

**POMS College of Service Operations 2007 Conference**

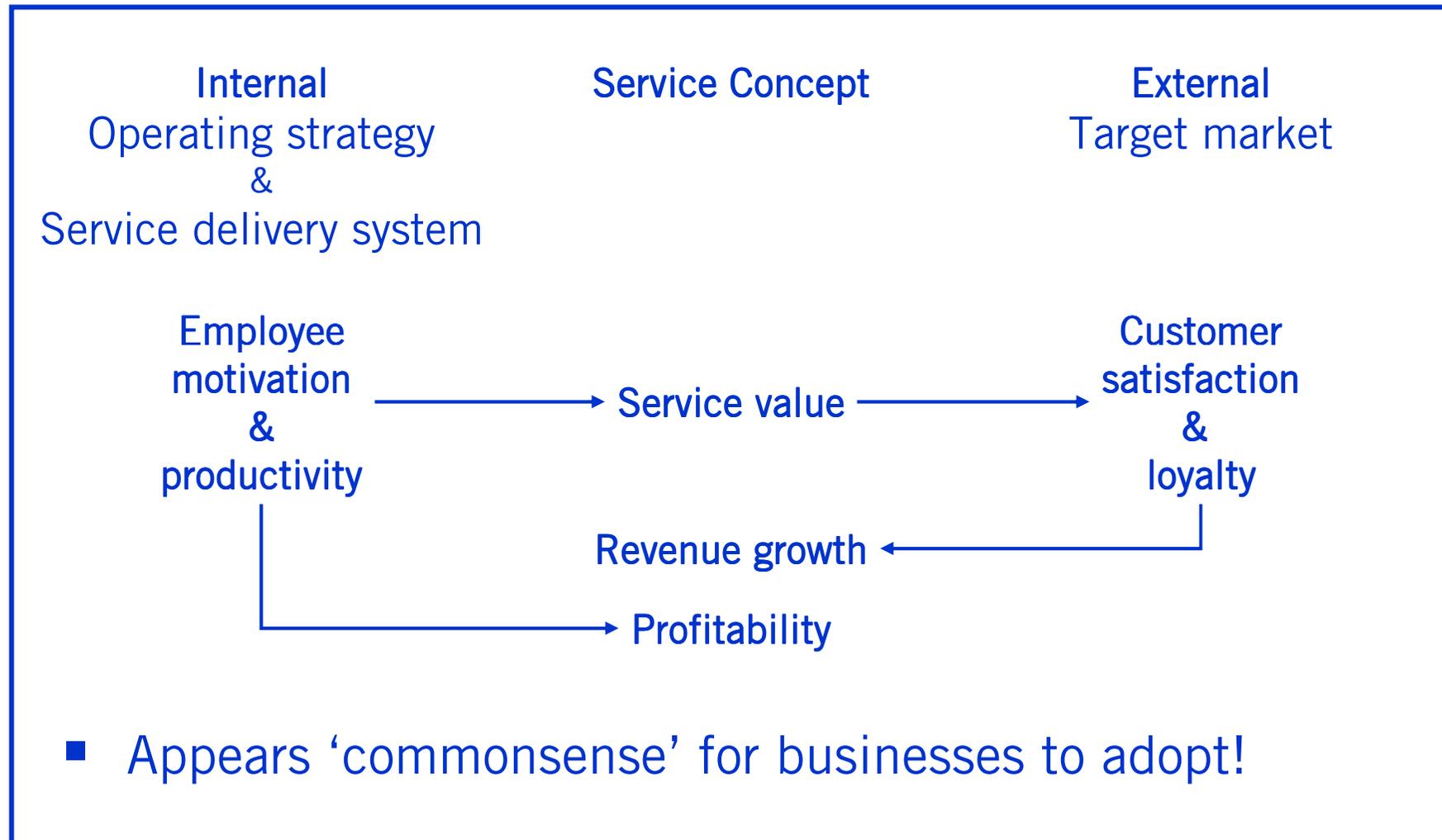
## **Demonstrating the Service-Profit Chain in Practice**

Alastair Nicholson  
Professor of Operations Management  
London Business School

## Demonstrating the service-profit chain in practice

- The service-profit chain: principle and practice
- Interpretation in performance management
- Operationalising service satisfaction systems
- Evidence of integration in successful companies
- Investigations through observation and projects
- Moving towards SPC in practice

## The service-profit chain: principle and practice



## Interpretation in performance management

### Left-to-right companies

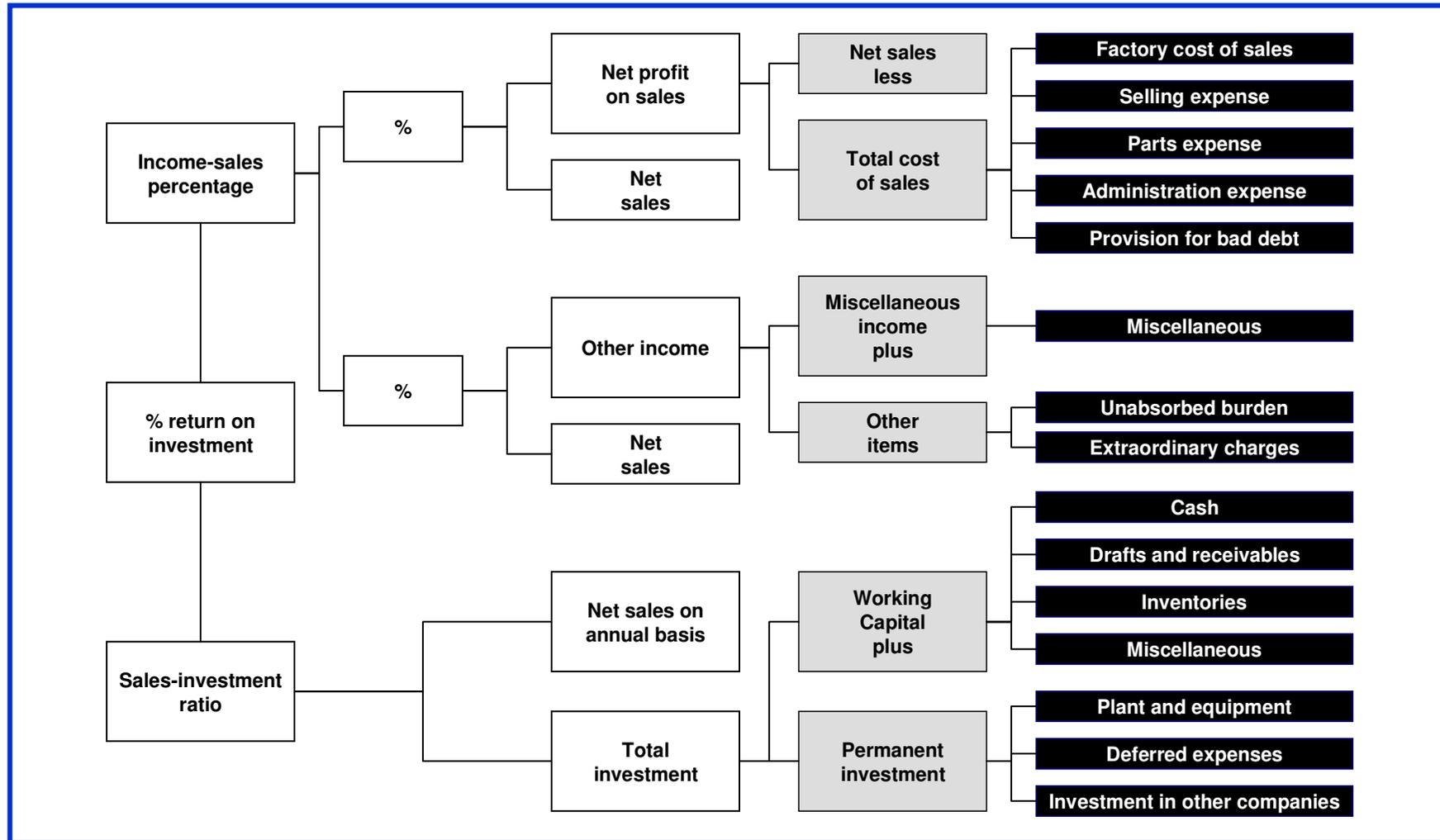


### Right-to-left companies



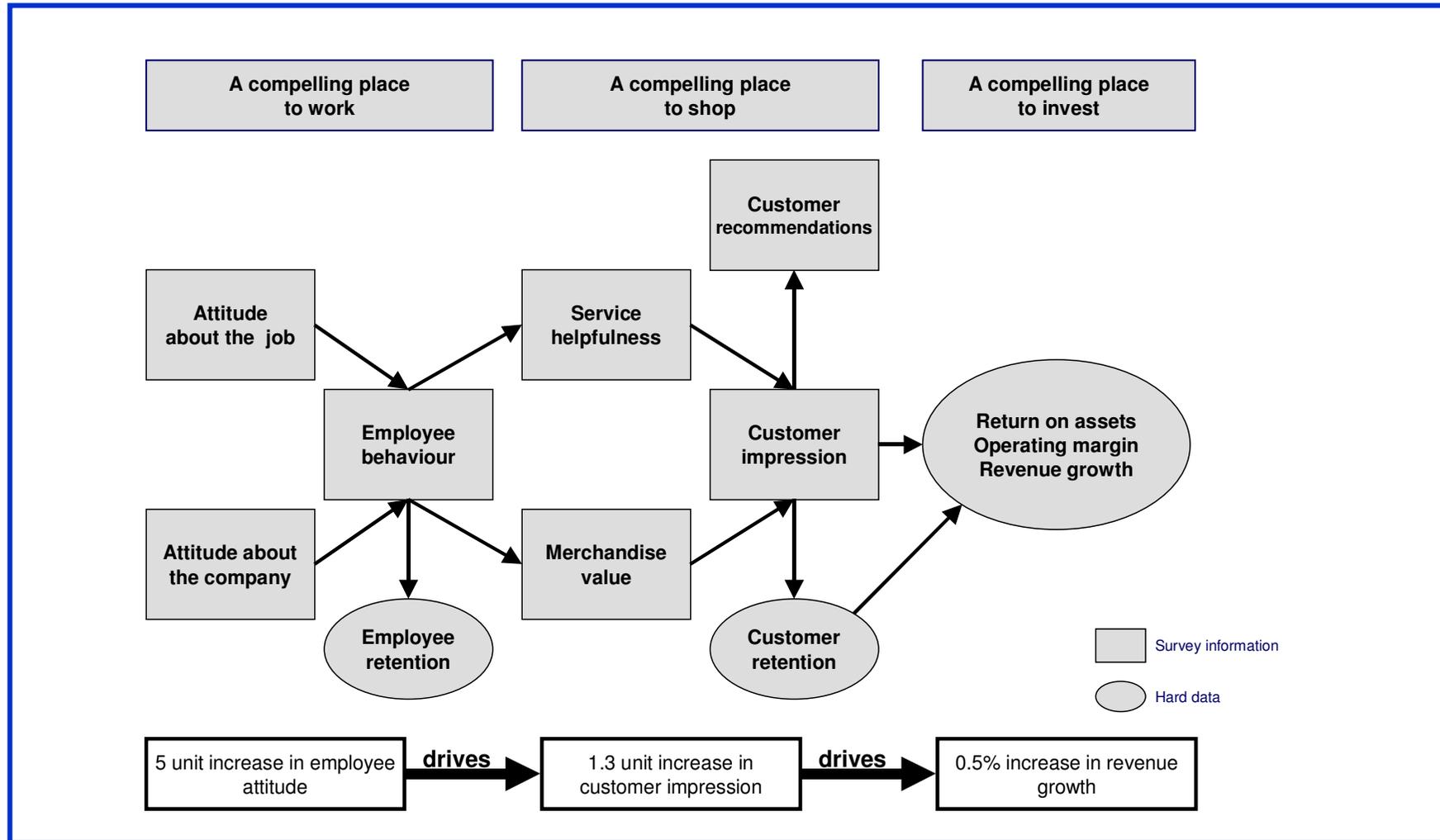
- In difficult times, all companies are 'right-to-left'!

# Interpretation in performance management



Source: Chandler, A. D., *The Invisible Hand - Managerial Revolution in American Business*, Harvard University Press, Boston MA, 1977

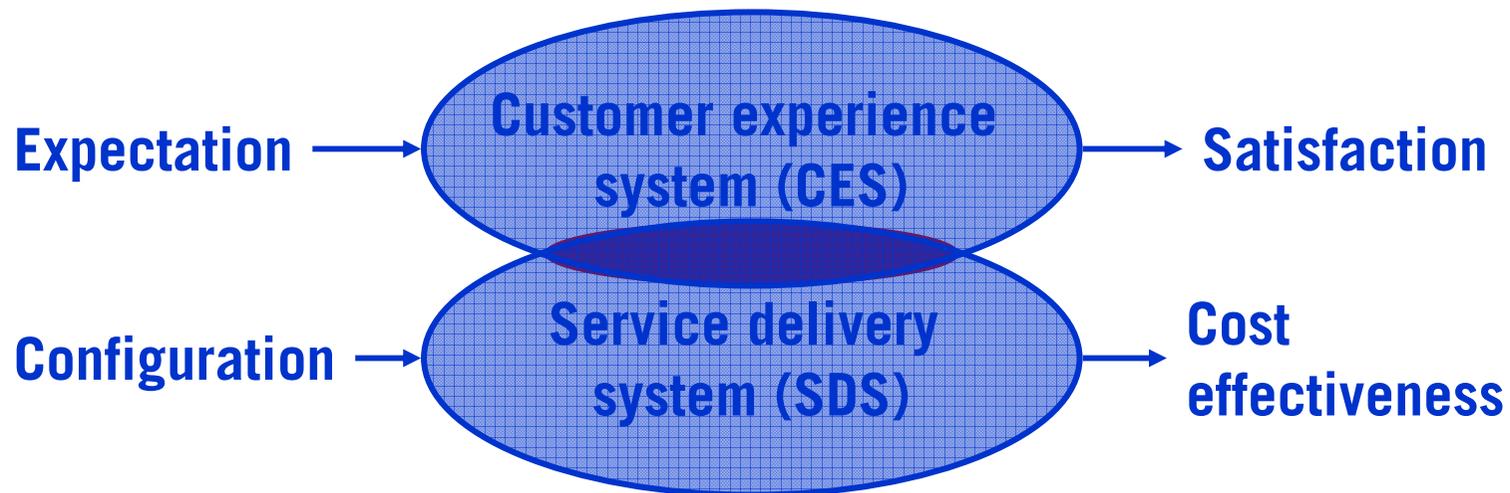
# Interpretation in performance management



Source: Rucci, A. J., Kim, S. P. and Quinn, R. T., *The Employee-Customer Profit Chain at Sears*, Harvard Business Review, Jan-Feb 1998

## Operationalising service satisfaction systems

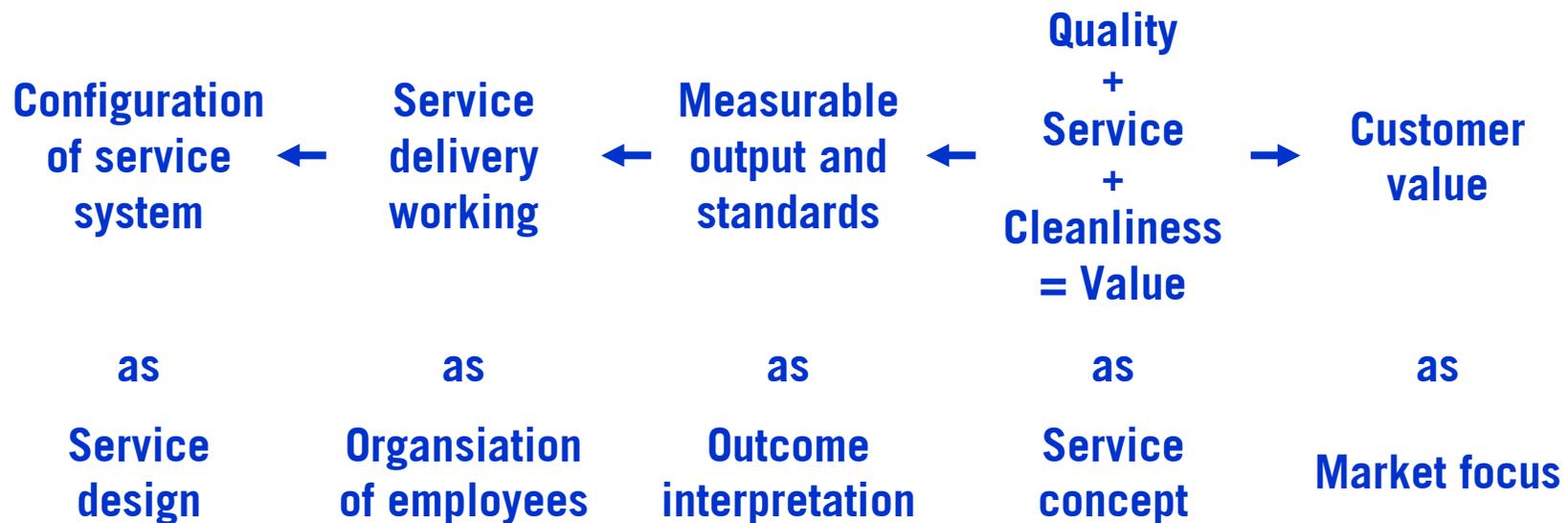
- Define service delivery systems as intertwined with the customer satisfaction system



- Essentially: customer must buy into the 'SDS'  
SDS must engage CES  
success = degree of overlap of CES and SDS

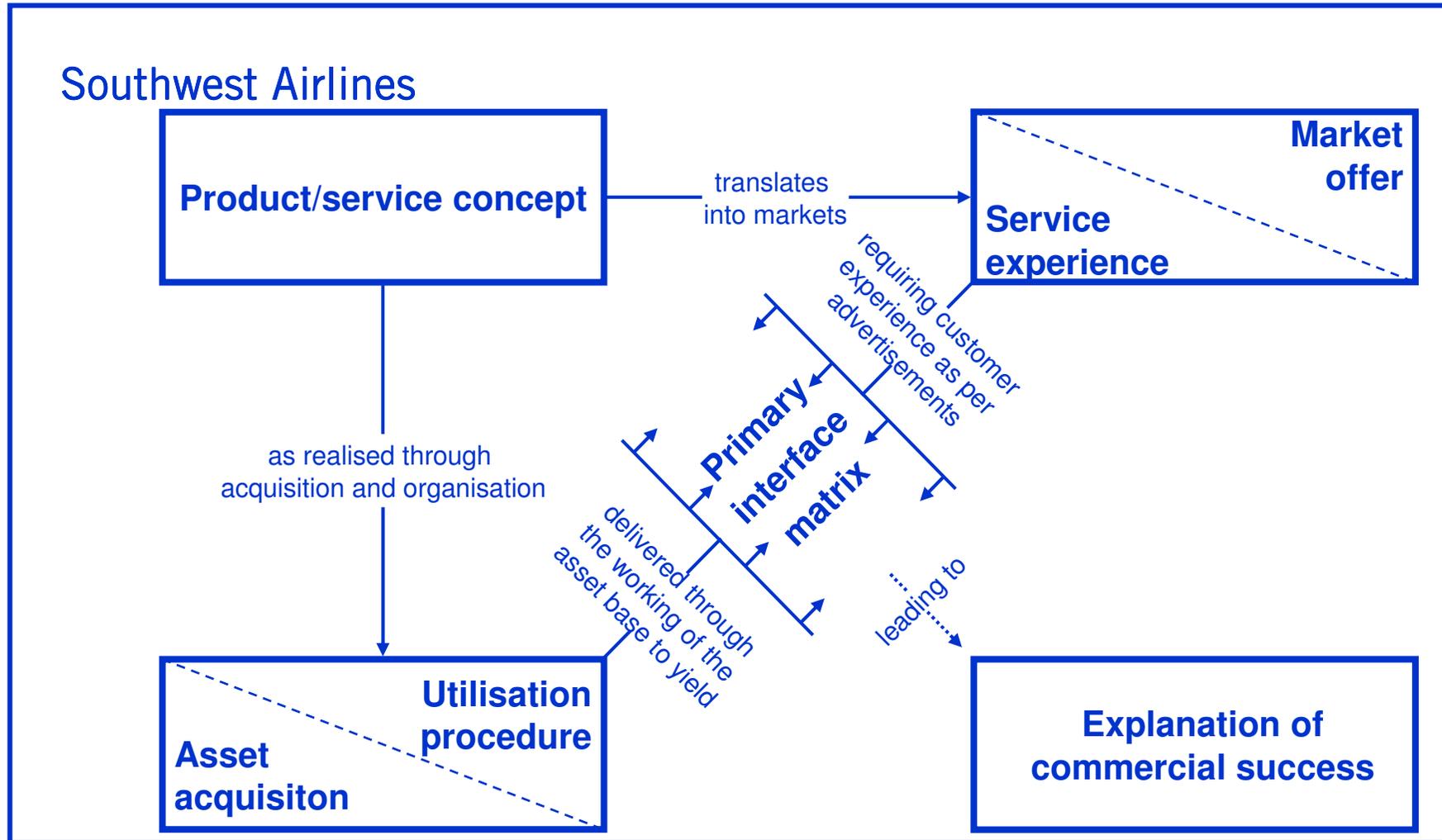
## Evidence of integration in successful companies

- McDonalds focus and integration formulæ:  
the closed loop on specification to marketing





# Evidence of integration in successful companies



## Investigations through observation and projects

2000 investigative projects on High Street outlets,  
searching for service profit chain characteristics

- Model of customer in the mind of the store, and model of the store in the mind of the 'passer-by'
- Basis of access for single customer and complications of varied processes and variety available
- Capacity available and capacity used
- Quality expected and quality fulfilled
- Employee contribution and sustainable consistency
- Bargain for the customer and profit for the store

## Investigations through observation and projects

6-month study of large department store in the UK

- Employee recruitment
- Employee commitment
- Sales success
- Evidence of internal quality

## Investigations through observation and projects

Hypothesis	Methodology	Result
There are positive correlations between employee satisfaction, loyalty and internal service quality	A staff survey and focus groups	Y, but N for ISQ vs loyalty
Employee loyalty is positively correlated to financial performance	A staff survey differentiating top salespeople from a sample of randomly selected salespeople on their stated loyalty to the store	Y
Employee loyalty is positively correlated to financial performance	Average tenure of top salespeople against that of the whole store	Still to analyse
Employee satisfaction is positively correlated to financial performance	A staff survey differentiating top salespeople from a sample of randomly selected salespeople on their stated satisfaction with the store	Y

## Investigations through observation and projects

Hypothesis	Methodology	Result
Internal service quality is positively correlated to financial performance	A staff survey differentiating top salespeople from a sample of randomly selected salespeople on their stated opinion of the internal service quality they receive	N
Internal service quality is positively correlated to financial performance	Focus groups with staff	Still to analyse
External service quality is positively correlated to financial performance	Guest shopper scores of the top salespeople to be collated	Still to analyse
External service quality is positively correlated to financial performance	A staff survey differentiating top salespeople from a sample of randomly selected salespeople on their perception of their own external service quality	(Y) - perception only

## Moving towards SPC in practice

Four fundamental deals:

<b>Selling</b>	<b>Delivered value to the customer</b>	<i>VS</i>	<b>Value obtained from the customer</b>	<b>Accounting</b>
<b>Operations</b>	<b>Factors enabling employee contribution</b>	<i>VS</i>	<b>Factors determining employee commitment</b>	<b>HR</b>
<b>Marketing</b>	<b>Construct of external image</b>	<i>VS</i>	<b>Determinants of internal image</b>	<b>HR</b>
<b>Distribution</b>	<b>Contribution from current product mix</b>	<i>VS</i>	<b>Potential for product development</b>	<b>Engineering</b>

- Roots of success lie in organisation chart 'agreements'