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COMPETITIVENESS IN SERVICE FIRMS

Service firms in New Zealand are a very important part of the economy and are a growing source of job creation and wealth (Gray et al., 1999). Services are also becoming increasingly important to more traditional, product-focused organisations as new business opportunities arise. For example, retailers are selling hire purchase agreements and insurance and many firms are investing in the service side of their business in order to differentiate themselves from their competitors.

However, despite the fact that the services sector is growing rapidly and that more work is being carried out to examine services marketing, little work has been carried out to date which examines the links between marketing practices, firm characteristics and firm performance and the issues that service firms face in implementing best practice in these areas.

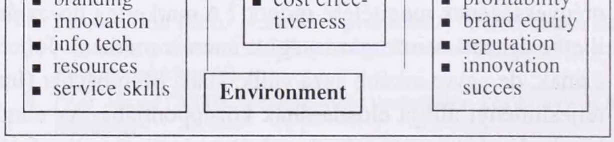
This New Zealand research is relevant for Hungarian firms as the Hungarian market place becomes increasing open with membership of the EU. Perhaps not as dramatic as the economic and certainly political transformation experienced by Hungary, New Zealand firms nonetheless experienced radical economic change in the mid 1980s when the economy was transformed from a tightly regulated and protected economy to one of the most open economies in the world. Hungarian service firms can gain insight from considering how service firms in a small open economy achieve competitiveness, the practices that they employ and the challenges they face in implementing best practice.

Theoretical Framework

The service competitiveness research model shown in Figure 1 is a cornerstone of the research programme. The model is based on that of Day – Wensley (1998) and Bharadwaj – Varadarajan – Fahy (1993). Bharadwaj et al. (1993) examined sustainable competitive advantage from a services perspective and the model used in this research builds on their work. General service firm performance has been examined by researchers (Appiah – Adu – Singh, 1999; van Egeren – O'Connor, 1998; Voss – Blackmon – Chase – Rose – Roth, 1997) as has performance within specific sectors (Chang – Chen, 1998; Edgett – Snow, 1996; Kumar – Subramanian – Yauger, 1998; Nachum, 1996; Sargeant – Mohamad, 1999). Bharadwaj et al. (1993) highlighted that service firms may draw on many sources of competitive advantage. However, it was not possible to include all sources of competitive advantage in the model used in this research as this would have made the model too complex and unwieldy This research examines sources of competitive ad-vantage; market orientation, branding, innovation, information technology, resources and services and skills. *(Figure 1)*

Figure 1

Competitiveness research model



Adapted from Day – Wensley (1988); Bharadwaj – Varadarajan – Fahy (1993)

Programme overview

There were four key phases to the research programme. The first phase was to examine the model, test it empirically, assess the contribution of sources of competitive advantage to service firm performance and to identify top performing firms. Previous research by Day – Wensley (1998) and Bharadwaj – Varadarajan – Fahy (1993) had not been tested empirically. This phase of the research was carried out by means of a mail survey. Based on the results from this, interviews were carried out in order to achieve the second objective, which was to explore elements of best practice, aspects of performance and sources of advantage. This was achieved through a series of in-depth interviews with managers who had completed the survey. Technology transfer to managers in industry was an on-going part of the research programme and it was considered to be key as both the government and the research team have a strong commitment to making academic research more accessible to industry.

The final phase of the programme was to obtain feedback from industry about the success of the technology transfer and to identify the barriers that firms consider themselves to be facing when adopting best practice. This phase of the research programme is pivotal to our understanding of how and why firms behave as they do. Many of our findings are familiar to firms. However, this leads us to the question of why are firms not implementing best practice? Also, Harris (1999) points out that we need to differentiate between the practice of implementing a market orientation and sustaining it, and this issue deserves further research.

The pluralistic approach adopted was considered to be the most appropriate as it afforded the researchers the opportunity to empirically test a model of sustainable competitive advantage by surveying a wide audience and to follow up on areas of interest through in-depth interviews. This permitted comparisons to be made between quantitative and qualitative findings and to gain a richer and deeper understanding of firm practices and performance.

Methodology and Results

Phase One – Survey

The model developed was empirically tested by survey in the first phase of the research. The model outlines a broad view of performance and identifies performance factors; customer satisfaction, loyalty, revenue, profitability, brand equity, reputation and innovation success. These measures permitted the researchers to measure performance beyond the more traditional financial measures (which, in the short term, may be adversely affected by reinvestment in resources and skills).

The sample frame consisted of 2034 service firms who agreed to take part in regular *Marketing Performance Centre* (MPC) research. The survey was posted in March 1999 and a single page fax was sent to non-respondents to ensure that there was no non-response bias. Three hundred and ninety-eight responses were returned (response rate of 19.5%). However, 43 firms were determined to be more manufacturing than service-focused and were therefore excluded from the analysis, leaving 355 responses.

The respondents were from a range of service industries with the top categories being property & business services (including consultancy) (14%), transport & storage (13%), and finance & insurance (12%). Forty-seven per cent of firms were privately New Zealand controlled and 55% employed fewer than 50 staff.

Differences in characteristics between high performing firms and less well performing firms were identified by the use of one-way ANOVA analysis of variance and Chi square tests.

The analysis suggested that the following sources of competitive advantage are important:

1. The adoption of more market oriented business practices
2. The development of effective and efficient service innovation/NSD processes
3. Greater investment in service branding and corporate image management
4. Developing superior service skills

Firms, which were better performers, tended to be more market oriented and would generally have a stronger competitor and customer focus, interfunctional co-ordination, responsiveness and profit emphasis than less well performing firms. There was also a significant difference between high and low performers in terms of brand management particularly in the areas of investing in managing and promoting service brand(s) and investing in managing and promoting reputation and image. There was no significant difference identified in the use of innovation/NSD management and firms appeared to have similar innovation practices. There was also no significant difference identified in IT orientation or the use of websites. However, better performing firms tend to use the web slightly more for publicising the organisation's name and intent and to communicate specific product and/or service information. Significant differences were identified in some areas of resources and skills; better performing firms made significantly higher levels of investment in personnel skills development and considered that they had higher skills levels than their nearest competitor.

Day and Wensley's (1998) work suggests that positional advantage for firms is either differentiation or cost effectiveness. This research, however, identified that many firms achieved both. One explanation for this could be that better understanding of customers enables firms to differentiate their service offerings, thus satisfactorily meeting client needs, thus creating loyal customers. Firms with loyal customers spend less time and marketing effort on acquiring new customers, hence improving profitability.

Phase Two – Qualitative investigation into aspects of performance

Respondents from 27 high performing and 10 less well performing firms were selected for in-depth interviews, which took place in 2000. Interviewees were purposively selected according to their level of performance, size of firm and location. Each interview was conducted by two researchers and lasted between one and two hours. The interviews were semi-structured and interviewees were invited to "tell the story" of their firm. The interview centred, in the first instance, on what they considered to be the factors contributing to the success of their firm. Managers were asked for their perceptions of sources of competitive advantage (these responses were unprompted).

The source of advantage most frequently mentioned by better performing firms was strong brands (44%). Interestingly this was not mentioned by any of the lower performing firms. The source that low performing firms mentioned the most frequently was managing customer relationships (70%) compared to 30% of better performing firms. Staff motivation, skills, competencies also topped the better performers' response (44%). Top performers also rated vision, mission, values, energy, passion (33%) product/service quality (30%), managing customer relationships, key client account management (30%), utilising information technology (30%) and market (segment) coverage (30%).

Then the discussion focused on the results of each firm's individual scorecard (see phase three for further details) and why managers felt that their firms had performed better in some areas than in others. As a result of the interviews, the service skills source of advantage was expanded to include human resource management.

Phase Three – Dissemination of findings

The third phase of the research was technology transfer, which has been on-going throughout the programme and followed each phase as it was completed. Media used included reports, scorecards, conference papers, a roadshow (industry seminar series), website and a CD-Rom based diagnostic tool for managers.

As each stage of the programme was completed, research reports were generated. Reports were produced in 1999 and 2001 following the analysis of the survey and interviews and given to those that took part in the survey and interviews. They have also been made available to the public.

"Scorecards" were developed for each firm that completed the survey and mailed to them. The "scorecard" was developed to assist in the interview process. Each one is firm-specific and gives an overview of the firm's performance, as rated by the respondent, compared to the quantitative, mail based survey response both for survey respondents overall and those from their particular industry. It also gives scores for each element of the firm's sources of advantage. The scorecards were well received and provided a basis for discussion.

A conference for both academic researchers and managers from industry was held in Dunedin over three days in 2001. The final day focused on industry, with speakers and delegates from a number of firms from around New Zealand participating.

In 2001 the research team conducted a roadshow of 28 seminars in 21 cities and towns in New Zealand. The seminars were arranged with the help of various bodies in New Zealand, for example Chambers of Commerce and Business in the Community.

A CD-ROM diagnostic tool was developed from the results of the research. This tool allows each user to compare their organisation's level of market orientation etc., with the level of the overall sample. Tailored feedback, based on whether a particular organisation is assessed to have low, medium or high levels of market orientation, for example, is then provided. Additionally managers can use the CD-ROM tool to compare perceptions throughout the organisation or to monitor their performance over time. All managers who had participated in the first two stages of the research or who had attended a seminar received a copy of the CD-ROM.

Results of the research were also made available in condensed form on the research group's website and were presented at both academic and industry conferences. Additionally, the research has been reported at different stages in NZ business magazines and in the business sections of NZ newspapers. Finally, research findings have been published in academic journals.

Phase four – Assessing barriers to implementation of best practice

This phase of the research was carried out in March-May 2002. A two-stage approach was employed with the first stage comprising exploratory, in-depth interviews with managers of ten service firms and the second stage using a questionnaire administered through a mail survey. The questionnaire asked mangers to assess the extent to which factors identified in the literature and as a result of the interviews (budget constraints, lack of time, lack of staff training, poor quality of training providers, lack of clear vision, lack of staff buy-in, and inertia and traditional ways of doing things) were considered to be a barrier to implementing best practices in their organisation. The questionnaire also included items to assess the extent to which market orientation, innovation, human resource management and branding were perceived as relevant to the organisation's performance.

The questionnaire was mailed to the owner, CEO or the manager of 1300 companies drawn from a database of service firms that had participated in the previous research phases. A second wave of questionnaires was mailed after three weeks. A total of 350 usable questionnaires were received which represented a response rate of 27.6%. Non-response bias was assessed with a fax survey of 92 non-respondents. Thirty-two usable replies were returned and it was found that some of the main reasons for non-response were either that the recipients were too busy or the study was not relevant to their business. No evidence of non-response bias was detected.

The main barriers to the implementation of best practice were budget constraints, lack of time and lack of staff training. These results are consistent across five areas of potential competitive advantage (branding, market orientation, innovation, human resource management and internet marketing). The second set of barriers were inertia and traditional ways of doing things, lack of staff buy-in and lack of clear vision. In terms of differences in perceived barriers between the areas, budget constraints are perceived to be a greater barrier to adoption of branding best practices. Other differences in barriers to implementing best practice do exist between the different areas of competitive advantage, but there are few consistent patterns.

Smaller firms appear to be more innovative and less conservative than larger firms (i.e. less likely to suffer from inertia and traditional ways of doing things or a lack of staff buy-in). Their services appear to be more differentiated (offering distinctive features and benefits), service skills levels appear to be higher and they appear to experience higher levels of customer satisfaction than larger firms. However, smaller firms are less likely to adopt internet marketing practices or to have a web site.

Conclusions

The pluralistic method employed supported the use of an integrated research programme; the researchers gathered empirical data by survey and then explored the findings in greater detail in the interviews. The model used appears to identify several of the prime drivers of sustainable competitive advantage (Gray, 1999). The findings from the surveys and interviews highlight that better performing firms have strong brands, higher degree of market orientation, are more innovative and pay more attention to HRM and service skills. The main barriers to adoption of best practice by service firms are a lack of financial and time resources, lack of specialised staff training and conservative corporate cultures.

To overcome barriers to implementing best practices in the marketing and management of service firms, managers may have to consider less expensive and less resource-intensive ways of implementing some, if not all, of the recommended practices. Some prioritisation of practices may also be necessary. In terms of brand and corporate image management, emphasis should first be placed on improving service quality, customer relations and publicity, which may be more cost-effective ways of generating positive word-of-mouth. In terms of HRM, firms may have to accept that on-going skills training and personal development are necessary investments for long-term success. However, developing an appropriate customer-driven organisational culture could help improve levels of customer satisfaction and loyalty and eventually profits, which would allow greater reinvestment in skills training and other sources of advantage.

In terms of innovation, encouraging staff, customers and suppliers to suggest new services and ways of improving the production and delivery of new services need not be an expensive exercise. It is worth noting that smaller firms in this study appeared, on average, to be more innovative and less conservative than larger firms. They also enjoyed higher levels of customer satisfaction. The challenge for larger firms, then, may be to invest more in change management so they can become more like their smaller, more entrepreneurial competitors. The challenge for less profitable firms, whether large or small, is to improve their ability to commercialise new ideas. Once again, investing in innovation management training and assessing ways to improve new service development processes may pay dividends.

Before developing web sites, it appears that firms need to develop a clear internet marketing strategy if they are to use information technology more effectively to improve service awareness and delivery and/or to develop better customer relationships. More profitable, larger and international firms are more likely to have web sites and to adopt a greater array of best practices in internet marketing than smaller, less profitable and domestic firms. Because investment in internet marketing has important resource implications, firms need to spend their internet investments wisely to gain real benefits.

The results of this study support previous MPC research findings that suggest firms need an appropriate culture to encourage and reward managers and staff to adopt best practices in the marketing and management of service enterprises. A balanced culture, which strongly encourages both a customer orientation and a community orientation, appears to be closest to the ideal.

Firms with balanced cultures which emphasise both business and community concerns tend to be smaller and more innovative, tend to differentiate their services more (offering distinctive features and benefits) and have experienced higher growth in profitability in the past three years. Leaders of firms with a balanced culture were also stronger on all leadership dimensions, except for a bureaucratic style, than leaders of firms with other types of culture. Interestingly, those firms with a weak corporate culture were most likely to be led by senior managers with a bureaucratic style. Smaller, more innovative and entrepreneurial firms with a balanced corporate culture may be the rising stars of the New Zealand's services sectors who will dominate markets in the future.

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