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**THE SERVICE-PROFIT CHAIN: A NEW ZEALAND
RETAIL BANKING EXAMPLE**

**A thesis presented in partial fulfilment
of the requirements for the degree**

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ABSTRACT

The notion of a service-profit chain has been prevalent in business for many years although only since the 1980s has academic research in services management emphasised such a chain. At its simplest, the service-profit chain implies that certain levels of service to customers will result in profitable transactions for the service provider. However, there are several other linkages in the chain between service and profit such as customer satisfaction and customer loyalty.

One of the first of its kind in the public domain in New Zealand, this study presents an empirical analysis of an abbreviated form of the service-profit chain for one bank. It investigates the relationships in the service-profit chain with specific objectives that include identifying the factors that help generate profitable customers. Just over 1100 personal retail customers of a New Zealand regional bank were surveyed on such issues and these customers' contribution to the bank's profitability calculated using activity-based accounting procedures.

In general, results support the concept of a service-profit chain in personal retail banking. However, a chain implies linearity, whereas the findings here suggest the links between service quality, customer satisfaction, customer loyalty and customer contribution may be more circular than strictly linear. The relationship between customer loyalty and customer profitability is supported, though only at the behavioural loyalty level, where customers conduct all or nearly all of their banking business with one bank. In general, the greater the share of a customer's banking business, the more profitable that customer is to the bank. Conversely, attitudinal loyalty (positive dispositions held about the bank) was not always present for profitable customers. And the study bank's most profitable customers do not always have "all their eggs in one basket" – they are both attitudinally and behaviourally ambivalent in this regard. What sets these customers apart from their peers as profitable customers is their income. They tend to be high networth customers who give the bank the chance to generate profit from their considerable funds and high transaction volume despite not having all their personal banking business consolidated in one bank.

There was some support for association between customer satisfaction and profitability but no hint of a relationship between service quality issues and profitability. In general however, strong associations were common between each successive link in the service-profit chain and for an abbreviated service-satisfaction-loyalty chain. Noteworthy too is the finding that not all customers are always profitable and during this study one third of the bank's customers were unprofitable, one third hovered around breakeven and one third contributed 98% of customer profit. The study also investigated customer defection in personal retail banking and established, in agreement with other recent New Zealand research, that annual defection rates are close to 5%.

From the synthesis of results and their interpretation, several issues emerged including concerns about the study's measurement of attitudinal loyalty as well as the usefulness of the family life cycle model. These, along with limitations and caveats were addressed for the benefit of future research into the service-profit chain in personal retail banking.

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When it comes to the acknowledgement section of a Ph.D. thesis the traditional approach is to thank and acknowledge those people who have been instrumental in allowing the author to achieve the “ultimate academic hurdle.” This thesis is no exception but first I have to acknowledge the analogies between completing a thesis and completing a marathon.

I took up long-distance running (as a plodding jogger) about the time I began this thesis and recently one of my MBA students lent me a book on running written by Tim Noakes (citation below) that has many insights which I think bear repeating. He wrote that running:

- Provides solitude especially where fatigue drives us “back into ourselves” from which we emerge with a clearer perspective on issues that worry us.
- Makes us more aware of our bodies and our shortcomings; more self-disciplined, more modest and more humble (traits that I value).
- Gives anyone the opportunity to compete if only against themselves, giving self-confidence and self-belief. Rewards in running, as in life, come only in direct proportion to effort expended.
- Teaches humility in the acceptance of limitations and to accept without envy the physical and intellectual prowess of others. And it teaches you about honesty. In running there is no luck, you cannot fake results and there is no one to blame but yourself.
- Provides time to be creative – much of this treatise has been written in my head as I have pounded around The Old West Road, often in the company of three running mates on the staff at Massey University who deserve acknowledgement: Bruce Wilson, Philip Dewe and Alan Cameron – thanks guys!

So there it is: the humility (wrapped up with a healthy ego), modesty, courage and perseverance essential for successful distance running (measured in the runner’s own terms) is akin to the journey necessary for the completion of a Ph.D.

I owe a debt of gratitude to five special colleagues, my supervisors past and present. Originally Professor Norman Marr “took me on” but he had to relinquish that role after accepting the Chair in Marketing at The University of Huddersfield in England. Yet Norman was instrumental in giving me the confidence to submit articles for publication in scholarly journals. Obviously he saw something in me that I wasn’t aware of. Thanks Norman. Also part of my original team was my colleague Associate Professor Richard Buchanan who continues as a mentor to this day, dispensing wisdom on academia and life in general. Thanks Rich. And to my old colleague Art Thomas, thanks for the support over the years. Though not a supervisor, you helped a lot.

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Noakes, T (1988). *Lore of Running*. Cape Town: Oxford University Press.

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