

Values-based service for sustainable business

-Lessons from the retailers IKEA, Starbucks, H&M and Body Shop

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Abstract

Aim The aim of this paper is to explore the role of values-based service for sustainable business. The two basic questions addressed are: What is ‘values-based service’? How can values create value for customers and other stakeholders?

Design/ methodology/ approach This paper is based on extensive empirical studies focusing on the role of values at the corporate, country and store levels in the retail company IKEA and a comparison of the results with data from Starbucks, H&M and Body Shop. The theoretical point of departure is a business model based on the service-dominant logic (SDL) on the one hand and control through values focusing on social and environmental values forming the basis for a sustainable business.

Findings Based on a comparative, inductive empirical analysis, five principles for a sustainable values-based service business were identified: (1) Strong company values drive customer value, (2) CSR as a strategy for sustainable service business, (3) Values-based service experience for co-creating value with customers, (4) Values-based service brand and communication for values resonance and (5) Values-based service leadership for living the values. A company built on an entrepreneurial business model often has the original entrepreneur’s values and leadership style as a model for future generations of leaders. However, the challenge for subsequent leaders is to develop these values and communicate what they mean today.

Originality/ value We suggest a new framework for managing values-based service to create a sustainable business based on *values resonance*.

Key Words: Values-based service, corporate values, foundation values, CSR, value-in-use, values resonance, sustainable service business, service experience, service brand and communication, service leadership.

Introduction

The notion of ‘customer value’ includes not only *economic value* but also value that is linked to *values*. From the customer’s perspective, ‘value’ is an overall personal assessment of the quality attributes of the market offering in relation to the price and other sacrifices. It is a subjective assessment of the positive and negative consequences associated with the purchase, including values linked to the provider.

Values can be understood as the principles, standards, ethics, and ideals that companies and people live by. A distinction can be made between two main categories of values: (i) a company's *core values* (which form the basis of the company culture); and (ii) *foundation values* (which reflect the norms of society in general). Compliance with the later category constitutes so-called 'corporate social responsibility' (CSR), which refers to a company's social and environmental responsibilities. A values-based business is thus based on a combination of core company values and foundation values, which guide the company in creating customer value and a sustainable service business. Such values are crucially important in creating customer value and forming the basis for a sustainable service business.

Mainstream business is today product and production oriented and thus characterized by a 'goods-dominant logic' (GDL), which can be seen as the opposite of a 'service-dominant logic' (SDL) (Vargo and Lusch 2004, 2008). The main focus of the SDL paradigm is that value is co-created with customers and assessed on the basis of 'value in use'. Market offerings are understood as being resources that produce effects. Despite the growing awareness of SDL, the focus in service-management research has continued to be on the structural processes of the service system.

The notion that a service culture, grounded in company core values and CSR, drives service strategy has not been empirically examined in any great detail. This article is based on a three years research journey resulting in the book *Values-based service for sustainable business – lessons from IKEA* (Edvardsson and Enquist, 2008) focuses on what might be called 'values-based service', with particular emphasis on the role of such service in the furniture company, IKEA. 'Values-based service' is, in this article, defined as service that is firmly based on the core company values as well as social and environmental responsibility. When the core company values, the social and environmental values are in accordance with the values of customers and other stakeholders, resonance (rather than dissonance) occurs. To be successful, a values-based service business must seek resonance with their customers and other stakeholders in terms of values, and avoid any suggestion of dissonance. We use insights from IKEA, together with a conceptual analysis based on SDL to create a framework of values-based service for sustainable business. The framework guide the empirical study in IKEA and the results are compared with data from Starbucks, H&M and Body Shop.

This article is the first on the role of values in developing and managing a *sustainable* service business. The focus is on the role of values in creating customer and stakeholder value and thus co-creating a sustainable business. The two basic questions addressed are: (1) What is 'values-based service'? (2) How can values create value for customers and other stakeholders?

The article is structured as follows: First, we present our theoretical framework for studying a values-based sustainable service business. Second, research design followed by the lessons from IKEA, a comparison with data from three other retailers and finally five principles and a model for a successful values-based service business is presented.

A theoretical framework for studying a values-based sustainable service business

Figure 1 presents our theoretical framework for studying a sustainable service business. We use a matrix of two value-creation logics (service-dominant logic and goods-dominant logic) on the vertical axis and two business models (a control-based business model and a values-based business model) on the horizontal axis. The term 'control-based business model' refers to a short-term focus on financial results, whereas the 'values-based business model' shifts the

focus from a short-term preoccupation with financial matters to incorporate long-term, values-driven governance principles and key performance indicators. In such a ‘values-based business model’, the core company values, foundation values (that is, the company’s social and environmental responsibilities), and customer values drive the financial and other business goals (such as growth, customer satisfaction, and risk). By combining a service-dominant logic with a values-based business model we position IKEA, our main case in this paper in the upper-right section of the matrix shown in Figure 1.

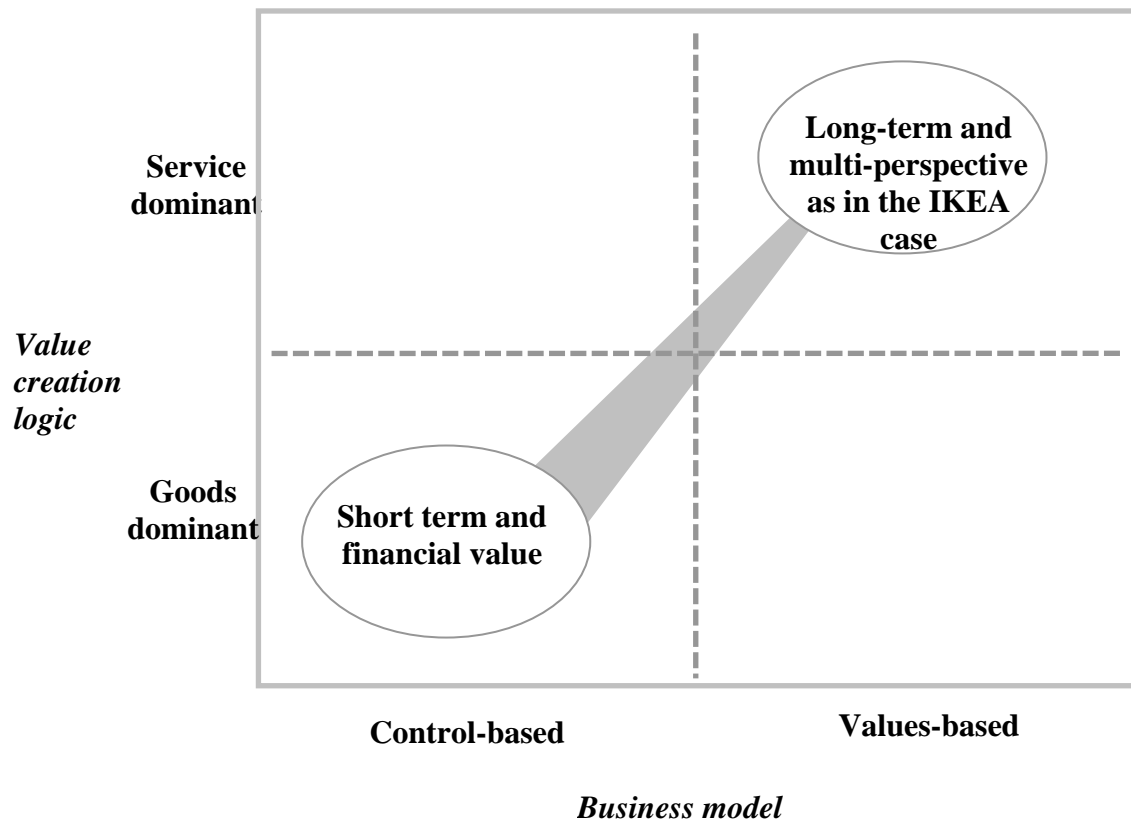


Figure 1. A framework for studying a values-based, sustainable service business.

To study values-based service for sustainable business in a practical business situation, it was important to choose a service company that has been successful in terms of growth and profitability. We selected IKEA. Some might argue that IKEA is a product retailer and not a service company; however, IKEA views itself as a service provider—because the company’s focus is not on the furniture itself but on ‘solutions to real-life problems’ and making a contribution to a ‘better life’ for the majority of people. This is clearly a service concept in which the physical products are perceived as platforms for service experiences that create customer value. Moreover, IKEA is a service-oriented company in the sense that the passion is on *servicing* people with well-designed, quality products at a price they can afford.

IKEA is a successful, profitable company and the global leader in its industry. The firm is known for a strong service culture that emphasises company core values and a strong sense of corporate and social responsibility. IKEA has demonstrated an ability to serve customers and

renew its business at a time when many other companies have been more focused on narrow conceptions of shareholder value and internal issues. Other companies and organisations can learn from IKEA, and it is the aim of this paper to provide inspiration and practical guidance in analysing an organisation's values as a basis for a sustainable service business. In short, this paper contributes to a better understanding of the strategic role of values in forming and directing service strategy and value-in-use for customers. The values of a company guide the attitudes and behaviours of the firm's leaders, employees, and customers, as well as determining the business strategy and vision of the company. In the context of IKEA, such values (in the sense of 'ideals') are crucial for understanding customer value and value-in-use.

According to Palmisano (2006), businesses are changing in fundamental ways—*structurally*, *operationally*, and *culturally*—in response to globalization and new technology; as a result, the larger companies are no longer 'multinational corporations' (MNCs), but *globally integrated enterprises*. He also suggests 'global collaboration', whereby various stakeholders interact in development and learning processes. IKEA is an example of a 'globally integrated enterprise' in which economic, environmental, and social perspectives are integrated in support of one another. The supply chain of IKEA has its roots in the Swedish county of Småland, which is a region of limited resources, and this represented a significant challenge for the management of IKEA in its entrepreneurial efforts to create smart solutions (Edvardsson and Enquist, 2002).

Research design

We have been studying the development of the Swedish furniture retailer, IKEA, for several years. This has involved: (i) the extensive perusal of documents; (ii) multiple interviews with IKEA managers; (iii) the collection of narratives about IKEA from the media, the Internet, books and from internal material from IKEA; (iv) personal observations at IKEA stores and service centers in Europe, Asia, and North America; and (v) supervision of 15 masters' theses and field reports on related subjects. Our research has resulted in a number of articles including Edvardsson and Enquist (2002); Edvardsson, Enquist and Johnston (2005); Edvardsson, Gustafsson and Enquist (2005); Edvardsson, Enquist and Hay (2006); Enquist, Edvardsson, Petros Sebhatu (2007). The comparative study of Starbucks, H&M and Body Shop have been done in parallel with the IKEA study during 2006 and 2007 and resulting in two written papers Enquist, B., Edvardsson, B. and Petros Sebhatu, S. (2007b) Enquist, B., Edvardsson, B. and Petros Sebhatu, S. (2007c) and parallel with this process the book Edvardsson and Enquist (2008) has been developed during 2007 and 2008.

Lessons from IKEA

The lessons to be learnt from the study of IKEA (Edvardsson and Enquist, 2008) can be summarised in five areas as follows: (i) a new entrepreneurial business model; (ii) the logic of values and the logic of value creation; (iii) service experience; (iv) service brand and marketing communication; and (v) service leadership.

A new entrepreneurial business model

IKEA began in a poor farm village in the southern Swedish county of Småland. The entrepreneur, Ingvar Kamprad, challenged established views from the beginning. For example, he believed that an entrepreneur should first make money before spending or investing; he disliked being dependent on loans from a bank.

IKEA's original focus was on furniture that had 'function', 'quality', and 'low price', and these attributes (together with the later addition of 'good design') remain the core components of the business model that is firmly embedded in the IKEA culture. The original supply chain and business model of IKEA had to cope with the limited resources that existed in the relatively poor district of Småland, but this lack of resources had the virtue of stimulating the creation of 'smart' solutions. In summing-up his entrepreneurial vision, Kamprad observed: "The question is whether, as an entrepreneur, I [could] combine the good in a profit-making business with a lasting human social vision. I like to think that it must be possible."

In focusing on smart solutions, Kamprad created the concept of furniture that customers could put together themselves. This resulted in lower warehouse and distribution costs, but it did require new ways of producing the products and new packaging (with instructions to the customers on how to assemble it). In effect, the customers became 'co-producers' of the IKEA solutions as some of the activities were transferred to the customers. This is the core of the IKEA business model, which has been further developed by a sophisticated supply chain and a systematic renewal of products and service offerings.

In addition, the marketing activities of IKEA, which used creative themes and emphasised the development of the IKEA brand, challenged established views of marketing in the industry. Moreover, the business model now also includes the establishment of new stores and the requisite transfer of IKEA knowledge and values from established markets to new markets in a variety of national cultures.

The culture in IKEA is based on shared values and meanings. The IKEA values are: (i) togetherness and enthusiasm; (ii) constant desire for renewal; (iii) cost consciousness; (iv) willingness to accept and delegate responsibility; (v) humbleness and willpower; (vi) simplicity; (vii) leadership by example; (viii) daring to be different; (ix) striving to meet reality; (x) constantly being 'on the way'; and (xi) being unafraid of making mistakes (with the privilege of making mistakes and putting them right afterwards). These values drive the company's strategy and provide guidance to leaders and co-workers alike. The values thus provide motivation to maximise the commercial potential of the company at all levels. The underlying theme is a customer focus (as IKEA puts it, 'to stand by the many'), combined with social and environmental responsibility. The focus is on solutions to real-life problems at home for the majority of people.

IKEA emphasises corporate social responsibility (CSR). IKEA's long-term strategy is to create a better life for all stakeholders. In this regard, social and environmental responsibility is a natural part of the IKEA business model. According to IKEA, social and environmental responsibility is profitable in the long run and is in accordance with IKEA's commitment to being cost-conscious.

Apart from the values held by its leaders and co-workers, the IKEA service strategy is driven by external pressure from customers, non-government organisations (NGOs), and competitors. The success of IKEA is based on the conviction that values and meanings are co-created among all members of the IKEA stakeholder network in various market contexts.

The logic of values and the logic of value

According to the traditional view, value is defined and created in the value chain and incorporated into products during product development and production. In contrast, the emerging

view, as adopted by IKEA, is that value is co-created with customers and assessed on the basis of value-in-use during consumption experiences. In adopting this view, IKEA promotes its furniture and other products as ‘enablers’ of smart solutions to real-life problems at home. These solutions are co-created with the customer and their value is primarily assessed when the products are used. Value is thus predominantly assessed in terms of value in use.

This conception of the logic of value (whereby customers assess quality in terms of how design and function provide solutions to problems) is combined at IKEA with logic of values (whereby special attention is paid to the ethical, social, and environmental values that are increasingly playing a prominent role in customers’ decisions to buy). Consumers have an increasing awareness of environmental, social, and ethical issues, which has resulted in corporate social responsibility (CSR) becoming a driving force in business development. IKEA’s commitment to CSR is part of its wider commitment to its various stakeholders (including customers, co-workers, and suppliers). The social and environmental policies of IKEA are rooted in the core values of the company.

Service experience

Apart from value in use after the purchase, IKEA also creates value for its customers through the co-creation of individualized solutions during pre-purchase service experiences. This simultaneously reduces risk for the customer and enhances customer imagination and interaction with the organization.

So called ‘hyperreality’ is also used to provide customers with a pre-purchase service experiences. Just as product-based organizations have traditionally allowed their customers to ‘test drive’ their products, service organizations are increasingly utilizing simulated or ‘hyperreal’ experiences to enable customers to experience potential service solutions before purchase. In the case of IKEA, the firm enables customers to experience a new kitchen in the store and/or to use web-based experiences (such as the IKEA ‘kitchen planner’) to simulate or ‘test-drive’ various solutions.

An ‘experience room’ can support customers in their role as co-creators of value (make the solutions customized and ‘tangible’), as well as facilitating the company’s communication of its corporate values and. In this regard, the IKEA showrooms can be seen as ‘experience rooms’, in which customers receive a ‘real’ service experience before purchase.

Service brand and marketing communication

Three essential elements—vision, culture, and image—must be aligned if a values-based brand strategy is to be successful. In IKEA’s marketing, value-in-use for customers is primarily of an instrumental nature, as communicated through the catalogue, the website, and the store showrooms. However, in IKEA’s marketing strategy there is also communication beyond the instrumental level, whereby IKEA narrates a sustainable corporate ‘story’ in which vision, culture, and image complement one another in a successful branding strategy.

Taken together, IKEA’s vision, business idea, and market positioning provide a framework for brand-building that is used in the entire firm’s marketing communication worldwide. The brand embodies and expresses values that add value when customers experience solutions to real-life problems at home.

To ensure sustainable business success, a company needs to focus on a few basic values that are attractive to customers, employees, and other stakeholders. In particular, it is essential that the company's values and those of the customers achieve so-called 'values resonance'. The IKEA brand is built on associations with such values as cost-consciousness, design, unconventionality, and environmental awareness.

IKEA recognizes the importance of training, empowering, and rewarding leaders and co-workers to 'live the brand' in their interactions with one another, customers, suppliers, other partners, the media, and owners. 'Living the IKEA brand' is learnt by co-workers and leaders in their day-to-day work, in on-the-job training, and through educational programs that explain the IKEA way.

Service leadership

IKEA has created a strong culture built on authentic leadership and knowledge sharing. Most IKEA leaders are identified, developed, and promoted from within the organisation. Within the IKEA network, the values and skills of the organisation are cultivated by shared knowledge and authentic leadership. Leaders are promoted on the basis of their personal values, skills, potential, and what they have delivered so far. The sharing of IKEA values among leaders and co-workers ensures that values resonance within the firm provides energy and direction for sustainable business development.

IKEA trusts its leaders, co-workers, and customers, and emphasises the importance of their involvement. Trust is a pre-requisite for openness, creativity, and involvement. It is built from the top through authentic leadership, involvement, responsibility, and empowerment. In IKEA's view, when co-workers and leaders grow, the business is growing. In the IKEA network, reverse knowledge flows and lateral knowledge flows ensure that new smart solutions become a reality and have an influence on the global concept.

Comparison of IKEA, Starbucks, H&M, and Body Shop

A new entrepreneurial business model

All four companies were founded by energetic entrepreneurs: Kamprad at IKEA; Schultz at Starbucks; Persson at H&M, and Roddick at the Body Shop. All of these entrepreneurs have been innovative in their various consumer industries. They have built distinctive business models in their companies, and these have been retained and developed over decades through the dissemination of the entrepreneur's values throughout their organisations.

All four companies also have a business model for future success based on: (i) various forms of triple bottom line (TBL) thinking; (ii) attractive offerings in attractive stores; and (iii) strong supplier chains governed by social and environmental responsibility and the requirements of good citizenship. In addition, they have growth strategies based on investment in sustainable resources—IKEA in energy conservation and managing social and environmental responsibility; Starbucks in recycling and community development; H&M in environmentally friendly products; and the Body Shop in sustainable products. All four companies have strong corporate values and a clear focus on serving customers in a broad international target market.

The logic of values and the logic of value creation

In accordance with the logic of value creation, all four companies exert control over the design and development of the service offering and use suppliers in the value chain to control

price, time, and quality. Moreover, in all four companies, the logic of value creation is driven by the logic of values. All take a TBL perspective with respect to logistics, stores, and production, and all have their own code of conduct to ensure that their social, environmental, and quality standards are maintained. They also attempt to engage their suppliers in positive empowering relationships that create value for the suppliers themselves.

Service experience

The studied retailers have a focus on serving customers and have developed management policies and systems with regard to the co-creation of value with customers. The IKEA policy promotes customer placement in store showrooms ('experience rooms'). For Starbucks, their customer-oriented policy is described as promotion of the 'Starbucks experience'. H&M promotes shopping as an easy and pleasant experience. The Body Shop aims for an enjoyable customer experience in their shops and at home. In all four cases, customer-oriented policies aim to promote favorable service experiences.

Service brand and marketing communication

Our case companies have well-known values-based global service brands. However, they do not explicitly use CSR in their market communication. All of these brands are positioned in accordance with the firm's views on environmental and social responsibility. The firms ensure that their brands are supported by the communities with whom they do business, that their suppliers are empowered, and that they engage with a range of environmental and social initiatives.

Service leadership

In all four companies, the knowledge and 'drive' of employees are of fundamental importance in developing a strong corporate culture with regard to 'living the brand' and sharing corporate values. Within IKEA, employees are referred to as 'co-workers'; Starbucks refers to 'partners'; H&M uses the term 'colleagues' and the Body Shop talks about 'our people'. All service leaders are expected to act as role models. Leadership performance is judged in terms of operational skills, cooperation with others, and sharing values and meanings. All four companies focus on investing in leadership performance and focus on the development of individual leaders and employees as a key strategy for company success. All firms are also seeking leaders from diverse backgrounds to create a multicultural employment environment reflecting the diversity among their present and potential customers. Gender equality in employment is also a goal of all companies.

Five principles for a sustainable values-based service business

From the comparative analysis presented above, five principles for a sustainable values-based service business have been developed.

Principle 1: Strong values drive customer value

Strong values form the basis for a company culture. In tandem with customers' values and the values of the wider society, strong corporate values provide energy and direction to business development. Innovative service businesses are often created by entrepreneurs who are imbued with a clear vision and a strong sense of mission. Such vision and mission are usually based on a firm set of personal values.

A company with strong values does not necessarily have unchanging values. Rather, values are dynamic, may be expressed in various ways over time and can become stronger in the sense that they become clearer, more relevant, and better integrated in the business model.

Such values are used by customers and other stakeholders when value is assessed. The values create bonds with customers and thus represent a significant loyalty driver. In summary, in developing a sustainable values-based company, values are pre-eminently important in the company's relationships with its staff, partners, suppliers, shareholders, and the media but most important its customers.

Principle 2: CSR as a strategy for sustainable service business

Sustainable values-based service businesses have a strong commitment to corporate social responsibility (CSR), which leads to quality-assurance systems, appropriate performance indicators, TBL thinking, and involvement with NGOs in control, assessments and improvement efforts.

A sense of social and environmental responsibility stimulates lean production, lean consumption, energy conservation, and the creative use of apparent 'waste'. Social and environmental responsibility thus contributes to profitability in a long-term perspective.

CSR is important for rethinking the role of any company in any industry. By using CSR in a proactive way, companies think 'laterally' in searching for 'smart' solutions. The logic of values thus drives the logic of value creation.

Principle 3: Values-based service experience for co-creating value

Many services are experience-based and companies should therefore create and offer 'test-drives' of services for customers to enable them to experience the service, before purchase and consumption.

Customers' experiences are formed during use or consumption of a service. When a customer's basic requirements are met, other issues make a difference. These issues are often subtle, affective, and values-based. A well-designed service concept should include an 'experience room' to make possible for customers to test-drive the service before purchase and use or consumption.

Principle 4: Values-based service brand and communication for values resonance

Brands are living expressions of what a company stands for. They communicate what its products or services can do for people. However, if a company overstates what its products can do, and subsequently fails to deliver (as perceived by customers), this creates adverse reactions—both in the market and among the company's employees.

Successful brands are not created *de novo*; rather, they develop naturally within value-based companies. These brands then enable values-based companies to reach out and connect with customers, staff, and other stakeholders.

Successful companies often challenge established views in suggesting something new and attractive in their marketing. These ideas can be provocative, but they must simultaneously resonate with the values of customers in the market. Values-based brands must incorporate values that are attractive to customers and avoid being associated with unfavourable values. Values resonance (both within the organisation and outside it) is essential for a sustainable values-based service company.

Using CSR to secure a values-based service brand is more than mere communication about CSR with the customers; rather, it is about using CSR as basis for strategy and ensuring that the service brand (and communication with all stakeholders) is in resonance with the company's values, the customers' values, and the values of the wider society.

Principle 5: Values-based service leadership for living the values

To secure sustainability, a values-based company needs a strong, values-based leadership. A company built on an entrepreneurial business model often has the original entrepreneur’s values and leadership style as a model for future generations of leaders. However, the challenge for subsequent leaders is to develop these values and communicate what they mean today. To communicate these values in contemporary terms, it is essential that leaders ‘live’ the values. Leadership is about ‘walking the talk’. Both the ‘talk’ and the ‘walk’ must make sense to employees and energise them to focus on serving customers, thus creating shareholder value. Leaders communicate through their interactions with employees, partners, suppliers, and customers. Authentic leaders therefore spend time with customers and employees and learn from them. Great leaders are directed not only by the logic of value, but also by the logic of values.

A model for values-based service businesses

It will be recalled that Figure 1 presented a matrix of two value-creation logics (service-dominant logic and goods-dominant logic) on the vertical axis and two business models (a control-based business model and a values-based business model) on the horizontal axis. It will be apparent that the four innovative service companies discussed above all base their value creation on the *service-dominant logic* and that their business models are *values based*. All four companies are therefore firmly situated in the upper-right quadrant of Figure 1.

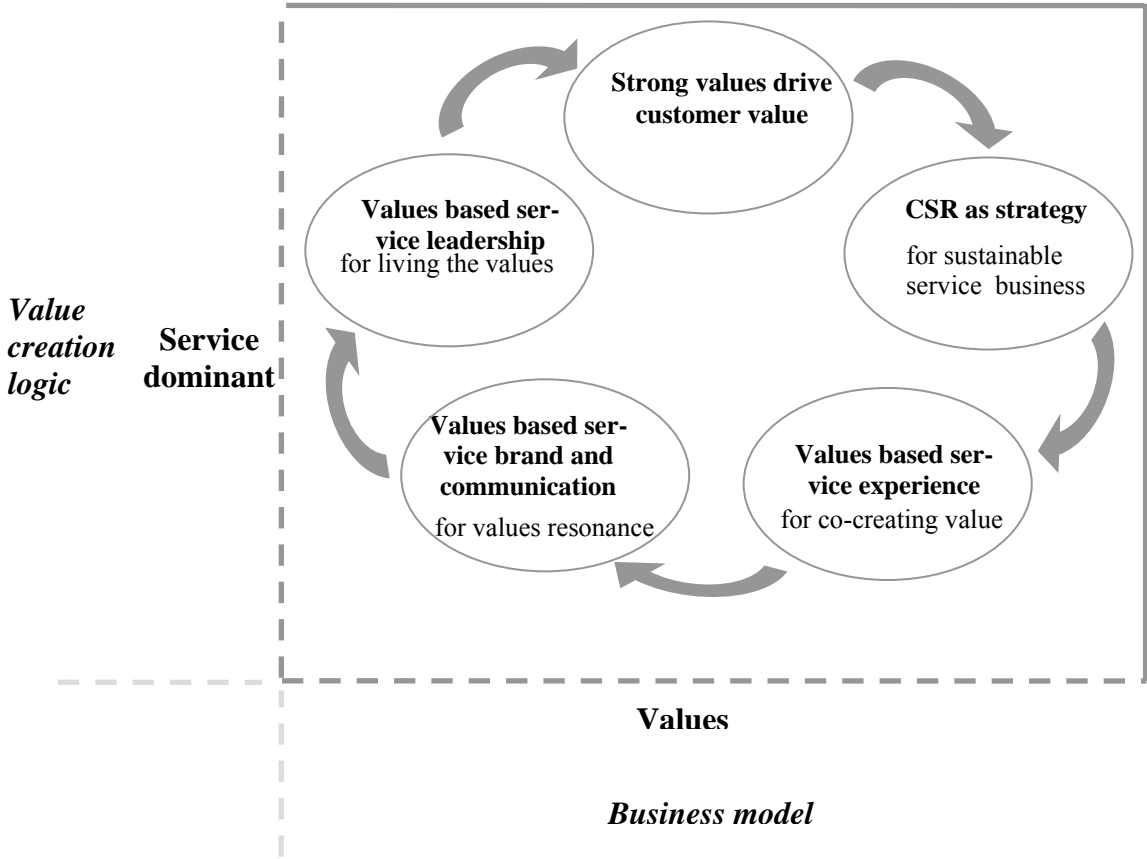


Figure 2. A model for values based service for sustainable business.

It is not suggested that these four companies are the only global businesses that would be situated in this quadrant. Many companies are now recognising the implications of sustainable

development and the importance of values-based stances with respect to the environment and social responsibility. As Hart (2007, p. 3) has noted:

“Business—more than either government or civil society—is uniquely equipped at this point in history to lead us toward a sustainable world in the years ahead. I argue that corporations are the only entities in the world today with the technology, resources, capacity, and global reach required. Properly focused, the profit motive can accelerate (not inhibit) the transformation toward global sustainability, with nonprofits, governments, and multilateral agencies all playing crucial roles as collaborators and watchdogs.”

Gore (quoted in Hart, 2007, p. xxiv) has expressed a similar view: “The interests of shareholders, both public and private, over time, will be best served by companies that maximize their financial performance by strategically managing their economic, social, environmental, and ethical performance.”

All of the studied companies have well-developed processes for renewal and reconfiguration of their business models in the light of experience over time (Normann, 2001). Renewal is essential for sustainable success. The overriding orientation of the studied companies is a genuine focus on the customer and how to create value for customers. Superior customer value is based on favourable service experiences, a strong brand, and dynamic marketing communication. This requires staying close to the customers, understanding their requirements, and providing solutions that are in accordance with their values and lifestyles. Learning from (and with) customers in various ways is crucially important if a company wishes to remain customer focused.

Corporate social and environmental responsibility has been demonstrated to be profitable—both in the short term and in the long term. Innovative service concepts that utilise physical products as platforms for service and customer experiences can create value in use. The logic of values and the logic of value creation are synergistic, profitable, and sustainable.

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