Chapter 1
Services and Service Management

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ABSTRACT

This chapter provides an introduction to Service Management. First of all, the authors provide an overview of the special characteristics of services compared to the traditional goods-focused approach. They then examine the different approaches concerning services and a wide range of definitions of services. It is essential to understand the special attributes of services, because a different approach and leadership style is needed when compared to a production company. The service providers have to face a more heterogeneous environment, and with the advent of the internet, they have to compete with other companies across borders. With a better understanding of the concept of services, the authors examine service management as a means of discovering the most efficient way to manage services. Finally, they consider the special traits and attributes of the service market and the indication of a need for a new management concept. The authors introduce the popular and well-known service management approaches and a new approach: the Culture-Based Leadership Model of Services.

INTRODUCTION

All over the world services have become a critical factor in achieving competitive advantage, regardless of the sector of the economy in which they operate. For companies like IBM or GE, services mean the primary source of growth and profit potential in the 21st century. The high quality of service creates a competitive advantage for the traditional service companies, such as Charles Schwab, Marriott Hotel, FedEx or Starbucks. The companies compete not only on the basis of their products, but also with the services they provide.

Service management is concerned with customer-oriented, value-enhancing operations and affects not only what is traditionally known as service organizations, but also constitutes a future paradigm for organizations in general.

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The separation between products and services in its traditional sense is outdated and represents a myopic production view. Although service management has taken a giant step since the late 1970s, we are only now beginning to see a new era of management that will fight in the battle for economic survival. Many product manufacturers recognized their inability to develop truly proprietary products in the turbulent global market. Therefore, they are attempting to migrate towards the supply of services as a means of generating growth. Services are knowledge intensive (people and labor) and typically local (on-site systems design, integration and startup). Product manufacturers usually face intense local competition and struggle to sustain consistent revenue growth and sufficient profit margins.

Service processes require the participation of the customer: Without the customer, service processes cannot take place. The fact that the service provider is dependent on customer participation causes difficulties in managing service processes efficiently and effectively because a customer's input can only be influenced by the provider to a certain extent.

When considering the transition from a product-based economy to a services-based economy, there are several reasons for the growth in services management. First, in a hypercompetitive economy, where globalization, rapid new product development and services innovation, operational excellence, and customer relationships are significant drivers of competitive performance, firms are discovering that they have significant structural barriers to flexibility and competitive performance. They need to establish capabilities to manage their portfolio of resources as services for business processes, such as IT. Service companies like McDonalds have prospered in the past with a business model that was designed according to the principles of traditional mass-production manufacturing. Nowadays that model is obsolete. It inevitably degrades the quality of service a company can provide by setting in motion a cycle of failure that produces dissatisfied customers, unhappy employees, resulting in a high turnover of both customers and employees – and so lower profits and lower productivity overall (Schlesinger & Heskett, 1991).

As we see this kind of shift in emphasis from the production company to the service company, a new kind of approach is needed for the company's leadership as well. Therefore, in this chapter, we will examine: the differences between goods and services, definitions of services, the service concept, McDonaldization & Disneyization, the cycle of failure and cycle of mediocrity, the human factor of services, internal marketing and the Culture-Based Leadership Model of Services.

THE FEATURES OF SERVICES

Finding a suitable definition and specification of what constitutes a service is not straightforward. Schmenner (1995) argues that it is easier to define what is not a service, rather than what is. We consider the likes of hotels, restaurants, repair shops, entertainment outlets (like amusement parks or cinemas), as well as health centers (like hospitals and private surgeries) as traditional service providers. A second category is 'mindware' services, like technical and legal services, tax consultancies, insurance, real estate agencies, and educational institutions. A third category is concerned with distribution and includes wholesalers, retailers, and people working in all forms of logistics as service providers. However, there are some service providers that do not fit into these three categories:

- Public utility providers are service providers; an electricity retailer actually generates the electric current and distributes it via its network, which is significantly more capital-intensive than many production companies.
- Another example is IBM that redefined its activity after experiencing difficulties in