

Relational Value Disciplines: Added Links to the Service Profit Chain

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There has been limited research that considers the link between a firm's relational value discipline and its Service Profit Chain. The Service Profit Chain, while a valuable managerial tool, does not fully incorporate measurement for a *magnificent value proposition*. More specifically, determining exactly how employee and customer factors impact an organization's financial performance requires an understanding of its dominant value discipline based on its adaptive strategy. In this paper, we present a contingency model that provides the added link to the Service Profit Chain in terms of relational value disciplines. We propose that it is the choice of relational value discipline that determines the nature of an organization's customer loyalty and its financial performance.

Introduction

There have been many examples of the benefits of linking employee commitment with customer loyalty and financial measures (Heskett et al. 1994). In fact, the strongest relationships suggested are those between profit and customer loyalty, employee loyalty and customer loyalty, and employee satisfaction and customer satisfaction (Reicheld 1993). Ostensibly, the relationship between customer loyalty and profits is the strongest relationship represented by those firms managing their organizations by Service Profit Chain methodology (Heskett et al. 1994).

However, heretofore there has been limited research elucidating the linkage between a firm's value proposition with the Service Profit Chain. In its current form, we believe that the Service Profit Chain does not fully incorporate a measurement for a *magnificent value proposition*. While one could argue that such a measurement is inherent in other elements such as employee and customer loyalty, we propose that it is possible to have completely satisfied and loyal internal and external customers and have a poor, or deteriorating value proposition. Furthermore, we believe that the link between a firm's value proposition and financial performance is a stronger relationship than that

of the link between profit and other key elements in the chain. By objectively scoring a firm's value proposition and correlating that score with a firm's profits, we believe distinctions may be made between success due to strategy formulation and success due to strategy implementation.

To test our assertions, we add our relational value discipline system (See [Figure](#)) to the existing Service Profit Chain model. This serves as the first critical link.



Within the Service Profit Chain, when linked with employee loyalty, customer loyalty makes the second (of three) critical links. Finally, financial performance, including revenue growth and profitability, serves as the third critical link. We develop our contingency model of relational value disciplines by adapting previous strategic typologies of Miles and Snow (1978) and Treacy and Wiersema (1992). We propose four relational value disciplines each requiring different organizational resources, capabilities and strategic adaptation to achieve positive financial performance.

References

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