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The strategic role of relational capabilities in the business-to-business service profit chain

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ABSTRACT

This paper extends the original service profit chain by examining the role of relational capabilities with employees, customers and strategic partners on process and performance outcomes in a business-to-business context. More specifically, we demonstrate how satisfied and loyal employees are better in developing relationships with customers and strategic partners. These relationships enable firms to be more responsive towards customers and become more innovative, which increase customer satisfaction and loyalty and, ultimately, financial performance. Our results provide support for the development of relational capabilities in a business-to-business environment by extending the service profit chain (SPC) model. However, we find that while the development of strong customer relationships contributes to an improved service responsiveness of the firm, strategic partners do not.

1. Introduction

The search for competitive advantage has led to the development of the resource-based view (RBV) of the firm, which aims at explaining performance differences through resources and competencies the firm possesses; (Barney, 1991; Wernerfelt, 1984). According to the RBV firm resources and competencies are meant to be valuable, rare, and inimitable and non-substitutable in order for the firm to create a competitive advantage, and hence, successfully compete in its environment. Despite its popularity, the resource-based view of the firm has been criticized for being tautological (Priem & Butler, 2001) and not widely adopted in marketing due to the lack of definition as to what constitutes a resource (Srivastava, Fahey, & Christensen, 2001). Further, individual firms are becoming increasingly more connected and hence rely on resources beyond those found in their own boundaries, which are only implicitly considered in the RBV (Srivastava et al., 2001). Therefore, relational resources that span firm boundaries have been identified as being critical for understanding competitive advantage (Dyer & Singh, 1998).

Although according to classic economic and management theory the firm has distinct boundaries (Gummesson, 1999), the value of relationships and networks, is widely recognized by the strategic management and marketing literature (Gulati, 1995; Ring & Van de Ven, 1992). Since the 1980s, the Industrial Marketing and Purchasing (IMP) Group scholars were among the first to contribute towards a theory of inter-organizational relationships and networks. According to the IMP, relationships are resources and investments (Asanuma, 1989) that are managed and leveraged, both, internally and externally. Internally, the transformation processes of employee knowledge and skills into organizational capabilities (Levinthal & March, 1993) are critical for the competitiveness and survival of an organization through the development of innovations and effective dynamic capabilities (Day, 1994; Dickson, 1996). Relationships developed with external parties, such as customers and strategic partners, have also proven to be important sources of knowledge and know-how capabilities (Kale, Singh, & Perlmutter, 2000) and therefore have the potential of enhancing innovativeness. As a result, firms are valued higher depending on the quality and quantity of their relationships (Powell, 1996).

Given the limitations of the RBV, Srivastava et al. (2001) developed the relational and intellectual market-based assets in order to further advance the integration of RBV and marketing. These market-based assets have sharpened the focus for marketing theorists towards intangible, dynamic and operant resources (Madhavaram & Hunt, 2008; Vargo & Lusch, 2004). However, these conceptualizations treat these intangible, operant resources on the same level, without providing any guidance on how these resources interact with each other, and how they should be leveraged for value creation. In contrast, the well-known service profit chain (SPC) framework from Heskett, Jones, Loveman, Sasser, and Schlesinger (1994) provides guidance about the interrelationships among operational investments, customer perceptions and the bottom line (Kamakura, Mittal, de Rosa, & Mazzon, 2002). This "linear chain" is fairly straightforward

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in its implications, and it has been validated by a number of empirical studies from consumer service industries (Athanassopoulos, 1999; Kamakura et al., 2002; Roth & Jackson, 1995; Soteriou & Zenios, 1999). However, no study has examined its applicability in business-to-business environments and similarly to the RBV it examines operational resources that are internal to the firm. This indicates the need to apply the SPC in a business context, but also enhance it in a manner that considers external relationship capabilities and their effect not only on customer performance, but innovativeness as well.

This paper aims at advancing our knowledge of value creation in business-to-business markets by integrating the relational view and market-based assets on the SPC framework. This research contributes by i) applying the service profit chain in a business-to-business context, ii) incorporating the impact of external relational capabilities with customers and strategic partners, and iii) examining organizational innovativeness as a source of renewal in the value creation process.

The paper is organized as follows. First we present the theoretical frameworks that are used in this study in more detail and then introduce our model and working hypotheses. Subsequently, the empirical study will be introduced by testing our model and hypotheses. Results are then presented, implications discussed and future research directions suggested.

2. Theoretical background

Marketing theorists (e.g. Day, 1994; Hunt, 2001; Madhavaram & Hunt, 2008; Srivastava, Shervani, & Fahey, 1998; Srivastava et al., 2001) have been differentiating marketing from the rest of the company's operation by the unique activities it performs. Moreover, marketing has been linked to other functional business processes (Webster, 1992; Deshpandé and Farley, 2004), contributing to a clearer positioning of marketing as a discipline as well as a function. Ultimately, marketing activities and capabilities have to prove their role in enhancing the firm's competitive advantage, which is strongly related to the resource-based view (Barney, 1991; Wernerfelt, 1984). Constantin and Lusch (1994) and more recently, Vargo and Lusch (2004) made the distinction between operant and operand resources, and emphasized that intangible, operant resources are more likely to lead to competitive advantage (c. f. Madhavaram & Hunt, 2008).

Srivastava et al. (1998, 2001) examined the interface between the RBV and marketing and clearly identified that the RBV cannot adequately address how internal and market-based resources are transformed into customer value and competitive advantage. This is due to the fact that value is not only created inside the firm, but also outside. Further, value should be identified (ex ante) before strategy creation, in order for the firm to be proactive. Therefore, Srivastava et al. (1998, 2001) proposed two types of market-based assets that are valuable, rare, inimitable and non-substitutable: *relational* and *intellectual* market-based assets. *Relational* assets refer to external, intangible relationships, whereas *intellectual* assets refer to the knowledge residing within the company. Similarly, in the strategic management literature the relational view perspective emerged (Dyer & Singh, 1998) expanding our understanding of how relational rent[3] can create a competitive advantage.

2.1. Importance of relational assets

The nature of competition has been shifting from being between single firms towards competing networks of strategic partners (Dyer & Singh, 1998). Therefore, the inter-organizational relationships and networks that have been the focus of the IMP (Industrial Marketing and Purchasing) Group for the last 25 years are increasingly more important. The scholars of the IMP Group were among the first contributors towards the relational view by developing the "Interaction Approach". This approach builds on inter-organizational resource dependency, transaction-cost and social exchange theory (Möller & Wilson, 1995) and aims to understand how and why relationships develop in business markets. The A–R–A approach developed by Håkansson and Snehota (1995) emphasizes the activity links (A), resource ties (R) and actor bonds (A). This research focuses on the existence and role of actor bonds, as relationships between companies impact on how they leverage their resources, which, in turn, generate economic value for the firm (Lehmann, 1997).

According to the IMP research stream, relationships are defined as the "mutually oriented interaction between two reciprocally committed parties" (Håkansson & Snehota, 1995, p. 25). This definition emphasizes the concept of mutuality, and thus, that relational rents are always co-created by two companies, and neither firm would be able to achieve the same performance in isolation (Dyer & Singh, 1998). This also supports the interdependency of the relationship and hence firms depend on resources and capabilities of other companies (Ford, Gadde, Håkansson, & Snehota, 2003). However, considering the abundance of relationships a firm can possibly have, Håkansson and Snehota (1995) note that only a limited number of relationships have a profound effect in a company's performance (p. 11). Similarly to the IMP approach, in their seminal paper Dyer and Singh (1998) propose the relational view of creating competitive advantage. They identify four determinants of inter-organizational competitive advantage, namely, relation-specific assets, knowledge-sharing routines, complementary resources and effective governance, which can create relational rents.

Amit and Schoemaker (1993) also note that strategic assets can be created inside or outside the firm with strategic partners. As previously stated, Srivastava et al. (1998, 2001) and Dyer and Singh (1998) identify relational and knowledge-based intellectual assets, and are in agreement that the outcome of relationships is not owned by the company, but rather co-created and shared between partners. While intellectual market-based assets (Srivastava et al., 2001) are referred to as the know-how accumulated within the company, the knowledge-sharing routines of Dyer and Singh (1998) are part of the relationship. Therefore, it has been clearly advocated that creating and sharing resources through relationships leads to competitive advantage (Dyer & Singh, 1998), in contrast to RBV's perspective of protecting the firm's internal resources from eroding. Nonetheless, these conceptualizations treat all assets and determinants at the same level and do not link these assets and relationships to each other. Therefore, we draw on the work of Heskett et al. (1994) by employing the service profit chain (SPC) that has previously been used to link internal resources to customers' performance and firm profitability in a very structured manner.

2.2. The service profit chain as an integrative framework

The service profit chain (SPC) is a comprehensive framework that links together various aspects of a company's operation. It presents a cascade of stages starting from the operating strategy and delivery system of the company through customer's perception of service quality and its effect on financial performance (Heskett et al., 1994). Similarly to the SPC, Roth and Jackson (1995) introduced the operational capabilities–service quality–performance (C–SQ–P) framework in the service management strategy literature. The SPC provides a very comprehensive overview of the company's operation, which gained attention from scholars and practitioners. However, it also views the firm's internal operations as the primary source of competitive advantage (Kamakura et al., 2002). Therefore, the SPC framework can be extended in two ways. *Firstly*, it needs to consider the impact of the firm's external relationships, which play a vital part in contributing to the firm's value creation processes. According to

[3] Relational rents is defined as "returns that exceed a factor's short run opportunity cost…(and) are an excess over the returns to a factor in its next best use (Peteraf, 1994, p. 155).