

## **DETERMINANTS OF SERVICE'S PERFORMANCE GROWTH IN THE 21<sup>st</sup> CENTURY**

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### **ABSTRACT**

*Achieving the goals of service providers requires the development of a set of activities differentiated in terms of specific functions and interconnected from the perspective of the relational connections in accordance with the systemic approaches. The service companies, interpreted as a system, should be studied in terms of their economic and social dimensions. The main objective of any company (regardless of whether it is a manufacturing / production or service company) is to increase its performance. The article analyzes the main factors that can influence the performance of companies in the sphere of services, depending on the level of influence. Seven factors (determinants) are identified and analyzed, four of which the firm have an increase control (endogenous), two on which the company has a low control (exogenous) and one that has ambivalent action.*

**KEYWORDS:** *services, performance, growth.*

**JEL CLASSIFICATION:** *O12, L25, L29.*

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### **1. INTRODUCTION**

In the current context of a sharp rhythm of any human activity in all fields (including the economic field), the need to profit maximization (Samuelson, 2015) within a short period of time in the context of rational use of resources (human, material and financial), the issue of increasing the economic performance of all companies, regardless of whether they are active in the production of goods or the provision of services, is becoming increasingly stringent.

In the context of an unprecedented information explosion and technical breakthrough that has changed the nature of work over the previous period (Heerwagen, 2016), without neglecting the role of manufacturing companies, we appreciate that service companies play a special role in increasing the performance of a national economy.

The scope of the services is broad and heterogeneous, showing significant peculiarities in relation to the industrial production of material goods within the manufacturing firms (Kortman, 2012). The current approaches focus on the knowledge management, on the know-how in the service delivery process. In the service economy, the investment in knowledge has a significant strategic role as "it produces" competitiveness with final effects in ensuring economic growth, in the active involvement of employees in obtaining the gross domestic product. An efficient manager has the necessary skills to know the evolution of the service market, to identify the opportunities for creating new, performing services. These objectives also involve investing in research and development and providing an advanced technical foundation.

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Within the service companies, the central element to be investigated (apart from other elements common to the firms in the productive sphere) is the management of services.

The defining elements in service management aim at guiding the activities performed to the preferences and expectations of the clients. Any strategy in this field is based on the knowledge of the factors influencing the company's life, the opportunities and the threats in the environment in which it operates. At the same time, entrepreneurs and managers update their objectives to depend on the available resources and the market requirements, with long-term positive effects. Special mutations appear in the current approach of social values within organizations, mutations that update the phrase "the right to work", as it was stated in the Universal Declaration of Human Rights, stepping into the concrete area of the right to an acceptable income, with the risk of manifesting some difficulties in securing jobs. In this context, a special role is played by the vast range of services, an area that is constantly expanding and which employs the redundant workforce from other economic sectors. Service economy is increasingly found in the creative, knowledge-intensive activities in the domain of research-development, telecommunication and computer science, educational, medical and cultural services.

Service management places a special focus on motivating employees, on studying and knowing human behavior in the service delivery process. Modern approaches in this area have surpassed traditional interpretations, with financial incentives being reported, with work satisfaction aspects being considered from a behaviorist perspective. The employees of the service companies are increasingly involved in the adoption and enforcement of managerial decisions while decision-makers exercise their competences in harmonizing work processes in the context of the influences generated by exogenous factors.

The current trends highlight the important role of small and medium-sized businesses in the field of services with the implications of rapid adaptation to change, creativity, diversity and last but not least in economic growth (Grater et al., 2016). There is a frequent shift of decision centers from the formal organizational system characteristic of monolithic companies to the flexible structures that characterize the profit centers served by managerial teams. These new guidelines in the service management support the identification of the strategic resources and issues that require appropriate decisions in a timely manner. They are not aspects of general validity, but indicative descriptions that characterize a turbulent environment of activities, influenced by endogenous and exogenous factors. The managerial actions and decisions are increasingly established under the same conditions of risk and uncertainty which are specific to the current economic and social context in the service sector. This set of variables complements the current value system of the company, identifying ways to ensure the success of the service organization.

## **2. METHODOLOGY OF RESEARCH**

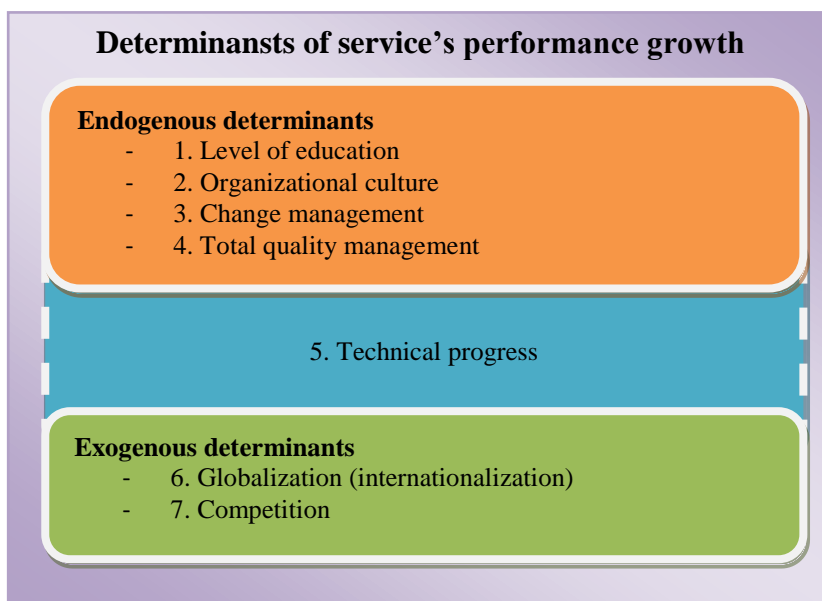
The main determinants influencing performance in the service sphere can be grouped according to their level of action and the degree of company's control over them. Thus, there are two major categories of determinants:

- endogenous determinants, which have major influence within the company and over which it has a high control (it can easily influence them). Of these, the most important are: the level of education of the employees in the company, including the level of education of the managers (thus understanding the level of managerial knowledge of the decision makers and the managerial used tools); organizational culture; change management; the quality of the services provided by the company.

- exogenous determinants, which have a major influence on the company's external environment and on which it has limited control. Of these, the most important are: globalization (internationalization); competition.

We have to mention that besides these 6 determinants classified in the two categories, we can identify the 7th determinant (technical progress), which has ambivalent action (being considered

both endogenous and exogenous determinant). In the following figure the influence of the seven determinants on the performance improvement in the service sphere is suggestively presented.



**Figure 1. Relationship of the determinants for service's performance growth**

*Source:* authors

In the following, we will analyze separately how each of these determinants contributes to improve performance in the service sphere.

### **2.1. Level of education**

Since the middle of the last century, a direct link has been established between the level of education of members of a society and growth and economic development (Sturm, 1962).

Against the backdrop of the increasing complexity of service delivery processes and their widespread diversification over the past decade, new requirements have emerged in employee training, especially in areas where technical progress has a strong impact. The continuous education guarantees performance in the activity and the related costs are justified. The issues related to the complexity of performing high-tech services are complemented by the elements related to diminishing the risk factors in the current activity, ensuring health and safety at work, environmental protection and an efficient management.

In addition to employees, managers' level of education is a determining factor in the process of increasing performance in the service sphere. The implementation of participatory management on a large scale, the establishment of an adequate level of staff motivation as well as the implementation of well-grounded strategies (defined by objectives, strategic options, resources involved and interim and final deadlines) are basic elements in the process of efficiency of service activity. To this, it is undoubtedly added the knowledge and application of a suitable managerial methodological tool (the use of creativity-enhancing methods whenever necessary, the use of the session and the dashboard as managerial methods, the use of delegation for employees etc.).

### **2.2. Organizational culture**

The organizational culture within the companies has been the focus of successful ventures in recent decades as it provides new insights for business excellence. Furthermore, we can say that there is a strong connection between organizational culture and performance of the company (Byles et al., 1991; Dwivedi, 1995; Ogbonna, 2000). New approaches target the elements that govern the specific work processes, the concrete and novel ways of action meant to achieve the objectives established,

the accepted rationale by the working procedures, the values and beliefs in the usefulness of the services performed according to the clients' requests. In the sphere of services, the organizational culture refers to concrete, technical and behavioral elements for the delivery of services in line with the market demand. The new concept develops together with the company, acquiring emotional effects until the man merges into the company. Over time, the employer shall accept the company's way of thinking and action, building a behavioural and attitude congruence. The organizational culture intertwines with everyday life: "life is what happens while you are busy making other plans" (John Lennon). For example, let's consider the selection of personnel at a company specialized in IT services. Theoretically, they are interested in the best IT specialist practitioners. Practically, the best ones are not those who meet the technical conditions, namely graduates of the high profile studies. Technical skills are important but insufficient, as other elements are required such as personality, qualities and ways of action, ability to work in team. Specialists have come to the conclusion that more than 75% of those who fail to fill a position, fail due to their personality features and not because of their technical skills. The organizational culture is not limited to the specialized technical skills but also to the behavior specific to the personality of the employees. The problems related to adjustment within the organization can lead to conformism and the narrowing of the free initiative and the motivation system of the employees can affect their stability in their work and the way they communicate both formally and informally

### **2.3. Organizational culture and change management**

The change management involves knowing the present and future state of the service company, managing the transition phases, and training staff to solve specific programs and problems. Given that the economic and financial stability of the current market economy is relative, change management must be accepted and assumed in service firms. The issue of change imperatives is the order of the day, being the subject of many debates from the perspective of the company's mission and objectives, the representation of the fields of action, the estimation of the key results, the analysis of the risk factors and the uncertainty. The critical issue is the resistance to change, the causes of the opposition to the new managerial vision and the ways to overcome sensitive issues through managerial reengineering (Serban & Iorga, 2016). In the service sector, the influences generated by the political interests of the public administration, the actions of persons unable to understand the dynamic, nuanced and structural aspects of the life of the service companies are manifest. Adaptation to change is also ensured through debates on the particularities of services provided and the evolution of the national and international market for services. The results of marketing research conducted on success factors support the management of organizational change by providing information on quality and performance standards in services. Supporting strategies in this area requires employee counseling and career development. Frequently, in the talks on the change management, the problem of the "customers first" postulate generates sustained and repeated changes in the activity of service firms, and, on the other hand, there are frequent situations of resistance to change, emotional and contradictory. Psychologically, people confronted with change go through either positive emotions or negative emotions such as resignation or denial. These emotional states need to be removed if you go along the path of change, of taking new initiatives. Frequently, resistance to change occurs through the imposition of a particular approach, rather than through its content. The attenuation of the phenomenon of resistance to change is accomplished by the gradual and moderate involvement in this complex and contradictory process, without affecting the human personality, with the help of natural connections between past and future events. Specialized managerial studies have highlighted the fact that employees of service companies accept progressive and moderate structural and process changes, technological and innovative changes if the employees understand the need and the opportunity for change.

## **2.4. Total quality management**

Ensuring total quality management in the service organizations is a frequent concern of managers in order to promote a favorable image of their companies, to maintain and develop them on the competitive market, to increase their performance (Gharakhani et al., 2013). Meeting the demands of the population in the general and priority fields of educational and medical services, the demands in the field of infrastructure and transport, the expectations in the field of scientific research and introducing technical progress, the needs of the information society and of the environmental protection implies the continuous improvement of the quality of these services in parallel with the increase and diversification of specific actions. The effects of applying total quality management are beneficial to all the participating "actors": providers, beneficiaries and suppliers, as well as throughout the life cycle of the work process, namely conception, design, procurement, manufacturing, marketing, promotion, delivery. The main role of managers is to train employees in this process in order to obtain high-quality services and to coordinate work processes in such a way as to ensure the balance in the use of resources available for obtaining high-performance results.

In this context, there is a need to provide services only in accordance with the requirements of the beneficiaries and by guaranteeing their utility according to the expectations. Thus, as an example, the quality of a medical service is represented by the potential of the medical staff and the ability to provide the performant medical equipment to solve the pathology of the medical beneficiaries and similarly the quality of an educational service is determined by the professionalism of the teaching staff and the potential of technical-material equipment of the educational institution. In both cases, the emphasis is on avoiding inappropriate services in terms of human or material resources. Under the incidence of temporal factors, the service demands of the population is manifested differently and unprecedented, so managers need to orient and adapt quickly to anticipated changes in demand and to behavioral attitudes. The quality and reliability of service delivery processes involve complex actions of verification of the technical and economical parameters, for each working phase. Initially, in the conception phase of the service, it is important to track the level in which it meets the requests of the beneficiaries and the service organization accomplishes the mission for which it was established. For the results to be eloquent, the specifications that define and customize the service in relation to the customers' requests must be established from the start. These specifications are, at the same time, descriptions of the actual ways of performing the actual realization cycle, being subsequently monitored at each execution phase up to the moment of delivery. The responsibility lies with managers, research specialists, designers, technical staff in the production and distribution departments. The co-ordination of the activities lies with the experts in quality control, who perform stage assessments on all operational compartments, formulating the necessary corrections. The managers adopt decisions to increase the quality and performance of services in terms of economic efficiency and quality-price ratio. In the case of material goods, the cost of quality is quantifiable by applying the cost-of-cost method, but in the case of services, the cost-quality assessment requires more sensitive analyzes, as any deficiencies are immaterial and intangible, with effects propagated over time, causing customer loss and damage to the image of the organization. Also, services cannot be "repaired" or returned because of qualitative vices, these being characterized by perishability (impossibility to stock) and concomitance of service and consumption. That is why actions to prevent qualitative deficiencies are essential by monitoring the observation of the technical-material specifications, the support of a suitable climate, the training of the employees in the interface with the clients.

## **2.5. Technical progress**

As I mentioned earlier, technical progress is a factor with ambivalent action. It can be considered an endogenous determinant in increasing the performance of companies in the service sector because the company has a high control over it (it is the one that can promote it within it, both in terms of manufacturing technology and under the processes, procedures and methods used ). Concurrently, if

we look at it as an exogenous determinant, we can say that the company cannot control the rhythm of innovation of manufacturing technologies, the rhythm of emergence of new products or services worldwide.

No matter how we look at it (as an endogenous or exogenous determinant), there is no doubt that technical progress leads to an increase in productivity and efficiency in any company or national economy in which it is promoted (Fare, 1994).

One of the practical ways in which technical progress is manifested in any company (regardless of whether it is active in the sphere of services or manufacturing) is the IT field, especially the rapid and automatic data processing.

During this modern period, it is highlighted the accessibility to modern systems of automatic data processing, electronic recording of behavioral variations, fluctuation of demand and supply of services. The extensive use of specialized software in market research contributes to increasing the reaction speed in identifying competitive strategies and in the choice of alternatives based on axiological criteria, with implications in the image, philosophy and culture of the service organization. These new interpretations manifest themselves strongly in the areas of technical progress, automation and robotics, in telemedicine and management consulting. Concerns about potential hazards generated by advanced technologies generating harmful factors such as toxic gas emissions or risks of nuclear contamination generate prudence in the launch of manufacturing of special products and services.

## **2.6. Globalization**

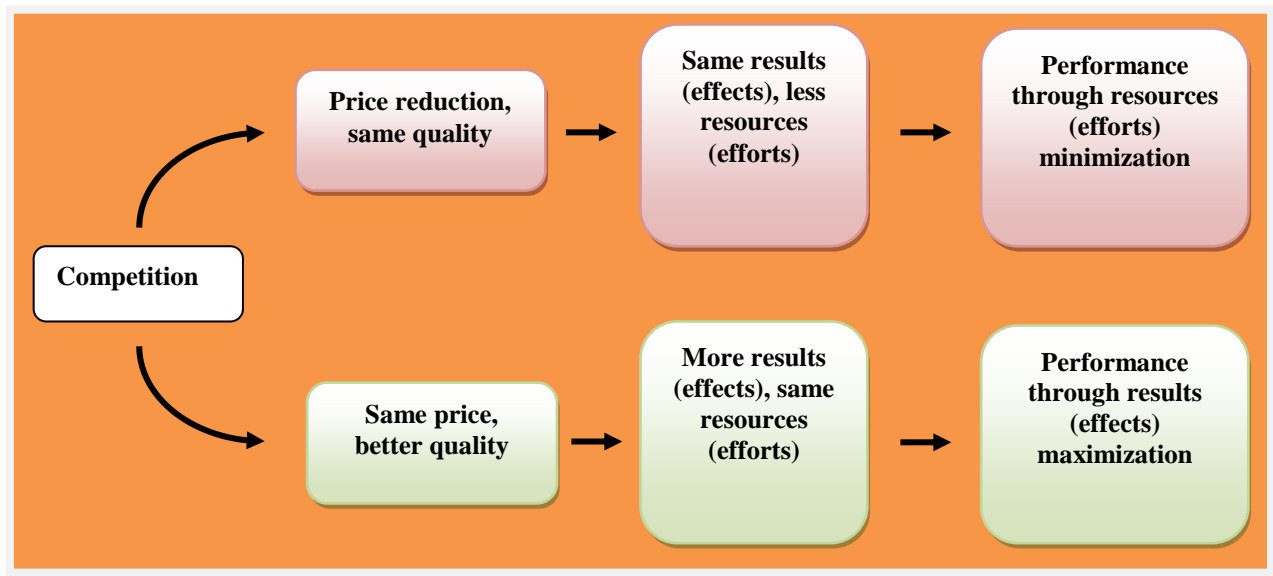
The phenomenon of globalization (or internationalization) of services has intensified in the last decade, especially in the field of informatics and telecommunications, which led to changes in the aspect of their delivery abroad, in updating the messages through modern electronic transmission systems, in the high technical and quality performances, ensuring the attractiveness of the companies through novel modalities of meeting the customers' requirements. This phenomenon highlights the role of the information system in the service companies, i.e. the decision-makers' concerns in collecting information on the requirements of the domestic and international market (Normann, 2000). According to the findings, the managers should make plans to improve information collection and to apply them in order to promote performant analysis systems, in a participatory and non-restrictive manner. The employees must be aware of the importance of the changes in the company and of the opportunity to meet the customers' demands, of the need to design new projects designed to expand the cross-border market for overcoming the traditional barriers. The final result of this approach is to ensure the competitive advantage on an international scale, to maintain and increase the access of the service company to the world market, to meet the demands of the clients at the highest standards. Companies have to face these challenges knowing that the performance provides added value and a synergic effect on certain production costs and that the majority of the customers in the country or abroad are willing to pay extra for the acquisition of a highly reliable and quality service.

## **2.7. Competition**

In a close relationship with globalization, competition is an exogenous determinant that positively influences the performance of companies in the sphere of services and not only (Nickell, 1996).

There is no doubt that where there is competition, there is also a concern for companies to deliver / produce quality goods and / or services that best meet consumers' needs and preferences. Market competition, along with other factors (among which we can identify ownership structure and type), have a determining role in increasing the performance of a company (Januszewski et al., 2001).

The influence of competition on the performance of service companies is achieved in two ways, as suggested in the figure below.



**Figure 2. Competition's influence over performance of companies**

Source: authors

Analyzing in detail the above figure, market competition among several producers of goods or services influences in two ways.

On the one hand, it can lead to a reduction in the sales price of the product, which leads to a higher number of customers for the company and, implicitly, an increase in the market share. Later, competitors, in order not to be eliminated from the market, are also forced to reduce their own sales price. However, this requires a reduction in the cost of production, a more rational and appropriate use of resources. In this case, the competition induces performance by obtaining the same results (effects) with a smaller volume of resources (effort) consumed.

On the other hand, it can lead to the marketing of a product or service by a company at a price identical to that of other companies. The fundamental difference is that the company's product is superior to those existing on the market. In this case, competition induces performance by achieving superior results (effects) with the same amount of resources (efforts) consumed.

### 3. CONCLUSIONS

Concluding the analysis, we can say that each of the seven determinants presented has its own influence on service performance. It cannot be said that one of these would be more important than another. From the point of view of the authors, each of the determinants has its own importance and its own way of acting on the performance of service companies.

Obviously, the analysis also has certain limits in the sense that it does not take into account all the possible factors that can influence performance. In this respect, we can say that the factors that determine the focus on the client, the company's innovation potential and the size of the market and its growth rate can be considered as important elements of analysis, which will be further analyzed in a future article.

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