PUBLIC SECTOR SERVICE VALUE CHAIN
SCAN OF CURRENT LITERATURE
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DPRA
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ABOUT DPRA

Founded in 1971, DPRA is a Canadian private research firm with offices located across Canada. The company has extensive experience in organizational change management and its stakeholder relations experience spans more than two decades, including numerous projects for all levels of government, non-governmental organizations, Aboriginal organizations and Canadian companies. It has conducted stakeholder relations concerning land use, resource management, Aboriginal issues, waste management, energy resources, strategic planning and organizational design.
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1.0 INTRODUCTION

Through the Institute for Citizen-Centred Service (ICCS), the Public Sector Service Delivery Council (PSSDC) /Public Sector Chief Information Officer Council (PSCIOC) Research Committee contracted the services of DPRA Canada Inc. to carry-out a literature review of the Public Sector Service Value Chain with a focus on profiling how these models can assist in public sector service delivery.

1.1 SCAN PURPOSE

DPRA undertook this literature/document review at the behest of the Public Sector Service Delivery and Chief Information Officers Councils’ Research Committee. The intent of the review was to inform the Research Committee and the Councils it serves on the respective components of the Public Sector Service Value Chain and private sector Service Profit Chain models; approaches taken to incorporate the public sector model into existing service delivery and management models; and critical areas of concern for implementing the public sector model in existing contexts.

1.2 LIMITATIONS

The literature review highlighted a research gap for the analysis and application of the Public Sector Service Value Chain Model. Due to data limitations, available sources on the public sector-orientation of the Service Value Chain model were restricted to a small grouping of authors. Of the 27 sources reviewed, five specifically spoke to the Public Sector’s use of the Service Value Chain model. As a result, a broad overview of the Service Value Chain within the Public Sector was not possible. While there are many different articles and publications, much of the content is repeated by the same grouping of authors. As a model adapted to the Public Sector context, many sources detail the product-side of the service value chain literature.
2.0 PUBLIC SECTOR MODEL: THE SERVICE VALUE CHAIN

The Public Sector Service Value Chain has gained acceptance as a model for service delivery and management in the public sector. Built on three core components, the model identifies the importance of an engaged workforce to deliver high-quality public services. It is important to note that the Public Sector Service Value Chain Model builds on previous knowledge. In the present context, the Public Sector Service Value Chain model is an adaptation of the Private Sector Service Profit Chain Model (Heintzman and Marson, 2003; Marson and Heintzman, 2009). However, the underlying concept of a service value chain has been employed in differing contexts since the 1960s (Kaplinsky, 2002). As defined by many, a service value chain is “a bidirectional, cross-functional approach that can enhance cost-efficiency, maximize capital utilization, increase profitability and even improve brand image” (Giacobbe, Plummer, Renker and Skerlavai, 2011). For others, a service value chain is “the relative value of activities required to bring a product or service from conception to consumption” (Barnes, 2002; FIAS, 2007; Gereffi, Humphrey, Kaplinsky and Sturgen, 2001). Outside of works by Brian Marson and Ralph Heintzman, there has been limited scholarly attention paid the service aspect of the service value chain. The majority of sources reviewed discussed the product-side of the service value chain model and not the service-side of the model.

A discussion of the service-side of the Service Value Chain model does however occur in the works of Marson and Heintzman. Taking influence from the profit and economic growth focus of both the service value chain model and Private Sector Service Profit Chain, Marson and Heintzman undertook modifying the service value chain model to suit the public sector context. The adaptation to suit the public sector has been attributed to the work of Marson and Heintzman who are credited with popularizing the Public Sector Service Value Chain model in the period after 2000 (ICCS Symposium, 2010; Kaplinsky and Morris, 2000; Heintzman, 2010).

As popularized and discussed by Marson and Heintzman, the Public Sector Service Value Chain model builds on existing knowledge to close the gap between employee and client satisfaction. The model speaks to the need to empower employees to be well-informed about corporate structures and available services in order to effectively deliver public services requested by citizens. There is a growing body of literature that identifies the increased importance of employee satisfaction in the fast, efficient and effective delivery of public services. The importance and role of employee satisfaction is found in the model’s principal framework.

2.1 DEFINING THE MODEL

The Public Sector Service Value Chain consists of three core components: People, Service and Trust (Hietzman, 2010; Heintzman and Marson, 2003; Kaplinsky, 2002; Kaplinsky and Morris, 2000). These component titles and their interrelationship are directly influenced by the Private Sector Service Profit Chain model (ICCS Symposium, 2010). Taking influence from the Private Sector model as its predecessor, the scope of each component has been influenced by the model’s adaptation. A fluid relationship exists between the model’s components. Collectively, each component has an influence on the others and the associated linkages. As seen below in Figure 1, the components are linked by a two-directional and one-directional relationship (Hietzman and Marson, 2003; Kaplinsky and Morris, 2000). People and Service are subject to a two-directional relationship. As a result, internal and external influences also referred to as drivers, jointly affect the components. This is in contrast to the one-directional relationship that exists between Service and Trust. As a result, service levels directly impact Trust.
2.2 THE MODEL & ITS APPEARANCE

As a model adapted from the private sector, the Public Sector Service Value Chain model employs an internal focus to assess constraints and deficiencies. The success of the Public Sector Service Value Chain to empower employees to respond effectively to customer concerns and enhance the delivery of public services has been attributed to the scope of the components and their linkages. Marson and Heintzman first proposed the model in order address a concern that the public sector would be unable to meet its service objectives without an internal focus on the employees delivering the service. This is particularly relevant for management staff and corporate structures since management is recognizably at a distance from the delivery of public services and the employees delivering those services. Successful integration of the Public Sector Service Value Chain value has resulted in amendments to management structures to ensure employees remain satisfied with their jobs and feel well-equipped to respond to client needs. The importance of a satisfied and motivated labour force is evident from Figure 2 and the role of employee satisfaction as one of the model’s core components.
As seen above, a satisfied and engaged labour force is the first step in delivering customer satisfaction. However, improvements and enhancements to employee engagement require a focus on “Executive and Supervisory Leadership, staffing practices and career development opportunities” (Heintzman, 2010). There is recognizable potential for the Public Sector Service Value Chain model to influence and amend, where appropriate, management structures to ensure employees receive the necessary support to be engaged and satisfied. Employees that receive that support from their management team(s), are then better equipped to respond to customer needs and desires for service delivery.

Building on the model’s components and linkages, there are generic drivers that influence customer satisfaction. These drivers are: Knowledge and Competence, Courtesy, Fairness, Outcome and Timeliness (Heintzman, 2010; Heintzman and Marson; ICCS Symposium, 2010; Marson and Heintzman, 2009). Depending on the nature of service being delivered for example, health card renewal service, marriage licence applications and more, the drivers are often rearranged in order of importance. Since Canadian residents generally expect higher levels of service in the public sector than the private sector, the timeliness driver is given the highest importance. In order of importance from highest to lowest for client satisfaction, the drivers of customer satisfaction are generally: Timeliness, Knowledge and Competence; Courtesy; Fairness and Outcome (Heintzman, 2010; Heintzman and Marson, 2003; ICCS Symposium, 2010; Marson and Heintzman, 2009).

Since the Public Sector Service Value Chain was initially proposed, a variety of empirical research has shown that the linkages do indeed exist. This research includes BC Stats, 2008 and 2009; Institute for Citizen Centred Service, 2003; Prychodko, 2010.
3.0 PRIVATE SECTOR MODEL: THE SERVICE PROFIT CHAIN

The Private Sector Service Profit Chain was founded by Professor Heskitt and colleagues at the Harvard University Business School in the early 1990s (Anderson and Mittal, 2000; Davis, 2009; Homburg, Wieseke and Hoyer, 2009). The core components of the model were first published in a 1994 Harvard Business Review article and re-affirmed in the 1997 publication of The Service Profit Chain. The model identifies a series of interrelated, often overlapping steps that are required for a company to achieve financial success. Consisting of multiple core components, the Private Sector Model is a linear understanding of how companies can achieve financial success. The core components and their interaction with one another is based on the notion that once followed, the Private Sector Model provides a roadmap for a company to increase profits by focusing on their customers. The components are illustrated in Figure 3 and they are: Employee Satisfaction; Customer Satisfaction; Customer Loyalty; and Financial Performance.

3.1 DEFINING THE MODEL

The model's components are directly related and subject to causal relationships (Davis, 2006; Homburg, Wieseke and Hoyer, 2009). Customer Satisfaction (Component 2) is directly driven by Employee Satisfaction (Kassinis and Soteriou, 2003). If a customer is satisfied with a company's product or service, they will be more inclined to be a repeat customer and are willing to pay for the product or service (Gadiesh and Gilbert, 1998). The willingness to pay is a key driver of Customer Satisfaction and Customer Loyalty (Component 3). As the cycle repeats, it is continued customer satisfaction that leads to Customer Loyalty (Component 3). As a model...
positioned to assist in increasing a firm’s profitability, continued customer satisfaction and loyalty leads to the final component of Financial Performance.

3.2 THE MODEL & ITS APPEARANCE

The Private Sector Service Profit Model recognizes the importance of satisfied and knowledgeable employees to effectively deliver products and services. However, the model is primarily focused on increasing customer satisfaction in the hope of fostering customer loyalty (Hansen and Birkinshaw, 2007; Heskett, Jones, Loverman, Sasser and Schlesinger, 1994). As contained in the literature, customers that are very satisfied with a given company’s product or service will be up to six times more likely to return to the company. By focusing on continually increasing customer satisfaction, companies following the model are able to reap the financial rewards in terms of increased profitability and growth. However, continual increases to customer satisfaction results in a significant challenge. As customer satisfaction levels rise, an increasingly higher threshold is established why requires companies to undertake new and innovative ways of maintaining customer satisfaction. While new customers can be gained, loyal customers will require the use of new product or service ideas to get and maintain high levels of customer satisfaction (Anderson and Mittal, 2000; Hansen and Birkinshaw, 2007).

Sustained customer satisfaction is important since it is far more difficult for customer satisfaction and customer loyalty to be regained once customer dissatisfaction occurs (Anderson and Mittal, 2000; Homburg, Wieseke and Hoyer, 2009). It is also customer loyalty which has been shown to lead to profitability and growth. In general, the Private Sector Service Profit Model is focused on customer satisfaction as a trigger for profitability and growth.

4.0 ANALYSIS

While having a divergent focus, the shared central role of customer satisfaction is important for analyzing ways to move forward. The Service Value Chain model has the ability to influence and improve public sector service delivery. In contrast, the Service Profit Chain can influence the internal and external focus of public sector service delivery by emphasizing service delivery quality. As linear models, the Service Value Chain and Service Profit Chain illustrate simple steps that can be taken to improve, enhance and maintain customer satisfaction.

4.1 SERVICE VALUE CHAIN STRENGTHS

The Public Sector Service Value Chain has applicability for all public sector jurisdictions. It is a model that emphasizes the shared role of employee engagement and quality of service delivery to achieve an end goal. However, more so than the Service Profit Chain model, the Service Value Chain places emphasis on the role people play in maintaining customer satisfaction. Irrespective of the level of government delivering the service, client satisfaction evolves from interactions with public sector employees. By emphasizing the importance of a satisfied and well-informed workforce, the Service Value Chain addresses service delivery quality from the beginning (Allee, 2000). Service delivery quality can be further enhanced the model’s recognition of attention to management structures.
4.2 SIMILARITIES & DIFFERENCES WITH THE PRIVATE SECTOR MODEL

There are significant differences between the Public Sector Service Value Chain and Private Sector Service Profit Chain models. As the basis for the Public Sector Model, the Private Sector Model consists of three core components. The Service Profit Chain model is oriented to increasing profitability and economic development opportunities for a company while the Public Sector model is oriented to increasing employee and client satisfaction. The striking differences and surprising similarities are discussed below.

5.0 CONCLUSION

The Service Value Chain and Service Profit Chain models have been examined for similarities and insights. The findings suggest that there were similarities between the Public Sector Service Value Chain and the Private Sector Service Profit Chain. Subject to local jurisdictional variations, it was found that the Public Sector Service Value Chain is currently being used across the country to assist in public service delivery. As a model focused on employee and client satisfaction, use of Public Sector Service Value Chain also contributed to overall management structures and corporate outlooks. In addition, while some jurisdictions have not incorporated the Public Sector Service Value Chain we see that others have integrated the Service Value Chain in differing ways to assist management structures and service delivery. Overall, the Public Sector Service Value Chain is an adaptation of the Private Sector Service Profit Chain. The difference between the two is that the customer is the focus of the Public Sector context, versus the profit focus in the Private Sector context. There are significant similarities between the two chain models. Each of the chain models are founded on a series of core components. For the public sector context, the core components are people, service and trust. Under different titles, the importance of people and trust are found in the private sector model context. The core components of the private sector service profit chain are customer loyalty, profitability and growth.

This article presents the idea of shifting the creation of value from a “value chain” to “value network”. Here, the argument is made that the value chain is a dated exercise which once thrived in increasing value through a linear process, much like the industrial age line production. However, Allee recognizes that in business today, it is important to now shift from the rigid value chain, to the more fluid network. This idea can apply to not just businesses, but rather any organization looking to increase or create value.

Therefore, to address the value network, one must be familiar with and understand the three currencies of value: goods, service and revenue (GSR); knowledge; and intangible benefits. Unlike the value chain model, which recognizes GSR, Allee has added the value of knowledge and intangible benefits to the idea of a value network. The three currencies of value are described as follows:

i. **GSR** – *exchanges for services or goods, including all transactions involving contracts and invoices, return receipt of orders, request for proposals, confirmations, or payment. Knowledge products or services that generate revenue or are expected as part of service (such as reports or package inserts) are part of the flow of goods, services, and revenue*;

ii. **Knowledge** – *exchanges of strategic information, planning knowledge, process knowledge, technical know-how, collaborative design, policy development, etc., which flow around and support the core product and service value chain*; and

iii. **Intangible Benefits** - *exchanges of value and benefits that go beyond the actual service and that are not accounted for in traditional financial measures, such as a sense of community, customer loyalty, image enhancement, or co-branding opportunities."

However, it is noted that knowledge might be the most important currency of value as it can be traded or exchanged for any of the three currencies. Knowledge can be exchanged for a product or service, knowledge can be exchanged for knowledge, and knowledge can be exchanged for an intangible (for example loyalty).

Therefore, during any transaction there is an inherent exchange of value. However, through the value chain model, only a portion of that value can be tracked through service delivery or revenue generation. The exchange of knowledge and intangible benefits that come from each transaction should be considered with equal importance as these are the values gained which garner a strong and lasting relationship.


The meaning of “Value” is often interpreted in a different way between different industries or businesses, who more often than not maintain some level of interaction between each other. For example, marketing, operations, and computer science are three different fields that have an independent view on what constitutes value.

Therefore, applying a *Service System* to the constitution of value is a useful tool for understanding, analyzing and designing services across the three abovementioned fields. A *Service System* is comprised of three frameworks: a *work system framework*, *service value chain framework*, and the *work system life cycle*.
framework. By combining these three frameworks as components of the Service System businesses are able to understand a wider range of service principles that create value. An outline of the three frameworks is presented below:

i. Work system framework provides a system oriented view of any business operation. In the example of marketing, operations, and computer science, the work system framework would address the processes and activities, participants, information and technologies. This provides a step by step break down of each business work system which allows for in-depth analysis into the various working components of each business.

ii. Service value chain framework augments the work system framework by providing a more in depth focus on the functions that make up the service. This framework provides a two-sided or customer oriented view into the business as well as the customer service experience. Each side must be working coherently together.

iii. Work system life cycle framework focuses on how the work system changes over time and is continually adapting to any planned and unplanned change.


This article is about customer satisfaction management – results oriented focused on the satisfaction-profit chain. More simply, the satisfaction-profit chain (see Figure 1) works under the assumption that improving products and service will increase customer satisfaction; increased customer satisfaction will result in a higher level of customer retention; and improved customer retention will lead to the overall greater profitability of the company. However, the satisfaction-profit chain is by and large, asymmetrical and operates in a non-linear fashion.

- Performing above and beyond the customers’ expectations may raise customer satisfaction scores only marginally. On the other hand, if performance scores fall just below customer expectations, satisfaction levels may drop considerably.
- Losing a customer has far greater implications on a business than working harder to retain each customer.

Through these above mentioned examples, it has been shown that the impact created by an increase in customer satisfaction is different than the impact created by a decrease in customer satisfaction. Therefore, to maintain a lucrative satisfaction profit chain, maintaining a high customer satisfaction rate in the product being sold as well as in the accompanying service are the keys to retaining that customer and increasing profitability.
The internet and telecommunications are continually changing the way in which people live their lives. Once thought to be separate, the internet and mobile telephones have merged to create a new service industry of (mobile internet and communications) m-commerce. Information and communication is now (almost) instantaneous with any mobile device. So too is the need to maintain the same instantaneous level of customer satisfaction for m-commerce. But the digital world creates even greater challenges to maintaining the operation of online services both in the digital world and physical world.

The Internet and telecommunication value chain is different from conventional value chain models. M-commerce is driven 24 hours a day, 365 days a year and relies on the constant (online) connection to maintain a high level of customer satisfaction. This means, maintaining not only the digital applications or software that functions as part of m-commerce, but also the physical components or hardware. The m-commerce value chain therefore depends on both the content (digital) and the infrastructure and services (physical utilities) which provide the necessary platforms for its successful operation and overall customer satisfaction.

Further, businesses, not just the individual consumers rely on the continual operation of m-commerce. Many businesses, in addition to their regular business hours, advertise or offer products and services online – which are continually accessible through m-commerce and the internet. Therefore, customer satisfaction and a business’s ability to reach their online customer, rely heavily on the constant operation and delivery of functioning (software and hardware) of mobile devices.

The information provided below is a summary of/results from a quality of the public sector service survey. This survey included 7,000 participants across every province and territory in Canada. Data was collected between 1998 -2005.

**Government Services Continue to Rise**
- Canadians feel that service provided by all three levels of government is improving.
- Major improvements were recognized by Canadians between 1998 and 2005 in a variety of public sector services, including: health card application or renewals, hunting and fishing licenses, motor vehicle licenses, and applications for social assistance.

**Government Service Reputation is Also Improving**
- Citizens rating of the public service sector in general has risen. All levels of government have shown service improvements, in general.
- In 1998, British Columbians were less satisfied with service levels they experienced than the rest of the Canadian average. However, by 2005 British Columbians rated their satisfaction level with public service higher than the Canadian average.

**Citizens have Higher Service Quality Expectations of Public Services**
- The majority of citizens expect the public sector to provide a higher level of service than then that of the private sector.

**Identifying the Common Drivers of Client Satisfaction**
- Knowledge and competent staff
- Courtesy
• Going the extra mile
• Outcome
• Timeliness

Priorities for Service Improvement (from highest priority to lowest)
• Healthcare
• Schools
• Parks
• Roads/transit
• Municipal services (police)
• Drinking water

Access to Services could be Improved
• Only when it is known where to start looking, how to get the service, what to look for and have the ability to contact staff.

How do Citizens Prefer to Access Government Services
• over 50% of respondents choose to visit the office in person
• 25% place and/or receive a phone call
• 10% go online

The Public Sector Service Value Chain
• Identified 4 drivers of confidence of the public in the public sector (in order of importance):
  o Strong Leadership
  o Benefits to citizens
  o Strong services
  o Equal and ethical treatment.


March 2008, BC Stats conducted a General Public Engagement Survey (GPE). There were 2,004 respondents involved in the survey, randomly selected in order to represent a broad cross-section of the B.C. employed labour force. The purpose of the study was to uncover the overall health of engagement in the B.C. employed labour force. Further, the study looked at which workplace attributes have the largest influence on engagement. Overall, this study helped uncover/document the links between employee engagement and client satisfaction.

The overall health of engagement was assessed using the three characteristics of engagement:
  i. Job satisfaction – I am satisfied with my job.
  ii. Organization commitment – I would prefer to stay with the organization, even if offered a similar job elsewhere.
  iii. Organization satisfaction - Overall, I am satisfied with my organization.

For the overall health of engagement in the employed labour force, B.C. scored well in answering the above three characteristics of engagement. The corresponding answers (out of 100points) for each of the above:

  i. 71.5
Overall, it has been found that employees who are satisfied with their jobs are significantly more likely to be committed to their organization and vice-versa. That said, it has also been found that there are various attributes about an employees work experience that can greatly contribute to their levels of engagement and overall satisfaction with their jobs and/or organization. For example, a few of these attributes have been found to be: day-to-day experiences, workload, pay, work atmosphere, management direction, and overall feeling of being valued. By finding which workplace attributes are the best “predictors” of agreement with each of the three characteristics of engagement, mentioned above. Therefore, attributes which are not in agreement with the three characteristics of engagement can be flagged by management as priorities for improving employee engagement.

The key GPE results for improving employee engagement have shown that organizations in B.C. should have a greater focus on:

- “providing clear direction for the future;
- reviewing hiring and compensation policies or improving communication around those policies to improve perceptions of fairness;
- valuing employees through meaningful recognition;
- addressing workload issues;
- ensuring that supervisors consult their staff on decisions that affect them”.


The public sector service value chain has three components which link public sector performance, 1) Employee Engagement, 2) Citizen’s Service Satisfaction, and 3) Public Trust and Confidence. It is well understood that there is a direct link between Citizen’s Service Satisfaction and Public Trust and Confidence. However, more research is still required to uncover the many extensive relationships that can occur between Citizen’s Service Satisfaction and Employee Engagement.

This report focuses on how engagement of employees directly involved in service delivery contributes to the first component of service delivery. The results can be summarized with the following two questions:

Question 1) *what is the relationship between employee engagement and customer satisfaction?*
Finding - there is a direct link between increasing employee engagement and increasing customer satisfaction.

Question 2) *what impact does employee engagement have on customer satisfaction?*
Finding a) – The level of engagement with employees impacts the satisfaction of services provided to customers.
Finding b) – employee engagement drives customer satisfaction.

8. BC Stats (2010). Public Sector Engagement and Service Satisfaction: What do they both have in common?

In 2008 and 2009, BC Stats conducted customer and client satisfaction feedback for 21 work units in 11 different Provincial Government Ministries. Using the Service Value Chain, analyses confirmed the
correlation between employee engagement and customer satisfaction. Therefore, when employee engagement is high, then customer satisfaction is also high, and vice-versa. These relationships are measured by three distinct and mutually reinforcing characteristics of engagement:

- Commitment, to the employees respective organization;
- Organizational Satisfaction, with the employees respective organization; and
- Job Satisfaction, employees overall satisfaction with their job.

Overall, an employee’s organizational satisfaction had proven to be the most significant characteristic that drives customer satisfaction. In the WES survey, for every two points scored for organizational satisfaction, client satisfaction would rise by one point. Therefore, it takes twice the amount of employee engagement and increased organizational satisfaction in order to achieve half the amount of customer satisfaction.


This study confirmed the direct link and two-way relationship between employee engagement and customer satisfaction. Therefore, when employee engagement was high, so to was customer satisfaction, and vice-versa.

The results of this study have been broken up into two key questions:

Question 1) *can the findings from the previous study between employee engagement and customer satisfaction be replicated?*
- Finding a) - when employee engagement was high, so to was customer satisfaction, and vice-versa.
- Finding b) – for every two point increase in employee engagement there is a one point increase in customer satisfaction

Question 2) *which of the three employee engagement measures (organization satisfaction, job satisfaction, BC Public Service commitment) most impacts customer satisfaction, and how*
- Finding a) – the rise and fall of employee engagement has a direct link to customer satisfaction, and vice-versa.
- Finding b) – employee commitment is found to be unrelated to customer satisfaction. However, employee commitment is highly linked to both organization and job satisfaction.
- Finding c) – organizational satisfaction is the best measure/indicator of customer satisfaction.

Therefore, it can be said that organizational satisfaction is the best indicator for customer satisfaction.


This technical report discusses and applies an analytical approach to a value chain analysis. The report begins with a definition and discussion of how a value chain is defined and why the performance of a value chain analysis matters. For the authors, a value chain consists of target priority areas positioned along the product/service life cycle. It is discussed how the value chain analysis approach can be applied to differing contexts and tailored to meet sector-specific constraints that may arise.
The report begins by defining a value chain analysis (VCA) as “a method for accounting and presenting the value that is created in a product or service as it is transformed from raw inputs to a final product consumed by end users” (p. ix). There are four relationships captured by a VCA:

- The activities performed during each stage of processing
- The value of inputs, processing time, outputs and value-added
- The spatial relationships, such as distance and logistics, of the activities
- The structure of economic agents, including suppliers, producers and wholesalers

In addition, three distinct phases of VCA are outlined and they are:

1. Process mapping of industry chains in qualitative (graphical) terms and quantitative terms (such as be cost, time, productivity and value addition along the segments of the chain).
2. Establishing benchmarks for performance indicators against international competition and best practices. This helps in:
   a. Assessing the relative importance of the different issues affecting performance of the value chain; and
   b. Prioritizing the most binding constraints that directly affect the competitiveness of an industry
3. Understanding the policy and institutional factors that underlie the performance measures. By understanding the factors, targets can be set to enhance growth and competitiveness of the subject industries

As an industry-oriented report, a value chain analysis is used to describe how constraints to industry growth and competitiveness can and do occur in the World Bank Group. Accordingly, this report identifies that a value chain analysis, particularly the identification of benchmarks to measure progress and identification of binding constraints can be applied to public sector or private sector applications. The report highlights the use of a value chain analysis in the private sector to enhance profits, employment rates and reduce constraints to business operations. It is recognized that a value chain analysis can apply to numerous sectors, since an initial step in the value chain analysis process is to identify a sector and product focus. A number of case studies, including the shrimp industry in Nigeria and tourism in Mozambique are used to illustrate the applicability of a VCA in the private sector.

This article summarizes the idea of profit pools as an indicator of customer preferences. Case studies of companies from various industries, including U-Haul, Gucci, Ford and Anheuser Bush are used to illustrate how pursuing profit pools can strengthen a company’s market position. There is a more detailed profile provided of the profit strategies for U-Haul and Gucci. For U-Haul, a sizable profit margin was achieved by understanding the customer needs and potential value-added services. While daily truck rentals constitute the company’s largest revenue source, U-Haul is able to maintain a considerable profit by offering accessories such as moving boxes, storage spaces and other materials that accompany a moving process. By offering the lowest daily rental rate and therefore sacrificing a profit margin, this is offset by the offering of complimentary materials and services.

For Gucci, brand loyalty suffered from the company’s desire to expand profits. The luxury leather goods brand undertook an aggressive growth strategy by launching a lower-priced product line and allowed for licensing of the brand’s name to appear of a range of items. While profits grew, customer loyalty suffered when sales of the high-end product line fell. The pursuit of profits and aggressive growth lead to a tarnishing of the Gucci brand.

The experience of both U-Haul and Gucci are used to examine questions about profit pools.
- Why have profit pools formed where they have?
- Are the forces that created those pools likely to change?
- Will new, more profitable business models emerge?

This article discusses the integration between globalization and a value chain perspective. The concepts of globalization and value chain are linked as a way of understanding the form taken by functionally integrated, internationally dispersed activities. A value chain perspective shifts the focus from production activities alone to consider a range of activities, including the design and marketing of products and governance.

The body of the article discusses the concept of value chains and ways in which “value” can be assigned. The authors provide a definition and discussion of value chains. A value chain is defined as the relative value of activities required to bring a product of service from conception to delivery to the customer. It is discussed how value chain is used synonymously with the concepts of commodity chains, value systems, production networks and value networks. Despite the variation in terminology, a value chain is described as a set of inter-linked “complete” firms that have all the business functions. Incomplete firms are those that specialize in a single value chain function, for example product design or product marketing.

The authors follow this by a discussion of how a value is assigned in value chain analyses. In a value chain analysis, the value can be attributed to profits, value added or price mark-ups. A profit-based value identifies a company’s return on capital; however this cannot speak to a company’s returns on labour or its general productivity. Value-added indicates the distribution of value added along the chain, i.e. the value increases due to the numerous links in a value chain. The final indicator, price mark-ups is described as the lease reliable indicator of value accruing due to the different actors in a value chain.


This report reviews the success of the East Asia’s clothing industry in driving economic growth using a value chain analysis framework. The context for a value chain analysis of the East Asian textile industry is established through a discussion of producer-driven and buyer-driven value chains. Building on the value chain analysis approach, the apparel sector of the East Asian textile industry was selected to illustrate the lessons offered by a value chain approach.

The policy constraints of the apparel industry and influences on global value chains were discussed throughout the article. It was shown how economic constraints, such as the Asian financial crisis of 1997 and decreased wages, could influence other members of the apparel value chain. Political policies and an understanding of profits were used to show how East Asian garment suppliers are able to maintain a strong position in the apparel value chain. The apparel value chain illustrates the influence of product design, manufacturing, production and consumption in decision-making processes.


An Accenture service management survey of the automobile industry was used to identify the ways a service value chain can maximize profits and enhance service delivery. The authors employ a service value chain model to describe the importance and value of after-sale service in the automotive industry. First, the authors define a service value chain as a “bidirectional, cross-functional approach that can enhance cost efficiency, maximize capital utilization, increase profitability and even improve
brand image”. The ability of the service value chain to maximize profits is a focus, and this is illustrated through a case study of the after-sale service industry. For the authors, a service value chain is important because it illustrates how a company can influence its ability to provide service to customers and by extension, increase profits by focusing on certain key functions to enhance service delivery.

The service value chain model was selected due to the model’s ability to illustrate measurable improvements. For the automotive industry, a service value chain model can be used to illustrate a measurable improvement in service revenue, customer satisfaction and service delivery costs. Improvements to customer satisfaction and revenue improvements were achieved by understanding how the functions of a company are interrelated in a product delivery life-cycle. Profits were maximized when companies were able to understand and streamline the different functional units that enable the delivery of services to customers.

There are four key attributes of a Service Value Chain are:
- Use of centralized operations to streamline decision-making and accountability
- Use of collaboration and partner networks
- Use of specialized skills and advanced technology
- Use of performance metrics for an integrated approach to performance management


The authors present the idea that an innovation value chain can lead to new intensive idea generation. The innovation value chain is seen as having three phases: idea generation; conversion; and diffusion. However, within the chain there are six links:
- Internal sourcing
- Cross-unit sourcing
- External sourcing
- Selection
- Development
- Company-wide spread of the idea

The influence for the innovation value chain was to enable companies to have a range of profitable products, services and businesses. The authors encourage managers to assess a company in its entirety to see where improvement may be required. It is shown that if managers have a narrow focus, innovation and new ideas can suffer. Profit and service delivery improvements are shown to be possible when a company employs a broad, reflective approach that critically analyzes the company’s functions and services. By categorizing weak and strong links, companies can then take steps to address problems found. Profits and service delivery can be enhanced by first understanding where weak links or deficiencies lie and then addressing them. Case studies of Intuit, Proctor & Gamble and Sanex are used to illustrate how an innovation value chain enabled the companies to become more profitable and overcome obstacles. Other minor case studies are used to illustrate the key concepts contained in the three phases of the innovation value chain.


There are two key links in the Public Sector Service Value Chain.
- A two-way link exists between employee engagement and client satisfaction.
• A one-way link exists between organizational service outcomes and public trust

To improve public trust, the following dimensions should be addressed
• How satisfied citizens are with the quality of the service;
• Whether the service benefits citizens and meet their needs; and
• Whether the services are seen to be delivered fairly

The five generic drivers of service satisfaction require attention to improve public trust and employee engagement. These drivers are: Timeliness; Outcome; Courtesy/Extra Mile; Knowledge and Competence; and Fairness. Timeliness and Extra Mile are highlighted as the most important drivers, which can lead to improvements across the Canadian public sector. In addition to focusing on the generic drivers, improvements to employee engagement requires a focus on Executive and Supervisory Leadership, staffing practices and career development opportunities.


There are two key links in the public sector service value chain.
• Staff satisfaction and Commitment impacts the overall client/citizen satisfaction and vice-versa.
• Client service satisfaction directly impacts customer trust and confidence in public institutions.

Therefore, there are several performance drivers which need to be identified in the service value chain in order to improve employee engagement and customer satisfaction.
• What drives staff satisfaction?
• Identify the drivers of trust and confidence
  o Identity and performance
  o Macro versus micro performance
  o Satisfaction, benefit, adequacy
  o Other non-service variables
• Look for the five drivers of client satisfaction:
  o Timeliness
  o Knowledge and competence
  o Courtesy and comfort
  o Fair treatment
  o Outcome

Overall, there are several lessons which Public Managers can take away from trying to improve employee engagement and customer satisfaction. First, managers contribute to customer trust by focusing on employee engagement and drivers for customer satisfaction. Second, look for the five service satisfaction drivers. Third, collaborate to identify new drivers of customer satisfaction. Lastly, future performance can be measured against customer satisfaction and employee engagement.


The authors use the private sector service-private chain to explain the importance of customer relations on profitability and growth. It is explained that profitability and growth are linked to employee satisfaction, loyalty and productivity. The private sector profit chain places an emphasis on analyzing the impact of employee satisfaction, loyalty and productivity on the value of products and
services. Although simplified, the authors show that satisfied employees are able to deliver high-quality products and services that contribute to customer satisfaction and loyalty.

The private sector profit chain encourages service managers to analyze the following factors of profitability:

- investment in people
- technology supporting front-line workers
- training and recruitment practices
- performance-based worker compensation

There appear to be three pillars to the service-profit chain:

- Customer loyalty
- Profitability
- Growth

Customer loyalty is explained to be a key component of making and growing a business. Using case studies of various companies, customer loyalty is shown to be a key long-term goal of many companies. Using Xerox as an example, the service-profit chain showed company executives that customers who were indicated “very satisfied” on surveys were six times more likely to purchase another Xerox product or service and to recommend Xerox products or services to others. Accordingly, customer satisfaction is shown to drive customer loyalty, which then drives a company’s profitability and growth. Customer loyalty is also driven by employee satisfaction since employees that are satisfied feel better equipped to meet customer needs. Therefore, the service-profit chain can be a useful tool for senior management executives to understand the importance and interrelated nature of profits, satisfied employees and happy customers.

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The authors identify the service-profit chain (SPC) as a causal chain linking employee satisfaction to a company’s financial performance. The ability to measure a firm’s financial performance, under the service-profit chain model, is linked to customer satisfaction and loyalty. The chain is built from Heskitt’s Private Sector model, the service-profit chain drives employee satisfaction, loyalty and productivity. Situated along the SPC, there are key linkages to customer satisfaction which then links to a company’s profitability and growth. It is noted that the standard elements and links of the SPC are found in many literary sources.

Customer satisfaction is discussed as an area subject to constraint for implementing the SPC. According to the authors, the central feature of the SPC is customer satisfaction. However, it is recognized that new and innovative ways will eventually be required to increase customer satisfaction. It is explained that a permanent increase in customer satisfaction could not occur from use of the same strategy or technique over an extended period of time.

The influence of customer satisfaction and the key drivers in the SPC are shown below.
A survey of employee satisfaction in German travel agencies was used to test the linkages of the SPC. The survey results indicated a strong relationship between customer orientation and customer satisfaction, however no significant relationship between employee job satisfaction and customer satisfaction. The findings indicate there are additional factors and variables that can influence customer satisfaction in the SPC. The study found customer satisfaction and customer loyalty is affected by the length of time in years that customers have dealt with a company. Accordingly, more satisfied customers were those with a longer relationship to a company.


The third iteration of the national survey to evaluate the quality of Canadian public sector services was the first to “establish a firm link from experience with services to confidence in government”; the second link in the Service Value Chain.

Branded Citizen First, a series of surveys were undertaken starting in 1998 to analyze the quality of public sector service across the country. The Citizen First initiative is a cross-country survey of 7,000 participants, drawn from every province and territory.

In general, there have been a number of key findings from the surveys. First, Canadian citizens generally felt that the overall level of service delivery by all three levels of government was improving. A second key finding was that the majority of surveyed citizens expect higher levels of service from the public sector than the private sector. Third, a variety of key influencing factors were identified that “drive” service satisfaction. These five drivers are timely service, knowledgeable staff, staff who go the extra mile to provide assistance to clients, fair treatment, and a successful outcome to the service need.

The authors describe the historic influence of globalization on value chain analyses. The underlying theory and application of a value chain analysis is used to describe how companies are able to maintain profitability and growth in developed and developing world economies. Case studies are used to illustrate the influence and effect of a value chain analysis approach for companies in developing countries. More specifically, a value chain analysis approach is outlined to describe how mineral-exporting economies were able to experience growth in the 1960s and 1970s.

There are 3 key elements to a value chain analysis:
- Barriers to entry and rent
- Governance
- Systematic efficiency

In discussing the key elements to a value chain analysis, there is a distinction made between buyer-driven service value chains and producer-driven service value chains. More discussion is provided on the applicability of producer-driven service value chains in understanding growth and profitability. Simply stated, a producer-driven value chain is one where producers in the chain coordinate the various links in the chain.

The authors use the value chain analysis to explain income distribution and potential policy frameworks that influence the ability of companies to compete in global economies. It is recognized that value chains differ depending on the context and geographic region.


The handbook provides a series of definitions, applications and ways of implementing a service value chain analysis. A value chain analysis is understood as focusing on the inter-linkage dynamics within a particular productive sector to understand economic activity, income distribution and sources of growth. For the authors, a service value chain analysis can allow for an understanding of the ways in which firms and countries are integrated at many scales.

The handbook is prepared as a research tool for those interested in formulating and executing value chain research.

A simple value chain and its linkages are defined. Since a simple value chain is the progression of a product or service through stages from conception to consumption, the authors identify potential linkages in the production stage of the chain. These links include:
- Inward logistics
- Transforming the product or service
- Inputs
- Packaging

A framework for understanding complex value chains is provided through use of examples. The forestry industry is used as one example of a more complex value chain analysis since this industry has many linkages along the chain. In addition, one service value chain is understood as feeding into one or more other value chains. The relation of value chains with one another is used to describe the influence of globalization and policy frameworks.

The authors identify the influence of environmental management and sustainability concerns on a company’s performance. The authors make use of the service profit chain and the chain’s core components of satisfaction, loyalty and performance to identify the influence of environmental practices and policies on customer satisfaction, loyalty and in turn the company’s profitability. The impact of environmental management practices and policies, such as pollution abatement, is identified as a relatively new research topic. The authors cite examples of studies and research that has found environmental practices can be useful in improving customer loyalty and employee satisfaction, two elements of the service-profit chain. The authors explore the influence of environmental practices in customer loyalty and employee satisfaction as “front end” components of Heskett et al. service profit chain model. The European hospitality is used as a case study to illustrate the ways environmental practices influence customer loyalty and employee satisfaction.

A survey of various companies illustrated a positive relationship between environmental practices, customer satisfaction and profitability. In the context of the European hospitality industry, the use of environmental management practices, such as pollution control measures, were positively related to market performance. Accordingly, market performance grouped the influence of customer satisfaction and loyalty.


Beginning in 1997, public service improvement was recognized as a priority. To enable service improvements and rectify problems in service delivery, many senior managers of Canadian public sector organizations became involved with the Canadian Centre for Management Development (CCMD) to identify ways of improving the Canadian public service. To measure public service improvements, a baseline was established using the Citizen First national survey in 1997 of over 3,000 Canadians. The survey answers were used to establish a baseline to measure progress and identify key drivers for service delivery.

The Citizen First survey is important for giving rise to the five generic drivers of satisfaction with government services. In order of importance, the drivers of citizen satisfaction with public service delivery are:

1. Timeliness
2. Knowledge and Competence
3. Courtesy (extra smile, extra mile)
4. Fairness
5. Outcome

The survey provided new insights including timeliness was the most important driver yet was also the driver most often given the lowest rating by citizens. When all drivers performed well, there was a fairly high overall citizen satisfaction score of almost 9 out of 10. However, when one driver failed the overall citizen satisfaction score decreased significantly to approximately 2 out of 10. Subsequent Citizen First surveys have revealed that the ordering of key drivers fluctuates by type of public service. For example, Outcome is ranked as the most important driver for indirect services, while Timeliness remains the most important driver for voluntary, regulatory and fee based service types.

At the beginning of the new millennium, Ralph Heintzman and Brian Marson developed the public sector service value chain model. The model was developed after Heintzman and Marson realized the public sector would not meet its service objectives to the public without an internal focus on employee delivering the services. The Public Sector Service Value Chain Model builds on the work of Professor Heskett and his colleagues at the Harvard University Business School who developed a model for the private sector to link staff satisfaction to client satisfaction to bottom-line profit. The key elements are: People; Service; and Trust.

**People Drivers**
- Clear objectives
- Executive management
- Quality supervision
- Workplace quality
- Career development
- Workload

**Service Drivers**
- Timeliness
- Outcome
- Extra Mile
- Knowledge

**Trust Drivers**
- Service quality
- Right services
- Fairness
- Competent leadership & management
- Community engagement

Best practices were highlighted from the Region of Peel, BC Stats, the Ontario Government and the Government of Alberta. The case studies illustrated the importance of gaining and maintaining public trust. Guest presentations were used to share the experiences of Peel Region, BC Stats, the Ontario Government and the Government of Alberta in delivering high-quality public services by empowering employees to engage with customers and this in turn will increase customer satisfaction.


Between 2000 and 2010, studies have shown that public perceptions of service quality in the public sector have seen a 14% increase. During this same period however, customer satisfaction has not changed. These findings have led to a further research need on the links of the service value chain between drivers of employee engagement and customer satisfaction.

In a study led by the Modernization Division in HROntario which focused on information management and information technology services (but is meant to be applicable across all fields and disciplines in the public
service sector) looked the impact of employee engagement drivers not only as they affect employee engagement, but it also looked at the effect on customer satisfaction. The results provided new revelations into the service value chain.

First, drivers for improving employee engagement outright are most closely related to “Organizational Culture” or “Leadership Practices”. Second, employee engagement drivers that have the most impact on customer satisfaction are related to “Job Fit”, “Job Design”, “Support Tools”, and “Orientation”. Therefore, the conclusion can be drawn that approaches used to improve employee engagement need to take into account employee engagement drivers most closely associated with the work environment. Correspondingly, customer satisfaction drivers that affect employee engagement are most significantly related to the “emotional” dimensions of service “going the extra mile” and “information”.

Therefore, it should be recognized that it is the emotional level of engagement creates the biggest impact on employee engagement and customer satisfaction.


The author makes use of the value chain approach to explain the influence of economic development and poverty reduction. A value chain analysis is used to examine the constraints and opportunities of companies along the value chain in addressing poverty. More specifically, the value chain analysis allows for an understanding of the relationships, coordination, governance and power relations of actors along the value chain. The agricultural industry is used as a broad case study to examine the influence of a value chain and value chain analysis. Through an understanding of the value chain components and their reactions, the poverty reduction is discussed as a possibility by better linking farmers with the customers. Poverty reduction can occur from reducing the costs of production, a requirement of the value chain to transform the raw product inputs into a product suitable for consumption.


The authors use a value chain analysis to identify the research gaps which existed. According to the authors, value chain analyses were not previously providing useful information for policymakers to local and national levels. A value chain analysis is employed to illustrate how an understanding of the steps involved in transforming a product from raw materials to consumption can assist policy frameworks. More specifically, policy amendments to enable countries seeking to upgrade their industries are a focus of applying value chain analysis research.

The article is written as guide for a diverse audience seeking to understand, interpret and implement a value chain analysis approach. The authors proclaim the guide builds on academic research to articulate what policy amendments can be desirable to encourage economic development in many countries. The guide uses academic research to show how local companies can fit into the global economy and how economic development, profitability and growth are possible from understanding the inter-relationships present in a value chain.