

Diagnosing Customer Value: Integrating the Value Process and Relationship Marketing¹

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The concept of value and, more specifically, customer value is of increasing interest to both academics and practitioners. This paper undertakes a substantial review of past and current literature on value and categorizes this considerable body of research into nine streams of literature. Building on the emerging relationship marketing paradigm, it then proposes a framework for relationship value management. Nine core streams of value literature are identified and discussed: consumer values and consumer value; the augmented product concept; customer satisfaction and service quality; the value chain; creating and delivering superior customer value; the customer's value to the firm; customer-perceived value; customer value and shareholder value; and relationship value. To date, the core focus of most of this literature has been on the nature of value from the perspective of the organization and its customers – the customer–supplier relationship. However, it is argued that the emergence of the relationship marketing paradigm has emphasized the role of other stakeholders in building relationships. An existing multiple stakeholder model of relationship marketing, the six markets model, is introduced and is integrated with key concepts from the value literature to produce a conceptual framework for relationship value management.

Introduction

Creating value, and more specifically, customer value, is increasingly seen as the next source of competitive advantage (Woodruff, 1997). It is also of major and increasing concern to consumers and marketers (Patterson and Spreng, 1997). Yet, despite the increasing attention being focused on this concept, there is still remarkably little in the way of agreement in the literature on what constitutes 'value' and 'customer value' or how it is related to relationship marketing. Indeed, a review of the literature reveals, for example, the term 'customer value' being used in a variety of contexts; these include 'creating and delivering customer value' (e.g. how companies can 'add

value'), 'customer-perceived value' (e.g. desired and received value at purchase and in use) and 'value of the customer' (e.g. customer lifetime value). Furthermore, while the term value is frequently used to describe customer value, it is also used in relation to other aspects of value in the organization. The objectives of this paper are two-fold: first, to undertake a comprehensive literature review of the different perspectives of value; and second, to develop a conceptual framework which addresses how these views of value might be considered in the context of relationship marketing.

Relationship marketing has been one of the key developments of modern marketing science (Hennig-Thurau, 2000) and has generated 'enormous research interest' (Sheth, 2000). Several leading scholars suggest that relationship marketing represents a paradigm shift in marketing approach and orientation (e.g. Grönroos, 1996a, 1996b; Kotler, 1990; Parvatiyar and Sheth,

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1997; Webster, 1992). This emphasis on relationships, as opposed to transaction-based exchanges, is very likely to redefine the domain of marketing and lead to a new 'general theory of marketing' (Sheth, Gardner and Garrett, 1988), as its fundamental axioms explain marketing practice better than other theories (Sheth and Parvatiyar, 2000).

We consider there is a strong argument for examining value in the context of relationship marketing. Although the concept of value is of central importance in all aspects of marketing, a review of the literature suggests that value is typically viewed from the more narrow perspective of traditional marketing. There are at least three reasons for considering value in the broader context of relationship marketing.

First, as Grönroos (2000) points out, value has traditionally been used in the marketing literature to address 'the value of customers for a firm'; only to some extent has 'value to the customer' been addressed in the literature and this has focused too much on a transactional context (e.g. Peter and Olsen, 1993; Zeithaml, 1988). Second, value in marketing has mainly focused on transaction or exchange and has not sufficiently taken account of value creation and delivery through ongoing relationships that extend beyond individual transactions. Raval and Grönroos (1996) conclude:

'The relational aspect as a constituent of the offering is not taken into account . . . We suggest that the relationship itself might have a major effect on the total value perceived. In a close relationship the customer probably shifts the focus from evaluating separate offerings to evaluating the relationship as a whole.'

Third, from our review of the literature, we conclude that value has not been addressed sufficiently in the context of the multiple stakeholder view of relationship marketing. Most of what has been written to date on value creation has focused primarily on the perspective of only one key stakeholder, the customer. A key difference in relationship marketing is that its focus is not limited to a firm's relationships with customers. The relationship marketing approach stresses the importance of multiple stakeholders (Buttle, 1999; Christopher, Payne and Ballantyne, 1991; Doyle, 1995; Gummeson, 1999; Kotler, 1992; Morgan and Hunt, 1994).

In an earlier review of some of the value literature, Payne and Holt (1999) concluded that

research attention needs to be given to a broader range of multiple stakeholders. They point to the need for a model that emphasizes the role and interdependence of these stakeholders in an organization's total value-creation process. This paper extends this work by viewing customer value in the context of multiple stakeholders and the organization's total approach to value management – which we term 'relationship value management'.

The structure of this paper is as follows. First, we discuss the development of work on the value concept. We then identify and examine nine core streams of value literature ending with the more recent concept of relationship value. Recent developments extend the concept of value beyond a primary focus on one stakeholder, the customer, to a focus on multiple stakeholders. Lastly, we bring together key concepts from both the value and the relationship marketing literatures to develop a framework for relationship value management. This framework integrates the value process and relationship marketing as well as addressing the role multiple stakeholders can play in creating and delivering sustained value.

The development of the value literature

Value has been approached from many different perspectives. Most are derived from the field of economics. These include exchange, utility and labour value theories, as well as marketing, accounting and finance. Furthermore, the considerable strategy and organizational behaviour literature on competitive advantage is closely linked to value concepts and preferential choice. Value also has roots in psychology and social psychology.

Although recent research on value in marketing is based on the concept of trade-off (e.g. Grönroos, 1997), this is derived from the economic theory of 'utility'. This economics-based view of value states that consumers spend their income so as to maximize the satisfaction they get from products (Bowman and Ambrosini, 1998). This neoclassical theory has, however, provided the basis for much of the work on consumer value, customer value and relationship value discussed in this literature review. Other researchers consider value in the context of labour value theories. This body of work considers how positive differential advantage is derived from the

actions of labour (e.g. Lado and Wilson, 1994; Pfeffer, 1985; Wright, McMahon and Williams, 1994). This approach implies that labour can be a source of firm heterogeneity and hence a source of value (Bowman and Ambrosini, 1998).

The extensive strategy and organizational behaviour literature also focuses on many aspects relating to value. Much of this derives from the work of Porter (1985) and his colleagues. Later work (Brandenburger and Nalebuff, 1996; Brandenburger and Stuart, 1996) describes how much value is created when different players come together and transact. In the organizational behaviour literature, work has focused on creation of value through the deployment of organizational resources. These 'knowledge-based resources' or 'system resources' (Black and Boal, 1994; Miller and Shamsie, 1996) can be used to create advantage. These may represent a core competence of the organization (Prahalad and Hamel, 1990). However, as Bowman and Ambrosini (1998) point out it is the artful deployment of competences, not the competences *per se* that are important.

Value is also implicit in the work on exchange theory. The pioneering work done by Kotler (1972) and Kotler and Levy (1969) on broadening the concept of marketing, regarded the process of exchange as an essential part of marketing activity:

'The core concept of marketing is the transaction. A transaction is the exchange of *values* between two parties. The things-of-value need not be limited to goods, services, and money; they include other resources such as time, energy, and feelings.' (Kotler, 1972)

Later Bagozzi (1975) focused on the importance of the exchange process in greater detail. However, while the exchange theory of marketing provides good normative rules for exchange relationships, it does not yet explain why and how values (and arguably value) are created (Sheth, Gardner and Garrett, 1988).

To review the research on value, we identified a large body of literature which we have categorized into nine core streams of research. Figure 1 shows the structure of our literature review together with an illustrative selection of the main contributors' work in these nine core streams. It also indicates broadly a chronological representation of the research. However, the categorization of the value literature into these nine

core streams is not meant to imply a smooth evolution in the literature from a focus on one aspect of value to another. As pointed out later in this paper, some of the streams are complementary, overlap or may compete. These nine core streams of value literature have been divided into three groups: key influences, recent perspectives and newer developments.

First, we identify four areas which we consider have been key influences on the recent thinking on customer value. These are: consumer values and consumer value; the augmented product concept; customer satisfaction and service quality; and the value chain. Second, three more recent perspectives have emerged. These are: creating and delivering customer value; the customer's value to the firm (or customer lifetime value); and customer-perceived value. Third, the newer developments in the value literature are addressed; these are customer value and shareholder value, and relationship value. As we proceed from a discussion of the key influences to the recent perspectives and the newer developments, we gain a richer understanding of the multifaceted concept of value as it applies to marketing strategy.

Key influences on the value literature

Four streams of literature are considered in this section: consumer values and consumer value; the augmented product concept; customer satisfaction and service quality; and the value chain. The first of these key influences derives from work in psychology, consumer behaviour and marketing; the second and third from work in product and services marketing; and the fourth from the strategy literature.

Consumer values and consumer value. It is appropriate at this point to comment on the difference between the terms value (singular) and values (plural) as they apply to marketing. Holbrook (1994), in one of the most detailed academic treatments of consumer value, suggests the term 'value' refers to a preferential judgement whilst 'values' is used to refer to the criteria by which such judgements are made. Values, for example, as described by Rokeach (1973), are the deeply-held and enduring beliefs of individuals. Value implies, on the other hand, through the notion of preference, that it is the result of a trade-off (e.g. between benefits and sacrifices) and an

Illustrative contributors	Key influences
Gutman (1982); Holbrook (1994); Kahle (1983); Mitchell (1983); Rokeach (1973); Zeithaml (1988)	Consumer values and consumer value
Christopher (1997); Collins (1989); Levitt (1980, 1981); Lovelock (1995)	Augmented product concept
Parasuraman, Berry and Zeithaml (1991); Parasuraman, Zeithaml and Berry (1985, 1988); Zeithaml (1988)	Customer satisfaction and service quality
Bower and Garda (1985(a), 1985(b)); Burns and Woodruff (1992); Clark, Peck, Payne and Christopher (1995); Gluck (1980); Jüttner and Wehrli (1994); Normann and Ramírez (1993, 1994); Piercy (1998); Porter (1985); Vandemerwe (1993)	The value chain
	Recent perspectives
Band (1991); Bowman and Ambrosini (1998); Brown (1995); Christopher (1997); Cravens (1997); Day (1990); Gale (1994); Grönroos (1990); Knox and Maklan (1998); Narver and Slater (1990); Naumann (1995); Nicholls (1994); Scott (1998); Slater and Narver (1994); Vandemerwe (1993); Zemke (1993)	Creating and delivering superior customer value
Blattberg and Deighton (1996); Fredericks and Salter (1995); Reichheld (1996); Reichheld and Sasser (1990); Slywotzky (1996)	Customer's value to the firm
Butz and Goodstein (1996); Christopher (1996, 1997); Gordon, Kaminski, Calantone and diBenedetto (1993); Hillier (1998); Parasuraman (1997); Patterson and Spreng (1997); Slater (1997); Woodruff (1997); Woodruff and Gardial (1996); Zeithaml (1988)	Customer-perceived value
	Newer developments
Cleland and Bruno (1996, 1997); Laitamäki and Kordupleski (1997)	Customer value and shareholder value
Grönroos (1997); Gummesson (1999); Ravald and Grönroos (1996); Tzokas and Saren (1998); Wilson and Jantrania (1993, 1994)	Relationship value

Figure 1. Development of the value literature

interaction (e.g. between a customer and the product/service).

In the marketing literature on consumer values the focus is on understanding patterns of these deeply-held and enduring beliefs as they affect the consumer's behaviour. In the early 1980s several inventories were developed to help measure consumer values. Two of the most widely-known examples of these are the 'values and lifestyles (VALS)' methodology developed by Mitchell (1983) and the 'list of values (LOV)' developed by Kahle (1983).

Much literature on consumer value focuses on the value consumers obtain from the consumption event. Implicit in many definitions of value (e.g. Butz and Goodstein, 1996; Woodruff and Gardial, 1996; Woodruff, 1997) is also the concept of value-in-use. Value-in-use, as the name suggests is a functional outcome, a goal purpose or objective that is served directly through product consumption (Burns and Woodruff, 1992; Holbrook, 1994; Woodruff and Gardial, 1996) and which can accomplish or contribute towards accomplishing a task or work (Wilson and

Jantrania, 1994). Value attaches to an experience and pertains not to the acquisition of an object (any good, service, person, place, thing, event or idea) but rather to the consumption of its services (i.e. its use or appreciation) (Holbrook, 1994).

Closely linked to value-in-use, is the idea of possession value. Customers can also derive value simply from possessing a product; products can contain important self-expressive and aesthetic qualities that accrue to the customer through proximity and association (Woodruff and Gardial, 1996) which in a use situation can enhance or detract from self or, arguably the organization's image (Burns and Woodruff, 1992). Building on the notion of value-in-use is understanding value in the use situation. Many definitions of value (e.g. Anderson, Jain and Chintagunta, 1993) omit the use situation, yet it is argued that customer value is dependent on the use situation which is the context in which interactions between the buyer and seller take place (Garver and Gardial, 1996).

We suggest that the linkage between consumer values as a set of deeply-held beliefs and the value that customers obtain from a consumption event or an event from a business relationship with a company is that their experience of the consumption event may be conditioned by the set of values that the consumer has. Thus an understanding of consumer values may be of importance in determining the context and outcome of the consumption event.

Research on consumer value in marketing can be traced to work in consumer research by academics such as Gutman (1982), who sought to understand buying behaviour and decision-making of consumers in the purchase situation through a means-end chain. Following this research, other work has evolved using the means-end chain, including that by Zeithaml (1988), who proposes a conceptual model that defines and relates price, perceived quality and perceived value. She develops four consumer definitions of value: (1) 'value is low price'; (2) 'value is whatever I want in a product'; (3) 'value is the quality I get for the price I pay'; and (4) 'value is what I get for what I give'. Her work is especially significant as it provides a more comprehensive understanding of the linkages between price, perceived quality and perceived value and introduces the notion of trade-off implied in the earlier literature.

The research on consumer values is important in recognizing that an understanding of the customer's values and behaviour could help an organization to better design and market its products and services, and how inventories such as VALS and LOV can help explore consumers' behaviour in greater detail. However, this work does not encompass the notions of preference and trade-off that have become implicit in understanding value as distinct from values. The research on consumer value is important as it provides, at the level of the individual consumer or customer, an understanding of the perceived benefits and sacrifices in the purchasing and use situation. However, a limitation of this stream of value research is that it focuses on individual customers rather than the organization and it does not take into account the business-to-business context. Further development of some of these ideas form the basis of the means-end theory and means-end models of Gutman (1982) and Zeithaml (1988) as well as work by Woodruff (1997); these are described later in the section on customer-perceived value.

The augmented product concept. This concept derives from early work by Levitt (1969), who points out that competition is not between what companies produce in their factories but between 'what they add to their factory output in the form of packaging, services, advertising, customer advice, financing, delivery arrangements, warehousing, and other things that people *value*'. This concept is formalized in Levitt's (1980) later work which outlines the 'generic', 'expected', 'augmented' and 'potential' product model. Shortly afterwards, Levitt (1981) distinguishes in greater detail between the marketing of 'intangible products' and 'product intangibles'. In this work, he points out that from the buyer's perspective the product is 'a promise, a cluster of value expectations of which its intangible parts are as integral as its tangible parts'. Here the concept of value for the customer is very much viewed as an inherent part of the product or service. Levitt's model is particularly useful as it allows us to reconcile the marketer's traditional view of the product, seen in the terms of various inputs and processes needed to produce it, and the consumer's view of the offer, as being a set of solutions and supporting benefits (Christopher, Payne and Ballantyne, 1991).

Levitt's fundamental work has been drawn on by many writers. For example, Collins (1989) uses this framework in the context of describing the total product concept for a personal computer from both the consumer's and marketer's views. Most recently this concept has been extended in the context of services marketing by Lovelock (1995), with his 'flower of service model'. This identifies eight key elements of supplementary services which can be used to add value to the core service or product. Lovelock's work is important as it provides a far more structured approach for considering the expected, augmented and potential elements of a product or service.

The research on the augmented product concept has had a significant impact on the thinking of both marketing academics and practitioners. Its special contribution lies in a recognition that additional elements, beyond that of the product itself, have a profound impact on the value that be added for customers. Its limitation is there is no measurement system associated with identifying which elements of the augmented product are likely to have an identifiable impact on the customer.

Customer satisfaction and service quality. Customer satisfaction has been a theme of great interest for researchers and practitioners for many years. For example, customer-attitude tracking involving tools such as complaint and suggestion forms; consumer panels and customer surveys have been used widely for decades and a number of academics have developed models of customer satisfaction. However, much of the existing customer satisfaction research focuses on the individual or customer level (Anderson and Fornell, 1991), rather than at the organizational level, except where the link between customer satisfaction and financial performance has been explored (Anderson, Fornell and Lehmann, 1994; Yeung and Ennew, 2000).

In contrast to exploring the purchase and decision-making behaviour of consumers, the multi-attribute models of customer satisfaction and service quality (e.g. Parasuraman, Zeithaml and Berry, 1985) are largely concerned with value outputs, e.g. the measurement and evaluation of customer reaction after the purchase or service delivery. In particular, the work on SERVQUAL (Parasuraman *et al.*, 1985, 1988, 1991) focuses on creating a measure of service quality based on

perceived differences between product and service quality. The development of the SERVQUAL instrument into five dimensions of tangibles, reliability, responsiveness, assurance and empathy (Parasuraman *et al.*, 1988) points to the importance of the expected, augmented and potential elements referred to in the previous discussion on the augmented product concept.

Other influential work undertaken within the 'Profit Impact of Market Strategy (PIMS)' research e.g. Buzzell and Gale (1987) has also highlighted the importance of service quality. In particular, they identified a high level of correlation between relative quality and profitability. Early PIMS work also examined service quality and its relationship to value. One of the early 'Pimsletters' (Chusil and Downs, 1979) describes a PIMS formulation of value which combines relative product quality and relative price. A business offers 'value' when the quality of its products exceeds that expected for a given price, or when the price is below that expected for a given level of quality (Chusil and Downs, 1979). The notion of some form of trade-off is once again evident here.

However, some researchers see problems with customer satisfaction measurement approaches (e.g. Reichheld, 1996). One key criticism of customer satisfaction and the dominant theoretical model, the 'expectancy/disconfirmation model' or 'consumer (dis)satisfaction model' (Clemons and Woodruff, 1992) on which it is based, is that instead of consumers using expectations as the basis for judging satisfaction, researchers now argue that consumers use values and desires. It has also been suggested that there may be an over-emphasis on measurement of product attributes in customer satisfaction research at the expense of more affective dimensions e.g. Alford and Sherrell (1996). Customer satisfaction and service quality have been concerned with identifying, for example, key buying criteria or key elements of service which are operationalized as customer's preferred or desired attributes (Woodruff, 1997). Widespread application of these multi-attribute consumer choice models probably accounts for this preoccupation with attributes (Day and Wensley, 1988). However, it is argued that important nuances may be missed if we 'limit customer learning to this narrow point of view' (Woodruff, 1997). Customer value explores the interaction between the product and service,

the user and the use situation requirements, while customer satisfaction generally focuses on the product or service, i.e. what the organization provided (Woodruff and Gardial, 1996).

The important contribution of the stream of research on customer satisfaction and service quality measurement is that it led to the explicit measurement of the impact of a company's total offer to their customers. This total offer incorporates the notion of the augmented product concept discussed previously. Within the PIMS and SERVQUAL elements of this research there now exists a developed body of empirical research (see Buzzell and Gale, 1987; Zeithaml, 2000). Whilst a consideration of what to measure has been, and will be, an ongoing topic of critical debate, recent advances in measurement have made a significant contribution to understanding how much value customers derive from the offer. Some of the limitations described above are addressed in the later section on customer-perceived value.

The value chain. Here we use the term 'value chain' to cover an umbrella of conceptual approaches typified by the well-known work by Porter (1985). Porter's work on the value chain has its origins in the 'business system' developed by McKinsey & Co, and described by Buaron (1981) and Gluck (1980). Other related conceptual approaches include the customer activity cycle, the value delivery system, the value system perspective, the relationship management chain and the value constellation.

With the introduction of Porter's (1985) work came the idea of creation of competitive advantage through the management of the internal activities of the organization that together formed the organization's value chain. Porter states that his value chain is an advancement on the business system concept because it addresses activities and sub-activities rather than functions, and shows how these activities are related.

In 1985, McKinsey & Co outlined their development of a value delivery system or value delivery sequence (Bower and Garda, 1985a). This approach, which is often referred to as the 'value proposition', emphasizes that companies need to shift from a traditional view of seeing their business as a set of functional activities to an externally-oriented view concerned with seeing the business as a form of value delivery (Bower and Garda, 1985b). The value delivery sequence

argues that focusing on the traditional physical process sequence of 'make the product and sell the product' is sub-optimal. The value delivery sequence, in contrast to the value chain, depicts the business as viewed from the customer's perspective rather than a set of internally-oriented functions.

Porter's seminal work has been influential for many researchers. The customer's value chain, for example, is further developed by Vandermerwe (1993). She represents the customer's processes as a cycle; the customer's activity cycle. Other approaches include the value system perspective of Jüttner and Wehrli (1994) and the analytical framework of Piercy (1998), who identifies how a number of organizational processes lead to customer value. A further value system model related to this work is the concept of the relationship management chain or relationship chain (Clark *et al.*, 1995). Stabell and Fjeldstad (1998) suggest an alternative model for understanding and analysing firm-level value creation.

In contrast, Normann and Ramírez (1993, 1994) introduce the 'value constellation' as a criticism of and in opposition to Porter's value chain ideas. They argue that strategy is not a matter of positioning a fixed set of activities along a value chain. Rather, it shows how the focus of strategic analysis should not be the company or the industry but the value-creating system itself, within which economic actors (suppliers, business partners, allies and customers) work together to co-produce value (Normann and Ramírez, 1994). Mutual value is developed as a consequence of a reciprocal interactive relationship between organizations and stakeholders in a constellation or network.

This stream of literature commences with a somewhat mechanistic and process-oriented approach to value, especially when compared with some of the more psychologically-based approaches such as those discussed earlier (e.g. Holbrook, 1994). However, the later work identified above integrates more behavioural elements. From an empirical research perspective, a major limitation has been the failure of studies to address the linkages between the company value chain and the customer value chain. Although highlighted by Porter as important (1985), little subsequent empirical research has focused on this issue. However, this complex and rich stream of research has provided a basis for a number

of key ideas that are evident in the later work on customer value, which are considered in the sections on customer-perceived value and relationship value. Key concepts emerging from the value-chain research have also developed alongside the literature on creating and delivering superior customer value, described in the next section. The work of Normann and Ramírez (1994) is particularly important as it draws attention to the role of additional, non-customer stakeholders, in the creation of value. This reinforces the importance of the role of multiple stakeholders in relationship marketing, which is addressed later in the paper.

Recent perspectives of value

Building on the four key influences of value, three more recent perspectives have developed in the marketing as well as the strategy literatures; these are: creating and delivering superior customer value, value of the customer and customer-perceived value. These customer-oriented approaches to value are closely linked to the role of value in creating competitive advantage.

Creating and delivering superior customer value.

The area of superior customer value creation and delivery has been the focus of much research interest in the 1990s (e.g. Band, 1991; Brown, 1995; Cravens, 1997; Day, 1990; Gale, 1994; Naumann, 1995; Scott, 1998). This work is closely aligned with the calls for organizations to become more market and customer-focused with strong influences from the 'market orientation' strategy literature (Cadogan *et al.*, 1999; Connor, 1999; Day, 1994; Day and Wensley, 1988; Jaworski and Kohli, 1993; Jenkins, 1996; Kohli and Jaworski, 1990; Morgan and Strong, 1997; Morgan *et al.*, 1998; Naver and Slater, 1990; Slater and Narver, 1994, 1995). The emphasis of this work is on the linkages between customer value and organizational profitability, performance and competitive advantage, and argues that a company's success depends on the extent to which it delivers to the customer what is of value to them. Essential to this process is creating a market-driven culture which reinforces the core capabilities that continuously create superior customer value (Slater and Narver, 1994). Recent work in the strategy area has focused on understanding the creation and

capture of value (e.g. Bowman and Ambrosini, 1998).

Later work by Gale (1994) in this context, is of special interest. Gale outlines four key steps in the management of customer value, including: (1) conformance quality; (2) customer satisfaction; (3) market-perceived quality and value relative to competitors; and (4) customer value management. This body of work is notable for demonstrating how superior quality, relative to the competition, is linked to improved profitability.

Naumann (1995), however, stresses that product quality alone is not enough to guarantee survival. He states that the key success factor for a company is the ability to deliver better customer value than the competition. Building on key concepts already discussed in the 'augmented product' and 'service quality' literatures, he introduces the 'customer value triad' which brings together product quality, service quality and value-based prices. Grönroos' (1990) perspective on perceived service quality being a combination of technical quality, functional quality and image is important in this context because it illustrates the fundamental aspects of service quality. Product quality and service quality are the pillars that support value-based prices (Naumann, 1995). Authors such as Knox and Maklan (1998) and Naumann (1995) suggest that brands will become more important in the value that they convey to the customer in the future.

The research on creating and delivering customer value has helped us to better understand the critical role of developing a customer focus and market orientation and how a market-driven strategy helps develop the capabilities that create superior customer value. This work also emphasizes the importance of employee value created within the internal market, one of the key stakeholder groups in the multiple-stakeholder models. The concept of internal marketing which applies marketing techniques within the internal market place has a crucial role to play here (e.g. Grönroos, 1985; Gummesson, 1987). Within the market orientation literature, more empirical work needs to be conducted on the linkages between market orientation and profitability. Furthermore, links with shareholder value need to be developed. The PIMS research also makes a contribution to this stream of literature, in that it provides a quantification of the improved return on investment that can be achieved as a result of having a higher

market-perceived quality than the competition. This large body of PIMS empirical research (Buzzell and Gale, 1987) provides examples of the correlation between perceived quality and return on investment, something which has also been the focus of more recent research, for example Aaker and Jacobson (1994).

The customer's value to the firm. Understanding customer value from the perspective of 'the value of the customer to the organization' has also received attention from researchers. This stream of research differs from other aspects of customer value in that it concerns the value of the customer to the firm, i.e. it is an output of, rather than an input to, value creation. As such, it focuses not on the creation of value for the customer but on the value outcome that can be derived from providing and delivering superior customer value. A key concept that forms part of this perspective is that of customer lifetime value (CLV). Research on customer retention represents a significant part of the perspective.

Early work in this area was undertaken by Reichheld and Sasser (1990), who looked at the net-present-value profit improvement of retaining customers. They undertook empirical research which identified that in a number of service and business-to-business organizations, a five-percentage-point increase in retention could yield up to 125% improvement in net present value profits. This was calculated using the concept of CLV which is defined as the net present value of the future profit flow over a customer's lifetime. This work led to a stream of publications in this area, for example Dawkins and Reichheld, 1990; Reichheld, 1993, 1996; Reichheld and Kenny, 1990.

A number of other researchers have developed an interest in customer retention. Rust and Zahorik (1993) and Rust, Zahorik and Keiningham (1995) outline procedures for assessing the impact of satisfaction and quality improvement efforts on customer retention and market share. Clark and Payne (1994) identified some key concepts for retention improvement. Payne and Frow (1997) have used a model developed by Payne and Rickard (1997) to empirically examine the impact of marketing programmes aimed at retaining existing customers and acquiring new customers for a major UK electricity supplier. Other work on customer retention has been undertaken by

Ennew and Binks (1996), who examined the links between customer retention/defection and service quality; and Page *et al.* (1996) who used an empirical approach to analysing defections and their impact. They conclude the cost of retaining customers is generally much less than the cost of acquiring new customers.

This idea that existing customers are much cheaper to retain than new customers are to acquire is widely emphasized in the marketing literature, e.g. Blattberg and Deighton (1996). Although it is argued by a number of authors (Christopher *et al.*, 1991; Filiatrault and Lapierre, 1997) that it costs many times more to acquire a new customer than it does to keep an existing customer, there is a lack of empirical evidence supporting this. Further research needs to be conducted in this area. Customer value analysis (e.g. based on CLV) should lead companies to emphasize customer-retention strategies.

It is also important to recognize that different customer segments have different value. Hallberg (1995) points out that 'not all customers are created equal' and some segments will be profitable, some will break even and some will be unprofitable. Thus, increasing customer retention does not always increase profitability. Understanding the CLV profitability and unprofitability of different segments will enable organizations to focus on the profitable customers and customer segments. This CLV approach is also dynamic in the sense that it can be applied to those segments which may not be profitable now but which will be profitable in the future, and those which are profitable now but may be unprofitable in the future.

This body of research on the customer's value to the firm is important for three reasons. First, different customer segments have different potential profitability and the pattern of profitability may vary dependent on the stage in the customer life-cycle and other considerations. Second, by keeping a higher proportion of the most valuable customers for longer, profitability can be dramatically increased. Some of this research focuses on how such improved customer-retention and resulting profitability can be achieved. Of particular note is the empirical work which identifies the different profit impacts of customer retention across different industry sectors (Reichheld and Sasser, 1990). Third, this work emphasizes the linkages between internal

service climate and its impact upon employee satisfaction and customer retention (Reichheld, 1996; Schlesinger and Heskett, 1991; Schneider, 1973; Schneider, Parkington and Buxton, 1980). This latter research also extends the value concept to employees (employee value), thus emphasizing the importance of stakeholders other than customers. The major potential weakness of this approach is that it considers customer value only from the perspective of how much value can be derived by a company from its customers; equally, the value delivered by the company to the customers needs to be considered. The empirical studies described above have not focused on these perspectives.

Customer-perceived value. Customer satisfaction measurement (CSM) has traditionally been the main mechanism for listening to the customer. More recently Woodruff (1997) has argued that CSM needs to shift towards understanding more fully what customers' value in terms of which products and services help them to achieve their organizational goals and purposes.

As a result, many researchers are now focusing on this extended view of customer-perceived value (e.g. Anderson and Narus, 1998; Butz and Goodstein, 1996; Fredericks and Salter, 1995; Garver and Gardial, 1996; Gordon *et al.*, 1993; Grönroos, 1997; Hillier, 1998; Nicholls, 1994; Parasuraman, 1997; Patterson and Spreng, 1997; Ravald and Grönroos, 1996; Slater, 1997; Woodruff and Gardial, 1996; Zemke, 1993). In this context customer value becomes a customer-directed concept. It is this perception of the customer's view of what is created and delivered that should be determined and taken into account when the organization defines its value offering.

A number of researchers have suggested ways in which to define value from the customer's point of view (e.g. Anderson *et al.*, 1993; Christopher, 1982; De Rose, 1991; Ravald and Grönroos, 1996; Woodruff and Gardial, 1996; Zeithaml, 1988). We consider Woodruff's (1997) definition to be the most comprehensive. Building on these earlier definitions, he defines customer-perceived value as a '... customer's perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer's goals and purposes in use situations'. Woodruff builds the key elements in this

definition into a 'customer value hierarchy model' which links desired product/service attributes and performances to desired consequences in use situations which ultimately link to the customer's goals and purposes. It is argued that the customer-value hierarchy allows the determination of customer-perceived value by providing a more rich and meaningful way to understand the needs and desires of customers (Woodruff and Gardial, 1996). This approach has considerable appeal. Parasuraman (1997) concluded: 'the proposed value hierarchy model and its exposition have much to offer executives involved in customer value determination and researchers interested in refining customer value theory'.

In common with this and other views of customer-perceived value (e.g. Christopher, 1996, 1997; Ravald and Grönroos, 1996), is the idea of a trade-off between perceived benefits and perceived sacrifice (or positive and negative consequences). Perceived sacrifice involves a recognition of all costs a buyer incurs when they make a purchase; e.g. purchase price, acquisition costs, transportation, installation, order handling, repairs and maintenance and risk of failure or poor performance. The perceived benefits represent a combination of a number of elements which may include physical attributes, service attributes and technical support available in relation to the use of the product as well as the purchase price and other indicators of perceived quality.

The customer-perceived value research has roots in the consumer value, augmented product concept and the customer satisfaction and service quality literatures. This approach is important because it links desired product or service attributes and performances to desired consequences within the usage context, as well providing a linkages to the customers' goals and purposes. To date, much of the work here has been conceptual and there is a need for further empirical work. This stream of literature, in emphasizing the central role of the customer, does not focus sufficiently on the potential costs and gains to organizations seeking to increase customer-perceived value.

New developments in customer value research

We have explained above how the research in customer value has shifted from studying the values of individuals; to looking at how value can

be created by an organization both internally and with respect to customers; and finally to a perception of value that considers both the customer's and the organization's perspectives. However, the three recent perspectives on customer value, while largely customer-centric approaches, also suggest the need for a broader approach to value. More recently, the thrust of value research has started to reflect more explicitly the role of other stakeholders in the value process. We now review two newer developments in value research: customer value and shareholder value, and relationship value.

Customer value and shareholder value. Shareholder value has become an increasingly dominant area of interest among practitioners and academics. Many organizations now consider the creation of shareholder value as their principal focus. However, more recently organizations are having to consider the role of both shareholder value and customer value where they have some form of share-ownership structure.

We consider much of what has been written to date on shareholder value emphasizes maximizing shareholder value without sufficient attention being directed to the customer. Whilst increasing shareholder value is widely accepted as the major goal of management, Bughin and Copeland (1997) believe that maximizing shareholder value may come at the expense of other stakeholders, leaving in its wake diminished job security, higher unemployment and poorer products and services and, ultimately therefore, reduced shareholder value. For example, in the short term, shareholder value could be enhanced by reducing customer value as a result of cutting budgets in an area such as customer service.

Measuring shareholder-value creation has also received attention in the last few years (e.g. Dobbs and Coller, 1998). A considerable number of approaches have been developed. Cornelius and Davies (1997) outline nine consulting firms which have advocate a range of shareholder value-measurement approaches. Amongst these approaches are SVA (shareholder value added – e.g. Day and Fahey, 1990; Wenner and LeBer, 1989), EVA™ (economic value added e.g. Stewart, 1991) and VBM (value based management – e.g. Bannister and Jesuthasan, 1997; Slater and Olsen, 1996). Although there is considerable argument as to the best means of measuring economic or

shareholder value-added, Day and Fahey (1990) point out that shareholder-value analysis must not be undertaken without a detailed examination of strategic fundamentals.

Some researchers argue that customer value drives shareholder value (e.g. Corpulsky, 1991; Laitamäki and Kordupleski, 1997; Leemon, 1995; Slywotzky, 1996; Slywotzky and Linthicum, 1997). However, Cleland and Bruno (1996) point out that customer value is a necessary but not sufficient condition for shareholder value and that an enterprise must

‘make sure that its customer value strategies deliver rigorous revenue growth and the profit margins needed to beat its cost of capital and thereby build wealth for shareholders . . . we start with customer value because it opens the opportunity for shareholder value, although it by no means leads automatically to it’.

McTaggart, Kontes and Mankins (1994) make a similar point when they argue that high levels of customer satisfaction can be achieved by an organization without it being translated into adequate returns for shareholders. More recently Doyle (2000) has emphasized that shareholder value maximization requires a focus on delivering customer value through marketing.

The customer value and shareholder value stream of research is important because it introduces a further stakeholder, the shareholder, into the consideration of value. The shareholder-value element of this research tends to be highly mechanistic. Customer value and shareholder value need to be considered together. It is possible that if too much emphasis is placed on either of them this could have an adverse long-term impact. It is possible for some organizations to deliver high customer value with poor shareholder value. Other organizations may maximize shareholder value but in the process may reduce customer value. Cleland and Bruno (1996, 1997) discuss how business strategies involving an understanding of the interdependencies between customer value and shareholder value need to be considered. Again, there is a lack of rigorous empirical research which explores the interaction of the relationships between customer value and shareholder value in the context of different businesses. The potential contribution role of the employee and the internal processes is not taken into account within this literature.

Relationship value. Considering customer value from the perspective of relationship marketing, or relationship value, is the most recent development in value research. However, as yet there is limited theoretical and empirical work in this area (Ravald and Grönroos, 1996).

Crosby, Evans and Cowles (1990), in their study of relationship quality in services selling, represent one of the first pieces of work in this area. They highlight the need to understand the elements of 'quality' in a relationship. They suggest addressing this by understanding the nature, consequences and antecedents of relationship quality as perceived by the customer in longer-term relationships. This view acknowledges that the creation and recognition of quality or 'value' in a relationship involves the customer as well as the service organization.

Wilson and Jantrania (1993, 1994) were the first researchers to explicitly describe the dimensions of 'relationship value'; these include economic dimensions (investments quality, value engineering, concurrent engineering and cost reduction, strategic dimensions (core competencies, strategic fit, time to market and goals) and behavioural dimensions (social bonding, trust and culture). They make the fundamental point that any relationship creates some value to both partners and how this value is shared is likely to be a major issue in the life of the relationship. Tzokas and Saren (1998) provide a useful overview of this and other approaches to understanding value within relationships, and conclude that further research needs to be done in this area.

The relationship itself can also have a major impact on the total value received by the customer (Ravald and Grönroos, 1996). These authors emphasize that in a relational context '... value for the customer is not embedded in a transactional exchange of a product for money. Instead customer perceived value is created and delivered over time as the relationship develops' (Grönroos, 1997). In a long-term buyer-seller relationship they suggest the need to look at 'total episode value' which they describe as a function of 'episode value' and 'relationship value' in the following equation:

$$\text{total episode value} = \frac{\text{episode benefits} + \text{relationship benefits}}{\text{episode sacrifice} + \text{relationship sacrifice}}$$

They show that a poor episode value can be balanced by a positive perception of the relationship as a whole, so it is important for the supplier to maintain a good relationship with the customer, since this could make the customer more tolerant towards occasional inferior performance. Any relationship creates some value to both partners; thus how this value is shared is also likely to be a major issue in the life of the relationship.

Further work by Gummesson (1999) proposes a number of fundamental values in relationship marketing, the core value being the emphasis on inter-party collaboration and the creation of mutual value. This derives from other work on relationship value and on the value constellation. Gummesson's concept of 'total relationship marketing' emphasizes long-term win-win relationships with customers, which transcend boundaries and disciplines. Here, value is co-produced through the interaction of a number of additional stakeholders including suppliers, customers, competitors and others.

This stream of research is important because understanding relationship value in long-term relationships can have a critical impact if a company is taking a relationship marketing approach to its customers. It differs from previous streams of value research in that it acknowledges the ongoing interactions over time between a company and its customers (for example, the augmented product concept (Levitt, 1980) considers only a discrete customer episode). No longer can value be viewed as part of an individual transaction process; value is created over time and will be subject to changes and external influences, e.g. other stakeholders. It also adds dynamism to the value concept. However, research in this stream is at an early stage of development. More conceptual and empirical research needs to be undertaken here and the role of and interaction between different stakeholders needs further consideration. One objective of this paper is to address this gap by developing a conceptual framework for relationship value management which integrates key elements from the nine core streams of the value literature within a multi-stakeholder context.

Relationship marketing: the role of multiple stakeholders

Within the core streams of value literature above, we have outlined how customer value and

shareholder value need to be considered together, and also briefly discussed the role of employee value. We have also suggested it is important to recognize that customer value in the context of relationship value is a dynamic concept; value is created and changed over time as a result of an ongoing series of transactions. However, we consider that customer value, shareholder value, employee value and relationship marketing are closely related and form part of a broader value process. In this section we consider the role of multiple stakeholders. In the following section we develop a framework for relationship value management based on a relationship marketing perspective which draws on concepts from the nine core streams within the value literature.

Understanding long-term relationships with both customer *and* other stakeholder groups has been neglected in the mainstream marketing literature (Christopher *et al.*, 1991; Dwyer, Schurr and Oh, 1987; Ford, 1990; Grönroos, 1994; Gummesson, 1997; Håkansson, 1982; Morgan and Hunt, 1994; Möller, 1992, 1994; Parvatiyar and Sheth, 1997; Sheth and Parvatiyar, 1995). Managing the organization's internal and external relationships needs to become a central activity; this central activity is relationship marketing (Brookes, Brodie and Oliver, 1998). Hennig-Thurau and Hansen (2000) also point out reasons why competent management of relationships with other stakeholders, in addition to customers, is seen as necessary for economic profitability. These researchers provide strong support for considering multiple stakeholders within the context of relationship marketing. We consider that traditional marketing approaches have not placed sufficient emphasis on careful stakeholder management. An exception is the approach to stakeholder management advocated within public relations (PR), and referred to as publics by PR practitioners. However, it has been argued that this approach is weaker in rigour and relational emphasis than a relationship marketing approach (Payne, 2000).

It is important to note that within the strategy field there has been considerable work undertaken on stakeholder management. Over the last fifteen years stakeholder theory has developed into an important area (e.g. Campbell, 1997; Carroll, 1989; Donaldson and Preston, 1995; Freeman, 1984; Harrison and Freeman, 1999; Harrison and St. John, 1996; Useem, 1996). However, within the strategy field there is little agreement on

the scope of stakeholder theory (Harrison and Freeman, 1999). In particular, there is considerable debate regarding the constituent groups an organization should consider as stakeholders. Argenti (1997) suggests an infinite number of potential groups, whilst Freeman (1984) points to excessive breadth in identification of stakeholders. The insights from the strategy literature on stakeholders have influenced the development of multiple-stakeholder approaches in relationship marketing. However, in contrast with the strategy literature, the relationship marketing literature on stakeholders has developed categorization schemes of special relevance to the consideration of value in the marketing context.

A number of researchers working in the relationship marketing field have developed models which propose the broadening of marketing to include relationships with a number of stakeholders or market domains. Gummesson (1999) has provided a comparison of four of the best-known approaches to classifying multiple stakeholders, including those of: Christopher *et al.* (1991), Gummesson (1994), Kotler (1992) and Morgan and Hunt (1994). The first three of these are concerned with the relationships which an organization has with its traditional stakeholders. The 30R approach of Gummesson (1994, 1995) goes considerably beyond the coverage of this paper in that it identifies relationships beyond stakeholder relationships including ones not of interest to us here such as the criminal network relationship. The other three models have strong similarities between them. The Christopher *et al.* (1991) framework has six market domains which are then divided into sub-markets, whilst that of Kotler (1992) identifies ten specific players. Morgan and Hunt (1994) suggest ten relationship exchanges with four partnership groups. Other similar models have also been proposed, including the SCOPE model which identifies five key stakeholder groups; customers, employees, partners, suppliers and owners (Buttle, 1999). Like the six markets model, SCOPE has the customer as the central constituency of the model.

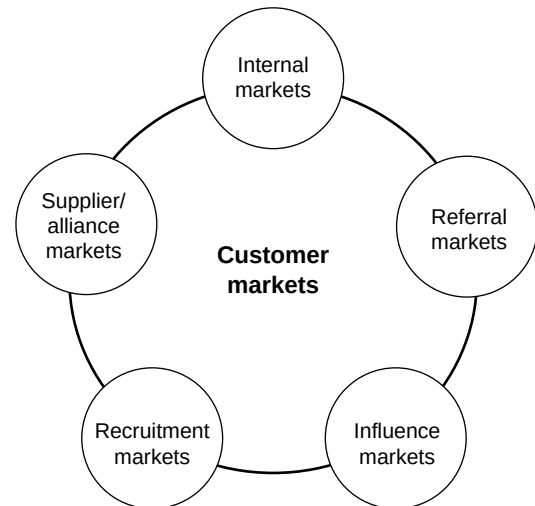
For the purpose of this article we have chosen the six-markets model. This has been selected for a number of reasons: it is arguably the most comprehensive (of the three approaches that are concerned with relationships with traditional stakeholders) in that each of the six market domains can be further subdivided in a manner which can

cover all major stakeholder groups (Peck *et al.*, 1999); it has been used successfully in projects with over 50 organizations (Peck *et al.*, 1999); furthermore, of the models above, it has been in existence the longest, is well known by researchers in the relationship marketing area and been used in a considerable number of articles, conference papers and books.

Other models also exist within the field of relationship marketing. Perhaps the best known of these is the IMP research (e.g. Ford, 1990; Ford *et al.*, 1997; Håkansson, 1982). However, this work is not central to this current paper for several reasons. First, our interest is in organizations in all sectors, including business-to-consumer and business-to-business markets. As the IMP work is solely concerned with business-to-business, this approach is not directly applicable to all sectors. Second, much of the network theory developed by the IMP researchers is primarily concerned with networks of companies and typically does not focus on stakeholders such as shareholders. Further, in this complex area of networks 'conceptual development is in no way yet accomplished' (Håkansson and Snehota, 2000). Thus the IMP research, whilst contributing greatly to our understanding of buyer-seller dyadic behaviour and networks in the supply chain, is not considered an appropriate conceptual model to use to review the role of value in the context of multiple stakeholders. The role of the IMP research is, however, considered briefly in a later section dealing with supplier relationships with the external stakeholder group.

The six markets relationship marketing framework (Christopher *et al.*, 1991; Peck *et al.*, 1999), provides a useful framework to review the role of an extended set of stakeholders in the creation of total organizational value in both business-to-consumer and business-to-business markets. It proposes six key market domains, representing groups which can contribute to an organization's marketplace effectiveness. While customers are viewed in this framework as a major stakeholder, five other stakeholder groups, or market domains, are identified; influence (including shareholder) markets, recruitment markets, referral markets, internal markets and supplier/alliance markets. A later version of the model is shown in Figure 2.

Each market is made up of a number of key participants. For example, the customer markets are made up of buyers, intermediaries and



Source: Peck *et al.* (1999)

Figure 2. The six markets model

consumers, and influence markets are made up from financial and investor groups, unions, industry bodies, regulatory bodies, business press and media, user and evaluator groups, environmental groups, political and government agencies and competitors. Companies need to manage all these different sub-markets or stakeholders in the relationship value-management process. This model provides the key stakeholder groups represented in the framework for relationship value management, which is now developed.

Towards a framework for relationship value management

We now develop a framework for relationship value management. This conceptual framework presents a strategic approach to managing an organization in order to maximize value to customers and the organization through the integrated management of relevant stakeholders. We commence with an overview of the framework and outline how this comprises of a central value process (derived from the value literature) and three key stakeholder groups (derived from the six markets model). Next, we explain in more detail how the framework is developed with reference to the nine core streams of value literature.

Finally, we discuss integrative aspects and the interdependencies within the framework.

Overview of the framework for relationship value management

The framework for relationship value management is shown in Figure 3. The framework has two main elements; the central value process and the surrounding stakeholder interaction processes. At the centre of the model is the value process, which is aimed at determining a total organizational value proposition. This value process involves four sequential value-based activities: value determination, value creation, value delivery and value assessment.

The model also illustrates how the value process has linkages with specific stakeholders. Within the value relationship management framework all the stakeholders in the six markets

model potentially have a role to play. All these stakeholders are represented in the three circular stakeholder groupings surrounding the central key value process in Figure 3.

These groupings comprise customers, the employees and external stakeholders – of whom shareholders are especially important in a publicly-owned organization. Each of the six market domains described above is represented within the three groups including: customer markets and referral markets (within the customer group); internal markets and recruitment markets (within the employee group) and influence, including shareholders and supplier and alliance markets (within the external stakeholder group). Each of the three major stakeholder groups represents opportunities for value creation and delivery.

In each of the three stakeholder groups in Figure 3 there are a number of key value activities which have been represented as three circular

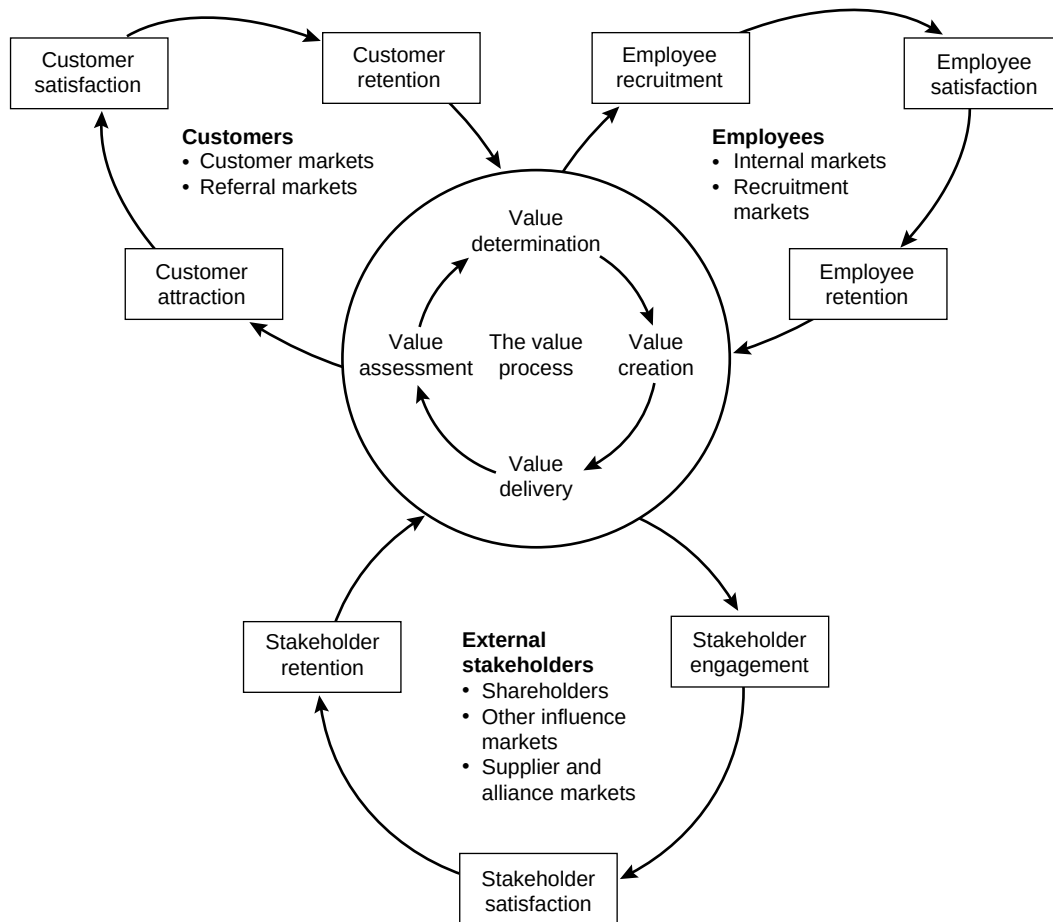


Figure 3. A framework for relationship value management

sub-processes. Within the customer group, these key activities are customer attraction, measuring customer satisfaction and ensuring customer retention. Within the employee group, the key activities are employee recruitment, employee satisfaction and employee retention. The external stakeholder activities involve stakeholder engagement (engaging the right stakeholders, e.g. investors and suppliers), stakeholder satisfaction and stakeholder retention (retaining them and ensuring that the needs of e.g. shareholders are satisfied). Whilst most organizations will place much of their emphasis on shareholders within this group, it is important that other stakeholders including influence markets, particularly for the not-for-profit sector, and supplier and alliance markets are managed in a way that ensures they are also part of the whole value process.

The value process and the three key stakeholder groupings: links with the value literature

Each of the nine core value streams discussed in the literature review underpins one or more elements within the framework. Although some of the links are obvious, some are less so. In this and the next section we elaborate in greater detail on how this literature informs, supports and provides a rationale for the framework for relationship value management and the integrative aspects of the framework.

The four activities of the central value process have their roots in the value literature discussed earlier in this paper. In particular, the value process builds on the value delivery sequence of Bower and Garda (1985a) of 'choose the value, provide the value and communicate the value'. We consider there are subtle, but important distinctions in the four-step process represented in our framework. First, the value-delivery sequence does not place sufficient emphasis on value from the viewpoint of the customer; it places greater emphasis on the viewpoint of the organization. Second, we argue that value determination (compared with 'choose the value') involves a much more rigorous understanding of both what the customer values as well as the customer's lifetime value to the firm. Third, there is no value assessment activity within the value-delivery sequence. We consider this step is critical in providing measurement and feedback on customer-perceived value. This latter point is also emphasized by

Burns and Woodruff (1992), who also argue for the need to assess the delivered value. Finally, models such as the value delivery sequence place little emphasis on other stakeholders. In contrast, the value process in the framework emphasizes the broader perspective of relationship value which also relates to employees and to other external stakeholders, as well as to customers.

The four value activities in the central value process and each of the three circular sub-processes are informed by the literature discussed earlier in the paper. A number of streams underpin value determination. This activity can be undertaken, for example, by using a formal customer-perceived value determination approach such as those suggested by Woodruff and Gardial (1996). In terms of determining consumer values, it will be important to identify and understand the values and beliefs that are motivating customers to buy products and services (e.g. Kahle, 1983; Mitchell, 1983). In determining consumer value, it will be important to identify what is driving the customer when they are trading off the benefits and sacrifices, both when they are purchasing and when they are using or consuming products. Equally, the work of Levitt (1981) on the augmented product concept and its extension by Lovelock (1995), provides insights into the cluster of value expectations that surround a product or service which have both a tangible and intangible component. Identifying and understanding what these value expectations are will form a critical part of value determination.

Value determination is equally important for the employees and external stakeholder groups. For the employee group, value determination involves understanding what attracts, retains and satisfies employees. Although relatively little has been written regarding the concept of employee value (exceptions are some work on labour value theories and internal service climate discussed earlier in the paper and a brief discussion by Dolmat-Connell, 1999), much work deals with specific aspects of what employees value. For example, it has been shown that getting the psychological contract right with employees is important. (e.g. Rousseau, 1989). Further empirical research highlights the importance of employee retention and the costs of employee defection (e.g. Sheridan, 1992). Some organizations are particularly innovative in examining value determination from the perspective of understanding what prospective

employees want and how they are recruited including holding focus groups with targetted groups of prospects (Peck *et al.*, 1999). For external stakeholders, such as shareholders, value determination involves identifying factors such as: what will make them invest, what will make them continue to invest and what returns do they expect. Understanding the issue of what value determination means for shareholders is especially important, especially where there are low levels of shareholder retention. Reichheld (1996) points out that shareholder churn in the average US public company is greater than 50% per annum, and emphasizes the importance of improving shareholder retention.

The value creation activity involves developing and aligning the company's products/services (including its processes and employees) to meet the requirements identified at the value determination stage. Concepts such as the augmented product concept (Levitt, 1980) and the various value chain models (e.g. Bower and Garda, 1985b; Porter, 1985) underpin this stage of the value process. The value chain stream of literature provides a structure for understanding how the company's value-adding activities can be systematically organized to create value, with the earlier steps in the value chain concerned with configuring the organization's offer to the customer, and the latter steps concerned with value delivery.

In determining what value-creating activities should take place, it is likely that an organization will need to make an assessment of the customer's value to the firm. This stream of literature helps understand which customers are profitable and/or have a significant CLV. These should be the focus of bespoke value offerings. The creation of these offerings should also be designed to retain existing customers as well as attracting new ones. Value creation also needs to be considered in the context of employees and external stakeholders. Value creation for employees needs to be considered from two perspectives – the value employees create for the organization, and the value the organization creates for employees. In creating value for employees, there is evidence that supportive human resources practices have beneficial results on employee satisfaction and performance (e.g. Hallowell, Schlesinger and Zornitsky, 1996). Similarly, value creation for external stakeholders also needs to be considered from two perspectives – the value these stakeholders create

for the organization, and the value the organization creates for stakeholders (e.g. Reichheld, 1996).

For the value delivery activity, the value-chain literature also provides a framework for considering the connection between the organization and the customer. In particular, a consideration of the interaction between the organization's value chain and the customer's value chain helps inform decisions about the value delivery process. The work of Normann and Ramírez (1993) also underpins the need for value delivery with the non-customer stakeholders, such as employees and shareholders. For employees, the creating and delivering superior customer value literature stream stresses the importance of their role in value delivery, especially in the work on internal marketing (e.g. Grönroos, 1985; Gummesson, 1987). For external stakeholders such as shareholders, the literature on shareholder value underlines the importance of concentrating resources in order to deliver value for external stakeholders, particularly shareholders.

Finally, the value assessment stage for the customer is underpinned by the customer satisfaction and service quality literature stream. This assessment stage can be facilitated by utilising multi-attribute tools and models such as customer satisfaction surveys or service quality measures (e.g. Parasuraman *et al.*, 1985, 1988, 1991). Work on the PIMS project (Buzzell and Gale, 1987) is also important, as it provides empirical evidence as to how many factors, including relative product and service quality impact on return on investment, thus providing a further means of value assessment in rigorous financial terms as opposed to the more subjective CSM and service quality measures.

While the value literature to date has largely ignored the notion of employee value (except in the work noted above), work has been done on employee satisfaction and performance measures (for a meta-analysis see Petty, McGee and Canender, 1984). Like customer satisfaction measures, these can be used to feed back into the value determination part of the process. It is also important to assess the value of employees to the firm. Employees tend to perceive behaviour-based evaluation as a more reliable indicator of value delivered (e.g. Anderson and Oliver, 1997). Value assessment for employees is closely linked to employee retention. Employees of long tenure are more likely to know their jobs and the goals of

the organization and thus be more productive. This view is supported by empirical evidence, for example see Sheridan (1992).

A similar process needs to be adopted for relevant external stakeholders. Within the external stakeholders group, shareholders have received a high level of attention in the literature. This is not surprising given their high profile and the extent to which they influence organizational activities. As discussed earlier, the shareholder-value literature emphasizes methods for assessing the value the organization is delivering to shareholders; but relatively little emphasis is placed on the value shareholders deliver to the organization (for an exception see Reichheld, 1996). However, other external stakeholders can also have critical roles to play. For example, the interaction between a company and its suppliers may be critical. The IMP research has particular relevance here in terms of an organization's relationship with its suppliers and other key alliance partners.

The results from this value assessment activity, which should also involve an assessment of the value of the customer to the firm after the value delivery activity, can then be fed back into the initial stage where value determination is reassessed. Thus the value process is dynamic and iterative.

Integrative aspects of the framework

Two core literature streams of customer value and shareholder value and relationship value point to the integrative aspects of the framework, especially in terms of the three stakeholder groups. These stakeholder groups are shown as separate sub-processes in the framework, but they are highly interdependent in the value process. Research on the links between customer value and shareholder value emphasizes the interdependence of these two key stakeholders; however, this stream of research does not emphasize the importance of the other stakeholders. The emerging work on relationship value considers value firmly from the perspective of relationship marketing, thus supporting the need for value to be addressed with all key stakeholders – a holistic approach to value management.

The relationship value literature also explicitly recognizes the impact of the ongoing relationship itself, through a series of customer-supplier interactions (e.g. Grönroos, 1997; Sheth and Parvatiyar, 1995). As such it provides further support for the

need to develop an integrated approach to the value management process within a relationship marketing context. The whole notion of CLV, encompassed in the customer's value to the firm, also reinforces the need for an ongoing relationship approach to managing value.

The value literature, to date, has not emphasized this holistic approach to value management, although elements of the value literature do show approaches to value that link some of the three key stakeholder groups in Figure 3. For example, the customer-value and shareholder-value literature emphasizes these links and the internal marketing literature describes (but does not measure) how positive employee behaviour can improve customer value. In 1993, Rust and Zahorik concluded there exists no published studies which have examined the entire chain of stakeholders. However, since then there have been some attempts to start to understand such relationships. There is now an emerging body of work that explores the linkages between different stakeholders, including customers and employees. Much of this work is concerned with developing linkages between employee satisfaction and customer satisfaction and customer retention and employee retention, and how these impact on shareholder value (e.g. Heskett *et al.*, 1994, 1997; Rucci, Kirn and Quinn, 1998).

Work in the services marketing literature suggests that three key stakeholders are closely linked. Research undertaken, on what is now known as the service-profit chain model, focuses on establishing the relationships between employee satisfaction, customer loyalty, profitability and shareholder value (e.g. Heskett *et al.*, 1994; Loveman, 1998; Loveman and Heskett, 1999). The model has been empirically tested in a number of industries (see Heskett *et al.*, 1997). This work supports the relationship value management framework in terms of three key stakeholders: employees, customers and shareholders. Related work by Reichheld (1996) also identifies the interdependence of customers, employees and shareholders. Unlike the service-profit chain research, Reichheld points out that other stakeholders can have a major role to play. However, he emphasizes it is these three that are central to achieving success. More recently, Rucci *et al.* (1998) have taken the service-profit chain model (Heskett *et al.*, 1994) and empirically tested it within a US retailer, Sears, Roebuck and

Company. In contrast to the service-profit chain research which measures correlations, this research uses causal path modelling to better understand cause and effect within the chain.

Thus the framework for relationship value management described above draws from each of the nine core streams of value literature. It also draws on parts of the relationship marketing and services marketing literatures and emphasizes the importance of integration amongst the key elements within the framework. Having explained the framework, we now discuss some implications of our work and opportunities for future research.

Discussion and future research

An extensive review of the literature has shown the concept of value has its roots in many disciplines including psychology, social psychology, economics, management and marketing. This review also confirms how many of the concepts overlap to some degree with a blurring of distinctions across different forms of value. However, in spite of continued and increasing interest from researchers and practitioners in this area, the growing body of knowledge on customer value has been fragmented, with different points of view and no widely-accepted way of pulling the views together (Woodruff, 1997).

We identified a number of implications from this review of the literature, which included:

- (1) value is a broader topic than generally recognized in the value literature;
- (2) there is a need to develop a conceptual framework which integrates the existing streams of value research in a more coherent manner;
- (3) a relationship marketing perspective and a multiple stakeholder approach would be beneficial in considering value integration and developing such a framework;
- (4) value measurement, in this broader context is likely to develop into an important area of future work.

As a result, we have developed a conceptual framework for relationship value management aimed at integrating the value process with the multiple-stakeholder concept in relationship marketing. We view the principal benefit of this

framework as being that it provides an integrated strategic approach to relationship value management. The need for a strategic approach has been emphasized by Normann and Ramírez (1993) who point out the importance of value creation as part of the strategic process: 'Strategy is the art of creating value. It provides the intellectual frameworks, conceptual models and governing ideas that allow a company's managers to identify opportunities for bringing value to customers and for delivering that value at a profit'. This paper presents a first attempt in providing such a framework. Furthermore, the framework helps understand value in the context of multiple stakeholders. This adds a dynamic element to the existing value concepts. No longer should value creation be viewed just as part of an individual customer transaction; value will be created over time and will be subject to the influences of other external and internal stakeholders. Gummesson (1999) has argued that the creation of *mutual* value will become the core focus of both customers and suppliers and other stakeholders in the relationship so that value is *jointly* created between all the parties involved in a relationship.

Ideas around the convergence and integration of value concepts and relationship marketing into what we term relationship value management are still at an evolutionary stage. We believe that over the next few years this will be an area of increasing interest. Given the nature of value and relationship value as concepts, there exist a number of opportunities for future research; five of these are identified.

First, within the individual value streams there is a need for more empirical research. At present empirical work is not evenly developed across the nine core streams of literature we explored. For example, the amount of empirical research undertaken within the customer satisfaction and service quality stream, especially in the work on SERVQUAL and PIMS, is considerable. This highlights how empirical research could further develop a number of the other value streams.

Second, the importance of all relevant stakeholders needs to be considered. In particular, the concept of employee value needs further development. We have outlined above the considerable amount of work that has been undertaken in the areas of customer value and shareholder value. Work needs to be undertaken to identify

the core elements of employee value from two perspectives: the value of the employees to the organization as well as the value the organization delivers to employees. Such work should build upon the internal marketing literature and early work done on the value of employees by Reichheld (1996). Equally, the role of other external stakeholders such as suppliers and alliance partners and influence markets needs to be explored.

Third, further empirical research is needed to identify the relationships and linkages between multiple stakeholders. In particular, the linkages between employee, customer and shareholder value need to be developed further. Although some progress has recently been made through the service-profit chain research, much of the work to date has been based on correlation analysis without considerations of causality (with the exception of Rucci *et al.*, 1998). Much work remains to be done in exploring causal relationships and understanding differences across a range of industries. This area represents a key opportunity for the development of more sophisticated value measures.

Fourth, further conceptual development and testing of the framework for relationship value management is required. The framework represents a first step in providing an integrative approach. In the future, it could be tested and refined by applying the framework using a number of organizations as case studies.

Finally, more work needs to be done in the whole area of measurement and development of metrics around the value process, including the further development of specific tools for value measurement for each activity in the value process. Although some measurement systems such as customer satisfaction and service quality already exist, a key aspect will be the development of a comprehensive integrated set of measures across the whole value process. We view this as one of the most important areas for future research.

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