

Service Quality-Value Framework

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Service Profit Chain

Service quality is a key factor for the economic success of service providers. Heskett, Jones, Loveman, Sasser and Schlesinger (1994) highlighted the importance of service quality with the introduction of the **service-profit chain** (see figure 1). In the service-profit chain, the ultimate **management goals** are revenue growth and profitability.

The service-profit chain highlights **customer loyalty** and **customer satisfaction** as the main sources of **revenue growth** and **profitability**. Customer satisfaction is reached by **high levels of external service value**. The external service value summarizes the output of the service provider's activities.

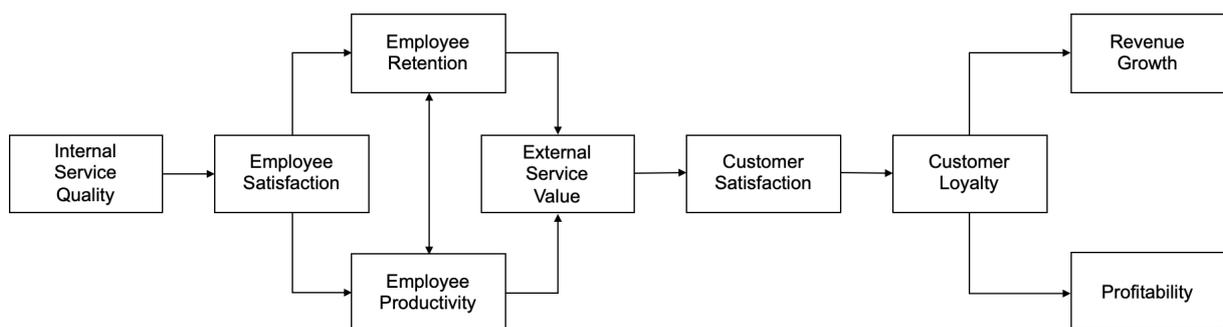


Figure 1: The links in the service-profit chain (adapted from Heskett et al., 1994, p. 166)

How is external service value created? External service value depends on **employee satisfaction**, **employee retention** and **employee productivity**. Satisfied employees will remain loyal to the service provider and will deliver constant and excellent performances. Employees' behaviour can be stimulated by human resources management. Therefore, a service provider should also pay attention to the **internal service quality**. Support services and policies (e.g., workplace design, employee development, employee recognition or up-to-date tools) influence employees' satisfaction and their ability to deliver high-quality results to customers.

¹ This article is based on Woratschek, Horbel, Popp, & Ströbel (2015).

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Value Drivers and Value Co-Creation

Based on Porter's (1985) **value chain**, Stabell and Fjeldstad (1998) introduced two value configuration models specifically designed for service providers: **Value shop** and **value network**. The **value shop** is appropriate for **problem-solving** companies. In this case, value creating activities do not follow the sequential process of the value chain. They follow **individual** customer needs and are configured in a cyclical and iterative way (Stabell & Fjeldstad 1998, p. 422). The **value network** represents service providers that focus on **connecting** customers. Network operators function as intermediaries offering various interaction possibilities. The value creating activities are performed simultaneously at multiple levels (Stabell & Fjeldstad, 1998, p. 428).

Recommendations are especially important in **service sectors with low retention rates**, e.g. tourism (Woratschek & Horbel, 2005), because they lead to new customer acquisition and increase service companies' reputation. Increased reputation results in higher value.

Independent from service quality, **customer identification** influences customer satisfaction and customer loyalty, and consequently, value (Woratschek, Horbel, & Popp, 2019). Furthermore, it may enhance positive word-of-mouth which generates new customers.

The current understanding of service marketing is strongly influenced by the service-dominant logic (Vargo & Lusch 2004, 2016). According to the SDL, not only firms and organisations create value, but many actors contribute to value creation. This core aspect is called **value co-creation**.

What does that mean for service quality and value? The **Service Quality-Value Framework (SQVF)** merges these research approaches, creating a modern and comprehensive framework for mapping the links between service quality and value for service providers, customers and other actors (Woratschek et al. 2015). It is illustrated in figure 2.

The SQVF is based on internal **value creating activities** of a company (value chain, value shop, value network). All activities discussed in the value configuration models determine service quality. Most important, companies **integrate others' resources** to co-create value and value is always value-in-use as well as context dependent (Vargo & Lusch 2004, 2016). Hence, most companies aim not only at **financial value**, but also at **social value**, e.g. when they set up kindergartens or fitness centres for employees. Social value is determined by economic, cultural and environmental net benefits (Narangajavana, 2016. p. 918).

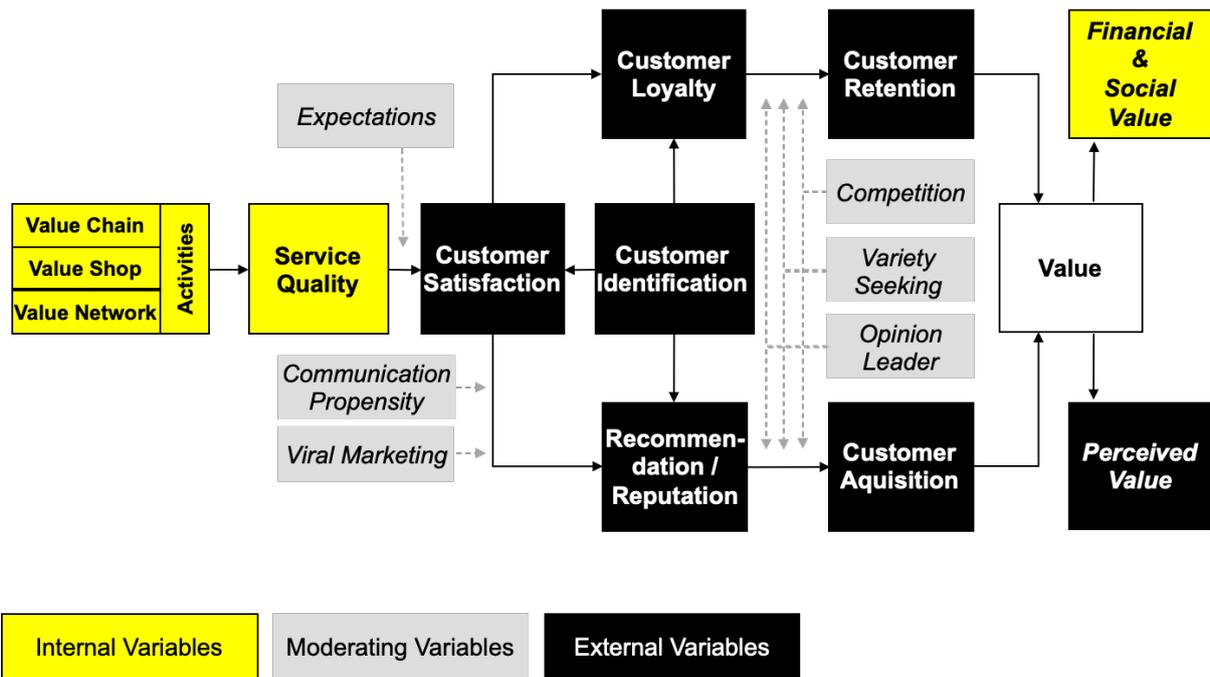


Figure 2: Service Quality-Value Framework (adapted from Woratschek et al., 2015, p. 112)

In contrast to the service-profit chain, the SQVF defines **value as ultimate management goal**. Since **value is always co-created**, the perspective of the most relevant actors must be integrated in the framework. This becomes obvious in the SQVF, for example, by distinguishing between a service company's **financial and social value**. Value for the customer is not only represented by financial indicators (e.g. price). Rather, it is determined by the customer's **perceived value** which includes both, benefits and sacrifices.

In the SQVF some **moderating variables** influence the relationship between antecedents and consequences of internal and external variables. In service marketing, it is well known that customers' expectations influence their satisfaction with the service quality provided by the company. Customers' communication propensity and companies' viral marketing activities influence the relationship between customer satisfaction and recommendations. When there is a lot of competition in an industry, and/or customers tend to seek for variety, the relationship between customer satisfaction and customer retention is weaker. Finally, the probability to win new customers by positive word-of-mouth increases if it is spread by opinion leaders or influencers.

Videos

For a deeper understanding of value co-creation, please watch the SMAB Clip "Service Dominant Logic and Sport Value Framework" on Prof. Woratschek's YouTube channel: <https://www.youtube.com/watch?v=RdH8pMpusZ0>



German speakers: please also watch the SMAB Clip
“Wertschöpfungskonfigurationen” on Prof. Woratschek’s YouTube channel:
<https://www.youtube.com/watch?v=zoAO-PyuA3s>



To put it in a nutshell:

1. **Service quality** is determined by the **value configuration** and **resource integration**.
2. Service quality is a key driver for **customer satisfaction**.
3. **Identification** as well as customer satisfaction influence the **customers’ perceived value**.
4. From a company’s perspective, customer satisfaction leads to **retaining** and **gaining new customers**.
5. Regular customers as well as new acquired customers bring long-term **financial** and **social value** to the company.
6. The **Service Quality-Value Framework** describes the internal and external relationships between companies’ value configuration and value as ultimate management goal.
7. **Moderating variables** have to be considered for a more precise analysis of the relationships in the Service Quality-Value Framework.

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