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EFFECT OF THE GROWTH OF THE SERVICE SECTOR ON OPERATIONS MANAGEMENT IN A DEVELOPING ECONOMY

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Abstract

This document explores the concept of service and service sector in developing economies and shows that service sector has been growing and is equally important in the growth of their GDP, if not more important. Further, the paper elucidates the concept of service operation management in the context of service delivery and further shows the effect of growth of service sector on operations management. This research is informed on the theory of constraint and TQM. A review of literature on service operations management has also been done to further provide a deeper insight on the topic.

Keywords: *Growth, service sector, operations management*

1.0 INTRODUCTION

1.1 Background

Nambisan (2001) identifies that during the decade proceeding the year 2001, the share of services in the GDP had grown steadily from about 40% to about 51% in most developing economies in Africa. According to Gupta (2012) Service sector constitutes more than 70 percent of the GDP in many developed economies. According to the 1999 Statistical Yearbook (United Nations, 1999) service sector employment is more than 80% in United States and more than 70 percent in Canada, Japan, France, Israel, and Australia, and averages about 54% in developing countries. As such, the service sector is undoubtedly of key importance to business management. The growth of the service sector portrays a shift from reliance on other sectors of the economy in most developing country and as such draws attention for the examination of the effects of this growth on management of operations involved in provision of services in any economy.

1.2 Service Sector in Developing Economies

Services constitute over 50% of GDP in low income countries and as their economies continue to develop, the importance of services in the economy continues to grow (Cali, Ellis, & Dirk 2008) further, Cali, Ellis & Dirk (2008) state that the service economy is also key to growth, for instance it accounted for 47% of economic growth in sub-Saharan Africa over the period 2000–2005 (industry contributed 37% and agriculture 16% in the same period). This means that recent economic growth in Africa relies as much on services as on natural resources or textiles, despite many of those countries benefiting from trade preferences in primary and secondary goods. As a result, employment is also adjusting to the changes and people are leaving the agricultural sector to find work in the service economy. The service economy in developing countries is most often made up of the following: Financial services, Tourism, Distribution, Health, and Education Verlag (2009).

The service sector produces “intangible” goods, some well-known ones include government security, health, education and some quite new ones such as modern communications, information, and business services. Verlag (2009) while acknowledging that the export potential of many of these products is already well understood, e.g. in tourism, financial services and transport, but also identifies new opportunities are arising in other sectors, such as the health sector. For example: Indian companies who provide scanning services for US hospitals, South Africa is developing a market for surgery and tourism packages, India, the Philippines, South Africa and Mauritius have experienced rapid growth in IT services, such as call centres, back-office functions and software development.

1.3 Operation Management Concept in Service Sector

Gupta (2012) establishes that the service sector is expanding very rapidly and that the extraordinary growth of the service sector has focused attention on challenges of effective management of service organization and operations vastly different from the challenges faced in manufacturing settings. Due to rapid developments in information technology, globalization,

changing customer needs/preferences, and the changes in relative wealth between the developed and newly developing economies, the effective management of service systems addressing productivity and quality issues will become even more important in the coming years. The management and marketing systems in the services sector continue to suffer from lack of adequate systemization. The techniques for effective service operations management are not fully developed as in manufacturing.

Operations management focuses on the delicate management of internal business processes to produce and distribute products and services. Operations management theory traditionally was developed for manufacturing/production sector companies. The theories tended to cover issues such as economic batch quantities, line balancing and stock controls, which were very relevant to these companies. In the mid1980s when it became clear that there was an ever increasing move towards service sector companies and hence these topics held little relation to the key issues faced by managers running service sector operations. These tools and techniques did have some value but the real issues facing service sector firms were issues such as customer service, service quality and service design. (Raj, 2005)

Service sector firms' operation management activities of course differ, slightly or greatly, from those of companies operating in a more traditional production based manner; yet operations management is still very much necessary in all types of companies. A great deal of the focus of operations management is on the efficiency and effectiveness of the company's processes.

Whereas production sector companies may never make face-to-face contact with their end customers, service sector companies do make have this contact with their customers, usually on a more intimate, and regular basis. This means the customer interaction and satisfaction needs to be analyzed rather differently in the two differing sectors. Quality is a very important issue in service sector firms, including the quality of the service processes, such as customer wait times, efficiency of queues, courtesy of staff, etc. There seems to be a bit more difficulty analyzing the performance of intangible services as opposed to tangible products. Yet, this is precisely what operations management must do to improve the service being offered to end customers. (Gron, 2001)

Operation management in service sector in terms of service delivery systems designs, contingencies and trade-offs are not well-understood. Much of the recent research in service operation management has focused on specific industries such as financial services (Harker and Zenios, 2000; Melnick et al., 2000) or on multisite operations (Metters et al., 1999). As services become more global and outsourced (Apte and Mason, 1995), a greater understanding of service operational management strategies is required. Pine and Gilmore (1999) noted the importance of managing the customer experience in service offering especially in respect to quality and customer satisfaction can be influenced by operations management. Further, customers play a greater co-producing role in the delivery of experiences (Grove et al., 2000). Operational work on customer contact may yield insight on the better design of experiences.

2.0 THEORETICAL FRAMEWORK

2.1 Theory of Constraints in Service Operation Management

The theory of constraints (TOC) is a management philosophy that has been effectively applied to manufacturing processes and procedures to improve organizational effectiveness (Blackstone, 2001; Draman 1995). Boyd and Gupta (2004) have referred to the theory of constraints as a key to understanding bottlenecks and effectively managing operations. Because TOC is a management philosophy, it has broad applicability. Schragenheim (1999) defines a management philosophy as "guiding real world managers to make better decisions, meaning to take a course of action that helps an organization as a whole to better achieve its goal". Nothing in this definition limits the TOC philosophy to manufacturing. It then follows that TOC may have application to service industries; services can improve their processes and procedures just as can manufacturers. There is a precedent for such applications of a manufacturing management philosophy to services: the application of just-in-time (JIT) (Inman & Mehra, 1991; Wasco, et al., 1991) and total quality management (TQM) (Sureshchandar et al., 2001) to service. Service industries often contain quasi-manufacturing components within their operation in which the TOC logistics or scheduling paradigms may be adapted and utilized.

There are five steps in the theory of constraints. First, identify the constraints. Find the process (or policy) that limits the ability of the remainder of the organization to meet its goals of higher performance. Second, decide how to exploit the constraints. What can be done to eliminate the bottleneck? Third, subordinate all else to the decision in step two. Everything possible must be done to ensure that the bottleneck operation runs smoothly. Forth, elevate the constraint. This may result in the acquisition of additional capacity, new machines or new technology to lift or break the constraint. Improving the performance of the constraint leads to improvement in the performance of the entire system. Finally, if a constraint is broken, go back to step one; do not let inertia become the constraint. It is very likely that once a constraint has been identified and addressed, another constraint will become evident.

This should be addressed through the same 5-step process. A process of ongoing or continuous improvement has begun. The five step focusing process has been applied to processes and procedures within services. It has been used to improve service times (Olson, 1998), information flows (Coman &Ronen, 1994; Feather & Cross, 1988; Jolley & Patrick, 1990), and in reengineering of administrative functions (Spencer & Wathen, 1994). The focusing steps have been used to improve sales (Hodgdon, 1998), and logistics functions with the military (Underwood, 1994). It has been used in medical settings (Roybal et al., 1999).

2.2 Total Quality Management

According to Arora(2002) Total Quality Management (TQM), a buzzword phrase of the 1980's, has been killed and resurrected on a number of occasions. The concept and principles, though simple seem to be creeping back into existence by "bits and pieces" through the evolution of the ISO9001 Management Quality System standard. The term first appeared in 1961, when it was devised by Feigenbaum, who named it as total quality control (TQC). Beginning from 1950,

scholars like Deming, Juran and Crosby, taught for more than forty years, quality ideas without using the adjective 'total'. In 1988, with the creation of the European Foundation of Quality Management, the importance and value of TQM was stressed to 'reach total customer satisfaction'. Feigenbaum, the originator of the term, defines TQM as the "Total Quality Control's organization wide impact".

Modern methods of quality control were developed and matured in manufacturing industries. These involve the processing and fabrication of materials into finished durable and nondurable goods. Services, however, is a relatively distinct non-manufacturing activity. Work is performed for someone else. The major distinctions between service and manufacturing organizations are that the product: is intangible and ephemeral; is perishable; frequently involves the customer in the delivery of the product; is not perceived as a product by employees. The intangible nature of the service as a product means that it could be very difficult to place quantifiable terms on the features that contribute to the quality of the product. This could make measurement of the quality of the product a problem for TQM. As service products are perishable they cannot be stockpiled and must be produced 'on demand' (Raj, 2005).

The delivery process for a service may be highly complex because it involves the co-ordination of primary and support systems in what is usually a very time sensitive relationship with the customer. This is in contrast to manufacturing organizations where although time may be an important aspect in the delivery of the goods it is rarely regarded as a feature of the goods which will affect its quality. In the case of a service organization time is regarded as an assessable **8 |** P a g e

quality or feature of the product. For example people usually book aero plane flights based on the departure and arrival times that are most convenient. If a traveler is expecting to arrive at a destination at a specified time, and the aero plane is 2 hours late the product will most likely have failed to meet the person's satisfaction. This is irrespective of how comfortable the aero plane was, how good the in-flight service was, or the fact that the flight had been made safely.

The customer is frequently directly involved in the delivery of the service and as such introduces an unknown and unpredictable influence on the process (Arya, 2000). The customer also adds uncertainty to the process because it is often difficult to determine the exact requirements of the customer and what they regard as an acceptable standard of service. This problem is magnified by the fact that, standards are often judgmental, based on personal preferences or even mood, rather than on technical performance that can be measured (King, 1985). The following steps are proposed for the implementation of TQM service system: Step 1- Formulate the service quality strategy; Step 2 - Analyze service process and define quality measures; Step 3 – Establish process control system; Step 4 – investigate the process to identify improvement opportunities; Step 5 – Improve process quality (Raj, 2005)

3.0 LITERATURE REVIEW

In the context of operation management of services, Customer demands and reduced operating budgets are forcing governmental agencies at different levels and nonprofit organizations to seek

ways to reduce operating costs and improve the responsiveness, quality and service aspects of their operations (Wright, 2001). Singh & Deshmukh and Yassine stressed quality issues in growing service sector. It was recognized that service quality is multifaceted and that it is ultimately evaluated in the minds of the customer (Appleby, 1997). Service quality was defined as a measure of how well the service delivered matches the customer expectations according to (Gron, 2001)Parasuraman et al, developed a service quality model where the service quality was shown to be a discrepancy between the expected service and the perceived service. The various gaps or the reasons due to which this discrepancy takes place were explained. Effective measurement and analysis of service quality are an essential first step in its improvement.

Service delivery systems choices influence capabilities. Menor et al. (2001) empirically examined how specific technology, capacity, and human resource choices differed for retail banks characterized by their degree of operating agility. Operating agility was defined as the provider's ability to excel simultaneously on service quality, delivery, flexibility, and low cost—primary execution-based competitive capabilities. Similarly, Roth and Jackson (1995) empirically examined the capabilities–service quality–performance triad. They reported the direct and indirect impact that generic operations capabilities such as people and process capabilities, factor productivity, and technology leadership have on service quality and market performance (Menor, 2001). Similar to manufacturing strategy logic, the service design choices must build competitive capabilities that are aligned with the service concept. In services, competitive capabilities such as consistent quality, convenience, accessibility to channels, customization, and low cost contribute to the realized service concept (Fitzmon, 2004)

At the heart of delivering excellent service is the basing of decisions on what the customer wants, expects and values (Barry, 1995). This requires assessing the realized service concept that customers experience (Ford, 2001). Service marketers have recently begun to take a renewed interest in addressing customer expectations and value. For example, Zaltman (2003) questions the sufficiency of understanding only how customers set expectations and make consumption choices. What is also necessary is a complete understanding of why customers value a particular set of offerings or experiences. Such understanding is critical to addressing satisfaction and retention issues. Operationally, the management of customer-perceived value has both strategic and tactical importance in SOM . Heskett et al. (2003) adapted their earlier thinking to explicitly incorporate the value notion. By introducing the strategic value vision, the value profit chain, and customer value equation, Heskett(2003 emphasizes the criticality of thinking beyond just the provision of services.

4.0 CONCLUSION

Different management paradigms and theories have been used to manage businesses. However, these have largely concentrated on production or manufacturing concerns. With the shift of most developing economies towards services, it is becoming more and more necessary to manage services and service organizations, governments included are employing operation management tactics. Services present an unusual problem to operations management in that customer services and service quality as well as customer service expectations are always changing and so

dynamic. The concern for operations management is how to meet these with ever declining resources and fast changing customer preferences and taste.

The concern for operations management is to realize customer needs and expectations, and adapt the organization to respond accurately to these expectations. With global players penetrating the local economies of developing countries, operation managers are facing challenges on how to effectively compete while maintaining costs at acceptable levels. Further technology is presenting a new frontier for competition in the service sector. More and more governments are adopting e- governance to effectively meet their service obligations while most service subsector such as banking and communication are designing new platforms on which to deliver services to meet agility requirements.

With the growth of the service sector, operations management is changing to adapt its knowledge, and strategies as well as tactics towards the dynamics of service provision which are somewhat different from the concerns in production/ or manufacturing subsector. Management theories such as theory of constraint and TQM are being adapted to service operation management.

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