Service Firms strive to provide unique service offers with high quality and satisfaction levels for their customers. However, companies are also bound to achieve high operational efficiency, which frequently clashes with the marketing led effectiveness goals (e.g. Kwortnik and Thompson 2009). Previous empirical research investigated service firms’ operational efficiency and quality related effectiveness separately, concluding that these concepts are frequently at odds with each other in services (e.g. Anderson, Fornell, and Rust 1997; He, Chan, and Wu 2007). Our paper proposes and empirically examines an integrated productivity framework with respect to services based on earlier productivity concepts (e.g. Jones 1988; Vuorinen, Järvinen, and Lehtinen 1998; Grönroos and Ojasalo 2004). The proposed model incorporates not only firm internal operational measures, such as mere quantitative output efficiency, but also capacity utilization and effectiveness. The later considers the impact of firms’ operations on customer perceptions. It is operationalized as delivered service quality as well as customer satisfaction. We pursue to explain the long-term interdependencies, trade-offs, and joint impact of these three
components on firms’ financial performance. For instance, airlines can improve operational efficiency by overbooking their capacity, yet this might deteriorate customer satisfaction and thus long-term buying behavior (von Wangenheim and Bayón 2007). Our results argue for a broader, non silo-based understanding of productivity in services fostering a further integration of operations and marketing realms. Thus, managers ought to be encouraged to not only take internal efficiency into account when it comes to productivity enhancements, but also capacity and quality issues.

The conceptual model is validated with secondary data from the US airline industry. We use longitudinal data of 15 major US carriers including three different business models (network, budget, and regional airlines). By using panel three stage least square (3SLS) we analyze data from the years 2002 through 2008 on a quarterly basis. Variables comprise the above discussed operational, quality, and financial indicators. References are available on request from the authors.

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