between offered innovations and actual customer value expectations. Gustafsson, Snyder, and Witell (2020) emphasize that service innovation must extend beyond internal development to actively involve external actors, particularly customers, in value co-creation.

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This research aligns closely with strategic management, innovation management, and Customer Relationship Management (CRM). Strategically, understanding how bargaining power influences value capture optimization is essential, as the creation-capture imbalance underscores the need for structured relationship management with institutional clients. Colombo et al. (2023) highlight that open innovation strategies inherently involve tensions between value creation and capture, which require careful balancing; focusing solely on creation without a capture strategy risks economic value leakage. From an innovation management perspective, Telkom's challenges underscore the necessity of customer-driven co-creation. Mihardjo et al. (2019) argue that co-creation-driven innovation, supported by customer experience orientation and organizational agility, enhances innovation relevance and success, while simultaneously strengthening bargaining power and value capture effectiveness. Finally, in CRM, Soltani et al. (2018) demonstrate that CRM success significantly depends on customer orientation, knowledge management, organizational capabilities, and IT utilization, with effective implementation positively impacting organizational performance. This directly addresses Telkom Witel Yogya Jateng Selatan's current lack of a formal system to manage institutional customer perceptions, satisfaction, and future requirements.

Objectives

Grounded in direct observations and practical experience during the author's internship at the Government Service Division of Telkom Witel Yogya Jateng Selatan, this research examines the relational dynamics between telecommunications firms and public sector clients with a specific focus on bargaining power and its implications for value capture innovation. The general objective is to analyze the company's bargaining power toward public sector customers and its impact on the implementation and development of value capture innovation strategies

LITERATURE REVIEW

Operations Management

Operations management designs, controls, and improves value-creating transformation systems, emphasizing integrated management of materials, information, capacity, time, and quality for operational effectiveness. Ivanov and Dolgui (2020) link superior operational systems to adaptability to disruption amid supply uncertainty, lead time volatility, and demand fluctuations, positioning timely procurement as integral to operational continuity thereby framing vendor delays at PT Ivo Mas Tunggal as systemic

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disruptions. Heavey and Murphy (2022) assert that synchronizing planning, procurement, inventory, and distribution prevents bottlenecks, delays trigger cascading inefficiencies, including idle capacity and reduced productivity. Van Hoek (2020) associates operational resilience with sourcing flexibility, supplier diversification, and early-warning mechanisms directly relevant to PT Ivo Mas Tunggal's indent procurement, cross-regional logistics, and regulatory constraints. Dubey et al. (2021) emphasize cross-functional coordination among procurement, warehousing, logistics, and vendors to ensure accurate information flow and mitigate delays.

METHODOLOGY

Research Approach

This study employs a qualitative case study approach to examine the bargaining power dynamics of Telkom Witel Yogya Jateng Selatan and their implications for value capture innovation. This method enables an in-depth exploration of stakeholder perceptions, operational contexts, and interaction mechanisms, while capturing how internal and external supply chain integration influences the firm's ability to capture innovation value.

Data Collection and Collection Techniques

Primary data were collected through semi-structured, in-depth interviews with management and operational staff directly involved in public sector service delivery, contract negotiation, and innovation implementation. Open-ended guides explored negotiation barriers, communication patterns, and value capture mechanisms. Secondary data included internal reports, performance records, and bargaining power documentation to contextualize primary findings. Data collection utilized three techniques which are interviews, field observation of operational and coordination dynamics, and document analysis. Instruments comprised semi-structured interview guides, observation sheets, and a standardized document mapping format.

Data Analysis Techniques

Data underwent systematic transcription, reduction, and classification based on work patterns, communication flows, operational barriers, and bargaining mechanisms. Analysis followed a three-stage coding process, open coding for initial concept extraction, axial coding for theme linkage, and selective coding to formulate bargaining power and value capture patterns. Thematic synthesis integrated stakeholder perspectives, while

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validity and reliability were ensured through content, construct, and external validity checks, plus data triangulation and member checking. Software support included Taguette for qualitative coding, Google Analytics for interaction pattern tracking, Excel for raw data management, and Word for transcription and documentation.

RESULTS AND DISCUSSION

Bargaining Power Dynamics in Public Sector Engagements

Telkom's bargaining power in the public sector is structurally anchored in its BUMN status, fiber optic infrastructure superiority, and service reliability that's positioning it as a preferred government partner. Institutional legitimacy reduces perceived political, administrative, and audit risks for public clients, fostering a red white sentiment where government spending is viewed as reinvesting in state assets. Operationally, network stability, SLA compliance, and responsive after-sales service sustain long term collaborations with relational trust consistently outweighing price sensitivity in contract continuity. However, bargaining flexibility is constrained by government budget regulations, formal procurement procedures, and competitive tender pricing. Consequently, Telkom's negotiation leverage operates conditionally strong in relational and infrastructural contexts, but moderated in price-driven regulation-bound procurement environments.

Thematic Synthesis: Co-Creation, Customer-Driven Innovation & Data-Driven Decision Making

Analysis of interview transcripts, field observations, and internal documents results reveals three interlocking themes that translate bargaining power into actionable value capture mechanisms (see Table 1). Co-creation emerges as the dominant relational strategy, where customization, customer involvement, and long-term contract continuity transform transactional exchanges into collaborative value generation. Customer-driven innovation reflects Telkom's shift from generic connectivity offerings to pain-point-responsive solutions, including proactive maintenance, bandwidth scaling, and integrated digital services tailored to institutional operational needs. Data-driven decision making operationalizes these strategies through KPI monitoring, satisfaction surveys, contract evaluations, and CRM utilization enabling predictive service adjustment and margin preservation despite fixed budget constraints. Triangulation across data sources confirms that bargaining power functions not merely as a negotiation lever but as a foundational enabler of co-creation, innovation alignment, and evidence-based strategy execution.

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Table 1. Data Coding Summary

No	Quote (Verbatim)	Code	Theme
1	"Telkom is a state-owned enterprise... a portion of the profits will go back to the government." (Interview with Mas Rori - Account Manager)	SOE status as a source of legitimacy	*Data-Driven Decision Making*
2	"Telkom's fiber optic network... has the widest and most stable coverage in the region." (Interview with Mas Rori - Account Manager)	Superior infrastructure	*Data-Driven Decision Making*
3	"Telkom's internal bureaucracy is quite lengthy... it can weaken our bargaining position." (Interview with Mas Rori - Account Manager)	Bureaucratic complexity	*Data-Driven Decision Making*
4	"In my opinion, the influence is very significant, it can reach 70 to 80 percent. Most contracts or collaborations with government agencies start with trust." (Interview with Mas Rori - Account Manager)	Relationship & trust	*Co-Creation*
5	"Especially in government agencies, many Telkom products are custom-made." (Interview with Mas Rori - Account Manager)	Service Customization	*Co-Creation*
6	"From time to time, Telkom conducts internal surveys to measure customer satisfaction or the effectiveness of the services provided." (Interview with Mas Rori – Account Manager)	Data-Driven Evaluation	*Data-Driven Decision Making*
7	"Telkom excels in terms of infrastructure, including fiber, satellite, and data centers." (Interview with Kak Eci - Account Manager)	Integrated technological advantages	*Data-Driven Decision Making*

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8	"Telkom's prices are relatively higher than those of competitors." (Interview with Kak Eci - Account Manager)	Price as a Weakness	*Data-Driven Decision Making*
9	"After-sales service is Telkom's key differentiator compared to other providers." (Interview with Kak Eci - Account Manager)	Service excellence	*Customer-Driven Innovation*
10	"A strong relationship ensures stable collaboration year after year." (Interview with Kak Eci - Account Manager)	Relationship continuity	*Co-Creation*
11	"Customers are involved through focus group discussions (FGDs) or pilot projects." (Interview with Eci - Account Manager)	Customer involvement	*Co-Creation*
12	"Innovation must keep pace with evolving technological needs, such as increased bandwidth." (Interview with Eci - Account Manager)	Adaptation to technological needs	*Customer-Driven Innovation*
13	"Telkom isn't always dominant... it must remain competitive in pricing and tenders." (Interview with Mas Dimas - Admin Support)	Equal competition	*Data-Driven Decision Making*
14	"Telkom has a discount range limit in accordance with internal policy." (Interview with Mas Dimas - Admin Support)	Limits on price flexibility	*Data-Driven Decision Making*
15	"A win-win strategy is implemented to ensure the partnership continues." (Interview with Mas Dimas - Admin Support)	Win-win strategy	*Co-Creation*
16	"Long-term partnerships are used to maintain margins." (Interview with Mas Dimas - Admin Support)	Long-term contracts	*Co-Creation*

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17	"Network maintenance is performed so we don't have to wait for complaints." (Interview with Mas Dimas - Admin Support)	Preventive service	*Customer-Driven Innovation*

Implications for Value Capture Innovation Strategy

The integration of these themes directly addresses the research objectives by demonstrating how bargaining power shapes value capture innovation. Co-creation aligns with Prahalad and Ramaswamy's value co-creation framework, where sustained interaction and trust-based engagement convert institutional preferences into recurring revenue streams. Customer-driven innovation corresponds to von Hippel's user innovation model ensuring that service development remains demand-driven and contextually relevant. Data-driven decision making mirrors Pfeffer and Sutton's evidence-based management approach, utilizing surveys, CRM analytic and tender intelligence to optimize pricing, reduce churn, and extend contract lifecycles. Together, these mechanisms enable Telkom to capture value beyond core connectivity by embedding digital solutions (cloud, data centers, cybersecurity) into institutional workflows thereby increasing switching costs and strengthening long-term value capture. The findings confirm that optimizing value capture innovation requires shifting from price based competition to performance differentiated, data informed collaboration where bargaining power is continuously reinforced through operational excellence and strategic client alignment.

DISCUSSION

Factors Influencing Bargaining Power in Government Client Relations

Telkom's bargaining position is primarily anchored in its BUMN status which confers institutional legitimacy and reduces perceived political, administrative, and audit risks for government institutions (Meyer & Rowan, 1977; Scott, 2001). As noted by an Account Manager, *"Telkom merupakan perusahaan telekomunikasi milik negara (BUMN), sehingga posisi tawar Telkom di mata instansi pemerintah menjadi sangat kuat, terutama di sektor kepolisian"*. This institutional preference is reinforced by a red white sentiment where government spending on Telkom is perceived as returning value to the state thereby lowering buyer resistance during negotiations (Hillman & Hitt, 1999; Musacchio et al., 2015; OECD, 2018).

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Legitimacy is further strengthened by operational superiority, particularly Telkom's nationwide fiber optic coverage and 99% SLA reliability which align with Pollitt and Bouckaert's (2017) performance legitimacy concept. Infrastructure dominance reduces client willingness to negotiate aggressively as alternative providers cannot match stability for critical public services (Christensen et al., 2016; North, 1990). Head office support amplifies this position through strategic alignment, pricing authority, and cross-regional knowledge sharing enabling Witel units to negotiate with institutional backing rather than isolated regional capacity (Järvi & Khoreva, 2020; Amankwah-Amoah et al., 2017; Hortovanyi et al., 2021). However, bargaining power is situational. In open tender mechanisms, formal procurement regulations and price caps reduce Telkom's negotiation leverage as institutional trust cannot override procedural rationality (Grimmelikhuijsen et al., 2021; Zmerli & van der Meer, 2020; Dong & Kubler, 2021). As stated, *"Ketika posisi tawar melemah biasanya karena adanya pesaing yang menawarkan harga jauh lebih murah hal itu bisa menjadi tantangan"* (Interview with Kak Eci). Thus, bargaining power operates as a dynamic construct which is strong in relational and infrastructural contexts but constrained in formalized price driven procurement environments.

Bargaining Power's Impact on Value Capture Strategy Implementation

This section examines how bargaining power translates into actionable value capture mechanisms. Relational trust functions as a direct extension of institutional legitimacy, accounting for an estimated 70-80% of contract initiation with government clients. As emphasized, *"Sebagian besar kontrak atau kerja sama dengan instansi pemerintah berawal dari kepercayaan"* (Interview with Mas Rori). This aligns with social influence and endogenous social effects theories where collective institutional trust and repeated positive interactions reduce switching intentions and sustain long-term cooperation despite competitive alternatives (Kelman, 1958; Manski, 1993; Newton & Zmerli, 2011). Trust thus transforms bargaining power from a transactional lever into a relational asset that secures recurring revenue streams.

To operationalize value capture within regulated pricing environments, Telkom leverages data-driven decision making across four integrated frameworks which are (1) Data Governance for real-time network and usage monitoring, (2) Data Literacy to translate operational patterns into service optimization, (3) Continuous Improvement for SLA and performance refinement, (4) Stakeholder Engagement to align service capacity with institutional expectations (Webber & Zheng, 2020; Romero & Ventura, 2013; Long & Siemens, 2011; Agasisti & Bowers, 2017). As practiced, *"Pengukuran yang dilakukan*

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masih lewat Key Performance Indicator atau KPI, yang dasarnya masih ke revenue, churn rate, dan tingkat kepuasan pelanggan" (Interview with Kak Eci). Following a statement by Mas Rori who said the feedback is institutionalized through pre-payment BAST documentation ensuring service compliance before revenue recognition.

Table 2. Framework and Implementation

Framework	Description	Implementation Steps
Data Governance Framework	Establish policies for data management and security	Develop data policies and define governance roles
Data Literacy Framework	Provide guidance for training educators in data use	Create comprehensive data training programs for staff
Continuous Improvement Framework	Encouraging continuous evaluation and adaptation of practices	Establishing a routine review cycle for data analysis
Stakeholder Engagement Framework	Ensuring the involvement of all stakeholders in data initiatives	Organizing workshops and feedback sessions

Source: Adapted from Vamshi Bharath Munagandla (2024)

This data centric approach compensates for price rigidity by enhancing service differentiation, reducing churn, and enabling margin preservation through longer contract cycles, *"Telkom masih bisa memberikan margin yang sesuai dengan permintaan pelanggan dengan cara kontrak kerja sama yang lebih lama"* (Interview with Mas Dimas). Consequently, bargaining power directly shapes value capture implementation by shifting competition from price concessions to performance-based retention and operational efficiency.

Optimizing Value Capture Innovation Based on Bargaining Position

This section details how Telkom can develop and implement value capture innovation strategies that leverage its bargaining position. In tender dominated markets, data-driven strategic planning replaces price based negotiation as the primary value

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capture mechanism. Predictive analytics and usage pattern mapping enable proactive service customization allowing Telkom to anticipate bandwidth scaling, cybersecurity needs, and data integration demands before formal procurement cycles (Hossain et al., 2024; Yasmin et al., 2024; Biswas et al., 2024). As noted in interview, *"Inovasi harus selalu disesuaikan dengan perkembangan teknologi dan kebutuhan pelanggan… Telkom memiliki tim R&D yang terus mengembangkan produk baru agar tetap relevan"* (Interview with Mas Rori). Routine contract evaluations, satisfaction surveys, and cross-institutional benchmarking institutionalize continuous innovation, yielding empirically documented gains in revenue (+20%), cost efficiency (-15%), and customer satisfaction (+10%) (Asha et al., 2024; Moury & Hasan, 2024).

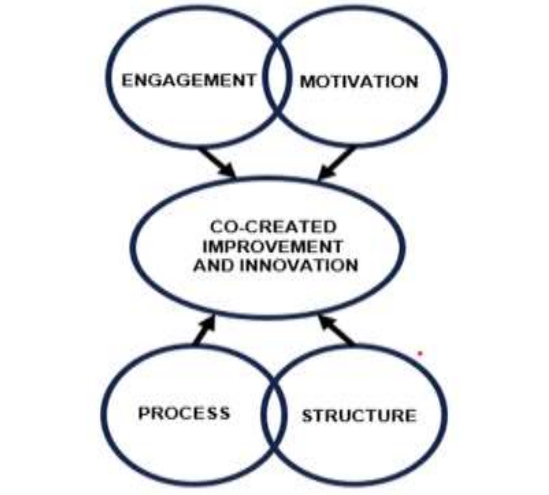


Figure 2. Conceptual Model of Co-Creation Interaction

To transcend transactional limitations, Telkom is positioned to deploy an operation based co-creation service platform that institutionalizes client involvement in service design, monitoring, and iterative improvement. Grounded in Vink *et al* (2020) service design framework the platform balances formal structure (SLA, ticketing, contract management) with adaptive processes (feedback loops, pilot testing, joint solution mapping). Sustained engagement relies on quick-win demonstrations and self-reinforcing participation cycles (Trischler & Westman Trischler, 2022; Fisk et al., 2019; Luescher et al., 2020). As practiced, *"Maintenance area… lebih sering me-manage jaringan, me-manage ODP-nya… Jangan sampai komplain diterima, baru bergerak"* (Interview with Mas Dimas). Co-creation shifts value capture from post delivery monetization to

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embedded process lock-in where clients become dependent on integrated workflows rather than standalone connectivity (Prahalad & Ramaswamy, 2004; Nambisan et al., 2017; Cenamor et al., 2019). This is reflected in portfolio expansion, *"Telkom sebenarnya nggak cuma menangkap nilai dari penjualan utama… Tapi juga dari layanan tambahan seperti cloud, cybersecurity, data analytic… Semakin tinggi integrasi solusi yang kita kasih ke pelanggan, semakin besar juga nilai yang bisa kita tangkap"* (Interview with Kak Eci).

Constraints and Challenges in Implementing Value Capture Innovation Strategy

Despite strategic alignment, value capture innovation faces structural and cognitive barriers that directly impact implementation feasibility. Knowledge recombination for business model innovation is constrained by cognitive proximity imbalances such as insufficient crossdomain integration limits novelty while excessive proximity triggers over-embeddedness that stifles disruptive ideation (Kim et al., 2026; Balland et al., 2019; Davies & Maré, 2021; Nan, 2024). Telkom's reliance on dominant, low-risk technologies further restricts exploration of high-value spark technologies, creating an exploitation bias that caps value capture potential (Gao & Lazarova, 2024).

Commercialization complexity compounds these challenges. Transforming digital innovations into monetizable assets requires navigating patent disclosure risks, regulatory compliance, and market uncertainty, often forcing trade-offs between intellectual property protection and rapid value realization (Teodoridis et al., 2022; Kim et al., 2026). Additionally, regional innovation ecosystem disparities limit knowledge spillover access; organizations outside dense technological clusters struggle to integrate complementary expertise, reducing recombinative efficiency and value capture scalability (Feldman et al., 2015; Rigby et al., 2022; Balland et al., 2020). Finally, increasing technological complexity and data volume elevate the cost of identifying high-yield innovation combinations, directly depressing research productivity and delaying value capture realization (Bloom et al., 2020). Addressing these constraints requires structured knowledge orchestration, cross-ecosystem partnership frameworks, and agile commercialization pathways to ensure that bargaining power translates into sustained, scalable value capture innovation.

CONCLUSION

This study confirms that Telkom's bargaining power in the public sector stems from three synergistic pillars which are institutional legitimacy as a BUMN, superior fiber optic

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infrastructure with 99% SLA guarantees, and centralized headquarters support. While these attributes establish Telkom as a trusted, low-risk partner, bargaining power remains situational, weakening in price-driven open tenders constrained by formal procurement regulations. This power directly shapes value capture innovation through two mechanisms: layered relational trust that sustains long-term cooperation beyond price sensitivity, and data-driven decision making (KPIs, CRM, satisfaction surveys) enabling precise service customization. To optimize value capture, Telkom should transition from price-based competition to value differentiation by scaling predictive analytics and deploying a Co-Creation Service Platform that transforms government clients into active innovation partners. Practically, the company must institutionalize knowledge management to systematically replicate successful digital solutions across agencies, proactively leverage its BUMN status to emphasize administrative security and audit compliance in tenders, and integrate transparent performance dashboards into all negotiation and evaluation stages. Strengthening operational data literacy and balancing rigid procurement procedures with sustained interpersonal engagement will further reinforce institutional legitimacy. Ultimately, sustainable value capture in public sector services requires the integrated alignment of structural legitimacy, relational trust, and data-enabled collaboration, positioning Telkom Witel Yogyakarta Jateng Selatan to secure long-term competitive advantage in an increasingly regulated government service landscape.

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