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Revisiting Service Quality through the Lens of Experience-Centric Services

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Abstract

Purpose: To revisit prevailing notions of service quality by developing and testing a model of service quality for experience-centric services.

Design/methodology/approach: By problematizing the service quality literature, a model is developed to capture impacts of outcome-achievement, instrumental performance and expressive performance on customer loyalty. A multi-group structural equation model is tested to establish the moderating effect of perceived service character—utilitarian or hedonic.

Findings: Outcome-achievement mediates the direct relationships between instrumental and expressive performance, respectively, and loyalty; the strength of these relationships is moderated by perceived service character.

Research implications: Emotional design to improve the experience is effective provided the expected outcome is achieved. However, for services that customers perceive as experience-centric, the outcome may be somewhat ambiguously defined and expressive performance is valued more highly than instrumental performance.

Practical implications: Understanding customers' perception of a service—whether customers seek value related to outcomes or emotions—is crucial when selecting appropriate measures of service quality and performance. Creating a good experience is generally beneficial, but it must be designed according to the character of the service in question.

Originality/Value: The research presents empirical evidence on how service experience contributes to customer loyalty by testing a model of service quality that is suited to experience-centric services. Furthermore, it identifies the importance of understanding service character when designing and managing services.

Keywords: Service Quality; Service Design; Experience; Customer Loyalty; Structural Equation Model; Experience-Centric Service

1.0 Introduction

Service experience has become a top priority for managers in a variety of industries, leading companies including Google, Amazon and KPMG to appoint Chief Experience Officers (Lemon and Verhoef, 2016). Since Pine and Gilmore's (1998) assertion that we have entered an experience economy, the term *experience* has become ubiquitous, but often used as a buzzword or measured inappropriately as a proxy for customer satisfaction (Zomerdijk and Voss, 2011). For example, universities seek to measure students' experience, while retailers request feedback on customers' shopping experience, even when they buy everyday household goods, e.g., "*If I have a transcendental experience with a bin liner, my supplier will be the first to know. But otherwise, forget it.*" (Karpf, 2016).

Service Operations Management (SOM) literature highlights the importance of experience (Roth and Menor, 2003; Chase and Apte, 2007; Heineke and Davis, 2007; Voss et al., 2008; Beltagui et al., 2016), but a number of pertinent questions remain. For example, is the experience equally important for all services? Is there a trade-off between delivering outcomes and creating experiences? Which measures of performance and quality are most appropriate?

The central value proposition of experience-centric services is to evoke "*customer emotions that engage customers in memorable and meaningful ways*" (Voss et al., 2008, p.248). This value proposition is no longer restricted to a narrow range of service sectors, such as entertainment or hospitality. Rather, services in general are seen as platforms upon which to *stage* experiences (Pine and Gilmore, 1999; Candi et al., 2013), which justifies a research focus on experience-centric services.

Extant research on service experience provides insights into designing services (e.g., Candi, 2016), but is largely unconnected to the service quality literature, hence providing limited guidance on appropriate performance measures. Meanwhile, research on service quality typically focuses on contexts such as financial services, where the experience is often overlooked (Yoshida and James, 2011). Both service experience and quality are important for SOM because they contribute to customers' loyalty, which must be carefully managed (Ranaweera and Neely, 2003). Prevailing thinking reflects the disconfirmation, or *gap*, model of service quality. This assumes customers judge quality based on the gap between expected and achieved performance (Park et al., 2015). This model prevails due to the popularity of the

SERVQUAL tool (Parasuraman et al., 1988), which measures service quality in a way that is easily understood, but arguably oversimplifies a complex phenomenon.

Maddern et al. (2007) questioned the prevailing assumptions by highlighting overlooked constructs in competing models (Grönroos, 1984). We build on their work using a *problematization* approach to formulating research questions, the aim of which is “...to disrupt the reproduction and continuation of an institutionalised line of reasoning...to question the assumptions underlying existing theory” (Sandberg and Alvesson, 2011, p.32).

Just as other critical approaches to management research (e.g., Kilduff, 1993) seek to uncover suppressed or marginalised factors, we look for overlooked constructs in earlier models of service quality. These constructs have gained relevance in view of how the nature of service is becoming understood; specifically recognition of the importance of experience. In particular, we examine the contributions of instrumental and affective aspects of quality identified in Swan and Combs’ (1976) model, which informed subsequent theory, even though the important distinction between these factors may have been neglected.

2.0 Background and Hypotheses

The service experience is important because all services are experienced (Berry et al., 2002; Schmitt, 2003). This means the value of any service is uniquely and phenomenologically determined by customers, who also participate in its creation (Smith et al., 2014). An experience is unique to each individual, but certain design features and methods can generate a positive experience (Beltagui et al., 2015). Indeed, the emotional and psychological aspects of a service can play a vital role in the value generated. For example, there is evidence to suggest that the success of hospital treatments is influenced not only by the clinical tasks performed, but also by patients’ emotional experience (Berry et al., 2004; Doyle et al., 2013). Interactions between organisations and their customers have increasingly become mediated by technology (Froehle and Roth, 2004). Furthermore, stronger collaboration between functions such as service operations and marketing are required when experience is a strategic priority (Voss, et al., 2008; Kworntnik and Thompson, 2009; Lemon and Verhoef, 2016). These trends render established models and measures—in particular those used for service quality—inadequate.

Research in the field of SOM has examined experience-centric services as a distinct category of service. Pullman and Gross (2004) studied hospitality at a circus performance, identifying

a range of emotional design aspects that contribute to make the service memorable and hence increase loyalty. Stuart and Tax (2004) studied the interaction between artistic and operational staff in a theatre company, establishing the need for close collaboration to deliver a performance and ensure its emotional impact. Similarly, as a result of identifying failings in a cruise line experience, Kwortnik and Thompson (2009) recommend the development of service experience departments in organisations that combine service operations and marketing.

A second stream of research has focused on applying experience design to service innovation. These studies identify design methods (Zomerdijk and Voss, 2010; Beltagui et al., 2016) and provide evidence that deliberately designing for the emotional experience results in competitive performance benefits (Candi et al., 2013). Experience design entails looking beyond the outcome that a service delivers to a customer and influencing the subjective, emotional experience perceived.

Finally, a number of studies have developed and tested tools to map service experience from the customer perspective and to diagnose service failures (Johnston and Kong, 1999; Goldstein et al., 2002; Hume et al., 2006).

2.1 Customer Loyalty

Successful experiences are typically described as compelling (Fitzsimmons and Fitzsimmons, 2000) or memorable (Pine and Gilmore, 1999). Roth and Menor (2003) define experiences as unique, individualized and memorable, thereby emphasizing the ability to hold a place in customers' thoughts and wallets as a measure of success. Economic benefits arise from both the ability to charge a premium for the distinctive emotional characteristics of an experience and the repeat purchases inspired. Thus, the success of an experience-centric service should be assessed by its ability to generate emotional attachment resulting in loyalty, even in non-profit contexts (Hume et al., 2006). While customer satisfaction is often used as a measure of quality, it is not always necessary for an experience to satisfy, since unexpected and even negative emotions can still result in an overall positive experience (Beltagui et al., 2015). Furthermore, satisfaction does not automatically lead to loyalty, while emotional impact can (Oliver, 1993; Jones et al., 2006). Therefore, this research regards customer loyalty as the focal outcome of a service.

2.2 Outcome-Achievement

In Grönroos' (1984) model of service quality, both the quality of the service delivery process and outcome-achievement are considered important. The prevailing research emphasis on process over outcome has therefore been questioned (Maddern et al., 2007; Ladhari, 2008). For example, Brady and Cronin (2001) identify the service outcome, along with interaction and environment as the three key dimensions of service quality. Just as most operations measure product quality as absence of deviation from a specification, service quality should be measured by how well the outcome, rather than only the delivery process, conforms to expectations. Customers will logically be interested in repurchasing a service if they got what they expected. In hedonic services, an element of surprise means continuing to achieve and exceed expectations can be important (Pine and Gilmore, 1999). Surprise overcomes the habituation effect whereby something becomes less emotionally or intellectually stimulating as it becomes more commonplace (Ludden et. al., 2008), but it makes the specific outcome harder to predict and hence conformance to expectations difficult to assess. Nevertheless, customers clearly expect services to achieve their intended outcomes (Fitzsimons, 2000), which suggests that achieving expected outcomes is related to customer loyalty.

H1: Outcome-achievement of experience-centric services is positively related with customer loyalty.

2.3 Instrumental and Expressive Performance

The widely used SERVQUAL instrument (Parasuraman et al., 1988) measures what Grönroos (1984) refers to as functional quality, or the quality of the service delivery process. The *gap* between expectations and perceptions, or the *disconfirmation* of expectations (Swan and Trawick, 1981), determines whether a service is assessed positively or negatively. In SERVQUAL, this is achieved by separately assessing expectations and then perceptions, defining quality as the gap between the two measures. This approach has been criticized on the grounds that measuring perceptions alone is more reliable (Babakus and Boller, 1993). Oliver (1993) argues that customers do make separate assessments, but that these are rational, cognitive processes that are separate from affective responses. As cognitive processes they can be related to what Swan and Combs (1976) refer to as instrumental performance, which appears to be the basis of Grönroos' functional quality construct. The performance of an offering is *instrumental* in the sense that it is an instrument that helps in the achievement of a desired outcome. We define instrumental performance of a service as a cognitive assessment

of its fitness for purpose as a means to an end and this is expected to contribute to customers' loyalty towards a service.

H2: Instrumental performance of experience-centric services is positively related with customer loyalty.

A construct not only overlooked in the SERVQUAL instrument, but which failed to make its way into the Grönroos model is the affective dimension. In addition to instrumental performance, Swan and Combs (1976) described expressive performance as an end in itself, rather than a means to an end. The performance of an offering is *expressive* in the sense that it expresses something to the customer on a psychological or emotional level and generates an affective reaction. For experience-centric services in particular, neglecting the expressive dimension seems unfortunate since a lack of appropriate metrics has been criticized as leading to the inappropriate use of satisfaction as a measure of experience-centric service quality (Zomerdijk and Voss, 2011).

Maddern et al. (2007) demonstrate a strong correlation between outcome-achievement and satisfaction in the utilitarian context of financial services. Studies of experience-centric offerings have demonstrated that in these contexts, satisfaction is not necessarily an effective predictor of loyalty (Garbarino and Johnson, 1999; Chitturi et al., 2008). Indeed, Wirtz and Lee (2003) reject the notion that either affective or cognitive measures should be used, depending on the type of service. They demonstrate that both have a part to play in assessments of service performance. In general, if customers have a positive emotional experience, then they should be expected to return.

H3: Expressive performance of experience-centric services is positively related with customer loyalty.

The main argument for separating instrumental and expressive performance is that assessments of quality are either cognitive or affective. However, a service can, and typically should, offer both cognitively assessed instrumental performance and affective expressive performance. Sasser et al. (1978) first proposed the distinction between explicit service, as the intended function and implicit service as the psychological aspects that emerge during service encounters. Similarly, Johnston et al. (2011) acknowledge both service outcomes and experiences. For example, the outcome of an airline service is transportation of people and luggage on time, while the experience includes reactions to food, in-flight entertainment and

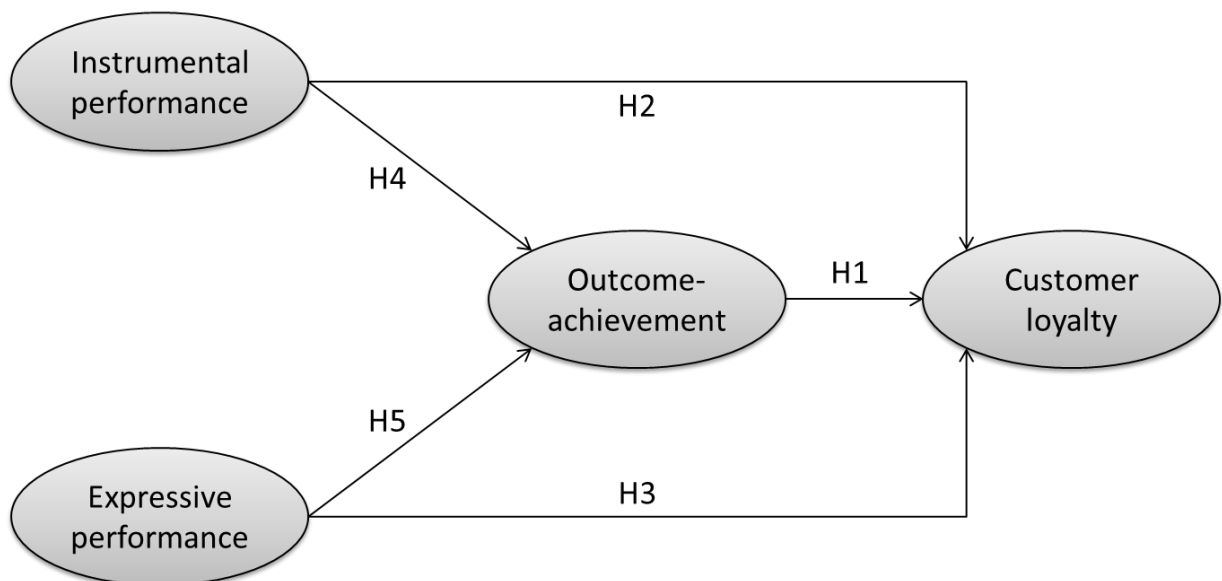
cabin temperature. Faults in the experience can be diagnosed through attempts to measure and improve the affective aspects of service delivery (Johnston, 1999; Hume, 2006). Maddern et al. (2007, p.998) argue that by focusing on service delivery rather than outcomes, researchers focus on how *nicely* a service is performed as opposed to doing it *right*. We interpret this as an argument for measuring *both*, by using cognitive and affective measures. Further, while outcome-achievement relates to the degree to which expectations are met, these expectations can be related to both the instrumental and expressive performance of a service.

H4: Instrumental performance of experience-centric services is positively related with outcome-achievement.

H5: Expressive performance of experience-centric services is positively related with outcome-achievement.

The direct relationships hypothesized above are depicted in Figure 1.

Figure 1 – Research model showing hypothesized direct relationships.



Instrumental performance, which reflects the functional quality of a service, or how well it is delivered, is expected to contribute to customers' perceptions that the service delivers something they need. Likewise, if a service is seen as a stage for delivering an experience, the core offering delivered by this service should meet expectations. Experience staging is often interpreted as simply adding entertainment to a service (Grewal et al., 2009), but this risks adding novelty while neglecting the core offering. For example, a theme restaurant is a restaurant first, so if it serves poor food, the customer is unlikely to return, regardless of entertainment value (Gupta and Vajic, 2000; Beltagui et al., 2012). In a themed restaurant experience, factors such as quantity, freshness, flavour and aesthetic appeal can be regarded as order qualifiers. Even though the themed experience is the order winner, expectations of food standards must be met. Thus, we hypothesize that the contributions of both instrumental and expressive service performance to customer loyalty will be mediated by outcome-achievement.

H6: Outcome-achievement of experience-centric services mediates the positive relationship between instrumental performance and customer loyalty.

H7: Outcome-achievement of experience-centric services mediates the positive relationship between expressive performance and customer loyalty.

2.4 Hedonic Consumption

The concept of hedonic consumption (Hirschmann and Holbrook, 1982) explains many aspects of consumer behaviour. It suggests that decisions relating to ice cream and salty snacks involve different mental processes from those relating to utilitarian goods like detergent and toilet paper (Sloot and Verhoef, 2008). Applied to service management, this means that the utilitarian benefits offered by, for example, banking or legal services differ from the hedonic benefits offered by cinemas and restaurants. A utilitarian offering is one that is purchased as a means to an end and fulfils a more or less clearly specified goal. It is assessed in terms of how well it allows a goal to be accomplished. In contrast, a hedonic offering is one that represents an end in itself and is typically chosen on a whim or for fun (Holbrook and Hirschmann, 1982).

While we argue that customers are concerned with both the instrumental and expressive performance of a service, they are not necessarily given equal importance. The relative weighting will at least in part depend on subjective preferences, but may also be determined

by the customer's perception of the character of the service in question. If a customer perceives a service to be utilitarian, then their expectations should be more weighted to the instrumental performance of the service. This, in turn, should mean that their loyalty is determined more strongly by instrumental performance than expressive performance. As an example, consider a customer who selects a hotel based on proximity to an airport. In this case the selection is a utilitarian one and the assessment of quality may be based primarily on the extent to which staying at the hotel enables on time check-in for an early morning flight. How the hotel room makes this customer feel may be of secondary importance to time savings and hours of sleep achieved. The soundproofing of the room and the softness of the mattress are more important than the presence of a gym and spa. The decision to return is also likely to be based on such judgments. We therefore hypothesize a moderating effect of service character whereby utilitarian character increases the strength of the relationship between instrumental performance and both outcome-achievement and loyalty.

H8a: Service character of experience-centric services moderates the positive relationship between instrumental performance and outcome-achievement; the relationship is stronger when services are perceived to be utilitarian in character.

H8b: Service character of experience-centric services moderates the positive relationship between instrumental performance and customer loyalty; the relationship is stronger when services are perceived to be utilitarian in character.

Conversely, for customers who perceive a service to be hedonic, the importance of affective performance may come to the fore. It is argued that satisfaction is a cognitive construct that makes sense in assessing utilitarian offerings, but that affect is more relevant for hedonic ones (Oliver, 1993). In other words, utilitarian and hedonic decisions can be regarded as, respectively, thinking or feeling, which are different psychological processes.

Customers have been found to respond more negatively to stock-outs when purchasing hedonic than utilitarian goods (Fitzsimons, 2000). For some customers, a hotel may be a final destination (Voss et al., 2008), whereas the airport is a part of the journey. They would assess the quality of the service and decide whether to return on the basis of their emotional experience. In this case the gym, health spa and how the service elements make the customer feel are important parts of the experience. Hence, we expect a moderating effect of service character whereby hedonic character increases the strength of the relationship between expressive performance and both outcome-achievement and loyalty.

H9a: Service character of experience-centric services moderates the positive relationship between expressive performance and outcome-achievement; the relationship is stronger when services are perceived to be hedonic in character.

H9b: Service character of experience-centric services moderates the positive relationship between expressive performance and customer loyalty; the relationship is stronger when services are perceived to be hedonic in character.

3.0 Methodology

3.1 Data

Four companies that view their services as experience-centric participated in this research. The companies were selected to ensure coverage of all four quadrants of the matrix shown in Table I. While most research on experience has been conducted in consumer contexts (B2C), several studies have shown that experience is also relevant in business-to-business (B2B) contexts (e.g. Lemke et al., 2011; Candi and Kahn, 2016). Meanwhile customer experience in face-to-face service delivery is typically treated separately from user experience or technology-mediated experience (Froehle and Roth, 2004; Éthier et al., 2006). Therefore, firms operating in both B2C and B2B markets and firms offering services delivered online and offline were included in the research. Information about the companies and the services provided was collected in interviews with managers conducted during company visits. This helped in analysing and interpreting results as well as ensuring the relevance of the research to practitioners (Toffel, 2016).”

Table I: Sources of data.

Online offering	Company A Online casual games with a high level of interaction among customers. (N=413)	Company B Web development and multimedia services aimed at SMEs and government agencies. The company is very design conscious due in part to the founder’s roots in a creative sector. (N=155)
Offline offering	Company C Adventure travel on four-wheel drive trucks and snowmobiles to remote locations characterized by harsh conditions, e.g. glaciers. (N=174)	Company D Creative agency offering promotion services to a wide variety of artists as well as (temporary) work spaces. (N=100)
	Business to Consumer (B2C)	Business to Business (B2B)

In exchange for detailed reports analysing their own customers' experience, the participating companies agreed to distribute a questionnaire to their customers. The survey was developed by first identifying and incorporating scales and items from literature, followed by pilot testing and exploratory factor analysis. Customers of a company not included among the focal companies listed in Table 1 were surveyed for the purposes of pilot testing and scale development. The pilot sample size was 92. Scale reduction was possible since all constructs were assumed to be reflective, meaning that the items used to measure them are assumed to be interchangeable indicators that reflect the variables in question, rather than being part of an index as with formative measures (Diamantopolous and Siguaw, 2006). This process resulted in a reduction of survey length to a minimum of three items per variable, thus balancing the need for multiple items with reducing the burden on respondents (Cooper and Schindler, 2006).

Each company distributed a survey link their customers via email and was asked to follow the initial email with reminders until a response rate of 20% was achieved. To protect the privacy of customers, the companies maintained responsibility for distributing the survey and contacting the respondents. Discounting responses with missing values, a total of 805 usable responses were collected.

Although 20% is regarded as a good response rate for an Internet survey, potential non-response bias should not be discounted. Following Armstrong and Overton's (1970) assumed similarity between late responders and non-respondents, we used t-tests to confirm no significant difference between early and late respondents. This provides confidence that non-response bias was not a problem (Zhang et al., 2015).

3.2 Measurement model

Customer loyalty was measured using three items (Jones et al., 2006; Maxham and Netemeyer, 2002) that capture the intention to continue using the service, to recommend it to others as well as whether previous service encounters were perceived positively. This follows Jones et al.'s (2006) use of repurchase intention as a measure of experience, Reicheld's (2006) argument that willingness to recommend is the most important measure of loyalty and Zomerdijk and Voss' (2010) argument that a successful experience should be seen as a series of positive encounters.

Outcome-achievement was measured using three items adapted from Éthier et al.'s (2006) cognitive appraisal of emotional situations (Roseman, 2001). The wording was adapted to ensure relevance for all of the services in the study, while at the same time maintaining consistency across them. Instrumental performance was measured using three items related to functionality, ease of use and appropriate technology (Candi et al., 2010). The assessment can be seen as cognitive rather than affective and is related to how these aspects of the service act as a means to an end. Expressive performance was measured using three items related to the feelings engendered by a service. These capture the degree to which the service offers an experience, stimulates an emotion and has a symbolic dimension. These are in line with Swan and Combs' (1976) description of expressive performance as including what an offering says about a person and are related to feeling rather than thinking (Oliver, 1993).

The survey was pilot tested on a sample of 92 customers, not included in the final sample used for analysis. Data collected from the pilot sample were used to reduce the number of items in the survey to a minimum of three items per variable, thus balancing the need for multiple items with reducing the burden on respondents (Cooper and Schindler, 2006).

The items making up the variables are listed in Table II. The measurement model was tested using confirmatory factor analysis, which yielded very good fit indices (Shah and Goldstein, 2006) with $\chi^2 = 137$ (45 degrees of freedom), root mean squared error of approximation (RMSEA) = 0.05 and comparative fit index (CFI) = 0.99. Composite reliabilities (CRs) were calculated and were all well over the generally accepted cut-off of 0.7, indicating that the items sufficiently represent the variables. Similarly, average variances extracted (AVEs) were all above the generally accepted cut-off of 0.5, indicating that a large proportion of the variance is captured by the variables rather than measurement error.

Table II. Variables, items, and the results of Confirmatory Factor Analysis.

Variables	Items ¹	Range	Loading (λ)	Composite reliability (CR)	Average variance extracted (AVE)
Customer loyalty	I am likely to recommend X to others	1 (disagree) to 5 (agree)	0.90	0.90	0.76
	I am likely to continue to use X		0.73		
	My previous uses of X have been positive		0.84		
Outcome-achievement	X helps me achieve what I need to achieve	1 (disagree) to 5 (agree)	0.94	0.97	0.92
	X provides exactly the service I am looking for		0.94		
	X does exactly what I expect it to do		0.94		
Instrumental performance	The technology used by X is good	1 (disagree) to 5 (agree)	0.88	0.90	0.75
	The functionality delivered by X is good		0.90		
	X is easy to use		0.73		
Expressive performance	Using X says a lot about me as a person	1 (disagree) to 5 (agree)	0.86	0.93	0.81
	X stimulates my emotions		0.85		
	X creates an experience for me		0.89		

¹X refers to the service in question

Since the data for all variables were collected from single respondents, the possibility of common method bias needed to be addressed. In developing the survey, remedies recommended by Podsakoff et al. (2003) were employed. Questions measuring different variables were separated by blocks of unrelated questions to change respondent focus away from the issues of interest. To reduce respondent apprehension, which might lead to more socially acceptable responses, the survey clearly stated that respondents would remain anonymous and that there were no right or wrong answers. A Harman's single-factor test with Varimax rotation was conducted as a test of common method bias and resulted in the expected multiple factors accounting for 98% of the variance, without substantial cross-loadings, thereby providing evidence for the absence of common method bias.

To test for possible multicollinearity, variance inflation factors were checked and the maximum was 2.45, which is well below the conservative threshold of 5 (Marquardt, 1970). This indicates that multicollinearity was not likely a problem.

4.0 Findings

The structural model shown in Figure 1 was analysed to test hypothesized direct relationships. In Table III we see that all five hypotheses about direct relationships are supported by the data.

Table III. Structural model results. N=805.

		Tests of direct relationships				Tests of mediation (H6 and H7)		
		Coef. ¹	Std.err.	z	P>z	Direct effects coef. ²	Indirect effects coef. ²	Total effects coef. ²
Customer loyalty								
H1	Outcome-achievement	0.30	0.04	7.52	0.00	0.32	0	0.32
H2	Instrumental performance	0.31	0.04	7.12	0.00	0.50	0.27	0.77
H3	Expressive performance	0.41	0.03	11.89	0.00	0.44	0.11	0.54
Outcome-achievement								
H4	Instrumental performance	0.55	0.04	12.91	0.00	0.84	0	0.84
H5	Expressive performance	0.34	0.04	8.00	0.00	0.34	0	0.34

¹Standardized coefficients

²Unstandardized coefficients

To examine mediation effects, we examined unstandardized direct, indirect and total effects in the model (see Table III) as recommended by Kline (2011). These metrics indicate that the contribution of instrumental performance to customer loyalty is mediated by outcome-achievement, as predicted by H6. The extent of the mediation is about 35% of the contribution (Gatignon, 2014). Likewise, the contribution of expressive performance to customer loyalty is mediated by outcome-achievement (H7) and the extent of mediation amounts to about 20% of the contribution.

To test the hypotheses for moderation, a grouping variable for service character was introduced, which separates responses depending on whether customers perceived the service being evaluated as more utilitarian or more hedonic. While studies of experience-centric services generally rely on researchers' or managers' judgment of service character, individual customers often differ in their perceptions, as suggested by the quote in the introduction. A more reliable approach is to make use of semantic differential scales, which ask respondents to select from pairs of adjectives describing a service as utilitarian or hedonic (Batra and Ahtola, 1991; Wirtz and Lee, 2003). We used a semantic differential scale based on Voss et al. (2003) including adjectives such as helpful vs. exciting and practical vs. fun.

The sample was split into responses indicating a perceived utilitarian character and a perceived hedonic character. The responses were relatively evenly split, with 397 responses indicating a perception of a more utilitarian service and 408 responses indicating a perception of a more hedonic service. A multi-group analysis was performed in two steps (Bollen, 1989). Firstly the grouping variable was added to a fully constrained model, with coefficients, covariances and loadings forced to be equal across the groups. Secondly the constraints were lifted and the differences in χ^2 between the two groups were compared.

Table IV. Results of Structural Equation Modelling with grouping by service character.

	Tests of moderation (H8 and H9)					Tests of moderated mediation		
	Coef. ²	Std.err.	z	P>z	Wald test p ¹	Direct effects coef. ³	Indirect effects coef. ³	Total effects coef. ³
Customer loyalty								
Outcome-achievement					0.67			
utilitarian service group	0.25	0.08	3.05	0.00		0.28		0.28
hedonic service group	0.22	0.06	3.92	0.00		0.23		0.23
Instrumental performance					0.90			
utilitarian service group	0.36	0.09	4.23	0.00		0.59	0.29	0.88
hedonic service group	0.36	0.06	5.60	0.00		0.61	0.10	0.71
Expressive performance					0.50			
utilitarian service group	0.42	0.05	8.09	0.00		0.49	0.04	0.54
hedonic service group	0.43	0.06	7.15	0.00		0.43	0.10	0.54
Outcome-achievement								
Instrumental performance					0.00			
utilitarian service group	0.71	0.05	13.10	0.00		1.02		1.02
hedonic service group	0.27	0.07	3.70	0.00		0.43		0.43
Expressive performance					0.00			
utilitarian service group	0.14	0.06	2.39	0.02		0.15		0.15
hedonic service group	0.47	0.06	7.34	0.00		0.44		0.44

¹N=397 for services perceived to be more utilitarian, N=408 for services perceived to be more hedonic

²Standardized coefficients

³Unstandardized coefficients

As shown in Table IV, the contributions of instrumental performance and expressive performance to outcome-achievement are substantially different between services perceived as utilitarian and those perceived as hedonic. A Wald test confirmed that the differences are statistically significant at the $p < 0.01$ level in both cases. When a service is perceived as utilitarian, instrumental performance contributes more to outcome-achievement than when a service is perceived as hedonic. The reverse is true for expressive performance, which contributes more to outcome-achievement when a service is perceived as hedonic than when it is perceived as utilitarian.

Examining the unstandardized effects, Table IV shows the contributions of both instrumental and expressive performance are mediated by outcome-achievement. The indirect effect of expressive performance to customer loyalty is not statistically significant at the $p < 0.05$ level for more utilitarian services, but accounts for about 19% of the total effect for hedonic services. Conversely, when it comes to the contribution of instrumental performance to customer loyalty the mediation is larger for utilitarian services (about 33%) and smaller for hedonic services (about 14%). These findings are consistent with the earlier mediation findings (H6 and H7).

Hypothesis 8a about the moderating effect of service character on the contribution of instrumental performance to outcome-achievement is supported, since the total effect of instrumental performance on outcome-achievement is larger when a service is perceived as utilitarian than when it is hedonic, see Table IV. Hypothesis 8b about the moderating effect of service character on the contribution of instrumental performance to customer loyalty is not supported by the data for the direct effect, since the Wald test indicates that the difference between groups is not statistically significant. However, since the relationship between instrumental performance and outcome-achievement is moderated by service character at a statistically significant level, we can say that Hypothesis 8b is supported in terms of the mediating effect of outcome-achievement on the relationship between instrumental performance and customer loyalty. In fact, the support here is due almost exclusively to the stronger mediating effect of outcome-achievement on the contribution of instrumental performance to customer loyalty for utilitarian compared with hedonic services.

Similar results were found for Hypotheses 9a and 9b. The direct effect of expressive performance on outcome-achievement is larger when a service is perceived as hedonic than utilitarian (see Table IV), which supports Hypothesis 9a. Meanwhile, Hypothesis 9b is not supported. However, since the relationship between expressive performance and outcome-achievement is moderated by service character at a statistically significant level, we can say that Hypothesis 9b is supported in terms of the mediating effect of outcome-achievement on the relationship between expressive performance and customer loyalty. Again, the support is due almost exclusively to the stronger mediating effect of outcome-achievement on the contribution of expressive performance to customer loyalty for hedonic compared with utilitarian services.

As a robustness test, the path model (Figure 1) was tested separately for each of the four companies. The overall findings were consistent across all four. However, there are a few interesting differences among the four, which afford further understanding of service character and its influence on customers' perceptions of service quality. This is discussed in the following section.

5.0 Discussion

5.1 Instrumental and Expressive Performance

For all four companies, direct relationships between both instrumental and expressive performance and customer loyalty were found. This evidence supports the belief that both the outcome and experience generated by a service are important. It justifies the use of design tools focused on customers' emotions during service delivery (Johnston and Kong, 1999; Beltagui et al., 2016). Based on testing separate structural models for each firm, we found that for B2B services, instrumental performance contributes similarly or more than expressive performance to customer loyalty. For the B2C services, the contribution of expressive performance is similar or higher than that of instrumental performance. This may be interpreted in line with Lemke et al.'s (2011) findings that B2B customers value a supplier's ability to understand their (instrumental) needs, whereas B2C customers value how they are treated and the resulting emotions. Company B, a web development and multimedia agency, builds relationships with its clients through expressive performance, for example their communication and the location in which client meetings are held. However, these

relationships also help develop deeper understanding of clients' needs to improve instrumental performance.

5.2 Outcome-achievement

Creating a positive emotional experience can be beneficial, but is not always the highest priority. Some authors caution against simply adding to services (Grewal et al., 2009) and instead argue that failure to deliver on promises renders any positive emotional experience irrelevant for customers (Gupta and Vajic, 2009; Beltagui et al., 2012). The present findings add evidence to this argument by demonstrating a mediating effect of outcome-achievement in all but one of the companies studied. This suggests when customers know what outcome they expect, the experience is a bonus—in other words outcome-achievement is the order qualifier, but experience may be an order winner. For company D, a creative agency that promotes and sells the work of artists, no statistically significant direct contribution of outcome-achievement to loyalty was found. The artists may have a specific outcome to achieve, such as selling a piece of work, but they largely work with the agency in order to develop their career within a creative community, with only partially defined objectives. Failing to achieve a commercial outcome may not harm their likelihood to continue visiting and working with company D. This supports other studies that find experiences are more effective when spontaneous, not carefully planned (Beltagui et al., 2015). And where expected outcomes are emotional, clear predictions and expectations are difficult to define (Ebert et al., 2009).

5.3 Service Character

This study finds that service character moderates the identified relationships, including the mediating role of outcome-achievement. When customers perceive a service to be more utilitarian in nature, the outcome may be more strongly related to instrumental performance, but the importance of expressive performance becomes more important when customers perceive the service as more hedonic.

In both of the online services, instrumental performance contributes more to outcome-achievement than expressive performance does. This is expected for company B, which is a B2B service, but less so for company A, an online games service. An explanation may be the less personal nature of a technology-mediated service experience (Froehle and Roth, 2004), which makes customers expect less expressive performance. Alternatively, since company A

offers a platform for customers to interact with each other, the emotional experience is co-created by and with other players, rather than being associated with the company. This has implications for managing services in the so-called *trust economy*, where companies provide a platform through websites and apps, but services are delivered in a peer-to-peer manner. Our findings suggest customers distinguish between expectations of the company, which may be instrumental, and expectations of other customers, which may be expressive. For example, a member of the YouTube online community would seek entertainment from watching videos uploaded by other members, but they expect from the company provision of uninterrupted access.

5.4 Theoretical implications

The literatures on service quality and service experience are largely disconnected, despite recognition of the important role of experience. This research therefore set out to revisit the literature on service quality and develop a model appropriate for experience-centric services. Through a structural equation model, the contributions of multiple factors to customer loyalty are measured simultaneously. This provides a holistic view of service quality. Experience is considered in two ways within this model. Firstly, a distinction is made between expressive performance, which captures the emotional components of a service, and instrumental performance, which relates to the function (Swan and Combs, 1976). Despite being in evidence in early work on service quality, this distinction was largely overlooked in subsequent models. Secondly, drawing on hedonic consumption theory (Holbrook and Hirschmann, 1982), a measure of service character is used to determine whether a service is seen as experience-centric by customers.

Following Maddern et al. (2007), the contribution outcome-achievement is tested. While Maddern et al. demonstrated a correlation with satisfaction, this research goes further by demonstrating a contribution to customer loyalty as well as a mediating effect of outcome-achievement on the contributions of both instrumental and expressive performance to loyalty. In contrast with previous studies (e.g. Candi et al., 2013), service character was measured according to the perceptions of each customer. This is important to ensure validity and avoid the risk that managers or researchers wrongly classify a service as being universally hedonic or universally utilitarian. It recognizes that individuals can see the same service activities as work and/or fun (Babin et al., 1994). Taking perceived service character into consideration enables an additional contribution from this research. The results indicate that service

character moderates the relationships between instrumental and expressive service performance, respectively, and customer loyalty; more specifically in terms of their contribution to achievement of expected outcomes. For services that are perceived by customers to be more utilitarian than hedonic, instrumental performance is more important than expressive performance. For those perceived to be more hedonic, the reverse is true. The implication is that when customers perceive services as experience-centric, what matters to them is the emotional outcome. How this outcome is achieved may not be important, but if customers expect to feel happy or frightened or provoked, they will judge the quality of the service and make decisions on whether to pay for it again based on whether these feelings are experienced.

5.5 Managerial Implications

The research findings offer valuable guidance to managers on how to create memorable experiences that result in customer loyalty. For most services, it is important that the experience is built on a service that works well and delivers what customers expect. Our results show the importance of instrumental performance, which relates to how easy it is to use the service or how good the technology and facilities involved are seen to be. For some services, this may be all that matters. Indeed, achieving expected outcomes is important because our results suggest this to be an order qualifying factor; for most customers, good processes or good experience are not important if the service does not deliver.

These insights should reflect “business as usual” for successful services. The more novel insights of this study, however, relate to the role of expressive performance and service character. The findings show that expressive performance has a positive effect. In other words, if the service works well, improvements can be achieved by designing it to ensure a positive emotional impact. This effect is even more important, potentially more important than achieving outcomes, when the customer perceives the service as hedonic.

The main implication for operations managers, therefore, is that service quality should not be seen as one size fits all. Instead, the appropriate measures to use should be selected based on the service character and the degree to which customers value instrumental and expressive performance. Many companies increasingly use the term experience, but frequently measure and manage it inappropriately. A good understanding of customers, how they see a service and the value they expect to gain from it, is required to avoid inappropriately concentrating on the wrong aspects. Customers can perceive a service as being more hedonic or more

utilitarian and their perceptions may well change over time. Businesses need to be aware that even if they believe their services are primarily utilitarian or primarily hedonic, all their customers may not agree with this belief at all times. Therefore, businesses would do well to anticipate both customer perceptions and make sure that customers approaching a service with a utilitarian perspective find the instrumental performance they are looking for while customers approaching the service with a hedonic perspective find high expressive performance.

5.6 Limitations and further research

Although steps were taken to minimize the risk of common method bias in designing and administering the survey and although analysis of the properties of the data indicated that the possibility of common method bias could be discounted, the limitation inherent in data collected from single respondents must still be acknowledged. However, when dealing with customers, the methods that might be at one's disposal when collecting data from businesses—such as collecting data from more than one representative of each business or collecting data at different points in time—are not feasible. The fact that we collected data from large numbers (at least 100) of customers for each service examined and did not limit our data collection to customers of a single service can be seen to greatly mitigate the potential problems that could be attributed to common method bias, such as patterns of artificially inflated correlations. However, by indirectly accessing these customers, it was not possible to control the response rate or be completely certain that non-response bias was not an issue. We took steps to limit this problem.

Finally, as is typically the case, this research could have benefited from more data. More specifically, representation of a wider range of types of experience-centric services would have strengthened the external validity of the research findings. Additionally, a comparison between experience-centric and not experience-centric services could shed light on how widely the research model developed here can be applied. Steps were taken in this direction by using customer defined assessments of service character, but assuming that experience-centric services can be viewed as a subset of services as a whole (Zomerdijk and Voss, 2011), it would be useful for future studies to further capture the differences between experience-centric and other services. A more comprehensive typology of services can be found in the literature and could be used to compare, for example, professional services with mass services, using the model developed in this research.

6.0 Conclusion

The contributions of this research are threefold. Firstly, it develops a model of service quality that takes into account the customer experience by including a measure of expressive performance alongside instrumental performance. Secondly, it tests the mediating effect of outcome-achievement in experience-centric services, on the relationships between both types of performance and customer loyalty. This supports the notion that merely adding entertainment and novelty to a service results in an appealing exterior with a hollow core and is unlikely to lead to customer loyalty. Thirdly, it tests the moderating effect of service character, demonstrating that for services that customers perceive as hedonic, the expected outcomes are more about the emotional experience than the functionality of the service.

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