

New Hypothesis on Service Management within the Global World*

Ion PLUMB

Bucharest Academy of Economic Studies
ionplumb@yahoo.com

Andreea ZAMFIR

Bucharest Academy of Economic Studies
zamfir_andreea_ileana@yahoo.com

Abstract. *World economies have changed into service economies in the last decade, as services became the main dynamic component of economic competition. Therefore, this study explores how the globalization and, moreover, the knowledge-based economy could influence the conceptualization of service management. The findings of this study reveal that some of the hypothesis on service management are no longer valid, being replaced by new hypothesis more suitable within the global world and the knowledge-based economy. The study was carried out by combining a wide variety of sources, such as research papers, literature reviews, conceptual papers and books. The results reported in this research may be used for designing new methods and models for the management of service organizations so as to consider the changes in conceptualizing service management.*

Keywords: service management; information and communication technology; global world; knowledge-based society.

JEL Codes: L80, M10, M11.

REL Codes: 14K, 18F.

* Ideas in this article were presented at the Symposium „The global crisis and reconstruction of economics?“, 5-6 November 2010, Faculty of Economics, Bucharest Academy of Economic Studies.

1. Introduction

The evolution of society from an industrial society to a global world and to a knowledge-based society determines conceptual transformations of service management. The aim of this study is to investigate how the globalization and the knowledge-based economy could change the conceptions on service management. The manner in which services are managed within the knowledge-based economy is a highly debated topic these days because of its role within the global economy. In the last decade, services became the main dynamic component of economic competition within developed countries. The broaden interpenetration and integration relations between the sector of services and other sectors of the economy and the growth of economic development opportunities through the extension of international transactions with services may be the main causes of the increasing role of services within national economies.

The research was conducted using evidence provided by articles (such as research papers, literature reviews, and conceptual papers) as well as books. In order to answer the research question we have delineated the background of service management from the marketing approach of this issue and further we have identified some new hypothesis of service management from a managerial perspective. The study has illustrated the influence of the knowledge-based economy on the service management area by identifying logical connections between changes in society and changes in service management. The research question was answered by analyzing published sources, and by evaluating and interpreting evidence. Answering the research question was difficult, due to the variety of approaches, concepts, definitions, and classifications found in the literature.

2. Background

The interest in studying the specific issues of services and its management emerged (surprisingly or not) among marketing researchers, who identified managerial implications of the service characteristics and changes. As Grönroos observed in 1994, “researchers interested in services did not predominantly attempt to change old management models and concepts in a marginal fashion in order to fit services. Instead a totally new approach to the problem of how to manage various aspects of service organizations was taken” (Grönroos, 1994, p. 8). This approach that Grönroos refers to is what we may call the marketing approach of managerial aspects of services. Furthermore, we may suggest that this marketing approach could be embraced (considered) when we attempt to manage service organizations, but a rethinking of the managerial concepts and practices in the context of service specificities within the knowledge-based

society is also needed. This is because from a managerial perspective marketing is only a component of the organization's whole activity, in other words management means much more than marketing, and thus a holistic managerial approach of service organizations may be more suitable within the knowledge-based society.

Having said that, let us begin with what has already been done in the management of services area, namely the marketing perspective or approach. First we will emphasize the manner in which the management of services was conceived; secondly, we will underline the service-dominant logic which we believe is the basis for changes in the management of services; and thirdly, we will focus on the changes in management of services from a more comprehensive point of view, and this is our managerial approach.

3. Old and new hypothesis on service management

With respect to the manner in which the management of services was conceived, the essence of the marketing approach of this issue may be illustrated through the definition of "service management" provided by Grönroos in 1990, and refined later in 1994. According to Grönroos (1990, p. 117), service management is:

1. "To understand the utility customers receive by consuming or using the offerings of the organization and how services alone or together with physical goods or other kinds of tangibles contribute to this utility, that is, to understand how total quality is perceived in customer relationships, and how it changes over time";
2. "To understand how the organization (personnel, technology and physical resources, systems and customers) will be able to produce and deliver this utility or quality";
3. "To understand how the organization should be developed and managed so that the intended utility or quality is achieved"; and
4. "To make the organization function so that this utility or quality is achieved and the objectives of the parties involved (the organization, the customers, other parties, the society etc.) are met".

Starting from the meaning defined in 1990, the same author (Grönroos, 1994, p. 7) identifies five key facets of the service management perspective (overall management perspective, customer focus, holistic approach, quality focus, and internal development and reinforcement):

1. "It is an *overall management perspective* which should guide decisions in all areas of management (not only provide management principles for a separate function such as customer service)";

2. “It is *customer driven* or market driven (not driven by internal efficiency criteria)”;
3. “It is a *holistic perspective* which emphasises the importance of intra-organizational, cross-functional collaboration (not specialization and the division of labour)”;
4. “Managing *quality is an integral part* of service management (not a separate issue)”;
5. “*Internal development* of the personnel and reinforcement of its commitment to company goals and strategies are strategic prerequisites for success (not only administrative tasks)”.

Discussing service management and its five key facets, the author (Grönroos, 1994, p. 14) concluded that “service management is not a well-defined area or a single theory of management. Rather it is a management perspective that fits today’s competitive situation”.

However, we may argue that in the context of knowledge-based society some of these key facets of the service management perspective are no longer valid. Specifically, the facets of the service management we consider being unconvincing within the knowledge-based society are customer focus, a holistic approach emphasising intra-organizational collaboration, and internal development of personnel (development inside the organization) (Figure 1).

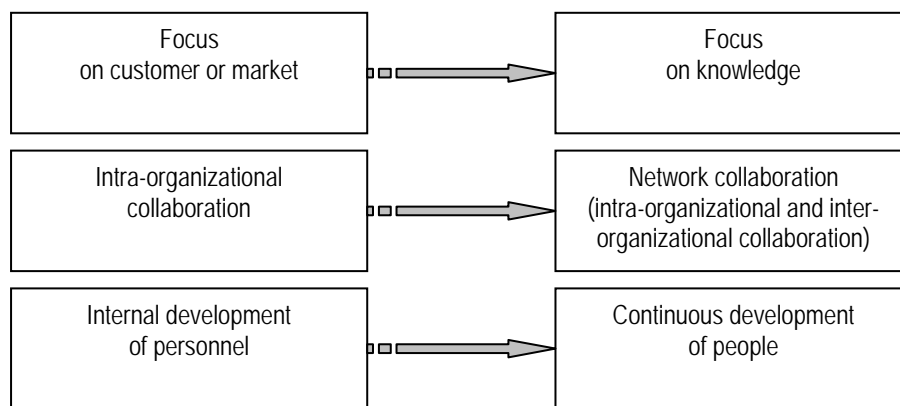


Figure 1. *Old and new hypothesis on service management*

We have made this statement on the grounds that: (1) *the management of services is knowledge-driven* and not customer driven or market driven because (a) knowledge is the “heart” of society, and implicitly it is the “heart” of all activities, including the management of services, and (b) knowledge includes,

among other things, the criteria for a company's evaluation, which may be internal (such as efficiency or effectiveness) or external (such as environment or health); (2) *the management of services is a holistic perspective which emphasises network collaboration*, both intra-organizational and inter-organizational, since knowledge is created and transferred both within and outside the organization through various networks; and (3) *the management of services relies on people's continuous development as indispensable for success*. This is because (a) besides knowledge, people are the next most important core resource of the management of services which has to evolve on the knowledge spiral, (b) people learn throughout their life (lifelong learning), (c) learning may occur inside and/or outside the organization, and (d) people could learn traditionally – devoid of electronic devices, as well as through electronic learning (e-learning) or mobile learning (m-learning) – using information and communication technology.

As regards the fourth facet of Grönroos' framework, we may say that service quality management as an integral part of the management of services became more important within the knowledge-based economy. Providing quality services has been identified as one of the most difficult long-term strategies for establishing a business (Yoon, Ekinici, 2003). Today's leading companies operate on a global basis, cooperating with suppliers, partners and a multitude of stakeholders in order to deliver service and/or product packages (Paton, McLaughlin, 2008). Service providers who understand the needs and interests of customers thoroughly are capable of incorporating customer knowledge into the operation of the organization when enhancing the service intensity. This is not only helpful for the integration of the relationship and input of resources, but also has a positive effect on the improvement of customer satisfaction (Lin, 2007). Therefore, service quality management may be a key factor for the success of service organizations within the knowledge-based economy.

Based on the above we may conclude that there are changes in the conceptualization of the management of services within the knowledge-based society, which have profound implications on the practices of service organizations.

The second step in our reasoning is to explain the service-dominant logic and its effects on the management of services. We may advocate that changes in the management of services within the knowledge-based society have their roots in the new so-called "service-dominant logic". In this service-dominant logic service is seen as a process, while in the previous goods-dominant logic services were seen as units of output (Vargo, Lusch, 2008). This new approach is driven by an intrinsic purpose of doing something for and with another party, hence it is customer-centred and customer-responsive (Lusch et al., 2006).

The service-dominant logic is more a philosophy rather than a theory, in the sense that it involves changing the way of thinking about it in some fundamental way. As some authors asserted (Vargo, Lusch, 2008, p. 258), the main changes are:

1. "From thinking about the purpose of firm activity as *making something* (goods or services) to a process of *assisting customers in their own value-creation processes*";
2. "From thinking about *value* as something *produced* and sold to thinking about value as something *co-created* with the customer and other value-creation partners";
3. "From thinking of *customers as isolated entities* to understanding them in the context of their own *networks*";
4. "From thinking of *firm resources* primarily as *operand* (i.e. tangible resources such as natural resources) to *operant* (i.e. usually, intangible resources, such as knowledge and skills)";
5. "From thinking of *customers as targets* to thinking of *customers as resources*";
6. "From making *efficiency primary* to increasing *efficiency through effectiveness*".

This approach has various effects on the management of services. It implies relationships between the service organization and its potential clients, and collaborative work with them and with other partners, which leads to co-creation of value for use (Lusch et al., 2006).

In service-dominant logic, knowledge and skills are key resources for competitive advantage (Vargo et al., 2008, p. 148) derived from collaborative competence which enables firms to adapt to dynamic and complex environments (Lusch et al., 2007). All participants in the value co-creation process are dynamic resources, which both devolve and evolve in scope and effectiveness (Lusch et al., 2006).

Ultimate value is not created (or added) by the provider of the service, but rather co-created with the customer and determined by the customer's assessment of value-in-use. Thus, the firm can only make a value proposition (an offer of value creation) and then, if it is accepted, value is co-created with the customer (Lusch et al., 2006). The changes in the way of thinking about value creation have implications on service organizations, their clients and the entire society in the sense of accentuating the role of collaboration between actors involved in the process of providing and receiving services (Vargo, Lusch, 2008).

All these changes in the way of thinking about service, value creation and the management of services itself seem to influence the practices in the management of services within the knowledge-based economy and society. The managerial

objectives, resources, relationships and methods used are all changing. Furthermore, business processes are changing due to the information and communication technology development, and their increasing/widening acceptance in day-to-day life. The application of information and communication technology in business processes leads to e-business. This may be defined in the broad sense, relating both to company external and company internal processes, considering that it includes external communication and transaction functions, but also information and communication technology-supported flows of information within the company (E-Business W@tch, 2007, p. 263). Thus, e-business currently symbolizes new ways of conducting business, where electronic networks of companies make e-business an inter-organizational activity to a large extent. The performance of the inter-organizational alliance and the ability of the partners to create value in such networks would therefore depend on their relationship competency. With better knowledge of how to influence their business networks, service organizations could increase their influence and their outcome of such relationships (Eikebrokk, Olsen, 2007). According to Fuentelsaz et al. (2002, p. 303), “in the virtual plane the effort must be made in the direction of studying those activities that are conductors or generators of value, seeking to support and promote them with a view to sustaining this value creation”. However, the same effort is made even though the company provides services in a traditional manner (face-to-face contact with clients). This may be important because traditional business is not excluded by e-business. The distinctive features of the knowledge-based economy allow service organizations to generate value in an electronic way that is an alternative, and not an impediment, to business of a “conventional” type (Fuentelsaz et al., 2002). Regardless of the manner of providing services, however, people (employees, clients, partners, and competitors) are connected via open networks (e.g. internet) and management has to take this fact into account.

4. Conclusions

This study has revealed that some of the hypothesis on service management are no longer valid today, being replaced by new hypothesis more suitable within the global world and the knowledge-based economy. Specifically, the facets of the service management we consider being unconvincing within the knowledge-based economy are customer focus, a holistic approach emphasising intra-organizational collaboration, and internal development of personnel. This conclusion is based on the premises that: (1) the management of services is knowledge-driven; (2) the management of services is a holistic perspective which emphasises network collaboration; and (3) the management of services relies on people’ continuous development as

indispensable for success. Moreover, service quality management as an integral part of the management of services became more important within the knowledge-based economy due to the fact that today's leading companies operate on a global basis.

Further research in this area could focus on investigating the concept and practice of strategic management, which acquire a particularly relevant role within the knowledge-based economy. The specific changes we have identified above, along with the service organizations' need to practice strategic management within the global world are reasons for trying to revise some of the paradigms in strategic management with a view to adapting them to the new realities of services within the knowledge-based economy.

References

- E-Business W@tch (2007), „The European e-Business Report 2006/07 edition. A portrait of e-business in 10 sectors of the EU economy, 5th Synthesis Report of the e-Business W@tch”, European Commission, *Office for Official Publications of the European Communities*, Luxembourg, last accessed October 10, 2010, <http://www.ebusiness-watch.org/key_reports/documents/EBR06.pdf>
- Eikebrokk, T.R., Olsen, D.H., „An Empirical Investigation of Competency Factors Affecting E-Business Success in European SMEs”, *Information & Management*, 44 (4), 2007, pp. 364-383
- Fuentelsaz, L., Maicas-López, J.P., Polo, Y., „Assessments of the New Economy Scenario”, *Qualitative Market Research: An International Journal*, 5 (4), 2002, pp. 301-310
- Grönroos, C., „From Scientific Management to Service Management. A Management Perspective for the Age of Service Competition”, *International Journal of Service Industry Management*, 5 (1), 1994, pp. 5-20
- Grönroos, C. (1990). *Service Management and Marketing. Managing the Moments of Truth in Service Competition*, Lexington: Free Press/Lexington Books
- Lin, W.-B., „The Exploration of Customer Satisfaction Model from a Comprehensive Perspective”, *Expert Systems with Applications*, 33, 2007, pp. 110-121
- Lusch, R.F., Vargo, S.L., Malter, A.J., „Marketing as Service-Exchange: Taking a Leadership Role in Global Marketing Management”, *Organizational Dynamics*, 35 (3), 2006, pp. 264-278
- Lusch, R.F., Vargo, S.L., O'Brien, M., „Competing through Service: Insights from Service-Dominant Logic”, *Journal of Retailing*, 83 (1), 2007, pp. 5-18
- Paton, R.A., McLaughlin, S., „Services Innovation: Knowledge Transfer and the Supply Chain”, *European Management Journal*, 26, 2008, pp. 77-83
- Vargo, S.L., Lusch, R.F., „From Goods to Service(s): Divergences and Convergences of Logics”, *Industrial Marketing Management*, 37, 2008, pp. 254-259
- Vargo, S.L., Maglio, P.P., Akaka, M.A., „On Value and Value Co-creation: A Service Systems and Service Logic Perspective”, *European Management Journal*, 26, 2008, pp. 145-152
- Yoon, T.-H., Ekinici, Y., „An Examination of the Servqual Dimensions Using the Guttman Scaling Procedure”, *Journal of Hospitality & Tourism Research*, 27 (1), 2003, pp. 3-23