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**Value Creation of Professional Services**

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## **ABSTRACT**

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The aim of this qualitative thesis is to research, how professional services create value, and what are the key factors affecting on this process. A model describing value creation process in professional services will be explained, based on the existing literature and three in depth discussions with professional service representatives.

Professional services are such services that are tend to base on problem solving and require high skills and knowledge of a professional. These services often have a consultative or an advisory nature, and they often involve both client and a company in service process. As the service is often delivered in somewhat collaboration so is the value created.

The results of this thesis revealed that value is created in collaboration or co-operation in professional services. Therefore, value co-creation, as a concept, is exact to describe the value creation process in professional services. This thesis also revealed that value is co-created in continuous communication between a client and a company and no value or only a little value can be created if there is no effective communication during the professional service process.

## TIIVISTELMÄ

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Tämän laadullisen tutkimuksen tavoitteena on tutkia, kuinka asiantuntijapalveluissa luodaan arvoa sekä, mitkä tekijät vaikuttavat tähän prosessiin. Tutkimus perustuu aiempiin asiantuntijapalveluita ja arvonluomista käsitteleviin tutkimuksiin sekä kolmeen syvälliseen haastatteluun asiantuntijoiden kanssa. Osaltaan tutkimuksen tavoitteena, asiantuntijoiden ymmärryksen lisäämisen lisäksi, on luoda teoriapohjaa, jota voidaan käyttää jatkotutkimuksissa.

Asiantuntijapalvelut ovat palveluita, jotka perustuvat paljolti ongelmien ratkintaan, ja jotka vaativat asiantuntijoilta korkeaa tietotaitoa sekä substanssiosaamista. Asiantuntijapalvelut omaavat usein konsultatiivisia tunnusmerkkejä ja pohjautuvat paljolti neuvonantoon. Asiantuntijapalvelut sitovat usein sekä palvelu että arvonluomisprosessiin molempien, sekä asiakkaan että yrityksen resursseja.

Tämä tutkimus osoittaa, että asiantuntijapalveluissa arvo luodaan yhteistyössä asiakkaan ja yrityksen välillä. Lisäksi tutkimus osoittaa, että jatkuva kommunikaatio asiakkaan ja yrityksen välillä on ehdottoman välttämätöntä, mikäli arvoa halutaan luoda mahdollisimman paljon.

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## **1. INTRODUCTION**

In this chapter, the author gives an overview to what this master's thesis will contain. First of all, the background of the study will be discussed and will be followed by preliminary literature review where the topics and main definitions are defined. After this the aim and the research problems of this thesis will be defined and theoretical framework will be presented. The structure and the methodology, used in this thesis, will be also included in this chapter.

### **1.1 BACKGROUND OF THE STUDY**

Professional services, as a concept and profession, have fascinated the author for a long time and he has always thought that professional services are worth of studying. There is huge potential in professional services, which are high growth area. During the past decade there has been a growing interest in the academic debates among organizational theorists and more and more researches concerning professional services are being carried out. (Von Nordenflycht, 2010, 155; Greenwood et al. 2005, 662) These services present growing part of the value creation in western economies, which makes studying professional services even more interesting and valuable (Aharoni, 1993; Løwendahl, 1992, 1997). According to Lai et al. (2007, 972) professional services are from year to year increasing their share in gross domestic product and trade across the world economies. For example, according to PwC (2016a) UK economy is dependent on professional services. They represent 15% of United Kingdom's GDP and 14% of employment.

According to Løwendahl (2001, 913), professional service firms are acting as role models for other companies, which makes the studying and understanding professional services and professional service firms even more interesting. These services are also worth of studying, because they operate in the global market and are not concentrated within a specific country/countries, which makes the findings of a study generalizable and applicable for further studies. As noticed, professional service firms have an impact to both macro and microeconomics in multiple ways (PwC, 2016; Løwendahl, 2001). They employ an enormous number of talented professionals and are involved in educating employees. For example, if we analyze Big Four's more deeply, we will find out some interesting facts. Big



fours are, as the name, the four biggest professional service firms. The companies are Deloitte, Ernst & Young (EY), KPMG, and PriceWaterhouseCoopers (PwC). On fiscal year 2015 KPMG (2016) employed 173,965 employees and had 24.44 billion USD global revenues and thus, achieved an annual growth of 8.1%. At the same time Deloitte (2016) gained global revenue of 35.2 billion USD, which is 8% higher than in FY 2014 and it employed 225,400 employees. On fiscal year 2015 EY (2016) was able to create global revenue of 28.7 billion USD, which represents the tremendous 11.6% annual growth in terms of revenue. At the same time EY employed 212,000 employees, which is over 23,000 employees more than FY 2014. On fiscal year 2015 PwC (2016b) had global revenue of 35.4 billion USD, which represents 10% annual growth while global headcount grew with 6%. PwC had 208,000 employees on FY 2015. As can be seen from the figures, all four biggest professional service firms have been able to create decent growth even though the global economic environment has been somewhat challenging. These rather high turnovers and numbers of employees with in the Big Fours, which represents only the spearhead of the market, makes professional services and value creation even more worth of studying and interesting. It is also interesting to find out and research how professional services are able to create such a great value to company from year to year despite the fact that economic environment has been challenging.

As a conclusion, this thesis concentrates especially on the value creation of professional services. The aim of this research is to give an insight to the value creation of professional services; what are the key components and how the process is carried out. The author is going to base his analysis mainly on professional service, business model, and value creation literature. Value creation and value co-creation in the context of complex, knowledge intensive services such as professional services have been as studied during the past few years but only a little have been done. However, these studies have had their basis in the studies and researches done by Vargo and Lusch during the 2000s. This research will be mainly based on the literature and studies done by other authors than Vargo and Lush. As a result this thesis tries to offer something different and a new aspect to the context and research of value creation in professional services.

## **1.2 AIM AND RESEARCH PROBLEMS**

As described earlier, professional services are worth of studying. They have substantial influence to economics, the number of academic debates has increased rapidly since 1990s and because professional services, as a concept, have not yet reached maturity. Existing studies considering value creation of professional and complex services has mainly been based on the Vargo and Lucsh's studies and findings and thus, this thesis tries to offer something different. This thesis will focus on professional services and the value creation.

The main research question is:

- How do professional services create value?

The sub-research problems are:

- What are the characteristics of professional services?
- What are the roles of value creation and value capture in business models of professional services?
- How do services create value?

Aims of this thesis are also to give answers to such questions as, who are involved into professional service value creation, when does the value eventually concrete for the company and to the client and what are the components in the professional services that enables the value creation. Furthermore, the aim of this thesis is to deepen the understanding about how the value is created in professional services and what are the key factors affecting on it.

## **1.3 THEORETICAL FRAMEWORK**

In theoretical framework, the balls in the funnel present existing literature, and the funnel presents empirical evidence. The gears, below the funnel filled with balls, represent analysis and synthesis between empirical data and existing literature. The end results, which go through the funnel and gears, present the findings of this thesis. These findings will give a comprehensive answer to the main research problem.

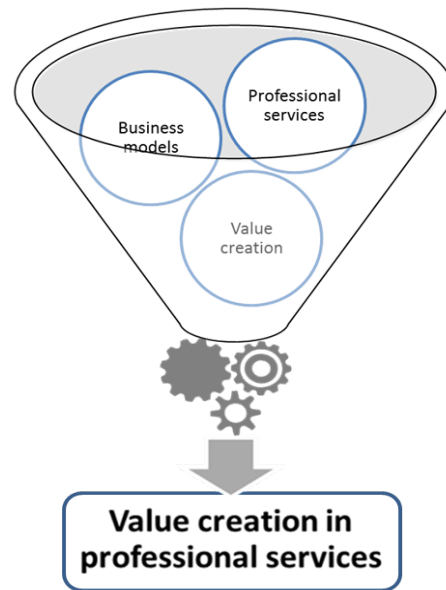


Fig. 1. Theoretical framework

In the beginning of the thesis, author will define the concepts of professional service, business model, and value creation, be based on existing literature. Professional services and value creation will be discussed more precisely as these concepts are at the core of this thesis.

After the key concepts, the balls in the funnel are presented and discussed. The empirical evidence, collected for this thesis, is presented and the analysis based on the findings will be done. At the end of this thesis, the author will do the synthesis based on his findings and existing literature and generalizations and findings of the thesis are presented.

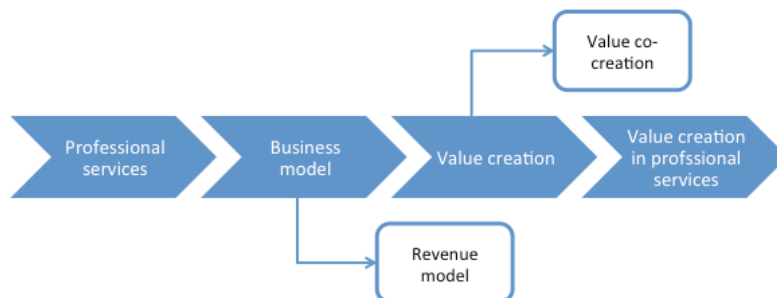


Fig. 2. Progress of the thesis

## 1.4 DEFINITIONS AND KEY CONCEPTS

This thesis focuses on professional services and value creation. With professional services, the author means especially, assurance, tax, advisory, law, and financial services. Professional service providers operate often globally and the nature and characteristics of these services are common and can be generalized. Therefore, studies carried out elsewhere than in Finland and in Europe are relevant, because it is often only legislation and regulations that sets the limits for professional services but do not shape the services significantly. As a result e.g. legislation and regulations should not delimit this study to be valid only in Finnish professional service environment. This research focuses also on value creation of professional services, and value creation at the general level is being discussed in this thesis as well as business models and the building blocks of it.

In the list below, the author defines and describes the key concepts and terms that are necessary for this thesis. Key concepts are explained briefly and concise in the list below. The walk through and more in-depth discussion concerning each concept will be carried out in the theoretical part of this research.

**Professional services:** Group of services which consists of accountants, management consultants, lawyers, IT specialists, architects and other professionals who provide services to businesses and individuals based on knowledge, expertise, and intellectual property. The professionals who are constantly able to deliver these services by an exceptional high quality and performance deliver the services. (de Sylva, 2015; Løwendahl, 2005; de Brentami & Ragot, 1996; Gummesson, 1981; Ross, 2015)

**Business model:** Business model is an explanation of the company's value creation, which illustrates the sources of the profit, and how the profit is created. In addition to this, business model can be seen as a structure of single, not related activities, which exceeds the company in many levels, and as a structure that extends concrete company lines. (Zott and Amit 2010, 216; Johnson et al. 2008, 52)

**Revenue model:** Presents the company's ability to exchange the value propositions that it offers to its customers into money (Pigneur, 2002).

**Value:** Value means different types of things to the different stakeholders. Value can be divided into use value and exchange value. More precisely, use value is the value that a customer perceives while e.g. consuming a service while exchange value refers to monetary amount of money being realized while a customer pays for a service being consumed. (Bowman and Ambrosini, 2010, 491; Bowman and Ambrosini, 2000, 1-2)

**Value creation:** Delivering and creating value by transactions in the market in which e.g. the money is changed into goods. Value can be divided into use value and exchange value. Customer perceives use value while consuming a product or a service and exchange value is perceived e.g. when a customer pays for a product and a company gets money. (Bowman & Ambrosini 2000,2; Prahalad & Ramaswamy, 2004, 6-7)

**Value chain:** Value chain also describes the value added stages from raw material to end-user as a product is manufactured and distributed. (Crain & Abraham, 2008, 29) These stages can be divided into *support activities* and *main activities*.

**Value co-creation:** Rather new aspect to value creation. Especially service centered marketing logic emphasizes value co-creation. Value, which cannot be created without customer, is created in co-operation between client and the company. (Vargo & Lusch, 2004, 1-7)

## 1.5 LITERATURE REVIEW

In this chapter, earlier literature on professional services, revenue model of professional services, business models of professional services and value creation will be discussed briefly to create an overview of the literature review. The aim of this chapter is to describe already existing literature on the given fields of research so that both the reader and researcher are able to form clear vision of what has already been written and what should be researched more. The literature review is used to create the theoretical part of the master's thesis.

Professional services have aroused more and more academic interest during the past decade. Few books are written and an author whose name presents in many academic studies concerning professional services is Bente R. Løwendahl. She has researched professional and

knowledge intensive services rather much, and she has even written a couple books concerning professional services. Professional services have fascinated also other researchers rather much. Gummesson can be considered as some kind of pioneer in professional services' marketing studies while Greenwood represents newer school of thoughts in terms of studies concerning professional services. Another interesting fact about professional service studies is the number of the academic studies being done. If we, for example, search from EBSCOhost's all databases with a headword "professional service", we will get 4,582 hits. The time span of these studies is over seventy years (1943-2016).

Professional services are such services that require high customization, are knowledge intensive, and consist of e.g. accountants, management consultants, lawyers, and other professionals who provide services to businesses and individuals. These professionals, who deliver these services, are able to constantly deliver the service with high quality and performance. (de Sylva, 2015; Løwendahl, 2005). The interaction between client representative and professional is also a relevant characteristic of professional services. As professional services are often about solving clients' problem and the customer's experienced value is related on the professional's service quality, the value is measured on, how well and efficiently the professional was able to solve the client's problem. As an exchange a company will receive a payment from the client and gets value. As a result, value is exchanged between customer and the company and company's value is dependent on client's perceived value. This is due to if professional service provider does it job poorly the company will lose the client and therefore only a little value will be gained. Professional service firm's existing clients are very relevant in the professional service firms' value creation process, because the biggest value can be considered to generate from this customer segment (Ferguson 1996, 49).

If we eye on value creation, we will find out that Porter is pretty relevant name in the studies concerning value creation. Michael Porter presented the value chain on year 1985, which can be considered to be as a base for further studies concerning value creations, especially in the context of manufacturing and retail. However, further studies indicated that generic value chain model is not suitable for service firms and providers. Therefore, some studies point out the service value chain, which is an approach, that aims to increase the company's profitability and maximize capital utilization. The idea of service value chain is to cross functions' borders within a company, and bring these different functions, such as sales, contract management, and customer service closer together. However the weakness of service

value chain model is that it concentrates on after-good-sales market where the service is delivered as a complementary. (Rupa & Pallavi, 2013, 3; Giabocce et al. 2011, 5)

On 2006 Grönroos stated that serviced oriented or dominant logic has become a topic in a growing extent in academic discussions world widely. The beginning of the development of service dominant logic can be considered to be in 1970s. (Grönroos 2006) This service dominant logic stated that value must be created in a co-operation with clients and is more suitable in the context of services than manufacturing. Thus, value co-operation became more and more studied and especially academic studies in the service context focused on this type of value creation. Such researchers as Vargo and Lusch, Andreur, Chan, and Howden, and Pressey as well as Schenzer have made researches concerning value co-creation. All these authors, listed before, agree that in the service context value must be created in co-operation with customer and company and value cannot be created without customer. Therefore, value co-creation in the professional service context is very relevant, because even the service can be considered to be delivered and produced in co-operation with the customer. (Vargo & Lusch, 2004, 1-7)

The existing studies and literature indicate that business models and furthermore, revenue model and e.g. cost structure have an effect on value creation. Not until today, academic researchers are willing to agree on what business model fundamentally is. However, researchers do have common mainstream while they describe the nature and attributes of the business models. More precisely business model presents the combinations of functions within a specific company that are required for value creation. All these functions together, as well as market environment in which the company operates, affect into value creation process as a whole and thus, are needed to being taken into consideration while planning the value creation process.

## **1.6 DELIMITATIONS**

This thesis is delimited to concern professional services and the value creation of these services. Thus, all the other services are delimited outside of this thesis. By doing exact delimitations the author tries to keep the topic and the thesis in appropriate sized for a Master's thesis. The author will collect the empirical data by interviewing only professional

service professionals and thus, the client viewpoint is delimited outside of this thesis. As a result, this thesis will focus on deepening the understanding of the professional service firm value. By these delimitations, this thesis will be an easily read and pictured.

## **1.7 RESEARCH METHODOLOGY**

This research is a qualitative multiple case study, which involves three professional service representatives; person X, person Y, and person Z. By using qualitative research method, author tries to increase the understanding of a certain phenomenon. This is done, by analyzing the qualitative data that has been collected for this study. (Koskinen, Alasuutari & Peltonen 2005, 16)

A multiple case study is used as a research strategy because of its nature, which enables to establish whether the findings of the first case occur in the other cases, and it enables the researcher to generalize from the findings (Saunders et al. 2009, 56). In this thesis, a descriptive research method will be used, to explain and illustrate, what are the components of value creation of professional service. Author will also use the inductive approach in order that it can be ensured that the collected data will be the basis for further conclusions in the study, and it also enables the researcher to create generalizations from the data being collected (KvaliMOTV 2016).

In this research, semi-structured interviews are used to collect primary data from professional service experts. Semi-structured interviews are guided by a rather detailed topic guide, which contains some specific questions to ask and likely ways of probing (Lee & Lings 2008, 218). The author will interview three different persons from three different fields of professional services. All data will be handled confidentially and any interviewee or company names will not be revealed. By doing this, the author is able to guarantee as honest and in-depth discussions as possible. As a result collected empirical evidence will be as relevant as possible and the analysis, based on data being collected, will be rich.



## **1.8 STRUCTURE OF THE THESIS**

This thesis will consist of eight different paragraphs. In the first chapter the author presents the background of the thesis and the topic. Preliminary literature review and aim and research problems will also take place in the first chapter. First chapter includes also the theoretical framework of this thesis, definitions, and key concepts as well as delimitations. At the end of the first chapter the author gives an insight to the research methodology used in this thesis.

First chapter will be followed by chapters two, three, and four, which are based on existing literature. Second paragraph presents professional services; the characteristics of professional services are discussed as well as professional services' sales and marketing, which are the key components of revenue models and thus, needed to define. Business models will be discussed in the third paragraph of this thesis. Business models will be followed by value creation, which is one of the key components of the business model. In the beginning of the fourth chapter the value creation will be discussed at the general level and later, the discussion will concentrate on value co-creation. As a result chapters from two to four will form the theoretical base of this thesis.

Chapters from five to seven form the empirical part of the thesis. In the fifth chapter, author presents the methodology used in this thesis and the interviews are transcribed in this chapter. The opinions and statements of each interviewee are presented in chapter six and the analysis is presented in chapter seven. The final chapter, chapter eight, will present the summary and the conclusions of this thesis and the needs for further research.

## 2. PROFESSIONAL SERVICES

In order to understand the value creation in professional services, it is vital to understand, deeply enough, the nature of professional services. This chapter aims to define and illustrate professional services. The chapter begins with the discussions of the development of the professional services, and will be followed by the description of main characteristics of these services. The revenue model and business models of professional services are also being discussed in this chapter. As a result, the aim of this chapter is to offer deep understanding considering professional services. Since 1960s professional services sector has grown due to global economic growth (Ross, 2015, 1). Løwendahl (2005, 45) states that in early history of most professional service firms underline such strong individuals with competence and ideas, and the necessary contacts to establish the first project.

Price-down pressures from clients, deregulation, service commoditization through the application of standardization and IT, increasing competition from lower cost economies and new business models, e.g. based on Internet, are now challenging this growth, in the professional services. The challenges in the market were also accelerated by the economic weaknesses in western economies triggered by the 2008. Nowadays, professional services, as a business sector generates more than 3 trillion USD in global revenue annually. (Ross, 2015, 1-2) Such remarkable annual revenue makes studying professional services even more interesting and worth of studying.

What is a professional service? There are almost as many definitions for professional services as there are writers of it, and there is not generally accepted definition of it. If we first think the nature of the definition of professional service we immediately find out that it builds up from two different words – professional and service. By thinking the nature and the meaning of these two words it is easier to create preliminary understanding of the definition of professional service. Professional is someone who is able to constantly, within a specific industry, reach exceptional high quality performance (Ericsson et al 2006, 223-242). Service, as concept, is used to explain activities executed by sellers and others that convoy the sale of a product and support in its exchange or its utilization.

A service's purpose is to initiate specific functions to provide value to the business. Services occur either before or after sales, and are added for e.g. product being sold and if the service is being performed during sale, they are regarded to be indirect parts of the product (American Marketing Association, 2016; Jones 2005, 89). Thus, it can be easily said that professional services are something, that requires constant, exceptionally high performance while delivering the service, and are carried out in order to add value to the company. However the nature of professional services is not that simple.

## 2.1 CHARACTERISTICS OF PROFESSIONAL SERVICES

As mentioned earlier, professional services theory is relatively narrowly researched and has not yet gained that wide academic debate. The theory concerning professional services is to some extent insufficient at this point. As a field of research, professional services, is developing and helps explain the relationship between a professional and their profession and their client. (McColl-Kennedy et al. 2015, 429) However there are some pioneers such as Gummesson in the 1970s and Løwendahl in 2000s, who has studied professional services rather widely and deeply while Gummesson was dedicated for professional service firms' marketing studies.

Professional services are described in many different ways, and there is not yet generally accepted definition for it. Nonetheless almost all of the academic researches, considering professional services, list some characteristics that are common for all studies carried out. Professional services are services that are highly knowledge intensive, and people with higher education deliver these services. Professional services involve both high degree of customization and discretionary effort and personal judgment by the expert(s) delivering the service. According Løwendahl (2005) professional services require active interaction and co-operation with the client company's representatives that are involved into process. In addition to this professional services are delivered within the restrictions of professional norms of conduct. This means that e.g. client's needs are set higher than profits of the professional service firm and respecting the limits of professional expertise. Løwendahl (2005, 22)

Løwendahl (1997) who has studied professional services remarkably much, states that professional services have certain unique characteristics:

1. It is highly knowledge intensive, delivered by people with higher education, and frequently, closely linked to scientific knowledge development within the relevant area of expertise.
2. It involves high degree of customization.
3. It involves high degree of discretionary effort and personal judgment by the expert(s) delivering the service.
4. It typically requires substantial interaction with the client firm representatives involved.
5. It is delivered within the constraints of professional norms of conduct, including setting client needs higher than profits and respecting the limits of professional expertise.

Greenwood et al. (2005, 663) state in their study, that there are two commonly accepted characteristics, which define professional services. First characteristic is related on knowledge (see Løwendahl 1997); “outputs are intangible applications of complex knowledge, making it difficult for consumers to weigh the relative competence of suppliers. Clients are thus, dependent on the professionals delivering these services.” Second characteristic relates to employees. Professional service firms have a need for employing highly educated workforce to customize complex knowledge to client situations. At the same time PSFs are forced to attract and retain these qualified people. Greenwood et al. (2015, 663) Thus, it can be stated that professional services are workforce intensive services and informed by complex knowledge. This knowledge is used by highly educated professionals. Greenwood et al. (2015, 663) state in their study, among many other researcher as noticed, that professional services are having mainly advisory nature and these services are highly customized. Professional services are concentrated on problem solving and are delivered by highly educated professionals. Professional services are also tend to have short deadlines, constant demand, limited marketing knowledge and time spent / productivity is viewed in pro bono work as time taken from billable hours. (McColl-Kennedy et al. 2015)

These services involve highly specialized skills, and are tend to have an advisory nature (de Brentami & Ragot, 517, 1996). According to Gummesson (1981), professional services are highly qualified; those are advisory and problem solving, even though those may also encompass some routine work for clients. Professionals have a common identity as, for example, management consultants or lawyers, and are often regulated by traditions and codes of ethics. The service on offer, if accepted, involves the professional in taking on assignments

that are themselves the limit of the professional's involvement. Such assignments are not undertaken merely as overtures to sell hardware or other services. According to de Sylva (2015, 1), services, which could be considered as to be professional services are engineering design activities for industrial process and production; engineering related scientific and technical consulting activities; media representation services; translation and interpretation activities; urban planning and landscape architectural activities; accreditation; logistics planning and consulting; project management; marketing and brand management; specialized design activities; event management services; estate planning and will writing; activities of patent and copyright agents; and, other legal activities (not elsewhere classified). As mentioned, also de Sylva states that professional services are having consultant nature and requires high skill. De Sylva (2015, 1) states also that accordingly, professional services as a permitted activity are not limited to audit, accounting, legal tax or consultancy services but can extend much wider.

Løwendahl (2005, 22-24) listed also the professional service industries based on discussions with industry executives; law firms, accounting firms, management consultants, technology consultants, engineering consultants, insurance brokers, investment bankers, marketing and PR services, advertising agencies, architects, personnel and actuarial services, suppliers/sub-contractors delivering computer and software to the large computer manufacturers, management information systems and computer science consultants, economists and development planners, specialized designers delivering firm specific design of all kinds – e.g. computer systems, graphic and industrial designs. According to Maister (1993, 6) professional services involve a high degree of customization in their work and they have a strong component of face-to-face interaction with the client.

Professional services are characterized as being largely advisory in nature, typically highly customized (Chan et al., 2010), focused on problem solving, and with services being provided by a skilled professional (Hogan et al., 2011; Marr et al., 1996; Patterson, 2000). According the professional service literature, providers solve their clients' problems by applying their specialist knowledge and skills, and also professional norms (e.g., Løwendahl 2005, 22) These services are distinct from other services, because they encompass unique characteristics and confront marketing challenges such as, they typically face short deadlines, constant demands, limited marketing knowledge, and view time spent in pro bono work as time deducted from billable hours (Amonini et al., 2011)

Almost all existing literature describes professional services somewhat similarly; these services are knowledge intensive and tend to require higher skills and educations in order to be carried out. These studies, mentioned above, also listed certain industries to be as a vital part of the professional services. Thus, it is easy to define professional services as a *group which consists of accountants, management consultants, lawyers, IT specialists, architects and other professionals who provide services to businesses and individuals based on knowledge, expertise, and intellectual property. The professionals, who are constantly able to deliver these services by an exceptional high quality and performance, deliver the services. Professional services are tending to require high skill and knowledge from the person who is going to deliver the service (e.g. consultant). These services are highly tailored, to match each unique client situation, and require face-to-face interaction between the client and the agent (e.g. consultant).* (de Sylva, 2015; Løwendahl, 2005; de Brentami & Ragot, 1996; Gummesson, 1981; Ross, 2015)

## **2.2 SALES OF THE PROFESSIONAL SERVICES**

Sales of professional services have not been studied much, and so it does not have attracted so much scientific debate. The lack or little interest to research sales of the professional services is probably due to the nature of the market and the expectations of the client. According to Bloom (1984, 107) customers do not want to buy a service from a separate sales person, but from an expert her or himself. Thus, it can be stated that in the professional service firms, the experts themselves mainly carry out the sales of the services. The fact that they are able to identify the needs of the customer and to describe the services being provided to the customer in more in depth than a specific sales staff, whose knowledge, according to Bloom (1984, 108), is not at comprehensive level in order understand the offered service adequately enough. Ferguson (1996, 49) states that the professionals and experts are reluctant to hard sell their services, since the majority of professional service firms consider that the highest profit is obtained from the already existing accounts.

### 2.3 MARKETING OF PROFESSIONAL SERVICES

While the marketing and sales have improved and changed during the past decades, also the marketing of the professional services has changed. Before marketing was strongly assimilated into sales which was considered to be incorrect activity in the field of professional services (Reid 2008, 377). Kotler and Connor (1977, 73) defined professional service marketing “*to consist of organized activities and programs by professional services firms that are designed to retain present and attract new clients by sensing, serving, and satisfying their needs through delivery of appropriate services on a paid basis in a manner consistent with creditable goals and norms*”. Professional ethics has a central role in professional services and those marketing which separates it from “general” marketing. However nowadays professional service firms have specific, detailed, marketing strategies and an aim at improving customer satisfaction and thus, increase the sales and revenue (Reid, 2008, 377).

Feldman Barry and McNeilly (2003) made a research that focused especially on audit firms’ marketing. According to their study audit firms are a few steps ahead of the mainstream in the marketing professional services and thus, audit firms are certain type of pioneers within this field of marketing. According to Feldman Barry and McNeilly (2003) audit firms market themselves by sponsoring various public events and even children’s sport teams among other things. According to study, the sponsorship is a stable way to improve the organization's image. (Feldman Barry & McNeilly 2003)

From the professional ethics point of view, the sponsorships are a very good element of the professional services marketing strategy, because sponsoring is often considered as a kind of charity, and thus, the company is able to generate responsible and caring brand image. This would not be possible through traditional marketing channels and activities and in case of using e.g. *hard-sell-marketing* (see Kotler & Connor, 1977, 72) customers could form a cynical image of the company which could cause that clients would not truly trust on company’s altruism. The normal means of advertising, this would not be possible and therefore customers could challenge the cynical image of the company. This would cause that customers would not fully believe in the company's altruistic purpose, which could harm the professional ethic of professional service firm. (Meenaghan & Shipley 1999, 366)

Amonini et al. (2010, 33) present three different angles into professional service marketing and relationship creation; *interaction marketing*, *database marketing*, and *network marketing*. The aim of the interaction marketing is to develop individual, interpersonal relationships while database marketing is about using technology-based tools to target and retain customers. The network marketing aims to develop inter-firm relationships such as e.g. relationships with client firms, competitors, or distributors.



### 3. BUSINESS MODELS

The business model, as a definition, is very important and the number of academic studies and researches is still increasing. The academic discussions debating on around business models have become more and more popular since 1990s. Furthermore, not until this day scholars are willing to totally agree on what a business model is. (Zott et al. 2011) As a result business model is still a hot topic in academic debates and the number of academic researches is increasing.

Nowadays' global and changing market environments have caused that business models have to be agile, and companies need to refine and update their business models in order to remain as competitive. According to Chaharbaghi et al. (2003, 372) business models are related together because environment has an effect to business models. For example, customers, competitors, demand, resources, and capabilities affect into business model and decide if the business model is advantageous and appropriate. Business models also show whether the company makes or destroys a value and how it is being done (Boulton et al. 2000). Business models can be even used as an important strategic tool of a company and it is even a source of competitive advantage and those provides a similar way to overtake the competition (Mitchell & Coles, 2003, 15; Barney, 2001; Zott et al. 2011; 1029). Therefore business model and the constant renovation of the model are extremely important in today's constantly changing business environments.

According to Zott et al. (2011, 1022) business model, as a definition, can be referred several different things and concepts. According their observations, business model refers to a statement, a description, a representation, architecture, a conceptual tool or model, a structural template, a method, a framework, a pattern, and a set. For example, Timmers (1998, 2) states that business model is a type of design that presents the output and information flows, and which includes a description of the various business actors and their roles. Business model also explains the potential advantages for the key activities needed in e.g. delivery of the product or a service for a customer or in value creation. Business model is an explanation of the company's value creation, which illustrates the sources of the profit. In addition to this, business model can be seen as a structure of single not related activities, which exceeds the company in many levels, and as a structure that extends concrete company

lines. (Zott and Amit 2010, 216) Johnson et al. (2008, 52) agree also with this definition, that business model is a concept that presents the collaboration of business actors, which are required to deliver value. According Johnson et al. (2008, 52), business model builds up from four linking features; customer value proposition, profit formula, and key resources and processes, while Osterwalder et al. (2010, 16-10) state that business model consists of nine different factors. According to Johnson et al. (2008), business model is based, profit formula, key resources, and key processes together effect on customer value proposition and which combined to three features, mentioned earlier, forms a business model. (Johnson et al. 2008, 52) Osterwalder and Pigneur (2010) describe that business model is based on revenue streams, key resources, key activities, key partnerships, cost structure, customer segments, value proposition, channels, and customer relationships.

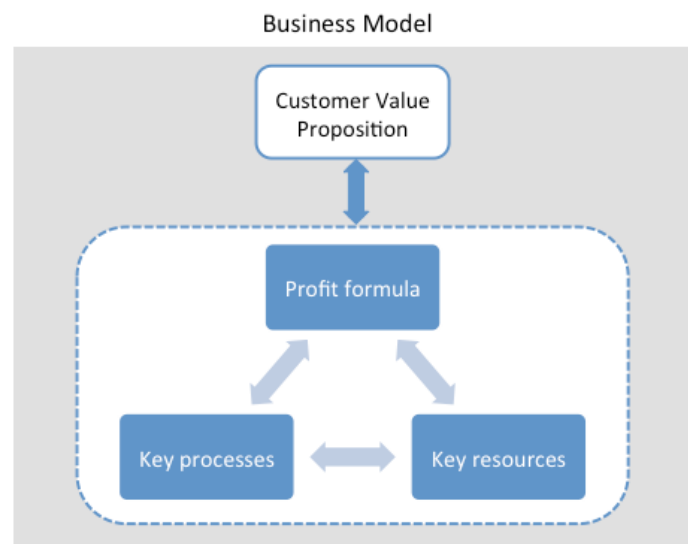


Fig. 3. Business model's structure (Johnson et al. 2008, 52-54)

According to Johnson et al. (2008), study every successful company operates according to an effective business model. In order to this, companies need to systematically identify one's business model's fundamental parts. Customer Value Proposition (CVP) is at the core of every successful business. This is because every successful company creates value to customer and to itself at the same time. *"That is, a way to help customers get an important job done. By "job" we mean a fundamental problem in a given situation that needs a solution"* (Johnson et al. 2011, 52). Once a company truly understands the problem and its dimensions and is able to understand the process needed to get the problem solved, the company is able to represent its offering to customer. In brief, the better the "job" is done, the

better the solution is the greater the CVP will be. Pricing has also an effect to CVP, but the most important attribute of the CVP, is the precision of it on answering to the question about how perfectly customer's problem or issue can be solved. CVP can be considered to consist of proper e.g. problem solving or customer's needs fulfilling and offering.

Profit formula is very important actor in this procedure, presented in fig 3. It describes the way the company is creating value for itself while bringing value to the customer. According to Johnson's et al. (2011) study, profit formula takes into consideration how revenues are created and what are the margins, what kind of cost structure a company is having, and how fast the needed resources for a specific situation are reached. The questions like: how much profit can be collected, how costs are allocated, how much each transaction should net to achieve the desired profit levels, and how resources needs to be allocated in the specific situation in order to achieve the targets set, are being considered while planning profit formula for a specific situation.

Second factor that has an effect on CVP is key resources. These resources are assets such as people, technology, facilities, products, equipment, channels, and brand. Key resources are such resources that are needed in order to deliver the CVP to wanted customer. Companies need to focus on the key components and resources that offer value for the customer and how these key components or elements interact.

Third factor is key processes and which together with CVP, profit formula, and key resources form business model (Johnson, et al. 2011). As mentioned earlier, successful companies create value to customer while creating value to company itself. Successful companies also have both operational managerial processes that allow them to create value in a way that can be successfully repeated and increased in scale. Key processes as a term may be misleading because it takes into account also the rules, metrics, and norms that make the profitable delivery of CVP duplicable and scalable. All in all, customer is very important affecter while considering business model.

To sum up, business model is the cornerstone of each business and which effectiveness determines whether the company is successful or not. It has gained attention in academic literature during the past decade, but there is not yet generally accepted definition among the

scholars. Thus, it is very hard to define business model in brief and relevant way. And maybe this is the reason why not all the studies, dealing with business models, define it.

Business model can be used as a strategic tool that presents and outlines the key actions needed in order to deliver value to the customer while creating value to business. Business models are strategic tools that can be used to overtake a competition and as a source of competitive advantage. Effective business models can create a great amount of value, and a firm's managers create business models in order to meet the expectations of customers (Zott & Amit, 2013).

### **3.1 VALUE CREATION**

This chapter will review the existing value creation literature and will focus on the most relevant and know value creation models. The aim of this chapter is to give to a reader an understanding about the value creation models especially in the context of services and more specifically in professional services.

#### **3.1.1 VALUE CREATION LITERATURE**

In order to understand value creation more deeply, defining the concept of value creation is needed. Value creation, in a specific sense, means creating something that creates value to someone e.g. in the business context, to customer or company. If we concentrate on value meaning in business context, we will find out that for companies value is something that customers are willing to pay for end product. The ultimate value will be created when the company is able to offer exactly same product with lower price than its competitors, and when the company is able to offer something additional, which makes the customers pay for higher prices for the same product. (Porter, 1985, 38) This situation, described above, is also called competitive advantage. According to Lepak et al. (2007, 180), value can be created for business owners, stakeholders, or customers while delivering a service.

According to Bowman and Ambrosini (2000, 2), state that value creation in business context can be divided into *use value*, which is perceived by the customer, while consuming a

product or a service, and *exchange value*, which emphasizes the monetary amount that a customer has to pay for a specific good or service. Lepak et al. (2007, 180) have more specific viewpoint into value creation and according to their study, value can be created for business owners, stakeholders or customer. As noticed, value can be created to both, company and client, but the time when the value concretizes differs. This type of value creation situation can be considered as a traditional value creation, in which a company creates value, which is changed in the market, and as a situation, in which a consumer is demand target for the company's offerings. (Prahalad & Ramaswamy, 2004, 6-7)

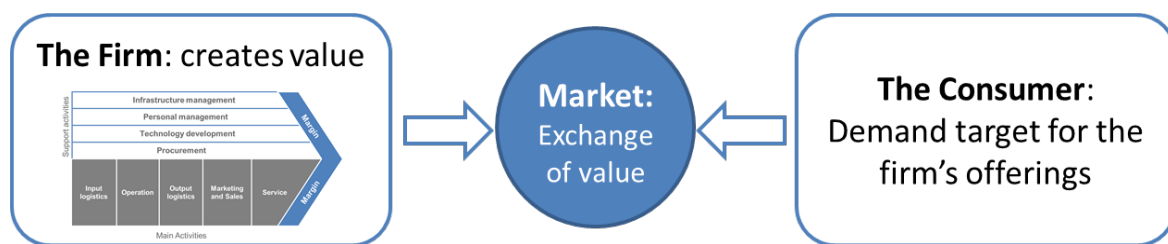


Fig 4. Traditional value creation process (based on Prahalad and Ramaswamy, 2004)

As noticed above, in traditional value creation, only the firm creates the value, which is changed in the market. Of course a firm will get an exchange value from the transactions, but that is pretty much all of the value that a company receives.

Since the company is creating value, it is needed to understand this value creation process. Value chain is probably the most well known and most important concept. First of all, it describes the various value added stages from purchasing the materials to distributing, selling, and servicing the final product. Value chain also describes the value added stages from raw material to end-user as a product is manufactured and distributed. (Crain & Abraham, 2008, 29) These stages can be divided into *support activities* and *main activities*. Support activities are such activities that are needed in order to run main activities. Such activities are e.g. human resource management, technology development and procurement. Main activities are activities that are needed to in order to e.g. to manufacture an end product and deliver it into final market and client. These activities are e.g. inbound logistics, operations, outbound logistics, marketing and sales, and service. All these activities together with support activities determine the value, the *margin*, of the company. (Porter, 1985)

As mentioned, value chain describes the various value added stages of a company and the core idea of it is based on process view of the organization (Elisante, 2006, 11). According to Porter (1985), "every company is an accumulation of tasks, with which its product is designed, manufactured, distributed, supplied and supported. All these tasks can be displayed in a value chain." Value chain determines the end value that a company creates by the amount and quality of value created in each link or part of the value chain (Porter, 1985, 133).

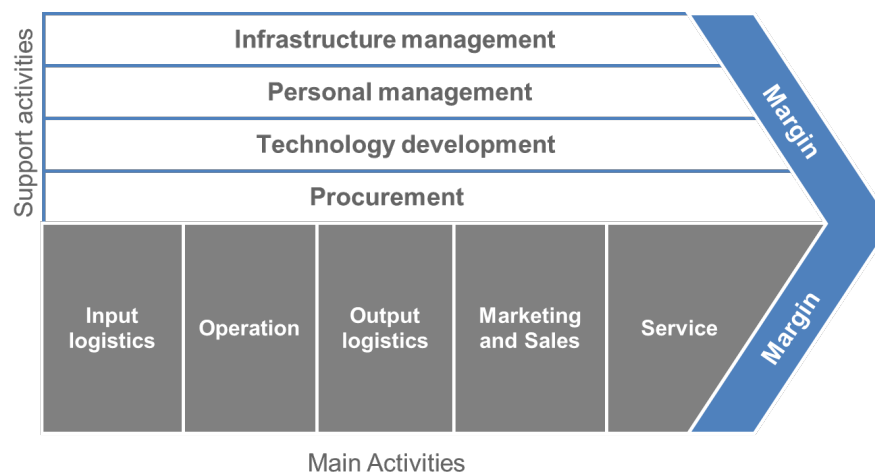


Fig. 5. Porter's generic value chain (1985)

However, Michael Porter's value chain has designated to only describe the value creation of manufacturing firms and less so the logics of service firms (Ørberg Jensen & Petersen, 2013, 557). In the context of services Porter's generic value chain determines the value that the client is willing to pay for the services of the specific company.

Rupa and Pallavi (2013, 2) mention in their study the *service value chain* (SVC). According to them, SVC is an approach that aims to increase profitability and maximize capital utilization. To be more precise, service value chain is a tool or model which crosses the borders of different functions within a company, and brings these functions such as sales, contract management, and customer support and service, closer together (Rupa & Pallavi, 2013,2; Giabocce et al. 2011, 5). SVC may even increase cost efficiency, and it is an effective approach to create greater value for companies after sales of e.g. a product. (Rupa & Pallavi, 2013).

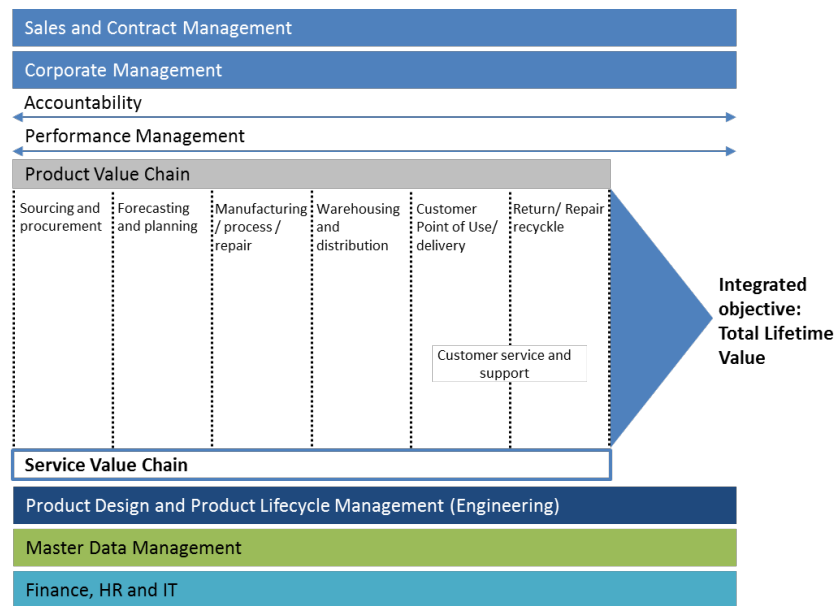


Fig. 6. Service value chain (Giabocce et al. 2011)

The weakness of this model is that it mainly concentrates on the post-sales market. As a result this model is more relevant in post-sale service market and thus, not exactly fit on the context of service sales and value creation of a firm, which operates fully on service market. Ørberg Jensen and Petersen (2013) point out that service firms like banks and s do not fit this value chain logic. They state that service firm value creation logic is different than value chain is explaining the logic being e.g. banks are founded on two different value creation logics; *connecting* and *advising* clients. While connecting is a network service, advising is having a very consultative nature. Ørberg Jensen and Petersen (2013,559) also point out that marketing literature sees service firms' value creation process as a dynamic process, in which the company and its customer jointly create value. The value co-operation within company and its client is also mentioned among many other authors (see Andreu et al. 2010, 244; Chan et al. 2010, 50; Howden & Pressey, 2008; Schenzer et al. 2013, 607).

Ørberg Jensen and Petersen (2013, 561) describe the value creation logic for service firms. They state that the value is creation determined on two logics. It is determined on value proposition to the customer and on the essential capacities and/or capabilities that needed to carry out this value proposition and e.g. deliver a service to a customer and as a result get a payment from customer which increases the company's profit.

Table 1. Value creation logics of services categorized by value proposition and key resources (Ørberg Jensen and Petersen 2013, 561)

Value creation logic	Value proposition to the customer	Essential capacities and capabilities
Analytics services	Identifying clients' needs or problems and giving advice to their fulfillment/ solution	Analytical skills and thorough knowledge of client preferences and routines
Facility services	Safeguarding, maintaining and facilitating the use of, goods, and properties	Expertise in recruiting, training, and motivating staff
Network access	Giving access to networks of individuals/firms w/supplemental social or economic interests	Capacity ensuring network externalities and capability of avoiding adverse selection

They state that *analytics services* have almost the equal nature and characteristics as professional services, so that is why this model is accountable. The service, being provided, is delivered by a person, who possesses sphere knowledge, analytical skills, and has the knowledge of the client's preferences and routines. According Ørberg Jensen and Petersen (2013, 561) value proposition, in the context of analytic services, should identify needs or problem(s) of a client and give advice to the solution of these problems.

Porter's generic value chain is not accountable, in all respects, in the context of services as the customer is so relevant in value creation process. This is because, according to service-oriented view of marketing, customer or user must determine and co-create the value with the supplier. Otherwise value cannot be created. (Chan et al. 2010, 50) In that case, value co-creation model would fit much better for service companies than e.g. a generic value chain model or service value chain model.

### 3.1.2 VALUE CREATION MODEL

As noticed, earlier, the value creation model is not that simple in the service context. Porter (1985) established his value chain model, which presents all of the actions that are required in the company from early creation until the delivery to customer. This model is more relevant can be more easily used in the product and manufacturing context as in service context. This is due to many reasons. First and foremost client is the source of profit. As a result clients



need to gain and achieve value because then they are more tend to deliver more value for company. Services are much about interaction between buyer and seller or between company and customer. Service dominant marketing literature even states that the customer determines whether the value can be created or not (Chan et al. 2010, 50).

Thus, the value creation is not dependent only from the company. Especially, in the context of professional services, value co-creations is very relevant because the service delivery model is such a different compared to traditional service models such as e.g. car repair. There is, in most of the cases, a problem that needs to be solved by a professional who delivers the service, and a client takes also part into this problem solving process. As noticed earlier, relationships, especially customer relationships, are very essential in the context of professional service throughout the whole process and even after it.

As noticed earlier, successful businesses create value at the same time from clients and for firms it selves so do successful professional service firms. First of all, they create value to their clients while creating value to owners and other employees. Secondly, partners gain value from financial returns and knowledge development. Both financial returns and knowledge development increase the worth of the firm, as they enable more revenue enhancing value creation processes. (Løwendahl et. al. 2005, 912) Businesses, that are achieving long-term excellence, focus on delivering value to their customers rather than concentrating directly on profitability. The profitability will be gained from customer-value delivery, and therefore a customer needs to be taken into account while considering value creation. (Slater, 1997, 164)

Value creation in complex services, such as professional services, begins with identification of the content and goals for the exchange. At this stage, the needs and desires of the customer are determined and how the supplier e.g. professional service provider can fulfill these requirements. According to Jaworski and Kohli (2006, 109-110) this is carried out by listening to the customer and by asking what are his or her expectations. This is the traditional model, but in co-creation process both customer and supplier do the asking so that they able to understand the expectations and desires of each other. As a result, it is needed to understand the value co-creation more deeply.

### 3.1.3 VALUE CO-CREATION

Value co-creation, as a concept, has become more and more relevant during the past decades, as the marketing has been moving from a goods-dominant to service-dominant, where intangibility, value co-creation, and relationships are in the central position. Vargo and Lusch (2008, 7) even state that consumer is always a co-creator of value in service dominant context. In addition to this, customer can be seen as a co-producer of the service, and the actual value is created when the consumer consumes the service. As a result, only the customer determines the value and the form of it, and therefore before delivering a service all that professional service provider can do, is to deliver value propositions to customers. (Vargo & Lusch, 2004, 1-7) According to Prahalad and Ramaswamy (2004, 10), value co-creation is dependent on buyer-seller interaction that is vital for value creation. Also Baumann and LeMeunier-FitzHugh (2015, 291) recall this logic; value is not embedded by selling operations, but created by the customer who is consuming the service or a product by turning he or she into co-creator. Thus, company is acting only a role of *facilitator* that provides the resources for customer that eventually creates the value. However the seller is able to act, as a co-creator of the value, in this process, but the seller needs to understand the client's current value creation processes and how it develops over the time.

Furthermore, companies must learn from their clients and collaborate with them to create values that meet their individual and dynamic needs. Customer participations should be more encouraged, and in order to create value companies should shift from a goods-centered to a service centered marketing logic. By doing this, companies are able to act as a proactive value co-creator, rather than being as a passive value receiver and producer of standardized value. The conception of value co-creation is particularly significant among professional services, which are high tailored, high contact, and high in credence assets. (Chan et al. 2010, 48) Involving customer into co-creation may deepen the relationship between customer and the company. These stronger and deeper working relationships are intangible assets. No matter if they were in the supply chain, alliances with competitors, or other institutions, these relationships can be regarded as intangible assets. These types of intangible assets are difficult to replicate for competitors, and cannot be traded or acquired. Thus, relationships have more rich potential for sustainable competitive advantage (Morgan & Hunt, 1999, 281-283). According to Schenzer et al. (2013, 607) it has been well argued that the co-creation of

value between buyer and seller (e.g. consultant and client) is perilous for competitive advantage. These, inter-firm, co-operations for value co-creation are rarely created in a very short time so the time for the development of the relationship is truly required (Schenzer et al 2013, 607).

“Customers are fundamentally changing the dynamics of the marketplace. The market has become a forum, in which consumers play an active role in creating and competing for value” (Prahalad & Ramaswamy 2000, 80). Value co-creation is even described to be as type of a “dogma” in service dominant logic and to be the cornerstone of customer participation. As a model of value creation, customer participation should create value both client and the company. This is because customers who get more value from a service are tend to be happier, and as a result consume more money into company and as a result also company benefits. (Chan et al. 2010, 48) As noticed earlier existing service dominant marketing literature describes that value cannot be created without customer, and therefore customer is seen always as co-creator of value (Chan et al. 2010, 50).

Involving customer into value co-creation increases customers’ economic and relational values, and enhances the relationship between customers and employees, but at the same time this involvement increases employees’ job stress and hinders their job satisfaction. Chan et al. (2010) states also that the performance outcomes of the customer participation depend on the cultural values of both customer and service employees. These cultural values are such as power distance and individualism versus collectivism. (Chan et al. 2010 48-50) Power distance indicates the degree how society’s members react and agree to the fact that power is shared unevenly. Power distance also explains how a society handles inequalities. Second cultural dimension or value, which determines, whether the value is going to be co-created or not is individualism / collectivism. This cultural dimension explains peoples’ self-image whether it is “we” as a group or “I” as an individual. This dimension describes how closely in a specific society members are linked together. (Hofstede, 2016)

These cultural dimensions, personality and nature of each person are relevant in value creation process and in its outcome. For example if customer consider him-/herself as an individualistic member of a society he or she might not be very willing to co-operate in value creation process. As a result the performance outcomes of the customer participation in value creation would remain almost as nonexistent.

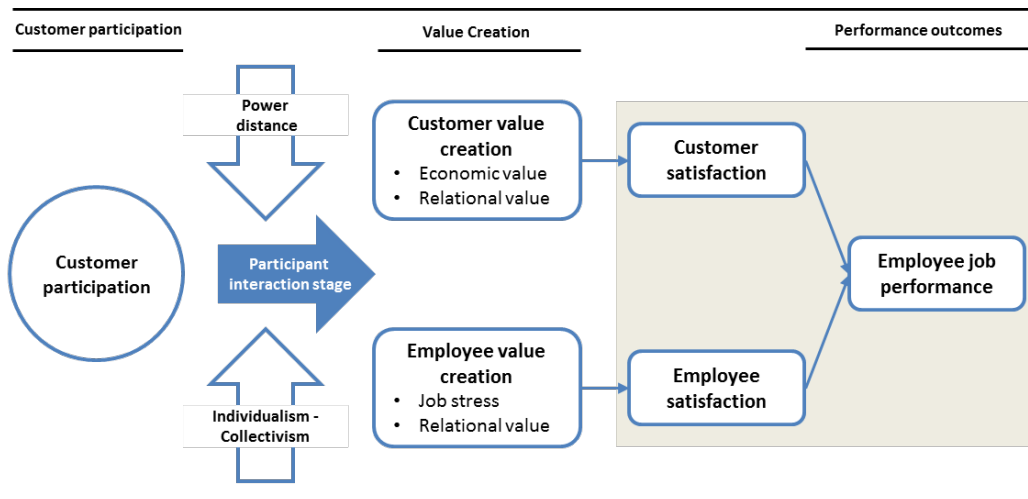


Fig. 7. Customer participation in value creation (Chan et al. 2010, 50)

As noticed, above, customer relationships are the source of profit and a capital flow in a company, and therefore sources of a competitive advantage. They are very essential in professional service context and the value should never be underestimated. While the two client and company co-create for value in successful transactional interaction, they also co-create relationship value (Baumann and LeMeunier-FitzHugh 2015, 308). Based on Howden & Pressey's study (2008), there are six key dimensions of relationship value in professional service, and which are needed to value adding business relationship between the company and the client. According to their study trust, personal interaction, service fulfillment, location, and direct/indirect costs create a value for a relationship between company and a client. For example, in audit services, which are at the core of professional services, it is crucial that the service provider is able to get along with the clients and be to be trusted partner. This goes above all else (Cooper et al. 2000, 100). Agent's know-how in a relationship creates value only for a client but not for the company. The value (all attributes) is delivered through client serving professional or relationship manager, who acts in a key role in professional service delivery and value creation. (Howden & Pressey 2008, 801-802)

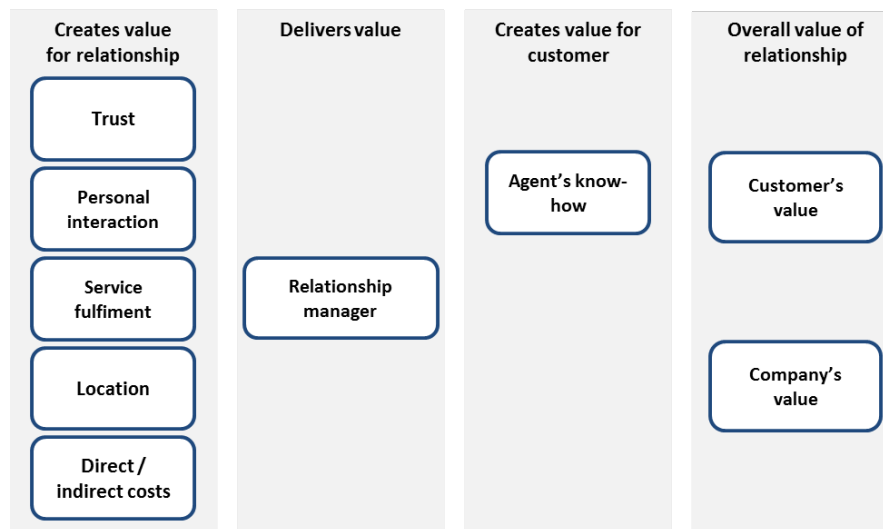


Fig. 8. Professional service relationship value model  
(based on Howden & Pressey, 2008)

*Agent's know-how* and ability to advise the customer on solutions on their own business insurance need is mentioned as a one dimension. The knowledge and understanding of customer's business and industry sector as well as the applied knowledge act as key roles in this dimension. *Trust* in a relationship partner is considered as a key relational building block, or driver that has been the focus of many studies. Relationship partner has to behave benevolently, honestly, and act as trustworthy relationship partner in order to create and even deepen the existing business relationships between the clients. Third dimension of relationship value is *personal interaction*. Personal service, expedient processing, and staff continuity are seen as sources of value related to the interaction customer experienced with the agent. Fourth dimension, *service fulfillment*, how claims are handled and the level of support provided by the agent, can be regarded as a test in terms of the agent's ability to fulfil customer expectations. Suppliers create value by managing customer's expectations, while delivering a service, which gives the value for money that client is expecting. *Location* is fifth dimension relationship value. According to Howden & Pressey (2008, 801-802), clients appreciate close location of agent, which enables face-to-face meetings and shorter response times. The last dimension of relationship value is *direct / indirect costs*. Direct costs are related with the premiums paid for insurance cover in terms of the perception of value for money. According to Howden and Pressey (2008, 803) it is rare for a customer to evaluate value by ask for asking price from competitors and us that as a reference. However, clients seek the advice of the agent for support, they compare the price paid with the previous year or

they are looking for advice from other local business buyers. These six dimensions, mentioned above, create value from the client's point of view and are needed to take into consideration while creating client relationships in the professional service sector. In long-term relationships in business-to-business markets, the value is often delivered by a relationship manager or a salesperson. These relationship managers act as a vital role in the delivery of value because they control this whole process and manage customers' expectations. (Howden and Pressey, 2008)

According to Løwendahl (2005, 46), the value creation processes of professional service firm can be wrapped up into three critical processes. The first process (ex ante) is related on the firm's ability to sell a reliable promise. Second process (during interaction) involves the group of activities needed in order to deliver what has been promised and it involves both client and the firm professionals assigned. Third process (ex post) that Løwendahl states is the process of learning from the project and institutionalizing this learning so that it can be utilized for future assignments and improvement of service quality.

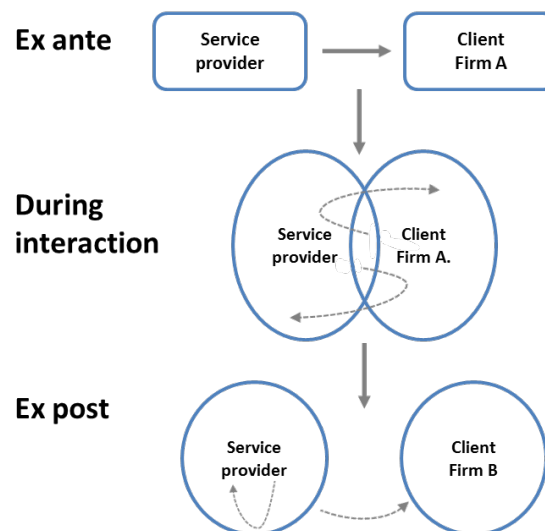


Fig. 9. Value creating processes (Løwendahl, 2005, 46)

Ballantyne and Varey (2006) have a triangulated view into value creation. According to their view, relationships are giving structural support for the creation and application of knowledge resources while communicative interaction is supporting or enabling to develop these relationships. Knowledge is needed especially to improve customer service especially when co-created through interaction and learning together.

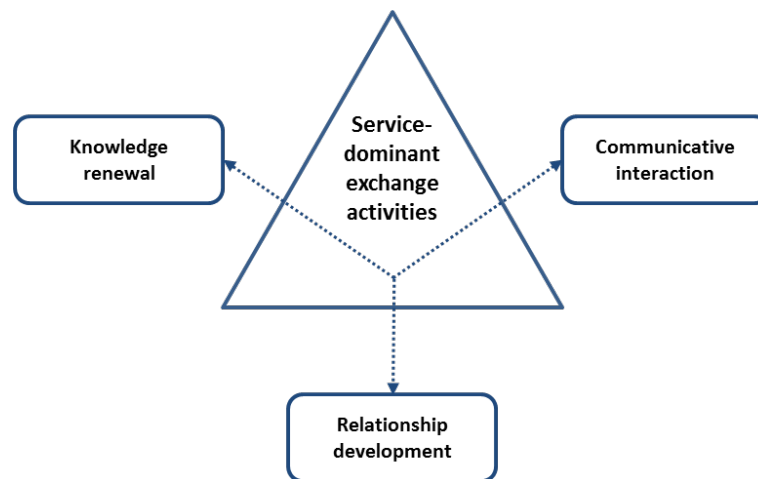


Fig. 10. Triangulation of Value-Creating activities (Ballantyne & Varey, 2006, 343)

According to Ballantyne and Varey (2006), the relationships are developed through three different types of communicational interaction: *informal*, *communicational* and *dialogical*. Informal is informing communication while communication is also listening. Dialogical communication interaction is an advanced form of communication and is built on trust. Understanding the expectations and needs of both company and customer, which is the establishment of the professional service value creation, requires dialog (Lusch & Vargo, 2006). As a result this communicative approach into value creation is merely important in the context of professional services that require high skill and knowledge and are solution oriented as noticed earlier and requires understanding of the client's current and future position. According to Day (2006, 88), the application of skills and knowledge is collaborative in nature and customized solutions are realized through interactions and relationships and a customer is a co-producer in these processes. As a result, both company and a customer contribute in this interactive value creation process. Aarikka-Steenroos and Jaakkola (2012, 16) even states that the bigger the information asymmetry between supplier and client, the more reliant both customer and company are of each other in value creation. However, this asymmetry may complicate the value co-creation and especially interaction and information sharing. This is because in some cases customers are so unaware that they do not even know their own needs and the best options for themselves and thus, they are unable to define their needs and objectives for value which hinders the value co-creation. This issue is relevant especially in the context of professional services.

Andreu et al. (2010) presents a model for value co-creation, in which both suppliers and customers manage and integrate their resources and activities during their value-creating process and value co-creation is a constituted path of actions. The co-creation can be reached by “harmonizing” between both customers and suppliers resources, processes and roles. Without this matching customers and suppliers will rely only on their own resources and capabilities and as a result value co-creation would remain as unachieved. According to Andreu et al. (2010, 244), value creation can be regarded as wheel that requires customer knowledge in order to turn it. Even though customer knowledge is the foundation of value creation process for the supplier, suppliers should integrate customer’s resources into company’s processes and by that support value co-creation.

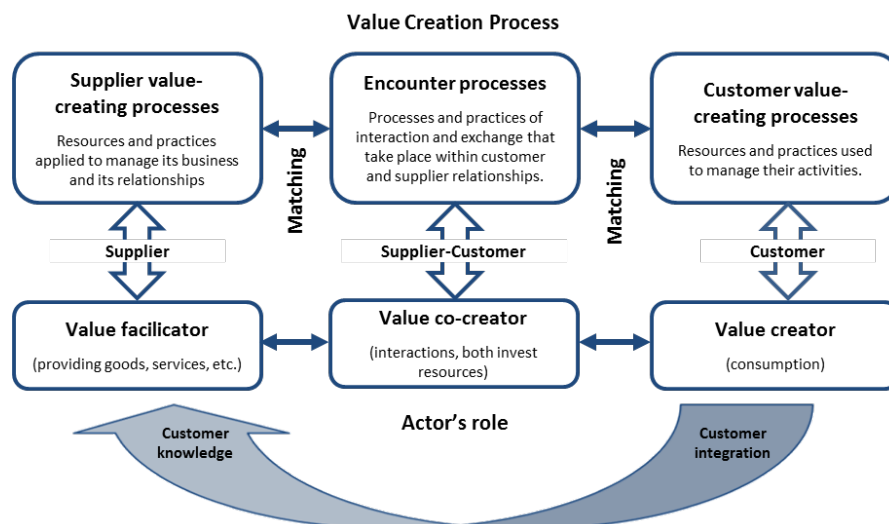


Fig. 11. A conceptual framework of value co-creation (Andreu et al. 2010, 244)

Aarikka-Steenroos and Jaakkola (2012) have value co-creation model, which is based on vast empirical evidence. They carried out 120 qualitative interviews with clients and suppliers of knowledge intensive services. As a result their value co-creation model and findings are relevant if we consider professional service context. According to their model, there are five collaborative activities constituting the value co-creation of complex offerings:

1. Diagnosing needs
2. Designing and producing the solution
3. Organizing the process and resources
4. Managing value conflicts



## 5. Implementing the solution

Aarikka-Steenroos and Jaakkola (2012) states that these five activities do not automatically follow each other in a linear but may be matching. This is because some actions taken may launch again activities that have already been taken.

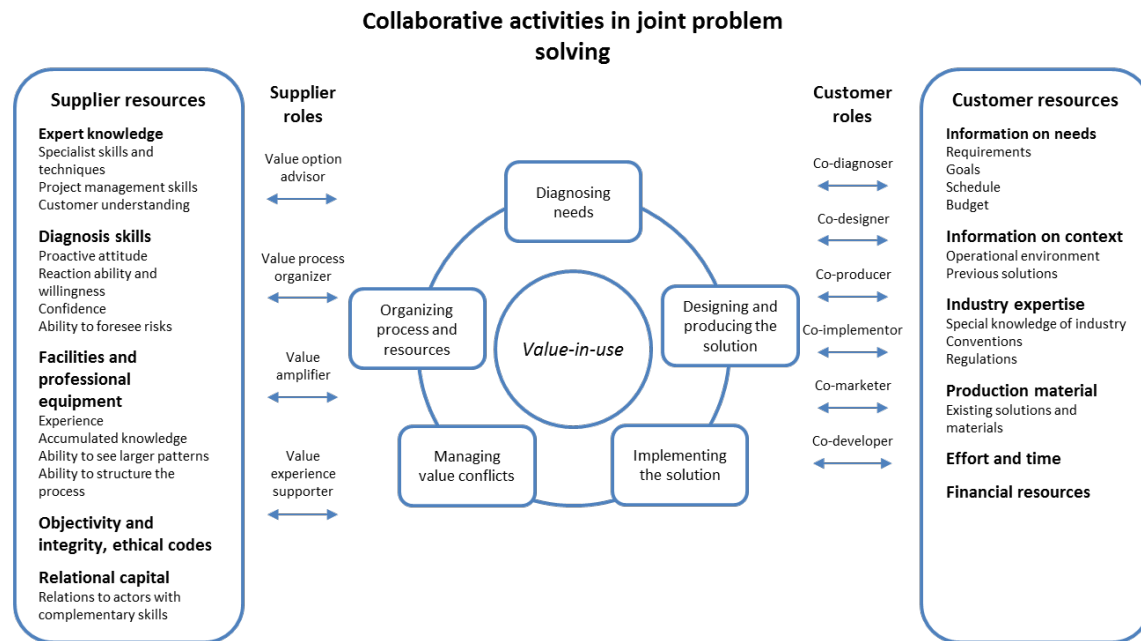


Fig. 12. Joint problem solving as value co-creation in knowledge intensive services (Aarikka-Steenroos & Jaakkola 2012, 22)

Co-creation begins with *diagnosing need* stage in which needs and goals for exchange are identified. Normally this is carried out by a professional who uses his or her specialist knowledge to identify and determine clients' problems and needs. Dialogue is required at this action step in order to achieve optimal value for both client and supplier and as a result it can be assured that best possible balance between the value-in-use to be achieved and the sacrifices needed to achieve these goals. This stage can be considered as a critical resource contributed by customers to the value creation process, because it might be almost impossible to deliver a service without information considering e.g. client's needs, budget and schedule. Second stage in this process is *designing and producing the solution*. The value-in-use expectations and potential related to other solutions are communicated at this stage. Value propositions are spelled out as well as relevant benefits and sacrifices for the client. Client

should not always be left outside of the solution creation process because in some cases client wanted also act as a co-producer of the solution. Third stage is *organizing the process and resources*. The role value process organizer is most often for supplier and only occasionally customers wants to take that role. Customers feel often insecure about the usability of their information and other resource in problem solving so thus, clear procedures and motivations to integrate resources are needed and presented at this stage. Fourth stage is *managing value conflicts* is about ensuring the smooth interaction between the parties that not considerable amount of resources is not involved into this process. It is also essential to determine and clarify the extent of the benefits that can be accrued at the chosen level of sacrifice. By doing this thoroughly value co-creation process can be assured because thus, there will not be a need for solving value conflicts which would be extensive processes and therefore threaten co-creation. Fifth stage, *implementing the solution*, the solution is implemented at this stage. Problem should be solved and implementation actions should be taken into usage. When supplier is engaged to implementation process and helping the customer to utilize to solution, they are able to deliver greater value-in-use. The value-in-use being experienced is ascertained from direct (e.g. decreased costs), indirect (solution's usability and reliability) and non-monetary (decision making assurance) benefits, (Aarikka-Steenroos & Jaakkola, 2010, 20-22)

According to Geer (2015, 240), consumer participation in professional services' value creation process is both threat and an opportunity. Clients with a possibility and competence to participate and engage themselves into co-creation, create greater amount of value for professional service providers than clients without this competence who provide less input into process. However professional services require certain level of quality and quantity of client participation and as a result they are exposed to a higher risk than in a services where the client participation is not needed at the same way. These services are associated with complexity, heterogeneity, specialist knowledge, and a high level of uncertainty, which will hinder the value co-creation. (Geer, 2015, 240; Aarikka-Steenroos & Jaakkola, 2010, 6)

As a conclusion, value co-creation can be considered as an interaction between client and a company in which the client and a service supplier constantly collaborate in order to create value. In value co-creation value is created through interaction in which the client and supplier takes part into. A customer's and a company's roles in this process must be well determined and there must be an access to needed resources. Value co-creation can be seen as

an opportunity and a threat, and it enables higher value for both client and a company. Creating higher value, to both client and company, would not be possible through the ways of traditional or classic value creation such as value chain. This is because value chain takes only the other participant into account while in professional service context both client and a company is needed in order to even deliver a service and as a result to create value.

### 3.2 REVENUE MODEL AND VALUE CAPTURE

As noticed, in the previous chapters, business model is a combination of company's activities in order to create value to its customer's and itself. The value to company can be considered as a revenue or monetary amount of each transaction. Revenue model describes the company's ability to exchange value propositions, that it is offering, to incoming revenue streams (Osterwalder & Pigneur, 2002, 85). As a result it is relevant to understand how the company creates its revenues and how the value is captured.

According to Kakikahara (2010, 4), business models should be built up from value proposition and operating model. Value proposition describes how the business is making the money while operating model presents what the business fundamentally does. Value proposition consists of target segment, product offering, and revenue model or profit formula as Johnson et al. (2010) state. According to Kakihara's framework, operating model includes such factors as value chain, cost model and organization.

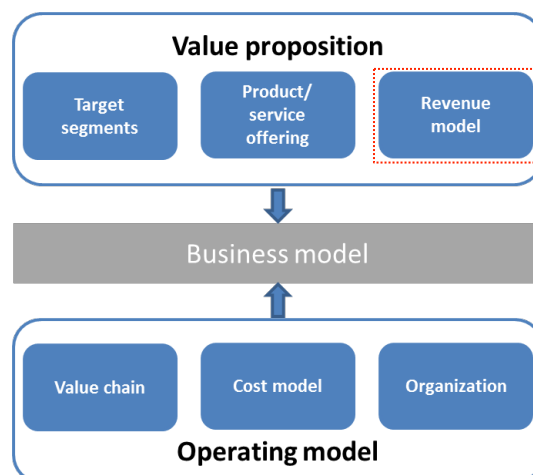


Fig. 13. A simple framework of a business model (Kakihara, 2010,4)

Wardell III et al. (2008) state that appropriate pricing model for professional service firm is capacity and value based. Thus, the usage of cost-plus pricing model, which takes only the costs into account should be thought through again. They state that cost-plus pricing model is rather appropriate way to price professional services; it is not the most effective way to do it. The idea of this model is that service engagements are priced based on the costs that are needed for service delivery. This pricing model has rather long heritages, as we can see from the Stormberger's (1969, 114-115) formula, which was created to express professional service firm's operating profit. The cost-plus pricing model stands on a three foundations: cost structure, competition, and customer perceived value (Debely et al. 2008, 168).

According to Stromberger (1969, 114-115), a normal professional service firm's total operating profit can be calculated as follows; hours worked directly on client, by each professional, multiplied by each professional's standard hourly rate. This will be equal to total direct service costs. Non-billable direct costs and total direct costs will be added to this and the result will be equal to total operating expenses, by client. Depending on the total operating expense by a client whether it is profit or loss, all operating expenses, by client (e.g. client A, profit + client B, profit – client C, loss) will be counted together and the result will be equal to the *total company operating profit*. Direct costs are the costs that client are charged, as a result these costs represents the direct service costs without e.g. travelling and other indirect costs. Indirect costs are costs that are related in personnel time spent on non-client activities such as administration and normal office work. These costs cover also overheads such e.g. as taxes, rents, utilities, asset depreciations, and internal research and development. According to Stromberger (1969), by doing this professional services, normally, are able to calculate the costs the total profit. As noticed, all that this formula takes into consideration are costs and hourly rates and hours used in the engagements.

The pricing model that Wardell III et al. (2008) presents in their study, results into efficiencies. According to their findings, *capacity and value-based pricing model* for professional services leads many times higher revenues than cost-plus pricing model with added 30% margin. As a result it is reasonable use capacity and value-based pricing model rather than cost-plus pricing model in the context of professional services. This type of approach to professional service pricing is also relevant because professional services have

some special characteristics such as professional time cannot be restored for future and capacity is often steady and the cost of rapid expansion is very high (Lai et al. 2010).

The effective revenue models as part of an efficient business model is also at the core of the value capture process. This is because, generally value can be considered to be captured when the sale is done and the money is exchanged between a customer and a company.

According to Töytäri (2015, 256), companies capture value in value-exchange relationships in which clients are seeking to capture value e.g. by using such practices as bidding contests to ensure the lowest price and highest value capture. By this customers or buyers are able to avoid their dependence on one seller and able to e.g. get the lowest price. (Töytäri, 2015, 257) Furthermore, the capture of value can be described as a function of bargaining process between customer and supplier (Bowman & Swart, 2006, 492). If the service is easily replicated and buyers are able to find competitive alternatives their bargaining power is high and therefore they are able to higher value capture. For example, in the context of professional services, if a company's employees' skills are difficult to duplicate and if employees can choose to apply their skills to elsewhere, the company is able to higher value capture. Therefore suppliers innovate the company's products, processes and business model in order to gaining higher bargaining power and as a result higher value capture (Töytäri, 2015, 257).

As result the importance of business model innovation as well as product and/or service innovation is at the core of successful business, which creates value to its customer but also captures the value to itself. Companies must seek for skills that are hard to replicate and skills that are possible to offer to the wide range of customers. Thus, a firm is able to capture is high value as possible in the context of services.

## **4. RESEARCH METHODOLOGY**

The study is qualitative and the empirical data has been collected by interviewing three persons: person X, person Y, and person Z. Each of the interviewee works in the separate professional service. The purpose of this chapter is to identify and describe the reader empirical data collection process and analyze the data being collected. In addition, the end of the chapter the reliability of the study and the factors affecting on it are estimated.

### **4.1 DATA, METHODOLOGY AND ANALYSIS**

This research is a qualitative multiple case study, which involves three professional service suppliers; person X, Y and Z. A multiple case study is used as a research strategy because of its nature, which enables to establish whether the findings of the first case occur in the other cases, and it enables the researcher to generalize from the findings (Saunders et al. 2009, 56). In this research a descriptive research method will be used, to explain and illustrate, what kind of different characteristics the different professional services has in the sales of each of them. I will also use the inductive approach in order that it can be ensured that the collected data will be the basis for further conclusions in the study, and it also enables the researcher to create generalizations from the data being collected (KvaliMOTV 2016).

The author has chosen to interview only service suppliers, in this context the professionals, because the earlier studies have implicated, that customers are behaving pretty much in a similar way; they are seeking value through e.g. getting their problem solved by a professional service provider. Another reason to interview only the professional service suppliers is that the author wants to concentrate on deepening on his own and his colleagues understanding about value creation in professional services. However it is important to recall that this thesis is not made as an assignment for any company and the driving factor is the deepening the understanding of certain group of people.

In this research, semi-structured interviews are used to collect primary data from professional service experts. Semi-structured interviews are guided by a somewhat detailed topic guide, which will contain some fairly specific questions to ask, and likely ways of probing (Lee &

Lings 2008, 218). The interviews are held around certain themes such as *service, client and value*.

As mentioned, data was collected through semi-structured interviews and in order to gain triangulation the author will use also his own observations from his work. The author interviewed three professional service suppliers or experts person X, person Y and person Z. The interviews were held in different weeks so that the author had a possibility to immerse himself into the results more precisely after every interview. Interview questions were not sent to the interviewees beforehand, but they received only the themes so that they were able to prepare themselves into upcoming interview. The questions were not sent beforehand because the author wanted to gather as honest, comprehensive, and spontaneous answers as possible.

The interviews were carried out in the work place of each respondent, in places, which were peaceful and private rooms. The interviews were recorded so that the analyses will be easier and more precise. In addition to this, the interviewer and interviewees had very extensive discussions after the semi-structured interviews, which enhanced even more the data being collected. The interviews were booked with each interviewee one week before the actual event and they were delivered the guidelines of the interview and the information about the confidence. The quotes being gathered from the tape will be separated with indentations and italics and the responses will be presented as anonymous.

Three different professional service experts were interviewed. All of the interviewees are the citizens of Finland and work in Finland. *Person X* works in the field of assurance services and has a vast experience of audit assignments. He has been working over 15 years in assurance services and has different types of responsibilities. A generic service that person X is offering to his customers is annual audit. *Person Y* works in consultancy services and offers financial accounting and advisory services. Person Y has as well long experience of from professional services and he has worked in his current position for couple years. *Person Z* offers taxation consultancy services and he has also long standing experience from professional services and he has been working in his current position for five years.

These three persons were chosen to interviewees, because they have the needed understanding about the sales of the professional services and about the value creation as a

whole. Another reason was also that they had the needed position and experience to also describe and understand the clients' viewpoint.

## 4.2 RELIABILITY

The most important criterion for the reliability of qualitative research is the researcher himself. Evaluation of the reliability, therefore, comprises the entire research process. The reliability and credibility of qualitative research can be promoted through careful description of the research and the research process. In addition to this, the compatibility of the theory and empirical data being collected will increase the reliability of the study. (Eskola & Suoranta 2008, 208, 212)

The interviews carried out in this study, are held by the author himself and the interpretations made from the interviews are formed by the author himself. The interviewees were noticed one week earlier about the upcoming interview and the answers implicate that all of the interviewees were honest and desired to genuinely help in the research process by giving their best in the interview situation. For example the interviewees were willing to talk and discuss even more than the researcher had thought before. Therefore the interviews formed a very comprehensive and consistent whole.

The reliability of this study can be considered to be on a good level. This is because the research process and methodology are clear and those are described to a reader. As well the interviews and the interview process are described and information enough to form a comprehensive picture about the whole process is given to a reader. The study attempts to build a clear link between theoretical data and empirical findings, so that the interview questions are based on the problems and questions, which have aroused in the theoretical part of the thesis. According to Hirsijärvi (2003, 123), reliability can be described to reflect the repeatability of the measurement results. This increases the reliability of this thesis because the interview process and the progress of the interviews are described precisely and therefore can be repeated again and again.



## 5. FINDINGS

The findings of the each interview are presented in this chapter. Such questions as what are the characteristics of professional services, what kind of typical client is, and how do professional services create value are answered in this chapter. Even though only professional service representatives were interviewed, the clients' viewpoint and characteristics was discussed also.

### 5.1 PROFESSIONAL SERVICES

According to all of the respondents, professional services are unique group of services and worth of studying. Persons X, Y, and Z point out that professional services has flourish variety of different type of services which can be customized, repeated and combined to match in every specific client situation. The interviewees also point out that professional services has a huge potential to create value for both customer and company and this value creation is dependent on service being delivered and on the characteristics of a client in each situation.

#### 5.1.1 CHARACTERISTICS

According to person X, professional services are such services, which requires high skill of the individual or a team. These services are delivered in order to solve a problem or a demand of a customer that cannot be solved any other way. For example, some actions that companies need to make are regulated by laws and can be served by only an accredited or certified people. Person X points out for example the annual audit that is regulated by legislation. If a company has certain number of employees or certain level of revenue or the balance sheet surpasses a certain monetary amount, a company needs to carry out annual audit or statutory audit. Only a certified people can carry out this type of service. (Person X, 2016)

*“Some services and the supply of them are regulated by laws. That is why only e.g. certified people can offer these services.” (Person X, 2016)*

Person X also highlights that the professionals who delivers the services are mostly highly educated and have high level of knowledge. Person X point out also that in order to be authorized public accountant (APA), a person need to have passed a certain number a specific courses and pass an exam if he or she desires to be an APA. He also points out that professional services are somewhat complex and need to be tailored in order to match perfectly to each client situation and as a result be high quality service. (Person X, 2016)

According to person Y, professional services are such services that are requested when someone has a problem or a lack of resource that cannot be fulfilled or solved in-house. He points out that it is often more efficient to buy a service from some professional service firm rather than try to educate an existing employee to for example a certain problem or issue. (Person Y, 2016)

*“Professional services are often requested when something cannot be solved in-house. And it is more efficient to buy a service from a consultant to solve a specific issue rather than educate own employee.”* (Person Y, 2016)

Person Z mentions that professional services are often such services that are delivered by a group of professionals who has high substance skills in certain field of professional services for example in audit, tax, or mergers and acquisitions. This group is led by a professional who has good social and interaction skills and therefore is responsible for the communication between client and professional service supplier.

*“Professional services are often delivered by a group of people with high substance skills in specific issue for example in business taxation. This team is led by a person with good social and interpersonal skills.”* (Person Z, 2016)

Person Z emphasizes the importance of “relationship manager” or “client responsible” in professional services, because he or she is responsible in understanding the client’s needs and therefore responsible for tailoring the service to match exactly to client’s needs. If the client responsible is not fully aware and cannot ask the right questions from a client it is very hard to offer high quality service. (Person Z, 2016)

Persons X, Y, and Z point out that professional services are services that not all can deliver and offer. These services require high substance skills from professional and good social and interactive skills. According to interviewees, professional services are often asked when something needs be solved or a company faces an issue that cannot be solved in-house. Interviewees also point out that professional services can be considered to be some kind of advisory and are tend to have consultative nature.

Person X, Y, and Z mention that professional services have many unique and smaller characteristics. Professional services are tending to have tender and highly confidential nature. For example, according to person Z (2016), some private clients may be seeking for tax optimization in which their own assets about not e.g. company's.

### 5.1.2 PROFESSIONAL SERVICE PROCESS

Person X describes the professional service process very clearly. According to him, everything starts with determining the client's problems or issues. After this, the client's expectations for the service are determined.

*“The whole process starts with determining the problem and expectations of a client.”* (Person X, 2016)

Also the person Z mentions that process begins with determining the client's issue and expectations but in addition to this he also mentions that in the beginning must be determined the client's role in whole service process, the level of involvement and the materials that are needed from a customer.

*“ The client's involvement must be determined in the beginning of the process. We can't say to them that we need to meet three times in order to deliver this service and then ask them to meet us weekly.”* (Person Z, 2016)

Often, after this, the proposal is delivered to customer who makes a decision whether to buy or not the service. If a client chooses to buy a service then needed professionals will meet the client and discuss more in order to start the service delivery.

According to person Y (2016), customer often approaches him when she or he already knows that he or she is going to buy a service in any case. However person Y underlines that defining customers' expectations clearly enough as well as defining the offered service and what it will cover, is important so that there will be clear rules both a client and a company.

*"It is important to define both client's and company's expectations and make clear that both knows what kind of service is going to be delivered and when."*

(Person Y, 2016)

After beginning activities the service will be delivered and all three interviewees mention that client is needed into service delivery. According to person Y (2016), the role of customer is so important that not even the whole service cannot be provided if the client's expectations and issues are not defined clearly enough.

When the actual service process starts the continuous interaction between the client and company will continue throughout the whole process. The findings and e.g. development ideas are needed to communicate toward a client even though the service process in assurance, concentrates mainly on history. (Person X, 2016)

*"Audit is about confirming that the given information is correct and reliable. Even though the process in itself looks back on time, we need to be looking forward. By this we are able to ensure that the client gets no surprises and the process will be insightful."* (Person X, 2016)

Person Y also mentions that in addition to the generic service delivery the continuous interaction between company and a client is vital in service process. He even states that no good or high quality service cannot be delivered if the interaction lacks in some state of the process. According to person Z (2016), the communication pretty much determines if high quality service can be delivered.

As mentioned above, communication is proactive and timely from the very beginning of the service delivery process and it even continues after the service has been delivered. According to person Z, it would be a tremendous mistake if there would not be any communication

towards a customer after a service is delivered. According to all interviewees, it is more than important that after the service is delivered and process is over, to ask for feedback from a customer. In brief according to all interviewees service process as well as communication and interaction can be divided into three different parts: pre-, during-, and after- service. According to them, all of these three sections should be weighted similarly, but often *during the service* -part is often weighted more. And in some cases when the delivered service did not match with the client's expectations the *after service* part has been neglected which harms the whole process and the relationship. (Persons, X, Y, Z, 2016)

### 5.1.3 CLIENT

When the interviewees were asked about their clients they pointed out that the clients are most often companies. Only person Z mentioned that once in a while there is private clients who are seeking help and support into specific issues.

According to person X who works in assurance services, the clients for his services are only companies. Person Y mentions also that only companies are asking for his services and therefore person Z is the only one who interacts also with the private clients. According to person Z, companies are often looking for solutions into certain issues but there might also be a possibility to provide services for owners of the company.

Person X, Y, and Z mention that client has a specific role in professional service process. The role of the customer varies based on the service provided. All of the interviewees weight that the client is always set into center of a process and therefore they consider themselves as highly client oriented. However person Z added that the role of client should not be weighted too much in the process. This is because, according to person Z, there are certain services, in which clients are not needed to participate as much, and some clients do not even want to get involved into process.

*“Clients are very important, maybe the most important part of the services, but we cannot over value their role. We have to be able to read the client and set his role to match on his premises”* (Person Z, 2016)

According to all of the interviewees, they need information and resources from their clients so that they can deliver the service. For example person X, who works in assurance services, needs always the financial documents from his clients. Also some interviews and discussions are needed in order to understand deeply enough clients' business and future direction. In order to deliver a generic or most common service client Z needs also some specific financial information and documents from his clients. Some discussions and review are also always needed in order to deliver high quality service.

## 5.2 BUSINESS MODEL

When the interviewees were asked to describe the business model of professional services, they pointed out that those consist of some key elements. These are such as employees, service portfolio, relationships, and value model. They state that no effective business model can be if there are no employees who are educated enough to handle the skills needed to provided services that a specific firm is offering. Then there must be a clear path and strategy how to create value. Therefore all of the interviewees see the role of the value creation as an important part of business model. For example, according to person X, it is easier to create value for company when the customers' value is maximized or tried to maximize.

*“When we try to maximize customers' value, we are striving to deliver best available service. As a result, the client gets more value and appreciates us more which enables new opportunities for us.”* (Person X, 2016)

According to person Y, employees as a key resource are at the center of business model. Employees are the ones who deliver the service and bring the value into professional service firms. Furthermore, all of the interviewees mention that client must be set into center of the business model. According to person X, employees are one of the key factors in professional service firms' business models. According to him and person Y and person Z, no professional service could be delivered if a professional service firm did not have talented and skillful employees. Retaining these highly educated and skillful employees is also one important part of the business model.

*“It is employees who eventually create value to customer and captures value to company.”* (Person X, 2016)

According to person X, person Y, and person Z, the only way to create value for business, is to serve clients as well as possible. They weight that they are fully dependent of customers and the longer the relationship the more valuable it is. They state that if they, as a professional service providers, cannot deliver high quality service that creates value for customers, their businesses will not create profit. According to persons X and Z, a big difficulty in business model is that sometimes they have problems in presenting to customer that they have fully understood the customer’s issue and they have exact solution on it. Furthermore, they state that there are also some issues in representing the value that their service will create for a customer. According to person X, this makes selling harder and more complicated, but he adds that eventually the most effective way to increase sales, and as a result create value for company, is to offer good services to the clients.

*“The best way to increase the sales is to offer better services than competitors.”*  
(Person X, 2016)

In addition to this, Person Z adds that one key thing in effective business model is the combination of key resources of a company. According to him, professionals need to be skillful enough to be able to tailor a service package that fully fulfills the needs of a client. Therefore collaboration within the organization between different professional services is also one important part of the business model.

### **5.2.1 VALUE CREATION**

All of the interviewees see that value creation is very important concept and therefore at the core of business model. They also mention that value creation is very important for every successful company not depending if a company is offering professional services or not.

According to person X, professional service provider can create only a little value to company if it does not take client into consideration in this process. Person X highlights the importance of a customer throughout the whole interview. According to him, high quality

service cannot be delivered if the client is not taken into account as widely as needed. The interaction with the client throughout the whole process is important. Especially in case of conflict or a problem there must be active interaction towards to customer.

*“Issues and conflicts must be solved with the client. And what comes to the interaction it is not client’s responsibility but the service provider’s. (Person Y, 2016)*

Also both persons Y and Z agree with the person X that continuous and timely interaction towards a customer is vital for value creation. According to all interviewees, communication is needed at every stage of the service process. According to person Y, there must be communication well before the actual service process even starts. In addition to this, he adds that the importance of communication is sometimes neglected, because professionals may not recall that communication towards a client is needed even if there is no on-going service process on at the moment. According to person X, person Y, and person Z, communication towards customers is needed even though there would not be open assignments at the moment, because it will give a signal to clients that they are important and respected.

According to person X, in professional services value is created to both client and company and continuous and timely interaction is important factor. Value or only a little cannot be created if the expectations are not defined clearly enough. According to him, high quality service, which creates a lot value for both customer and a company, is not possible without interaction. Thus, the value of professional services is created between company and a client (Person X, 2016). Person X as well as other two interviewees was aware of the value co-creation. According to person X, a company perceives a few types of value; first of all he mentioned monetary value as the most traditional value but then he mentioned relationships and knowledge. Also persons Y and Z highlight the relationship value. Especially person Z emphasizes the importance of relationship value that a professional service perceives from the service delivery process. He sees trust as a key factor in value creation process, especially in case of private clients. (Person Z, 2016)

*“When the relationship deepens and the position as a trusted advisor is gained, clients are willing to buy more.” (Person Z, 2016)*



Person Z adds that timely and proactive communication and interaction are such things, that build trust between client and professional. However, person Z is a bit more conservative about client's role in value creation process as other two respondents. Person Z states that it is professionals' responsibility to make everything as easy and as convenient as possible for clients. Therefore, person Z sees that it is primarily the professionals who make the value creation possible. Client is seen as a source of information and the needed information are asked by professionals with right questions and it is professional who is responsible that needed information is gathered and value added service can be delivered. According to him clients should not been set into position where they need to solve or think something complicate by themselves.

*“It is professionals' responsibility that everything is made as easy and as convenient as possible for a client.”* (Person Z, 2016)

Person X mentions also that some relationships may cause that other companies are more willing to buy services from him. According to him, some clients are not as valuable as some others if measured in monetary value, but the value in the business relationship may be many times higher than one's, which monetary value is higher.

Person Y mentions also the value which is related into knowledge and learning. According to him, professionals are gaining experience and knowledge, which is shared among the company or a team after the assignment. He sees that this type of activity is very valuable and therefore co-creating with customer is extremely important.

*“Professionals are constantly learning from the assignments. The best practices are shared with others in order to allow them to learn also.”* (Person Y, 2016)

Person Y sees this type of action as very valuable and efficient way of working. According to him, the greater value can be created when the professionals are given constantly more and more difficult assignments. He even states that it is the team leaders responsibility that the professionals are put into assignments which are tend to require a little more knowledge than they currently having. This will affect into a greater learning and as a result, more value for company is being created. Person Y still recalls that this process has to be carried out in a way or a manner, which ensures that the quality of the delivered service will not be harmed.

*“Challenging and more difficult assignments teach the professional. It is not developing not to challenge professionals by putting them into assignments that they are the most common with.” (Person Y, 2016)*

According to person X, learning and knowledge related value is created also in his field of professional services. He states that even though the process in itself is somewhat generic and can be repeated from assignment to assignment, there is still always something that professionals can learn from. According to person X, professionals learn from every assignment. For example in audit services the team will learn about industry in which the client operates and thus, they are able to notice and learn the specialties of a specific industry.

*“In audit services the professionals are learning from a client and its industry. This knowledge can be transferred into following assignments.” (Professional X, 2016)*

All three interviewees mention that agents’ or professionals’ know-how and substance skills are also sources of value. High quality service, which fulfills the expectations of a client, creates great amount of value for a client. As mentioned earlier, it is the highly educated professionals who deliver the service. If the professionals do not have the required know-how and high substance skills, high quality and value added service could not be delivered for customers (Persons X, Y, and Z, 2016).

When the interviewees were asked about factors that may challenge the value creation all of them pointed out the interaction and communication. For example, according to person Z, client needs to have a “specific” mindset in order to receive high quality service. Furthermore, he compares the needed mindset into a relationship between personal trainer and a client.

*“For example if you buy personal trainer’s services but you are not willing to exercise and are tired, you can’t expect to receive any results. It is the same thing in the context of professional services.” (Person Z, 2016)*

Therefore client needs to be collaborative and interactive also. In addition to this, persons X and Y point out that also client needs to communicate actively. They state that it is impossible if client do not actively communicate with the service provider. According to person Y it is essential that client communicates about his or her premises and informs the company if there are some concerns in service delivery. According to person Y and person Z, value creation process is also threatened if the client is not really aware of its situation and cannot basically collaborate in service process. For example according to person Z there have been service processes in which a client basically has had no idea what is going to happen in service process but is grateful when the service is delivered and e.g. a problem is solved. According to person Y, this happens once in a while with clients who focus on their own businesses and are not interested about e.g. taxation issues. More precisely they do not have skills and knowledge needed to collaborate in co-creation.

*“In some cases it is very difficult to create high value both us and a client, if a client does not know what is happening in the service. As a result they cannot collaborate and they might consider the service as just a name in a paper.”*  
(Person Y, 2016)

In addition to this, person X states that smaller clients with fewer resources do not collaborate in value creation as much as bigger clients. Therefore value creation with small clients is seen more difficult than with bigger clients. However, according to him, the case is not today as bad as for example ten years ago. Person X points out that nowadays even smaller and smaller companies are involving themselves into value creation and service process. According to him, this is because more educated and skillful people have started companies and run their own businesses. As a result, they know what is going to happen in service process and how they can get more out of the service, which they have bought.

*“Today even smaller businesses with very little resources are involving themselves into value creation and service process. This is because nowadays more and more educated people start to run their own businesses.”* (Person X, 2016)

Persons X, Y and Z mention that professional services are a lot about chemistry and therefore mismatching persons cannot collaborate together. All three interviewees point out that it is

client's responsibility in the last resort to communicate if there are unsuitable persons for example in the team.

All interviewees weight the communication from the very beginning of the interviews. According to them, communication determines pretty much everything. For example if there is a lack of communication or misunderstandings in the beginning of the service process and when the expectations of a client and a company are determined, may cause that no value is created. For example, according person Y and person Z, expectations need to be determined by choice in a written form. Then there are clear rules for both and neither a professional nor a client can expect anything else than agreed. According to person Y, there has been cases when the clients have been delivered everything they have expected but they still have felt that the service did not full fill their expectations.

Person Z mentions also that if there is no trust, between a client and a company, high quality and value added service could be barely delivered. This is because, he has found out that in this type of cases clients are no often willing to communicate openly enough in order to receive as good service as would have been able to deliver if the client communicated openly. Person Z points out also that if client is not willing give the information that has been requested or gives information that is not valid, causes that value creation may be harmed. According to person Z, there have been some service processes in which the clients have given invalid information and therefore service processes has been jeopardized. As a result service being provided has not been as high quality as would have been possible to deliver if the client delivered valid and requested information.

### **5.2.2 VALUE CAPTURE**

Interviewees think that value capture is also an important concept, but they do not consider it to be as complicated as value creation as a concept. Because of the competitive environment and global market, there are multiple professional service providers. According to person Z, there are multiple competitors in the market because it is possible to study needed substance skills to provide certain types of services. However, he points out that traditional customers

are still looking for services from bigger professional service firms, which have wider service portfolios, and therefore possibilities to better full fill the requirements.

According to person X and person Z, clients are more and more asking for proposals from the professional service firms. For example, according to person X, in the context audit services common custom among the companies is to ask for proposals from the biggest professional service firms and as a result use bidding as a source of value capture. By doing this companies that are looking for audit services are able to get lower prices with a little effort.

*“Normally if clients are looking for audit services, they will ask proposals from all the Big Fours.”* (Person X, 2016)

Person Z also sees that bidding has become more and more common among the more traditional professional services such as tax advisory and management consultancy. This is because the number of service providers has increased during past decade. However person Y see that, in the field of the professional services that he is offering, customer is not having that high bargaining power. As noticed earlier customers often approaches him when they have almost already decided to buy a service from him. Thus, the person Y is having higher bargaining power than his clients but still agrees with other interviewees that clients are having higher bargaining power among more traditional services.

*“When a client approaches me there is truly a need for a service or resource fulfillment. Therefore they have often already made a buying decision but are asking for service description and prices.”* (Person Y, 2016)

However, according to person Y, clients are still eventually trying to capture as much value as possible. According to him, clients are looking for the professionals and teams, which consist of the most talented and skillful employees. Clients are concentrating more and more on finding the best available professionals to serve them. According to person Y, clients are asking more often for restructuring the offered teams and possible candidates for key team members. As a result, clients are able to get team that they consider to be the best team available.

*“If a client asks me to do changes in engagement team, I will do it. As the services are much about interaction the chemistries need to match as well as possible.” (Person Y, 2016)*

However, the interviewees see that also professional service providers have some power in value capture process. According to the interviewees, professional service firms are able to capture more value when the relationships develop and last longer. Therefore, they see that, especially persons X and Z, evolving relationships and long relationships are worthy sources of value. In addition to this, all interviewees see that in short term already existing relationships are more valuable than new ones. Furthermore, all interviewees state that longer client relationships are great sources of a value because often a client is not willing to change its advisor when they have learned to know each other deeply.

## 6. ANALYSIS

### 6.1 PROFESSIONAL SERVICE

As noticed earlier, professional services are, in most of the cases, services which are delivered by a team or an individual to a company. According to Sonmez & Moorhous (2010, 190) PSFs employ a very high percentage of professionals possessing expertise developed through formal higher education and exercise judgment in delivering the service. Professional service firms are highly dependent on their ability to attract, mobilize, develop and transform the knowledge of highly educated employees to create value their client. When the persons X, Y, and Z were asked to describe professional services, they especially pointed out the service delivering professionals who are highly educated and use the knowledge while delivering the service. These professionals often use their skills and knowledge to solve clients' problems and therefore professional services are tending to have consultative nature. (De Sylva, 2015; Hogan et al., 2011; Marr et al., 1996; Patterson, 2000; Person X, 2016; Person Y, 2016; Person Z, 2016)

Professional services are also such services that may be regulated by legislation (see e.g. audit service). For example, in the context of annual audits legislation regulates if a company needs to buy this type of service or not. Legislation regulates also the professionals who are allowed to deliver this type of service. For example, audit professionals who are eventually responsible for this type of service needs to be certified or authorized. (Person X, 2016)

As mentioned above, professional services are often about solving clients' problems. Interview results as well as e.g. Lowendahl's study (1997) indicate that these problems are solved in continuous interaction with the client firm's representatives. Therefore constant interaction and collaboration with the client is needed in order to deliver high quality service. The lack of interaction could harm the whole process as the interview results indicate.

As noticed, client and knowledge have a great role within the professional services; services are offered by professionals, who have the required competence and skills in order to deliver high quality service that meets requirements of the client. At the same time these professionals learn from clients e.g. about the industry in which the client operates. (Person X, 2016; Person Y, 2016; Person Z, 2016). This information and knowledge can be transferred and shared within the professional service firm.

Professional services are often delivered by team of professionals, which is led by a kind of trusted advisor or client responsible professional. The person is responsible for the overall service quality and takes care about the interaction in service process. (Cooper et al. 2000, 100; Person Z, 2016) It is also his or her responsibility that the client's as well as company's expectations are determined and needed information are gathered and received from the customer (Person Z, 2016).

In brief, professional services can be considered as services, which are offered by a professional or a group of professionals and, which are led by trusted advisor in order to solve client's problem or fulfill the needs. The professionals, who deliver the service, are highly educated, have extensive knowledge and competence to help the client efficiently. They use continuous communication with the client in problem solving and they learn something new from each client. The client is set at the core of professional service process and value is co-created in professional services by a customer and a company.

## **6.2 PROFESSIONAL SERVICE BUSINESS MODEL**

The empirical data and findings indicate that business models within the context of professional services are likely to be like Johnson et al. (2008) shows in their model. For example proposals, which are common in professional sales process, are used to demonstrate customer value propositions. As noticed in paragraph three, according to Johnson et al. (2008, 52-54) customer value proposition is based on profit formula, key resources, and key processes. In professional service context the case is pretty much similar. For example, according to person X (2016) and person Y (2016), proposals made in professional services, often consist of few certain parts; *customer's expectations, what is going to be served, who is*



*delivering the service*, and *the price of the service* being offered. All these factors together combined to customer value proposition create a business model.

The key resources are the key team members and the persons who are going to carry out the offered process. The key processes are the processes that are needed in order to deliver to customer the offered service. In the context of assurance services this could be the audit service process. This audit process is carried out by a certain specific team, which is described in *key resources* part, as noticed earlier. The profit formula something that is classified information and no professional wants to fully describe to. Profit formula determines how the company creates value to itself while creating value at the same time to its customers (Johnson et al. 2005). Generally profit formula, could be based on the worked hours directly on a client by each professional, and these hours are multiplied by each professionals' standard hourly rate. From this approximation is reduced the overhead costs that are needed to deliver the offered service. (Stromberger, 1969, 114-115)

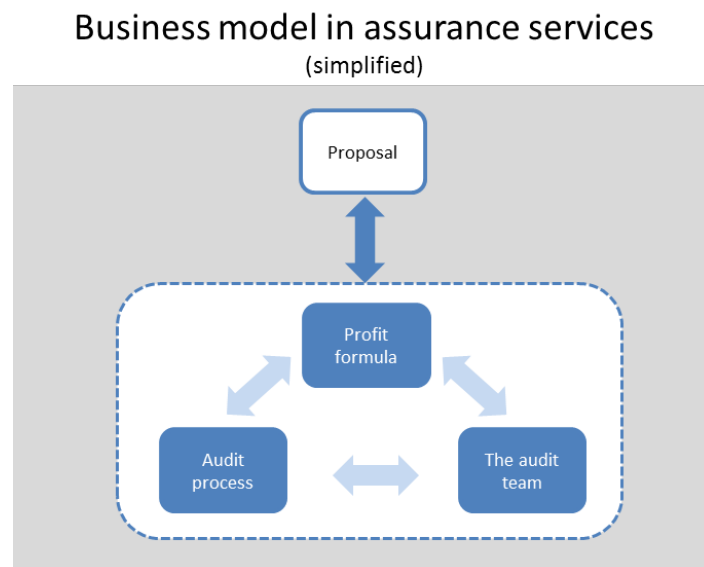


Fig. 14. Simplified assurance service business model's structure  
(Based on Johnson et al. 2008)

As noticed in earlier paragraph talented and skillful employees are at the core of professional services. Employees are the key resources of a professional services firms' business model. Their expenses and wages as well as overheads form the profit formula which is calculated based on estimates of expenses of certain key process, such as e.g. annual audit or taxation

optimization. These processes are just general examples of key processes of professional services firm. The customer value proposal should not ever be underestimated because it pretty much determines whether a client decide to buy a service or not. Customer's expectations and the offered value should be described as clearly as possible

All in all, professional service business models are based on solving clients' problems and fulfilling their needs through offered services. Customer is set into center of the business model which is client oriented (Person X, 2016; Person Y, 2016; Person Z, 2016). The interaction and communication with customers is extremely important for this type of business models because the model is based on problem solving or fulfilling customers' needs. This allows companies to create value to its customers through e.g. successful problem solving or advisory. The monetary streams toward a professional service firm are gained through this effective and suitable problem solving and these problems could not be solved without continuous interaction and communication between a company and a client (Person X, 2016; Person Y, 2016; Person Z, 2016). Hence professional service business models are based on value creation to both client and a company throughout two way interaction and communication as every successful company creates value to customer and to itself same timely. (Johnson et al. 2011, 52)

### **6.3 PROFESSIONAL SERVICE VALUE CREATION**

An important part of the professional services, as well as other succeeding businesses, is value creation. As noticed, business models pretty much determines, how the value within a specific company is created. In professional services the markets in which the companies operate affect a lot in a value creation process. As noticed, in earlier chapter, clients are important parts of business models of the professional service firms. The role of customer is similar also in value creation process. As the interviewees were asked how they consider value creation to be in professional services, all of them mentioned that it is some kind of collaboration between a company and a client. There for considering traditional value creation models such as value chain cannot be considered as an effective value creation model in professional service context.

As mentioned, in earlier chapters, client is an important part of the professional services and the delivery of them. In professional services the value is created to both client and a company at the same time. This value is created in collaboration or co-operation with the customer. As mentioned earlier, no value or only a little of it can be created if there is no interaction between the professional service provider and a client (Person X, 2016; Person Y, 2016; Person Z, 2016). As Prahalad and Ramaswamy (2004) states, when it comes to value co-creation, there must be buyer-seller interaction for value creation. Thus, it makes sense to state that in professional services value is co-created and the interview results confirm this statement.

In professional service value co-creation, service provider interacts before the service delivery process with the client in order to determine the expectations of a customer. This is very important part of the value co-creation process. For example, according to Aarikka-Steenroos and Jaakkola (2012, 22), value is co-created in knowledge intensive services by five different factors and in which one factor is diagnosing needs. According to all three interviewees, a generic professional service process starts with determining the client's needs and with identifying e.g. the problem. This will be followed often by a proposal in which the customer's expectations are listed and the plan how to solve the problem or full fill the need is presented. If the client accepts to bid the service process will be launched which. The possible conflicts and issues are avoided through proactive and timely interaction. (Person X, 2016; Person Y, 2016; Person Z, 2016) As noticed professional service delivery process pretty much imitates Aarikka-Steenroos and Jaakkola's (2012) value co-creation process.

The client responsible advisor has a great role in value creation process. This is because he or she leads the team and organizes the processes and resources so that the delivered service matches perfectly to client's needs and expectations. This person is also responsible that the client gets the service that a client is looking for and if there arise any conflicts, these are solved. The professional service value creation process could be pictured somehow like following:

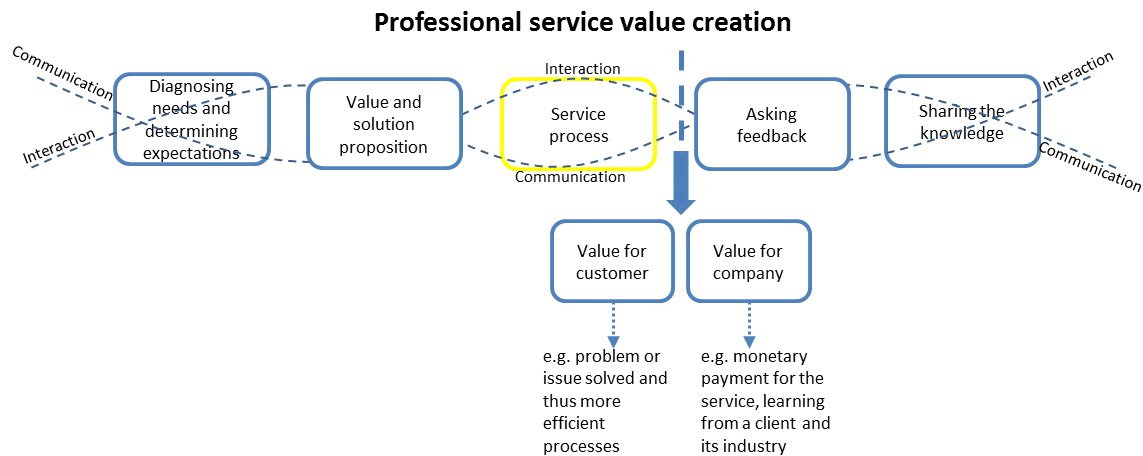


Fig. 15. Professional service value creation process (Based on Aarikka-Steenroos & Jaakkola, 2012; Løwendahl, 2005)

The continuous interaction and communication form the base of the professional service value co-creation. There must be continuous and proactive communication between customer and a professional service provider in order to create value for both. When the communication has been proper and the service provider has fully understood the expectations of a client there is a greater chance that the service being provided fulfills the client's expectations than if the client's expectations was not determined. Continuous interaction guarantees that there will be no surprises and the service being provided is going to right direction. Service process in itself acts as key role in whole value creation process. As mentioned earlier, professional services are primarily solving clients' problems. Therefore, client receives value when the problem is solved or the need is fulfilled. At the same time professional service providers gains information about the client and its industry and this information is valuable to service provider. This information can be shared within the company and enables the learning. As a result, professionals learn constantly from different assignments and share their information so that the professional service provider receives value. Another important part of the value creation is asking feedback. This is because by doing this, companies are able to meet the clients' expectations in future even better and therefore be able to create even more value to both. This process can be duplicated from an assignment to another and allows knowledge renewal and value creation again and again.

The professional service value creation has to be planned carefully. The roles of a client and a company can be considered as value suppliers. Their resources, processes, and roles need to

be harmonized together in order to co-create value (Andreu et al. 2010). According to person Z (2016), company must determine these roles and a customer's role in the process has to be so "easy" that he or she does not feel like striving in the process. A professional service representative needs to be able to use right methods in order to access into client's resources. Preparing the service process well in advance, so that the professionals are conscious of the resources that are needed from a client so that the offered service can be delivered, is extremely important. By doing this, professional service provider is able to access into client's resources. Being prepared well advance allows professionals to ask the correct questions, which will allow professional to enter to the information that is integral for high quality and value-added service. (Person Z, 2016; Andreu et al. 2010, 244)

While professional service firms create value to their customers through successful service delivery, the clients create value to the companies. As noticed, earlier, professional service firms gain valuable information about different industries, and the professionals learn from the assignments and they share their learned knowledge within a company. Due to service delivery the relationships between a company and a client deepens and comes more valuable to both. This may lead, for example, to faster responses to the client, which may create value for them. At the same time, the deepen relationship allows companies more sales and better service delivery through enhanced trust and information. In addition to this, professional service firms are tending to offer access to more seminars as well as more insights and complimentary consultancy for free for longstanding clients. Despite the fact that value in relationships is considered to increase as the relationship deepens, it can be also seen in other ways. It can be an alliance or collaboration that has value in it, or a relationship that is a good and valuable reference for a professional service firm. Therefore in some cases a client may be considered as a good reference and as a result the relationship is kept on a level, which does not involve company's resources too much.

To sum up, in professional services value is most often co-created with a customer. It is needed to recall that the role of the customer in this process, should no be over estimated. Both a client's and a company's processes need to harmonized carefully and the whole value co-creation process has to be prepared and planned carefully. (Andreu et al. 2010) Customer's role in this process must be made as easy and convenient as possible of course depending on each specific situation. For example, sometimes there might be a case that customer truly wants to join into this process and act as a hands on member in value creation

while in some situations the customer does not want to collaborate in whole process at all. Therefore, there is always a risk located in value co-creation process and as a result the process has to be viewed from every possible aspect (Geer, 2015, 240). However, eventually customer achieves value through successful problem solving or fulfillment of needs while company achieves monetary value when the client pays the bill. Professional service provider achieves value from learning from a customer and from the customer relationship as noticed in paragraph five. Employees of the professional service provider learn through each assignment, and as a result, knowledge within the company renews. Thus, the value created in professional service relationships can be considered as *a value that has been created for a customer through successful and effective problem solving; a value that is created in relationships between a company and a client; a value that is related in knowledge renewal and learning; a value that is created when a client pays for a service*. The value is created in co-operation and relationship between a customer and a company. The nature of this collaboration varies depending on each assignment, but there is always client and a company involved and needed in this process. No value or only a very little amount of it can be created in professional service context without this co-operation. Eventually, the created value is shared and distributed in markets in which a client and a company enter.

#### **6.4 PROFESSIONAL SERVICE VALUE CAPTURE**

In professional services clients are using more and more such activities as bidding contests. This is possible because the competition has increased more and more during past decades and the number of service providers has increased. As persons X and Z mentioned, substance skills can be learned and there is no big difference in substance skills between different agencies. By asking proposals or bids from different agencies, clients are able to receive high value with lowest prices. As a result clients are able to capture the highest value (Töytäri, 2015; 256). (Person X, 2016; Person Y, 2016; Person Z, 2016) As a result, clients are capturing the value mainly through using bidding contests as their advantage.

Professional service providers are able to capture value through long lasting relationships as interview results indicate. Already existing accounts are seen as more valuable than new ones as the highest profit is obtained from these accounts (Ferguson, 1996, 49). The first years of the service process can be even unprofitable for a company but during the following years the

profitability increases through e.g. learning. This allows professional service firms to capture more value from year to year. Professional service firms are also capturing more value through finding new service opportunities during existing engagements and some agencies are even increasing the fees of an assignment from year to year (Person Z, 2016). This will lead in high value capture of a professional service supplier because as noticed earlier e.g. learning from a client allows for company efficiencies for upcoming years. However clients have noticed this type of activity and have started to carry out new bidding contests if the prices keep rising from year to year. This will lead again in a bit lower prices, which ensure higher value capture for a client. (Person X, 2016; Person Z, 2016)

As a result, in professional service context both client and a company are to capturing value. Clients are capturing higher value through bidding contests and re-asking for proposals from its service supplier's competitors if the fees keep increasing from year to year. At the same time professional service firms are trying to capture more value through learning process, which will lead into efficiencies in following years. While efficiency increases and the professionals become more common with the client and its processes, the professional service providers are trying to increase the fees from year to year. By this professional service firms are able to capture higher value from year to year, but there is always a risk that a client decides to ask proposals again from other service providers.

## **7. CONCLUSIONS**

In this chapter a summary of the results of the study are presented. This will be followed by conclusions and further research needs. The aim of this chapter is to give to a reader a comprehensive picture about this thesis and its findings.

### **7.1 A SUMMARY OF THE RESULTS OF THE STUDY**

The aim of this study was to answer into following main research question: how do professional services create value. The main research problem was supported by sub research problems; what are the characteristics of professional services? What are the roles of value creation and value capture in business models of professional services? How do services create value?

This study's main research question, how do professional services create value, was answered on chapter six. As noticed, in chapter two, professional services are such services that require high skills and knowledge of professional delivering the service. These services often concentrate to solve clients' problems and these problems are solved in collaboration with a client. The business models of the professional services have certain key factors, such as employees, processes, value proposition, and client. The client is set at the core of the business model because they are the source of value. Employees of a professional service firm deliver the service and therefore are creators of value. As mentioned, these services require collaboration between a client and a company in order to create value. The client participation is needed in order to deliver a service that creates value for both customer and company. As the service is delivered in collaboration, traditional value creation models do not come into consideration because they do not take both parties into account. As a result the value is created in collaboration between a client and a company. Therefore the value creation model, which is used in professional service context is called value co-creation model. According to service dominant logic, this model is very common way to create value.

Even though, this thesis is delimited to focus only on professional services' value creation, and as a result the viewpoint of a client has less attention in this study, view point of the



client is not fully left outside of this thesis. Client aspect was taken into account in value creation process, as well as in value capture. Theory of this thesis is based on existing literature that concern professional services and value creation. The empirical data of this thesis was collected by using semi-structured interviews. Three professional service representatives were interviewed in order to collect a decent amount of empirical data. The client aspect was also discussed during the interviews, and all interviewees tried truly to set themselves into client's positions.

As this thesis found out, both client and a company is needed to value creation process and their roles varies depending on each specific situation. There are also other factors that have an effect on these roles e.g. premises and features of a customer. Communication is needed throughout the whole service process in order to create value. This communication is needed well advance before the actual service process even starts. In addition to this, continuous communication is also needed after the service is delivered and the actual process is over.

## 7.2 CONCLUSIONS

As mentioned, in the very first chapter, professional services represents significant field of business. These services often create high value and are profitable from year to year despite of the fact that, the current economic situation can be considered as challenging. In addition to this the number of academic researches has increased since 1970's. These are just some examples, which make studying of professional services interesting and needed. Furthermore, as noticed in the very first chapter of this thesis, professional services, as a branch of industry represent globally rather remarkable industry.

As all of the companies, also professional service firms' objective is to maximize the shareholder value. The value is primarily gained through money streams that the sales create, but there are also other factors that create value for a company. Professional services' nature is mainly about helping or supporting customers in processes that they cannot solve by themselves. As a result, professional services can be described to have consultative characteristics (De Sylva, 2015; Person X, 2016, Person Y, 2016; Person Z, 2016). Collaboration between a client and a service delivering company is needed in order to even complete the service, but also to deliver high quality service. These services are served by a

professional or by a team of professionals who have the needed competence and skills. These professionals are highly educated and are to handle complicated knowledge. Client is usually needed to collaborate because client's resources are needed and information about e.g. company's processes and future direction are needed in order to deliver the service that a client is demanding for. Needed information and resources that are not documented are often accessed through communication. Communication is continuous from the very beginning of the service process until end and even after the service process. This thesis points the importance of communication in professional services. By successful and effective communication professional service providers are able to understand clients' expectations and agendas so that offered services match better into demand.

Generally professional service process often starts identifying a customer's need or problem. Sometimes a client approaches a professional service provider in order to get a problem solved or a lack of resource fulfilled. In the very beginning of the process is determining a client's needs and expectations. In order to fully understand client's agenda, the professionals need to communicate with a client in as early as possible. After this is done a professional service representatives often make a proposal, in which for example client's issue or problem, the solution on it, client's expectations, offered value, the service delivering team, needed communication as well as resources, and fee are presented. When the client's agenda is fully understood a professional service firm is able to make value proposition for a client which often meets the requirements of a client. Therefore a company cannot determine alone, a value proposition, which meets the expectations of a client.

As the value proposition is created and a service is delivered in collaboration with a client, as well the value is created in collaboration. This study shows that professional services offer and create value for both client and a company. The findings of this study indicate that the created value is related in some key dimensions; *knowledge*, *relationships*, *use value*, and *exchange value*. Value, which is linked or related in knowledge, is created in co-operation. Professional service providers learn about e.g. a client and its industry through collaborative service process. This knowledge being learned can be transferred and shared among other professional service firm employees, which guarantee knowledge renewal and learning.

The value related to relationships, is also created in co-operation. As the relationships deepen and last longer the service efficiency often improves which create value to both client and a

company. While the relationships are getting deeper it increases trust between a company and a client. This enables to a company a better access to clients' resources for example through more detailed and deeper discussions, as a client fully trusts on professionals. On the other hand some professional service firms may consider some relationships as references and thus, the relationship level does not get into as deep as some others. The remaining two value dimensions are easier to figure. Use value is such value that is created and perceived when a client uses a service. For example a client gets value from a professional service when e.g. a professional service firm solves a problem and as a result client is able to boost its processes and run its business more efficiently. Finally exchange value is something that is perceived by a company for example when a client makes a payment for the service.

The value in professional service context is created in co-creation between a client and a company. As noticed earlier value gets concrete in different ways and at different stages of a process. This study indicates that in order to create value in professional services, continuous interaction and communication between a client and a company is needed throughout entire service process. As the client is set at the core of the business model of professional services, they are also acting a key role in value creation.

Characteristics of the collaboration between a client and a company vary depending on each assignment but there is always client and a company involved and needed in this process. This study finds out that no value or only a very little amount of it can be created in professional service context if there is no this collaboration during the service process. Eventually, the created value is shared and distributed in markets in which a client and a company enter. However value co-creation can be considered also as a threat. According to this study, if a client does not have the needed competence and resources to participate and engage themselves into co-creation process the amount of the value being created will remain lower than with the clients who have greater competences and skills. The value co-creation process will be also harmed if a client is not willing to put input into process.

After the value is getting concrete, both client and a company are trying to capture this value. Both participants are trying to maximize their value through certain activities. According to this study in professional services clients are trying to capture as high value as possible by using such activities as asking proposals from all potential professional service suppliers. By doing this, clients are often able to get the best service or service that they consider to be the

best with the lowest price. As a result they will capture as high value as possible. On the other hand professional services are also capturing value by carrying out certain activities. According to this study, professional services are tend to increase fees in longer relationships. As the client is tied to a specific professional service firm the level to change a firm is higher. In addition to this, this study shows that professional service providers are also able to capture higher value from longer business relationships because professionals get used with the client and its processes. This results into efficiencies in service processes, which lowers the demand of the resources. These efficiencies and increase in fees or even keeping fees at the same level from year to year, allow professional service firms to capture serious exchange value. Furthermore, professional service firms are also trying to capture high value through knowledge renewal and learning from a client and its industry.

This study shows that value capture and the role of a company and a client in value capture depend on offered service. As noticed, there are certain professional services in which the competition is not that high yet and therefore a possibility to high value capture is remarkable. On the other had, for example in audit services, in which is high number of other competing professional service providers, a client is able to capture higher value than a company. As a result, in professional services both client and a company are able to capture value and the amount of the value being captured depends on the service being offered.

In brief, communication has a great role in professional services as a whole. Services are delivered in continuous communication and the value creation is based on communication. Right and continuous communication enables companies and clients to co-create the value together. As a result, according to this study, communication and the quality of it pretty much determines how the value is co-created and how much of can be created. If there is no communication in professional service process no value or only a little of it can be created. This is because professional services are delivered in collaboration between a client and a company due to the nature of these services.

### **7.3 FURTHER RESEARCH NEEDS**

As mentioned earlier, this thesis concentrated on professional services' value creation and the viewpoint of this thesis is from the professional services. Even though, the value-creation is

discussed somewhat widely, there is a need for further research. In this thesis, client aspect was mainly delimited outside of this thesis, and therefore there is a need for further studies. First of all a research with a focus on client is needed to carry out. This type of studies would give insights and add knowledge on, how professional services create value for customers, and how the customers this value is appreciated. Moreover, this type of research would enhance the understanding on, what factors clients truly consider as a value. Further studies are needed in order to better understand the methods of communication and the importance of communication as a whole in professional service context.

Above the all, further studies are needed to describe, how value creation models and value can be used in business model innovation, and as a tool of strategic planning. For example could the next big thing in professional services be, the pricing method, which is based on the amount of value created while delivering a service, where as the traditional cost model is concentrated on costs. Or could value creation, as a strategic tool, be used to create something even more innovative.

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