

## The manual service squeeze

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# **FORSKNINGS 99:2 RAPPORT**

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The Manual  
Service Squeeze

Jon Sundbo

**CSS**

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CENTER FOR SERVICESTUDIER

ROSKILDE UNIVERSITETSCENTER

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# 1 Introduction

Manual services are in a squeeze. This has generated strong competition, low profits, large problems in recruiting personnel, and has made it difficult to develop businesses. However, some manual service firms have succeeded in overcoming the squeeze or are on their way to do so. This book tells you how.

This book is about organization and management of the production of manual services which include cleaning, retailing, security service etc. They are physical activities in contrast to intellectual or knowledge services, which are intellectual or symbolic activities (cf. Reich 1991): production and changes of abstract symbols.

The book takes a business perspective: What are the market conditions for manual service firms and how could they improve their business? It analyses the production and delivery of manual services and how they could be developed, the problems of and impediments to development, and it discusses possible solutions of these problems from the perspective of the production organization.

This is done on the basis of a general theoretical model of understanding the situation of manual services as part of society and the economic system. This model contains the core element of the squeeze and its different aspects, and will be treated in the analysis throughout the book.

## 1. The aim of the book

The aim of the book is to investigate the following questions:

How can we understand the fundamental problems of manual service businesses?

How do the service firms overcome the manual service squeeze and develop themselves?

This leads to the important question:

Could the development of manual services solve society's unemployment problem?

This latter question is not the main focus of the analysis, but it is important to society, and will be discussed in chapter 23 in relation to the results from the previous analysis.

The main focus of the book is on business administration, which means dealing with the first issue. However, this is seen in a broader societal context. Business and social problems can no longer be completely separated. All firms have to take the norms, images and reactions of the public seriously if they want to survive, particularly service firms. The public includes potential as well as actual customers, and a potential labour force. All of these are important to the firm.

Furthermore, many manual services have traditionally belonged to the public sector. If a new division of labour between the private and the public sector develops and if

manual service firms want to expand business into what are traditionally conceived as public areas, they have to think politically and solve some of the society's problems as well as their own business and surplus problems.

The answers to the two questions might look contradictory. A traditional answer to the first question would be to make service production more efficient by rationalizing it. That would decrease employment in the manual service industries and thus increase unemployment instead of reducing it. The goal of this analysis is however, to investigate whether the answers to the two questions could be reconciled by developing the service work and thereby create more manual service work. Developing means making the manual services more professional and increase the competencies of the workers and create innovations in the service products, and the production and delivery system. The book will give concrete examples of success at such attempts as well as the problems such attempts have created.

Thus, the book will conclude by establishing a prescriptive model that could answer the question of how manual service firms could perform better.

## **2. Empirical basis**

The book is primarily based on empirical studies of one international Danish service firm, ISS (International Service Systems), supplemented with studies of other Danish manual service firms. The book concerns the problems ISS and other Danish service firms meet and how they solve them. Although the empirical basis is Danish data, the results may be useful to Western Europe since conditions are similar. The USA is a different matter.

ISS is a particularly good case to demonstrate the squeeze since it is a large company whose activities have many facets and thus can illustrate the different aspects of the squeeze. It is also a good case to demonstrate the possibilities of relating business and public purposes since the welfare of the employees is a core part of the culture and management principles of ISS, particularly in Denmark. ISS is also a successful global corporation. Denmark is a good case for analyzing the development of small service firms since outsourcing of public activities and attempts to create a manual service market have been a part of the government policy for the last four year.

## **3. The structure of the book**

The book is divided into six parts.

### **Part 1: Manual services**

Manual services are discussed in general. Chapter 2 states why it is important to study manual services. Chapter 3 is a bit more technical and it is here that manual services are defined and the development of the manual service sector described.

### **Part 2: The squeeze and the tools to analyse it**

Chapter 4-6 presents some general problems, models and methodological approaches; the idea of the manual service squeeze is presented in chapter 4. In chapter 7 is ISS and the other cases described in general. Chapter 8-10 analyses the problems that manual service firms face and traditional development principles in manual services.

**Part 3: First solution: Development of the production organization**

The following chapters 11-15, analyse the attempts that the service firms have made to solve the problems and include the formulation of central concepts.

**Part 4: Second solution: Development of market behaviour**

In chapter 16 I will discuss how successful these attempts have been. Since they have not been able to eliminate the squeeze, the service firms are forced to develop new approaches to the problems. These are discussed in chapter 17-20 and examples of how the service firms have introduced new solutions are presented.

**Part 5: Manual services and society**

Manual service firms' relationship to society is treated in this part. It includes the relationship of the manual service firms to the public sector and the importance of this when service firms are entering the market for public services (whether still public or outsourced) (chapter 21).

Chapter 22 deals with the issue of whether manual service firms will become "growth engines" of the economy in the society. Chapter 23 discusses the public sector's possibilities of creating job development in the manual service industries.

**Part 6: Development model**

In chapter 24 the conclusion presents a prescriptive model for development strategies for manual service firms. It summarises the results of the analyses in the book.

Throughout the book I will give concrete examples taken from service firms, particularly ISS, of problems and solutions.

## **Part 1**

# **Manual services**



## 2 Why manual services?

This chapter discusses and argues for the need for a book on management and the development of manual services. Further, it presents the theoretical approach to such an analysis.

### 1. Manual services have been inferior to service research

Why write a book on management of manual service production since so many books have been written on service operations (e.g. Johnston 1988, Hope and Mühleman 1997), service management and marketing (e.g. Normann 1991, Grönroos 1990) and service quality (e.g. Brown et al. 1990, Edvardsson, Thomasson and Øvretveit 1994)? The reason is that there are particular problems in manual service production. These I shall call the manual service squeeze. Each problem put the service firm in a small squeeze, but together they produce an overall squeeze that is nearly impossible for manual service firms to escape. This section will give a short, preliminary presentation of the squeeze, which will be treated in more detail in chapter 4.

The employment problem could be a reason for writing a book on manual service. However, this is not the main reason for this book since my approach is basically one of business administration and not labour market policy (it is just that labour market policy can not be excluded from the issue of the management of manual service production).

In addition to the service squeeze, there is another reason for studying manual services. We do not know so much about manual services and their problems because they have not been studied as much as knowledge services. Knowledge services have been popular objects of research over the last decade because about the discussion of the information society and the importance of knowledge service for growth in other firms. Furthermore, knowledge intensive business services have been one of the fastest growing economic sectors. Manual services have been the dull ones except in extreme cases where special events like the introduction of a new service culture in an airline company SAS (Carlzon 1985) has taken place. This means that research has not helped the manual service sector much, the manual service firms problems have not been investigated, and progresses that have been made in manual service firms have not been known to other firms. Therefore, there is a need for studying the problems of manual service firms.

### 2. The service squeeze and society

#### The employment squeeze

Manual services also present a squeeze to society concerning employment and the social welfare system. Most societies have many unemployed people who want to have a job. Societies in Europe, and to some degree in Northern America want to have a welfare society where everybody who wants can get a job, and if there are not jobs

enough, the society will give the unemployed people a grant. However, this is expensive for society, and a job for everyone is the goal. So societies want to get the unemployed people into jobs, but there is currently not enough job. Then the political system will start looking for possibilities to expand the number of jobs.

Most unemployed people are low skilled, so sectors that can solve the unemployment problem are those that have a large need of such people. This has traditionally been the case in manufacturing and agriculture, and the public sector has also absorbed low-skilled people, in economic crisis often as a result of social policy.

There will be fewer jobs in agriculture and the manufacturing sector. The possibility of expanding the number of jobs in the public sector is very limited because of the fiscal crisis - that is people refuse to pay more taxes and react against attempts to raise the taxes (Gough 1979). Only the service sector can create more jobs. Some types of service jobs are increasing, in particular those which uses ICT for symbol analyses. This type of work demands high levels of skills and education, which most of unemployed people do not have. Even routine work based on ICT is increasing, but it will not last because the technology can mechanise this work.

Only the labour-intensive market-based manual service sector is left as one which employs low-skilled people. It is difficult to expand because customers - whether firms or private households - do not automatically have increasing needs, and if they realize that they have, they are not willing to pay for having their needs fulfilled. Further, people generally do not want a job in manual services - not even unemployed people, because the work has low prestige and often a low salary, and it is considered unpleasant, often carried out at inconvenient times (evening, week ends) and often dirty work.

This is the society's service squeeze.

### **Development of manual services as solution**

The manual service production is a field with many problems. However, many of the problems can be solved and firms can get out of the squeeze (cf. chapter 4 where the squeeze will be presented) or at least loosen the otherwise locked situation. It is possible to develop services, production and delivery, and this should be done if the firms are to get out of the squeeze which keeps them in a situation of low profit, non-innovativeness and a lot of problems with the labour force, customers etc. It is not easy, but it can be done. This book proposes solutions to these problems. These solutions are not miracle solutions that will solve all problems in one shot, but they can function as elements in manual service firms' development process and as an inspiration to starting a development process.

Even some of society's problems with manual services (e.g. the employment problem) might be solved, but that is not easy. It is probably more difficult than solving the firms' problems because society can only interfere indirectly, namely through influencing either the manual service firms or the customers. In some countries there have been attempts to solve the problems through intervention. These attempts will be discussed, but the proposal of definitive solutions demand more macro economic and sociological theory than can be included in this book which is primarily dedicated to service firms. Society's problems, however, are most efficiently solved by manual services firms develop from inside without political interference. So

this business perspective is even for society the best if the society's manual service squeeze should be solved.

### **3. Emphasis on physical services, particularly cleaning**

This book presents discussions and models which are based on studies of manual service firms. The type of manual service studied is primarily cleaning, but other types are also included.

By studying cleaning and using this service as an illustration, we are really at the lower end of the service scale. This puts the problems and the service squeeze into relief, and is the reason for selecting cleaning as the major example of manual service.

Other types of manual service, e.g. catering, repairing, gardening, hospital services (outside the core medical care), have also been studied and are included in the basis for the models and the analysis. The analysis may even be relevant to manual services which are not included in the empirical core of the book, e.g. retailing, transport, tourism, hotels and restaurants etc., and the models may be relevant to most manual services.

The analysis mainly concerns physical services, i.e. services that treat physical objects, which is at the most extreme lower end of the service scale and thereby set the service squeeze in relief. Personal services, i.e. manual services to persons, will also be treated since the limits between these two types are often difficult to draw. New personal services are often developed together with new physical services and vice versa. Personal services are not so much in the lower end of the service scale as physical services, but are nevertheless caught in the service squeeze as well: Customers are unwilling to pay much for the services, because, among other things, they have traditionally been free goods in many countries, provided by the public sector. The work prestige may be a little higher, but not in all cases.

A few manual services such as sport, leisure and tourism have escaped the squeeze and have grown in turnover, profit and prestige due to changed priorities in the households. This demonstrates that the squeeze can be overcome.

### **4. Theoretical approach**

#### **Focusing on production elements**

The theoretization and models in the book have the aim of producing an understanding of the dilemmas of the service firms caught in the squeeze and providing solutions for getting out of this squeeze. The theoretical approach emphasizes the organization of service production as a standardised and planned activity. Manual services such as cleaning are highly standardised mass services and must be so under current market conditions. Standardisation means that the production procedures are fixed, but nevertheless there will be individual variations in the work. Office cleaning work follows a procedure, but since offices are different, some individual variations in the implementation of the procedures exist. The individual variation is, however, much less than in real individualised services such as advisory services.

The approach thus focuses on other elements than those that have been popular in the last ten to fifteen years in the service literature - the customer encounter. Services have been interpreted as relational, the customer is always present, and often

participating, in the service production (deBandt and Gadrey 1994). Service management and marketing theory has emphasized this encounter situation (e.g. Grönroos 1991, Czepiel et al. 1985, Matsson 1994) and has to a large degree created the picture of services as an activity that can be individually created for the single customer to fulfil his exact wishes. The approach of this book is critical of the customer encounter approach as one that can explain the core problems of manual services.

The theoretical approach is further developed in chapter 5.

### **The service vocabulary used**

There have been terminological discussions in service research, for example discussion of what to call the result of the service production process (Illeris 1989). Should it be called a service product or a service activity? Thus, one has to specify what one means by the different terms.

Here the term service is used for the result, which will also be termed the service product. The process of specifying and organizing the making of the service is called service production while the concrete delivery of the service - where the cleaning assistant is doing the job and perhaps meets the customer - is called service delivery. The service delivery includes the service encounter which is a part of the relational service marketing approach.

### **Organizational perspective**

The book takes an organizational or management perspective. The issues that this book is primarily concerned with are related to the production organization.

The perspective of the book is an analysis with practical conclusions formed as models. The goal is that manual service production could be organized in a way that develops manual service business and thus create value added and growth for manual service firms. At the same time this could increase employment and thus fulfil some of the society's goals. The perspective of management and service firm development is not against the interests of the employees. As will be demonstrated, the development of the service business would be in accordance with the interest of many of the employees, although not the interest of all. People on the labour market have different interests and goals for their working life, and these goals are sometimes mutually conflicting.

The interpretation of the manual service organization in this analysis is that it may be considered as a fixed, mostly standardised organization which means that there are different work routines that must be planned and followed although much flexibility may be necessary. The service production organization is in many ways similar to the modern flexible manufacturing organization (cf. Sundbo 1994), but with some differences such as: The service can not be stored, the customer will sometimes be involved in the production process, the service employee sometimes meets the customer face-to-face, the result of the service production process - the service product - is more difficult to assess than a good because it is immaterial and it disappears just after it is delivered. These characteristics have been much emphasized in service research meanwhile, the standardisation aspect which gets the service production organization to look similar to the manufacturing organization has been underestimated. It will be the main focus here. "Back office" functions (functions that the

customer can not see) are more important than "front office" functions (the customer-interface functions), this does not mean that the latter are completely unimportant to manual service production.

### **Service development**

Service development of manual service has been introduced here as a solution to the service squeeze. The term development might have many meanings. It means to change the business and do things in a new way. This statement, however, must be interpreted in a specific framework to develop a systematic understanding of the development process.

Two traditions of systematizing service development have surfaced. One is the service design or construction approach (Shostack 1981, Gummesson 1991, Mattsson 1994). The point of departure of this tradition is the service encounter and service quality problems connected to that, i.e. the relationship between what the customer expects and what he thinks he gets. The tradition has developed a series of instruments to create new services, which means not only the service products, but also the production and delivery organization (blueprints, TQM etc.). Another tradition is the innovation tradition applied to services (Miles and Boden 1998, Gallouj 1994, Sundbo 1996a, 1997a). Its point of departure is identifiable development projects formulated from service ideas - service concepts, that are results of internal processes in the service firm, or the "back office". These ideas may be inspired by customers, but the core of the innovation approach is the conceptualisation and development of the idea within the firm organization. The innovation approach emphasizes general market conditions and the organization of the innovation process.

The innovation tradition will be the main approach in this book as it focuses on the service production organization - "back office" functions, but the development concept will be broader than that. The instruments and analyses of the service construction approach will be included when relevant as will other development factors such as development of the human resource (training, personal competence building etc.) and organizational development (for example into a learning organization). To solve the service squeeze demands a range of approaches and instruments since there is several problems and each of them may need their own solution.

The development concept is therefore broad. This may be inconvenient in relation to creating a simple scientific model of understanding, but it is necessary to solve the problems of reality.

### **3 Manual Service - Definition and Development**

Since the concept of manual service is not commonly used, it is necessary here to define it more precisely. I will describe the development of manual services in a macro perspective - the development of the industries and their. The importance to society of manual service will also be discussed in this chapter. It will argue that manual services are in a particular position where they are the key to the solution of the unemployment problem in society.

#### **1. The notion of manual service**

##### **Definition**

Like all previous attempt to define services and types of service (e.g. Gadrey 1992, Illeris 1996), this attempt to define what manual services are will be open to debate. It is extremely difficult to formulate such definitions. Nevertheless, it must be done, particularly when an uncommon concept such as 'manual service' is used. For those reasons the concept will not be a very sharp and an attempt to make it so would be useless since services are developed and service firms are entering new fields that may be on the border of what should be included in such a definition. The book should emphasize the dynamism.

Service activities have been categorized according to many criteria (cf. Illeris 1996). Here the classification includes the service product as well as the service production process because the product can not in service be separated from the process. Services may be of three types as stated in the following paragraphs.

There are two main types of services:

1. Knowledge service
2. Manual service

The core of knowledge services is intellectual activities. Knowledge services handle information and the creation of knowledge. Examples of knowledge services are: Advisory services such as management consultancy and lawyers, education, technical services such as engineering and laboratories, cultural services such as broadcasting, TV etc. Knowledge services could also include more physical, practical or manual activities, but these are not what the customers expect to get out of the service. Knowledge services present solutions to the customers' intellectual needs and problems.

Manual services are practical or physical activities such as handling things or persons. Examples are cleaning, transport, repairing, retailing, hair cutting, care services (for elderly people and children) etc. This type of service also involves knowledge and in some cases they may even be knowledge intensive as they are based on advanced (sometimes scientific) knowledge. However, the output of the activities, what they do for the customer, is practical or physical handling. Manual services

present solutions to the customers physical needs and problems.

This categorisation scheme is inspired by Porat (1977) who in his analysis of what he termed the 'information society' introduced a four class categorisation of economic functions:

#### **Porat's (1977) four economic function categories**

1. Primary raw material producing functions  
(agriculture, forestry, fishing, mining )
2. Raw material handling functions  
(manufacturing)
3. Information functions  
(producing and handling information)
4. Service function  
(physical and personal service functions that are not information functions)

Knowledge services as a category are the same as Porat's third category, information functions, and the manual services category to his fourth category. The categories used here are not completely equivalent to those used by Porat. He, also, included, for example, some practical functions related to information technology (such as producing and repairing computers) in information functions. They would in the category system used here be classified as either non-service or manual service functions.

The categorisation concerns service activities, which are the services provided plus the production and delivery process. The scheme can be used to categorise firms if they just provide knowledge or manual services, which is normally the case. If we go a step further and talk about different types of knowledge service or manual service, such a categorisation could generally not be used to categorise firms since most service firms provide several types of services.

However, manual services are of two general types. Some manual services are directed towards handling physical things - goods and equipment. They include cleaning, catering, repairing, retailing etc. Others are directed towards handling persons. This is, for example, the case with health care services, care services to elderly people and children, tourism, person transport and fitness services. Personal service still is a practical, physical service since it is directed towards handling the customers body, but since it goes further into the personality of the customer (feelings, welfare, health etc.), it has a different status than physical services. It is relevant to distinguish between these two sub-types of manual services. Discrimination between them, in practice, is difficult and often they are delivered in the same service package.

Nevertheless, it is relevant to introduce this theoretical distinction.

Then, we have two sub-categories:

2. Manual services
  - a. Physical services
  - b. Personal services

Another system of categorisations divides services into business services, which are provided to other firms, and consumer or household services, which are provided to private households. Knowledge services are often taken to be business services (e.g. Miles 1993). Most knowledge service activities are business service, but a great deal is also consumer service. Lawyers and accountants also advise private clients, and if one includes cultural services and education services in knowledge services, a large amount of it is consumer service. Manual services are to some degree consumer services, but they are also business services. Environmental services, cleaning, catering etc. are provided to enterprises. ISS, for example, provides, with a few exceptions, only business services. Unfortunately, there are no statistics that can tell us how much of manual services are consumer services and how much business services.

This book deals with market based services. Although the analysis only deals with market based services, the relationship to the public sector and public services will be a major topic as mentioned.

### **Manual service industries**

One should define precisely which industries are included in one's research object. However, this is difficult since there is no limitation in official statistics and the industries and branches overlap and are continuously changing. Here I will present a classification that could give some idea of the categories, but it is not an un-debatable one. Some of the categories can just as well be classified as personal or physical and some categories may be missing.



*Physical services*

Retail  
 Wholesale  
 Goods transport  
 Cleaning  
 Catering  
 Restaurants  
 Gardening  
 Building maintenance  
 Maintenance of green, parking areas etc.  
 Environmental services  
 Pest control  
 Repair: Buildings  
     Machines - household,  
                                   manufacturing  
                                   ICT  
     Cars  
     Others (e.g. aeroplanes)  
 Leasing  
 Security service  
 Copy and photo service  
 Laundry  
 Radiator meter service  
 Fire brigade  
 Car breakdown service  
 Postal service

*Personal services*

Health care  
 Personal care: Elderly people  
                                   Children (kindergartens)  
 Social services  
 Fitness and sport  
 Hair and body services  
 Tourism: Hotels  
                                   Camping  
                                   Amusement parks etc.  
 Person transport  
 Leisure services  
 Ambulance service  
 Employment agencies  
 Temporary employment agencies

**2. Size and development of manual services**

A general description of the development of manual services is difficult because the statistics are insufficient. It is possible to provide some imperfect descriptions based on selected indicators and they will be presented below just to give a brief idea of the development of manual services. They will be different indicators for different service industries depending on which statistical information is available and only selected service industries will be described. The emphasis will be on the development of the service industries, not on statistical comparison with other sectors. Figures will be for the EU in total or, if data is unavailable, single European countries. Some comparison with the USA will be included.

Table 2.1 treats changes in retail sales volume in the EU and the USA.

Table 2.1 Changes in retail sales volume  
% per year

	1989	1990	1991	1992	1993	1994
EU	2.3	3.8	1.4	0.1	- 0.6	0.5
USA	2.6	- 0.9	- 1.4	5	4.1	N/A

Weighted average of countries with comparable indices

Based on gross index: not seasonally adjusted

Source: Panorama of EU Industry 97, European Commission, Bruxelles 1997 p. 21-14

There is a growth in retail, but it is not constant and in some years it is negative. In Europe the growth has been small, while it has been somewhat larger in the USA.

Table 2.2 treats tourism in form of growth of international tourist arrivals to Europe.

Table 2.2 Growth of international tourist arrivals  
% per year

	1986	1987	1988	1989	1990	1991	1992	1993	1994
EU	2.2	6.7	7.6	9.1	4.5	0.7	7.6	0.5	3.9

Source: Panorama of EU Industry 97, European Commission, Bruxelles 1997 p. 22-1

The growth in tourism has been larger and more steady than retail sales and is one of the fastest growing industrial sectors at all.

Table 2.3 shows the development in transport in the EU, in value added and employment.

Table 2.3 Growth of gross value added (in market prices) and  
number of persons employed in transport. EU  
% per year

	1986	1987	1988	1989	1990	1991	1992	1993
Value added	6.6	8.9	7.9	9.5	6.4	5.8	N/A	N/A
Per-sons employed	8.5	7.8	1.5	3.2	1.6	- 0.2	2.8	0

Source: Panorama of EU Industry 97, European Commission, Bruxelles 1997 p. 23-2

Until 1990 there had been a large and steady growth in transport including employment, but after 1990 the trend has been less clear with a tendency towards stagnation.

The main service in this analysis, cleaning, is described in table 2.4 and 2.5.

Table 2.4 Cleaning services: Turnover, number of enterprises and number of employees. EU

	1987	1989	1990	1991	1992	1993	1994
Turn-over* (mio ECU)	11.813	12.834	13.905	18.543	15.600	20.999	22.583
No. of enterprises	28.463	31.809	33.572	34.849	33.238	41.093	46.428
No. of employees (1.000)	N/A	1.647	1.680	1.756	1.457	1.961	2.068

\* real prices (not deflated)

Source: Panorama of EU Industry 97, European Commission, Bruxelles 1997 p. 25-74,75,77

Table 2.5 Cleaning services: Growth in turnover, number of enterprises and number of employees. EU % per year

	1990	1991	1992	1993	1994
Turn-over	9.1	33.3	- 15.9	34.6	7.5
No. of enterprises	5.5	3.8	- 4.6	23.4	13.0
No. of employees	2.0	4.5	- 17.1	34.6	5.5

Source: Panorama of EU Industry 97, European Commission, Bruxelles 1997 p. 25-74,75,77

Except in 1992 the cleaning industry has increased in turnover, number of enterprises and employment.

There are not sufficient statistics to describe personal services. The development of health care services can be described in terms of the number of employees. This is done in table 2.6.

Table 2.6 Health care service: Number of employees. EU

	1988	1989	1990	1991	1992	1993	1994
No. of employees (1.000)	5.528	5.802	5.905	6.118	7.946	10.721*	10.979

\* Change of category; social workers included from 1993

Source: Panorama of EU Industry 97, European Commission, Bruxelles 1997 p. 28-10

The health care sector has grown tremendously.

The development of selected personal services can also be compared to the development of selected physical services from OECD statistics for selected countries in table 2.7.

Table 2.7 Number of employees (in 1.000) in selected service industries

## Denmark

	1986	1990	1994	1996	Growth in % 1986-1996
Wholesale, retail, restaurants, hotels	320	327	357	369	1.4
Transport, communication	169	171	154	170	0.1
Community social, personal services	871	870	805	864	- 0.1

## Sweden

	1986	1990	1994	1996	Growth in % 1986-1996
Wholesale, retail, re- staurants, hotels	543	550	483	488	- 10.8
Transport, communi- cation	281	284	235	232	- 17.4
Community social, perso- nal services	1.534	1.605	1.465	1.442	- 6.0

## UK

	1986	1990	1994	1996	Growth in % 1986-1996
Wholesale, retail, re- staurants, hotels	4.025	4.496	4.335	4.553	1.2
Transport, communi- cation	1.338	1.457	1.405	1.429	0.7
Community social, perso- nal services	6.246	6.599	7.281	7.296	1.6

Source: Labour force statistics 1976-1996, OECD, Paris 1997 p. 228-29,

There are different tendencies in these figures. Between 1986 and 1996 there has been some growth in retail, wholesale, restaurants and hotels and a stagnation in transport and communication and community service in Denmark. In the UK all these sectors have grown in the period while they have decreased in Sweden; retail, wholesale, hotels and restaurants and transport and communication in particular. The overall conclusion is that these services have either decreased or only grown slightly in terms of employment; the personal services have not grown more than the physical services, which is surprising if we compare to different futuristic prognoses. However, we must remember that these are only selected areas.

### 3. Markets aspects for the cleaning industry

The cleaning industry and related sub-industries (such as security services, building maintenance, environmental services which reduces pollution of water, air etc., laundries) provides services to households and enterprises (including public institutions), but the largest part is provided to enterprises. Thus, it is mainly a manual business service sector. The sector has grown, but it is unevenly distributed. In

Denmark, the growth has been largest in catering, environmental services and in particular security service (Serviceydeler 1994). The growth in cleaning has been moderate and, the laundry sector has, for example, seen a reduction in turnover.

The market for business cleaning service is in most countries slightly increasing cf. table 2.8. However, in Sweden it has been shrinking in terms of the number of employees.

Table 2.8 Annual growth in the business cleaning industry

	Sweden	France	USA
Growth in turnover*	4.9 %	11.3 %	9.7 %
Employees in per cent. of total employed <sup>□</sup>	0.7 %	1.3 %	0.7 %
Growth in number of employees <sup>#</sup>	- 0.5 %	6.3 %	4.2 %

\* Sweden 1990-94, France 1984-93, USA 1982-92

<sup>□</sup> 1994

<sup>#</sup> Sweden 1985-92, France 1984-93, USA 1982-92

Source: Sauviat 1996 p. 64

In the USA the market for consumer cleaning service has also increased and in 1966 was 20% of the total cleaning market (US Department of Commerce 1996). Due to different labour market structures, this result can not be found in Europe. Wages in the USA are much lower than in Europe and formal agreements between unions and employers rare. The combined result is that the cleaning services are much more expensive for households in Europe.

Another Danish analysis (Pade 1991) concludes that the cleaning market is characterised by hard competition and a low surplus. It is a competition in terms of price and quality, but for example not in innovation. The competition is to a large degree international as many service firms within this sector are large international corporations. The business cleaning market (cleaning services for firms) is in most European countries and the USA characterised by having a few large providers and many small (Sauviat 1996, Pade 1991). The consumer cleaning market (provides households) in Europe is characterised by very many very small firms, while the USA has one large provider (Service Master) plus very many small ones. Besides the existence of one to three large firms in every country, there are few medium sized firms. This is reflected in the figure for the share of turnover that the 50 largest firms have: 38% in France, 27% in the USA; the firms with more than 50 employees have 39% of the turnover in Sweden (Sauviat 1996).

The profit margin within cleaning is constantly very low as shown in table 2.9.

Table 2.9 Net result  
in cleaning

	Net result (%) in the year indicated
France 1984	2.3
France 1988	1.5
France 1993	2.0
USA 1993	2.4

Source: Sauviat 1996 p. 68

The cleaning service industry has grown to a large degree (nobody can say exactly to what extent) by externalization or outsourcing from households and firms. The degree of outsourcing from firms has been estimated in some countries from different indicators. The degree that is externalized is estimated to be: France 55%, Sweden 33%, USA between 20 and 55% (Sauviat 1996).

The sector is characterised by many structural changes through acquisitions and mergers without the total volume being greatly expanded. Even security service, which have expanded greatly, are a market with strong competition, at least in Denmark (Pade 1991). Electronics and ICT-based systems are increasingly introduced because automatic electronic guarding is cheaper than manual. This demonstrates that the security market can be increased, but the service functions will be automated to a large extent and thus less manual. Even though there will be further technological development, competition will still be hard. The analysis of the Danish manual business service sector (Serviceydelse 1994) concludes that this sector lacks innovations and other development activities such as organizational and managerial development. The conclusions mentioned here concern the sector as a business service sector. This has mainly been based on Danish data. It might be different in other countries, but investigations in France, Sweden and the USA (Sauviat 1996) have similar conclusions.

#### **4. Other market aspects connected to manual services in general**

##### **Market development for manual services**

Even though cleaning is part of the main focus of this book, other manual services are treated as well. The market development is different for different manual services, but there are some common characteristics, which I will discuss in this section.

The *retailing* market is, in most countries, stagnant, which also can be observed in the tables included in section 2 above. The growth of retailing is among the lowest (except in Japan). In many countries the fact that there has been a relatively larger growth in employment in retailing tells something about differences in productivity and organization of retailing (supermarket system or small shops). At the other end of the scale is tourism and leisure a fast growing sector. In Denmark has the employment in

retail and wholesale trade been slightly growing in absolute terms, but the relative part of total employment has been falling in the period 1985-95, and the number of shops have been falling according to one analysis (Serviceydelsler 1994). Market competition is very hard. The analysis concludes that it is not easy to see possibilities for the future growth in this sector. The only field where a growth potential can be found is within wholesale, which can sell advisory services concerning taxes, customs when firms want to export and give advise about and manage distribution systems. However, these services are knowledge services.

An analysis of the Danish *tourist and leisure industries* (Turisme/fritid 1993) concludes that the demand for tourist and leisure services are among the fastest growing business sectors. Tourism and leisure is in this analysis a heterogeneous sector which includes hotels and restaurants, amusement parks, transport, commercial physical training services, but also cultural services such as theatre, concerts etc. which ought to be classified as knowledge services. Characteristic for the development is that the consumers demand integrated products and if the service providers fulfil this, it will be increasingly difficult to separate manual service from knowledge service. Further, the assessment is that it is the knowledge part of the tourist and leisure services that has the largest growth potential. People want more intellectual or social experiences. The manual part - to be transported, to get food and sleep, can only be extended moderately. Another characteristic conclusion of the analysis is that the Danish providers of tourist and leisure services have severe difficulties in fulfilling the demands. The products are too conservative and not up to date. More innovation and integration of different products is needed. Although the demand for tourist and leisure products is growing, market competition is also hard because the market is the whole world. This is true of tourism, but to some degree of leisure as well. As flight prices fall and people become more used to travelling to other language zones, it will be possible to carry out leisure activities in other cities or countries.

*Other manual business services* such as temporary employment agencies, leasing and repairing of office equipment, including ICT-equipment, copy service etc. have generally been growing and is assumed to do so in the nearest future in Denmark (Serviceydelsler 1994), in particular temporary employment agencies. Leasing and repairing of ICT-equipment is also a naturally growing market as ICT-use in society grows tremendously, but it is an open question how much this, will expand pure manual service activities. The hardware will be cheaper and customers will tend not to lease or repair, but buy new, and an increasingly part of the problems will be connected to the software. Software services should be categorised as a knowledge service.

In *building and construction* industries the demand follows the economic cycles and in the long term there is no growth. The innovation activity is small according to a Danish analysis (Bygge/bolig 1993). It is a sector with a mainly domestic market orientation. The price competition is hard. The analysis concludes that in Denmark more concentration is needed in the industry (Bygge/bolig 1993).

The *transport* sector has had an increased internationalisation and horizontal concentration. The activities in this sector also varies with the economic cycles. The actual core competition factor is logistics: the ability to minimize transport distances and storage time. It is a sector where a Danish analysis (Transport 1993) predicts



increased future development possibilities, not least caused by the environmental problems that make new transport concepts necessary. The analysis concludes that the development and innovation capability and activity generally is low in the sector. There are exceptions, e.g. in Denmark within sea transport where the shipping company Maersk Shipping has been very innovative and has grown to a leading position on the world market.

*Physical manual consumer services* are personal oriented services (haircutting, fitness etc.), repairing of household machines, building maintenance, repairing of automobiles etc. In Denmark this sector has generally had a fall in turnover, employment and number of firms the last 20 years (Serviceydeler 1994). The part of the consumption of the average household that is spent on manual household services has fallen even though the real income has grown in the period. People do the work themselves. There has only been a few innovations which might have expanded the market in this sector. A major explanation for the fall in demand for manual consumer services is the tax system (cf. Pedersen 1995): The consumer in Denmark must work up to 5 hours to buy 1 hour consumer service because of he must pay income tax and the service provider must pay VAT and income tax. This is different in other countries which might not have so high taxes, but in most European countries there are high barriers to expansion of this type of service. In Germany the employer must pay high social fees, France has a system where it is difficult for firms to dismiss people, which leads to reluctance by the service firms to expand business. In the UK and in particularly in the USA where the tax system is different, the situation is different. Manual consumer services have expanded tremendously in the USA.

### **The public sector as a market**

The market for physical manual consumer services also has a competitor in the public sector. The largest part of public services are personal manual services, but they are often intertwined with physical manual services. The personal services has, together with other welfare services (education and medical services - which are knowledge services), been the fastest growing sector in the economy, although we saw that they have not recently grown much. This development is expected to continue in the future (Serviceydeler 1994). All care activities (health care, social services) are mainly personal manual services, although some of them, e.g. health care, also include much knowledge service. In most European countries they are provided by the public sector and the private market is very small. In some countries, particularly outside Europe such as in the USA, the political system is different, and a much larger part of personal manual services is provided by the market. This difference also creates a difference in the capability of the service firms. Because of a very large part (86%) of personal manual services in Denmark are provided by the public sector, the service firms that provides, or potentially could provide, these services have a lack of capability to commercialise them. If there are difficulties in providing outsourced public physical services, these are many times larger within personal services. It is an open question to which degree the personal manual services will be outsourced at all. In Denmark the current Social Democratic government has decided that the limit for outsourcing goes exactly between physical and personal manual services. The former will the government attempt to outsource, the latter will not be outsourced. However, this is a

political decision that can be changed by a new government. The situation is different in other countries where more personal manual services have been provided by firms. Whatever the proportion of outsourcing, the relationship to the public sector will always be a core issue to firms providing personal manual services because the public sector can always take back the functions.

### **Future market developments**

The above presentation of market aspects and tendencies suggests to that there are differences between different manual service industries. Most of the markets are growing, even the cleaning market, but the competition is also increasing. Some markets are decreasing or stagnant and even some of the growing markets are only growing because of externalization from the business, public and household sectors, which may easily internalize the activities again. There are expansion possibilities for the future, but they will not necessarily appear by themselves, the service firms must find and exploit the possibilities themselves. There is a general tendency towards a qualitative stagnation by which I mean that innovations and other developments of the services and production process have been weak. Further, the expansion possibilities seem mostly to be into, or include a heavy weight of, knowledge service activities. Such activities might be introduced by firms that we now would characterise as manual service firms. These firms will remain, but the services will be transformed, which among others has consequences to the demand for labour qualifications. In other cases this development will close down manual service firms; maybe new knowledge service firms will appear.

Conclusion: Manual services will most likely stagnate, but there are possibilities for expansion. This demands a particular effort that the manual service firms in general hitherto has demonstrated that they have severe difficulties in mobilising. The future tendency will probably mostly be the introduction of knowledge service elements into manual services and within the manual service market, personal services will probably grow more than physical services.

### **5. The importance of manual service to society**

The manual service sector has an importance as a business sector that generate economic welfare and employment in society.

The importance to the societies and the governments has become even clearer in the last few years. In 1993 the Danish government set up a commission that should analyse the welfare system and its future development. The commission concluded that the total service sector has saved economic welfare. It has grown much more than the manufacturing sector in the 1980s, particularly considering the number of jobs, and it has invested more in information technology than the manufacturing sector (Velfaerdskommissionen 1995). The commission also anticipates that the importance of the service sector for economic welfare and employment in the Danish society will increase in the future while the importance of manufacturing will decrease. However, the expectations are not equally distributed across all types of services. The growth expectations are largest for personal services and knowledge services. Consumer services are expected to diminish and the expectations concerning manual business services are difficult to extract from the report, but could be interpreted as this sector

may diminish or grow, but only to a small degree.

Even though the manual service sector may not grow in the future, it is of crucial importance for European employment policy. European countries have a relatively large unemployment rate. Most unemployed people have low skills. The tendency is currently towards relatively high skills are demanded for most jobs and there will be few jobs which demands low or no skills left. Until now the public sectors have absorbed many people with low skills in personal and physical manual service functions, but because of the fiscal crisis (the populations deny to pay increased taxes) this will not be the case in the future. Manual jobs which demand low skills will be fewer in the manufacturing and agriculture sectors, and knowledge service industries have very few such jobs (cf. Velfaerdskommissionen 1995). Thus, the potential for creating more jobs for people with low skills can only be found in the market based manual service sector (cf. Sundbo 1997b). The development of this sector is therefore crucial if the unemployment problem is to be solved. This will not be easy as the growth potentials are not very clear. They are there, but it demands a particular effort to ensure growth, and this demand can be directed to the politicians as well as the service firms. A major problem in Europe is that the labour force expects to be "fairly" highly salaried - and if not, they will not accept the jobs and will find ways out to survive (e.g., through social security).

The public sector has an interest in the development of the manual service market sector and the relationship to it because of outsourcing of public services to this sector, which will probably increase in all European countries in the near future. The public sector must increasingly cooperate with services firms, in some cases maybe through the establishment of common enterprises. The market based sector must develop in a direction where it can meet the expectations from the public sector concerning type of service, quality, and relationship with the public sector, and the public sector must accept the conditions of the market based sector. Of course the outsourcing can still be a political issue and the politicians can decide not to outsource, but it is an actual tendency to do it and the reason is the fiscal crisis and often less efficiency in the public service production.

I will come back to the issue of the importance of the manual service sector to society and the politicians and the relationship between the manual service sector and the public sector in part 5.

## **Part 2**

# **Analyzing the squeeze**

## 4 The Squeeze

In this chapter I will begin by presenting the squeeze as it can be observed in the manual services sector (section 1). Then I will explain why manual services have been caught in the squeeze (section 2-4). In the final section I will discuss concrete business problems that the squeeze implies.

### 1. The constitution of the squeeze

Manual services are generally of little importance to the customers, but the activities are necessary. They are normally of low social prestige. It is difficult for manual service firms to get employees, even in periods and places with large scale unemployment, and the labour turnover is often high. These services are low-technological and there is no or only slow technological development and even social or organizational innovations are rare.

The characteristics mentioned in this section are general and valid for most manual services, but all characteristics are not valid to all manual services. For example the statement that customers do not care whether the services are good or bad is not valid in tourism: people on holiday care extremely for their adventures, but the other characteristics are true to tourism.

The squeeze also catches the manual service firms between a tendency of industrialisation, which could increase productivity, and emphasizing the customer relationship and providing the customer with an individual service, designed just for him. This could increase customer loyalty, but may also create high production costs (cf. Gadrey 1997).

The traditional and current business conditions concern the organization towards production and delivery, quality, pricing, simple sales effort and recruitment of personnel, while technology and more sophisticated market strategies are not core factors in this business. This will continue to be the situation unless services are developed into more sophisticated ones, for example by developing more advanced technology. The book will deal with the fundamental traditional conditions of service production and the cross road of either fulfilling these most efficiently or developing the services and thereby creating new conditions, and it will provide examples of how manual services could be developed.

The problems and the squeeze are the more marked the lower the type of manual service. By lower I refer to a scale of service work going from intellectual symbol analytical work with most advanced informatics (cf. Zuboff 1988, Reich 1991) to the most routinized manual work where not even ICT (Information and Communication Technology) may be used and other technologies are primitive. Cleaning, garden work, hair cutting and messengers are examples of services at the lower end of the scale, and are the types of service that this book deals with.

## **2. The position of manual service in the society as explanation of the squeeze**

The problems of manual service production may be understood from a theory of the development stage of the manual service sector. The development stage is related to its function and place in society. The latter has produced the manual service squeeze and a contemporary development stage which is non-dynamic. The sector thus has difficulties in developing and getting away from its fixed non-developing stage. It can be done, and is done by some firms as the following analysis will show.

### **The knowledge society and manual services**

Theoretical understanding must start with a fundamental discussion of which type society we are living in.

Contemporary society has, for a long time (e.g. Bell 1973, Nora and Minc 1978), been characterised as a post-industrial society which means that most people are employed in sectors other than the manufacturing sector, other sectors play a major role in the economy (e.g. expressed by the fact that about two thirds of GNP comes from the service sector, Illeris 1996), and, perhaps, the economic dynamics which creates growth and employment have moved to another sector. What this post-industrial society should be called, and what the core dynamic factor is, has been widely discussed without one interpretation being accepted by all researchers. Suggestions have included a service society, an information society, a knowledge society.

To explain the development problems of manual services, the best way is to interpret contemporary society as a knowledge society. This will also explain the categories of knowledge and manual services which were defined in chapter 2. The knowledge society is characterised by the fact that the most important feature is the production and distribution of knowledge and information. It is the solving of problems where the intellectual aspect of the solutions, not the physical implementation, is the crucial element. Most importantly, knowledge is not a passive archive of data, but an active intellectual effort. Advising, science, strategy formulation, and policy are crucial activities. This is a way of thinking that also characterises Robert Reich's (1991) analysis of work functions and their differentiation in the modern global society.

Manual services may be characterised as a residual category, not only in the statistical meaning that this is what is left over after we have identified knowledge services, but as a characteristic of the function of the manual service sector in society. The physical movement of things and people (as physical beings) is not a core activity in the knowledge society, but a residual. It is a necessary activity and without it, the other economic and business activities would stop, but these activities are not the focus of the knowledge society. Manual services are the remains of activities from a pre-industrial world where work activities were simple, and it is new physical activities that has not been integrated in the complex development pattern of manufacturing or been object to complex intellectual problematisation such as characterises the knowledge service sector.

The position of manual service in society has sociological as well as economic aspects. Manual service jobs are low prestige ones because of manual services' residual and peripheral character. Because manual services are so simple, there can be many

players on the market and the profit therefore low.

This residual factor explanation will be developed throughout the book. This factor is experienced by the manual service firms and it constitutes the core of their development problems.

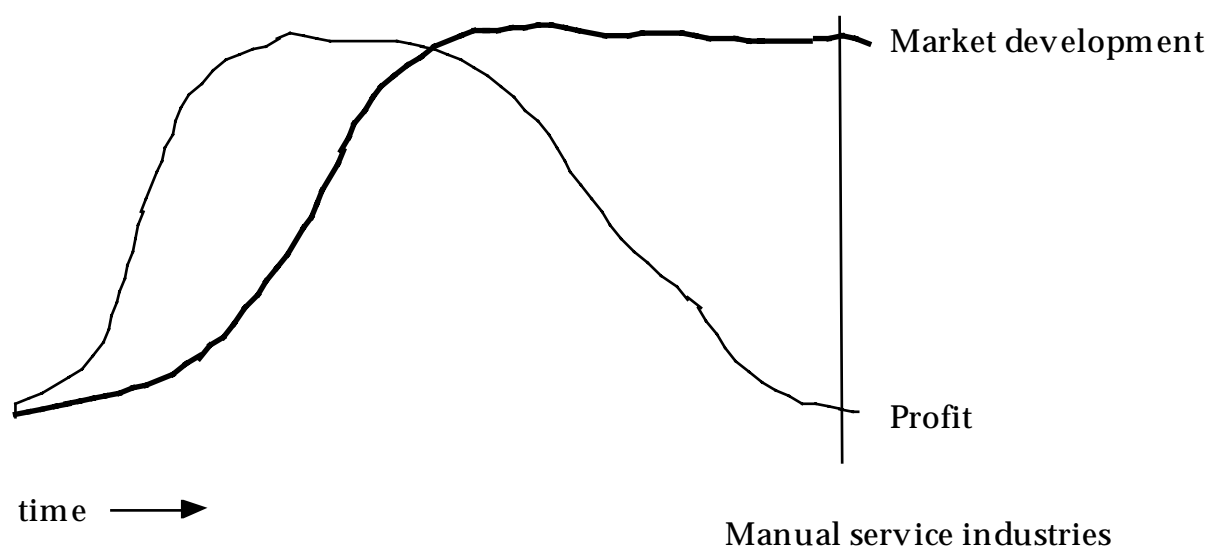
The analysis above is not a fair picture of all manual services and all manual service firms of which many provides complex services and earn great profit. However, it is a useful description of the basic conditions of manual service business which can help to diagnose the development problems. Next, one can look for, and examine, those cases where somebody has overcome the problems of the basic conditions, and this can be the basis for proposals for other firms.

### **3. The product life cycle**

The general theoretical approach stated above should be translated to a more operational approach for understanding the situation of the manual service firms and thus taking a step further in analysing the squeeze of manual service businesses. This can be done by using the theory of the product life cycle. This theory is based on the macro economic theory that the economy is developing in cycles (cf. Freeman 1984). This theory is applied on a certain economic sector or industry (cf. Schumpeter 1939, Vernon 1966, Kotler 1983) and puts forward a theory which says that the market economy develops in cycles, and each industry or sector has a life time cycle with different phases. The idea, and notion, of cycles have been used in different ways. It has been used to characterise that the economy in general develops in cycles and has thus been termed business cycles. Schumpeter (1939) put forward the theory that the cycles are produced by fluctuations in the general innovation pattern in the society. It has also been used as a characteristic of the life of one product, in which case it often is termed the product life cycle (cf. Vernon 1966, Kotler 1983). Industries also move in cycles. The movement of industries is a phenomenon between a general economic cycle and a specific product life cycle; it is not the whole economy, but it is more than a single product. It is a product area that could be for example all cleaning service products, but it may also be a broader product area such as cleaning, environmental services and building maintenance if these services normally are offered by the same firms. In this case we could speak of one industry. The term product life cycle has been used to characterise that situation as well. As I want to speak of development of industries, I have chosen the term product life cycle for this book and it means the industry (or broader product area) cycle.

The manual services are in a mature phase of the product life cycle. The product life cycle may, in a simple form be illustrated as the following:

### THE PRODUCT LIFE CYCLE



In the beginning of the lifetime of an industry, the market is unsatisfied and it presents possibilities for fast growth. The first phase, however, develops very slowly because the potential purchasers on the market have got used to the fact that they can not have their needs fulfilled. Further, there are not many types of goods or service products on the market, so innovations should be developed first. After the innovative phase, an explosive raise in growth rate starts when the market becomes aware of the innovation. After some time the strong growth rate decreases because the market begins to become satisfied and, therefore, fewer innovations are developed. Finally, the market reaches the mature phase where there is no more growth. Often the turnover will fall because of the purchasers do not need so many products anymore, substitution possibilities appear and other factors. The profit in the first phase is very high because there is a large demand and only few suppliers. As the industry or product field becomes mature, the profit will fall because the demand becomes fulfilled and more suppliers appear, which increases the competition. The competition becomes less a competition of innovation (who launches the newest products) and more one of price competition where rationalisation of the production process is the most important means.

The profit starts to fall before the market reaches its mature phase, and it continues to fall. At the time of the mature phase, the profit tends to go towards zero. If the industry or product field can be substituted by other product fields, or in the single country by products from other parts of the world, the profit will fall to under zero, and the industry will disappear, at least in that country. That has happened to for example the shipyard industry and textile industry in many countries.

If the products can not be substituted by other industries or can not be moved abroad, the industry is stabilised at a very low profit level. This is the case for most manual service fields such as cleaning.

Many manual services have existed in more or less the same form on the market for



a long time and there has been very little development of products. The markets are mature and it is difficult to find fields of expansion for these services. The organization has been developed, but mostly by using rationalisation to improve productivity. The common problems in manual services are produced by the fact that these services are activities that are very difficult to mechanize, thus technology development has been much slower than in manufacturing. Further, these activities are so simple by nature that they are very difficult to make intellectually sophisticated so they can not be developed the same way as knowledge services. There have been organizational and marketing developments such as introduction of TQM, customer relation focusing etc., which we will deal with in details in the coming chapters, but they have not changed the general situation of being in a mature phase of the product life cycle. In some ways they have underlined that situation.

This has led to a state of affairs where mostly standard services are being provided. It is difficult for the single firm to differentiate their products from competitors'. They differentiate themselves on parameters such as quality assurance systems, delivery and customer relation systems, corporate culture, peripheral services (which are added to the core service that the customer really needs) etc. These are important factors for the single firm's development, and therefore for this analysis. However, in general terms and in the long run for the general manual service sector, they are historical details, which we will not emphasize in this chapter since it deals with the broad outlines.

What has happened to manufacturing industries that have reached the mature phase? They have completely disappeared such as the cooper industry, or they have moved the production to low-wage countries such as the textiles industry. They have tended towards a monopoly or oligopoly situation such as the aircraft industry or a new existence in a much smaller, but more sophisticated high-price upper-class market such as the craftwork industry. Only a few of these possibilities are ways out for the manual service industries. We can not stop cleaning or the distribution of goods, because we would die from bacterial diseases or starve to death and we can not let low-waged labours in other countries do the job, because it must be done in our own homes, shops or factories. This is a squeeze if one looks at the industry level: These industries can not live, and they can not die. Every time the price and business conditions raise to a certain level, strong competition will lower the prices and conditions, and every time process and conditions are reaching the bottom where no business is possible at all, the customers accept a raise of the price, but only a small one, because they badly need the services. The raise could also be created by state intervention.

This squeeze is a sectorial squeeze. The single firms may die and be born in great number - and they are (particularly within the restaurant and retailing industries). However, in most cases it is impossible to see the difference in any way between the firm that died and the new-born as when one clothing shop replaces the other. The new one does not have a better chance to survive than the old one.

#### **4. The simplicity of manual services a core part of the squeeze**

The manual service squeeze is produced by the market situation. However, it is not only the behaviour of other firms and the demand of the market that produces the

squeeze. There is competition from outside the market and the manual service firms must relate their own development to other spheres to avoid the squeeze and develop the business. This fact is valid to all business sectors, but in particular to manual services because this is such a simple activity that everybody in most cases can do it.

In particular cleaning, as long as it is simple such as cleaning of a dining room or an office, can be done by every human being over ten years old - maybe not such good quality, but sufficient. This fact has produced competition from several outside-market actors. First, there is internalization. Manual service activities could be, and are often, done by the users, whether firms or households, themselves. This takes the form of internalization where the users hire employees to do the service activities.

The fact that a customer does not make all the goods and services himself is due to two factors: 1. The goods or services provided on the market are so sophisticated and of such high quality that the customer could not produce them at the same quality. 2. The customer does not have the time to produce the goods and services, and it has become a social norm not to produce them oneself. Neither of these characteristics are valid of manual services. They are easy to produce oneself in the same quality as commercial providers do, and the norms have generally been that one does it oneself.

The challenge to manual service firms is to make the potential customer firms externalize the services so they buy them from the service firms.

Next, there is the informal economy, or do-it-yourself sector. Private customers can do the service activities themselves, which is a widespread phenomenon. The challenge to manual service firms is to make the households buy the services. This is not an easy task because the impediments to a commercialisation of these activities are not only economic, that the customers have to pay a price, they are also sociological. One example of this is the existence of an intimate sphere barrier (Sundbo 1997b): Customers are unwilling to let strangers into their homes because they consider it as a private social room. The do-it-yourself sector is a larger competition factor for manual service business than internationalisation since the firms that internalize the service still have to pay somebody to do it. Private households could save all the money by doing it themselves.

Manual services must also compete with another economic system, the black economy. Some people are illegally engaged by households or firms to carry out manual service activities. The illegality can be that these people do not declare their income to the taxation authorities, or they get unemployment relief at the same time. In Denmark with 2.5 million people at the labour market, surveys have demonstrated that the black work is equal to 100,000 full-time jobs (about 5% of the work in the formal economic sector) (Mogensen 1995).

Many manual services are provided by the public sector as a free good. Physical and personal service to sick and elderly people, and to children are in many societies free public welfare services. This limits the possibilities of private service firms to enter this market. Furthermore, the squeeze on the political system is also that there is an increasing need for these services, for example as a consequence of the ageing of the population, but the population is not willing to pay more taxes to pay for them. The solution could be outsourcing: That the public sector outsources the service production to private service firms. This does not necessarily mean that it leaves the political decision of whom should receive the services to the firms, nor does it necessarily lead

to the citizens having to pay for the services (outside the tax bill). However, many citizens, and employees and unions within the public sector are against privatization. This makes another squeeze to the service firms, and to the politicians too.

These are further examples of different squeezes for manual service firms. To avoid business from being eroded from outside the market, manual service firms must develop the services.

## **5. Concrete business problems related to the residual character of manual services**

### **Extreme price competition and falling profit**

The maturity of the market leads to increased competition where the price is the most important parameter. This is underlined by the fact that the service products are mostly standard products that could be provided by all firms in the industry. Since the services often are of little interest, but necessary, to the customers, they are unwilling to pay for sophistications or variations of the services and they rarely present new needs. This is extremely true in cleaning. The clients just do not want their office to be dirty, they do not have any specific idea of the cleanliness, in terms of character or degree.

For special customers such as the food industry, cleaning has a vital interest. If it is not perfect, the meat and food products may become tainted and the food manufacturing company's customers sick, which may easily create the destruction of the company due as their customers will not buy the products anymore. The strong interest is also the case for environmental services, for example, which are services that either has the purpose of hindering pollution from factories or clean if an accident has happened, are also of vital interest to the customers. These environmental services are not yet of so great interest as cleaning is to the food industry, but a further development of the public opinion of the "politically correct" behaviour of firms could make it similar. Food hygiene and environmental services (such as ISS provides) can be priced much higher than general cleaning.

Other physical, and particularly personal, services may be of greater importance to the private customers. To some, although not to all, haircutting means more than just not having long hair. Thus, the service must be more sophisticated emphasizing the hair style. For elderly people the domestic help often means more than just being cleaned and maybe changing a bandage, it also means social contact with other people. Still, these services are so simple that almost everybody can provide them as long as we do not discuss the details of quality. Therefore, the price will remain low and very difficult to raise.

However, in comparison with to the manufacturing sector there is a lower limit for the decrease of prices because manual services are more labour intensive and can not be mechanised as much as manufacturing. Since the customers still need to have the manual service work done, they need to pay the lower limit price. Thus price has a tendency to establish itself as the market price in general cleaning.

As a consequence of the hard price competition, the profits in manual services are generally low. This means that the manual service firms have a very low rate of profit, they are very vulnerable to even small changes in the market, and they have difficulties in accumulating capital for development investments. This catches them in a squeeze of conservatism, for that reason alone that they can not afford to innovate.

One of the mysteries in this analysis is how a large company such as ISS can make

profit at all. Cleaning could be provided by small firms. The largest home service firm - called AMI - that has been included in this study, has 1,000 employees and is owned by one person. He is satisfied with a profit that makes him living and nothing more. His standard of living is higher than that of a cleaning assistant, but he is not very rich. The office of his firm is established in his private villa. He attempts to develop his firm, but mostly via organizational development, and the development activities imply little capital investment. Thus, the work of 1,000 employees, even though they are part-timers, only generates profit comparing to one family's subsistence. Even that seems to be difficult since the firm has been closed down after this study was completed.

ISS in Denmark have 11,000 employees. If they generate profit comparing to the subsistence of 11 middle-class families, how could this company have become world-wide by means of acquisition? The answers to the riddle is the following: 1. ISS sells practically all their services to firms, which are willingly to pay more profit than the private households that are AMI's customers. It has been calculated (Sundbo 1997b) that where the small home service firms can sell their services for 130 D Kr per hour, ISS takes about 160 D Kr. At the same productivity rate this means that ISS has a profit rate that is 23% higher (if costs for administration per hour are supposed to be equal). The firms are willing to pay that higher price because it is a norm for businessmen to pay a fair price, even it is low, where private households are more stingy. This is a social norm as well, but it also due to the fact that the private households, to a much greater degree, are caught in a tax squeeze where they must pay tax on their income before paying for the services. 2. ISS has a higher productivity. They have developed their production organization so that is one of the most efficient within the industry. 3. The profit in ISS does not have to maintain many families. The number of people employed outside production (in administration etc.) is very low in ISS. In the head quarter of the international corporation (which has 103,000 employees) are employed not more than 35 persons, all types of staff functions included. This creates a surplus for acquisitions and investment in development.

### **Customer loyalty**

Another part of the manual service squeeze is that customer loyalty in manual services is generally low, but within some segments it is higher. The more standardised the service, the lower the customer loyalty. Office cleaning is a standard service, and here there is a low customer loyalty. The customers just want cheaper prices and the standard and quality of the cleaning is not very different from one cleaning firm to the other.

Special services which imply more complex activities and more care of the customers values have a higher degree of customer loyalty because they are more important to the customer and the trust relation to the service provider is more important. In these services, pure price competition is not as dominant as in the standard service areas. As examples of such special services with higher customer loyalty we could mention security services, express letter transport and ambulance services. Within security service, which ISS has formerly provided, the customer loyalty is high. The reason, besides the ones mentioned above, is that more technology is involved. This includes electronic surveillance equipment which is related to the manual security service so the customer will lose his investment in equipment if he

changes to another provider because this uses another type of equipment. So, technology is a factor that can increase customer loyalty - not as a "positive" sociological customer encounter factor, but as an economic constraint factor.

### **Entrance barriers low**

Since most manual services are simple and do not demand any particular investments, it is very easy for everyone to establish a manual service firm. The entrance barrier to most manual service industries is extremely low. This increases the profitability problems in these industries and may produce price dumping.

The low entrance barriers also have positive effects on the existence of manual service industries. They prevent the formation of monopolies, which would otherwise be an obvious economic mechanism that would come into force in mature industries. There are monopoly tendencies within manual service industries, for example in retailing and wholesale, and cleaning and building maintenance services. Mergers by acquisition is the most widespread phenomenon that lead towards monopoly situations. However, the monopolies will only be a tendency and never completely dominate as long as the entrance barriers are so low.

Monopoly would not be good in contemporary western societies, not even to the monopoly firms because they are undesired by the public opinion, which fears higher prices and lower quality. There will be a great deal of public attention on the internal structures and activities of the monopoly firm and the state may intervene. A near monopoly with some new small firms entering the industry, but never getting more than a small part of the market, is a much better situation. Even though it is difficult to establish. In Denmark ISS has only 30 per cent. of the cleaning market, the two largest competitors have about 10 and 3 per cent each. Only in special niche markets can monopolies or oligopolies be established. For example ISS Food Hygiene Service has a monopoly in Denmark within cleaning and building maintenance of slaughterhouses.

### **Too many black sheep**

Since entrance barriers are low, there are many small firms in most manual service industries. These are not all professional in their attitude. The fact that some of them are not may easily create a bad reputation for the industry in general.

Some firms operate illegally by employing people under illegal conditions. This has been demonstrated in Denmark where the press and TV has discovered what they call a cleaning mafia: Firms, often owned by immigrants, employ people under illegal conditions, they do not declare the income of the employees to taxation authorities etc. It is not a hidden market with some grey area; some of the large hotels in Copenhagen have used such firms.

The public opinion and the press emphasizes one mistake much more than a hundred successful quality deliveries. It is of no use that many small firms, among those most or all the bad ones, disappear again after a short period. It creates a bad reputation for the whole industry and this makes the customers more disposed to internalizing the service activities and at least it makes them unwilling to accept a high price. Thus, the low professionalism of many new firms creates impediments to a growth in the manual service industries. This impediment is strengthened when an illegal firm appears. The effect of the illegal firms may vary from country to country

since it depends on a political culture factor, but the effect of the unprofessional newcomers is universal.

### **Limits of work rationalisation**

For decades ISS has rationalized the production organization of general cleaning and developed it towards a more industrial organization. Rationalisation is a cost-reducing activity. Since manual services are so labour intensive, this has been the far most important economic development factor.

ISS has led the world in this sphere and it is a part of its international success (Pade 1991). The rationalisation principles have been transformed to other service activities by the company. I will come back to the details of this in chapter 22. The rationalisation and industrialization of cleaning and other service work is one of the main explanations of why ISS could have become market leaders in Denmark, and it is still important for any manual service firm to emphasize rationalisation, because it reduces costs (whether it increases the quality of the service work, is a question to which I will return in chapter 8).

Rationalisation of work has probably been the most important factor in developing manual service industries. However, it has also created one of the major squeezes for manual service business, because it has made price competition the core competition and development factor. This has impeded focus on innovation as a development factor and, more importantly, it has pointed out further rationalisations as the only competing factor that many manual service firms can think of.

The latter now becomes a problem because attempts at rationalisation have been driven so far that it is impossible to develop that factor any further. According to ISS the work can only marginally be rationalized further. The market is focused on decreasing the prices so the problem is what to do in industries where wage costs are between 80 and 90 per cent of total costs if you can not reduce the wage costs any further and you can not raise the price? We will discuss this throughout the book.

### **Goodwill**

To a very large extent the capital of manual service firms consists of the firm's goodwill. Normally there is not much production machinery and even buildings are fewer than in a manufacturing firm with a similar turnover because the service personnel works in the customers' buildings.

This is not true to all manual services, in particular not in transport, which demands heavy investments in technology, or to retailing and hotels, which requires large building investments, but it is for many manual services.

What then is the capital of a manual service firm where large building or technology investment is not needed? How can the shareholders assess the value of the stocks that are the evidence of their investment in the service firm and thus of their fortune? The answer is that most of it is goodwill, which means the value of the connection and the customers' loyalty and of the firms' ability to manage and develop the business. This is not a steady factor such as machinery or buildings. How can one assess this if the customers are not loyal as has been demonstrated in cleaning for example and if the managers, who possess the abilities to manage and develop the business, can walk out of the firm from one day to the next?

The answer is that it is difficult or impossible. Stocks are traded more on the basis of a psychological mechanism within stock traders than from objective assessment of the ability of the service firm and its customers' loyalty. Goodwill can easily be the Emperors New Clothes. The huge losses in ISS's American division (see chapter 22) were mainly created by a booking of the goodwill that the corporate management realised was much too high. Who found out, what was the correct value? At least the management of ISS found out and decided to take action on that basis. The reason was, among other things, that they wanted to show the stock market that they are able to take action in critical situations to strengthen the trust in the firm. What if they never had wanted to sell the American division (which they did)? What would have happened? The stock market would probably have reacted, but production would have gone on. In the situation they decided that the value of the goodwill was too high and an avalanche started at the stock market, in the public and inside ISS. Even though there was some book-keeping truth behind the reaction, there was also much psychological panic and sociological mechanisms (norms in the economic society) - a disclosure of the Emperors New Clothes.

The goodwill problem is important to the growth of manual service firms because it may make it difficult to get investment capital and it can suddenly create much turbulence in the daily management and customer relations, and perhaps loss of customers if, for example, one financial analyst questions the value of the firm's goodwill.

### **Work flexibility favours small firms**

Manual service work is very often part-time, season work or is placed at inconvenient times such as evenings or nights. These unusual working times are very characteristic for manual service industries in comparison to other industries. This makes it difficult to plan the work and to find and hire labour force that is interested in these working hours. It also makes it difficult to keep the labour force because the work is not attractive. The problems of the required flexibility and instability of the labour force will be treated later in chapter 9. The impact of these conditions on the industrial structure will be discussed here.

Flexibility favours small firms. They can survey the production activities and they can establish a firm which fits the needs. Many Danish home service firms just have one employee who works two or four hours a week, or the owner herself works two or four hours per week, for one client. If the firm gets another client, the employee or the owner must work double as much - until maybe one of clients ends the contract. The employees' and the owners' service work is flexible because they can get unemployment relief from the state up to a certain income level regardless of the number of hours they can sell on the market. This is extreme and is due to the Danish subvention system that awards creation of small firms to reduce the black market, and many of these firms are earlier moonlight workers that have established their own firm. However, in other countries social conditions have favoured the flexibility of small manual service firms because owners and employees can always find a flexible way of organizing their working lives. Much can be negotiated and changed in interaction with the clients that are either private households or small firms.

Large manual service firms can also manage the required flexibility, but it is really a

challenge since it demands advanced planning, which then becomes a competition parameter. There are more demands on large service firms. Social conditions and agreements with unions must be taken care of. This demand may also vary between countries with different political culture and different service firms may choose a different strategy towards these demands, but the flexibility demand generally favours small firms in relation to large ones in all those countries.

Large firms have an advantage in the amount of work they have. They can offer their employees, perhaps not full-time work, but at least a fixed number of working hours per week. This, however, demands detailed logistic planning, because they often deliver services to many small clients. The service personnel have to transport themselves between the clients, which produces wage costs, but no income to the service firm. The large service firms can win the competition with small firms if they are good at logistic planning or if they offer services that the small firms can not.

It is not so that large service firms are “better” than small ones, either at solving the sectorial development problem of a mature sector nor society’s employment problem. Flexible small firms have important functions for these purposes and are often as professional as large firms. They are an important complementary factor, but they can not lead the sector out of the crisis, mainly because they are not innovative enough and do not have the resources for a massive investment in new activities. The large firms are needed for that purpose, but the formation of large innovative and offensive firms are impeded by the fact that the working hour flexibility situation favours the small firms. This is a barrier to the development of the whole sector.



## 5 The Service Model

The production of manual services can be understood by use of a general model which can be a tool for analysing the manual service squeeze. The model describes the elements of service production including the input elements such as personnel and technology, and the delivery situation and the customer encounter. These elements have been in focus in many general books on service management (e.g. Normann 1991, Eiglier and Langeard 1988, Grönroos 1990) and service operations management (e.g. Johnston 1988, Hope and Mühleman 1997) which have presented general models.

This book attempts to go behind these operational elements and put forward a hypothesis in which general forces guide the selection and combination of elements in manual services.

### 1. The character and driving forces of manual service: Production factor problems

#### Historical perspective on the analysis

The focus of this book is on the historical perspective - how manual service firms are forced by the economic conditions to change their production system from time to time. This means that they must change strategy and introduce new production systems. To describe their production system, whether an analytical description of how it really is or a prescription of how it ideally should be, can not be done just by using one model because the production system changes as the economic conditions change. However, it is useful in this analysis to establish some basic elements or concepts that can be used. This will be done in this chapter. These elements can be found in different historical periods, but in new combinations.

These production elements are general to all services, however some elements are more important in some services, and they will be of a different empirical nature. For example is non-ICT technology (such as chemicals, transport technology etc.) more important in some manual services than in knowledge services. The delivery system with the customer encounter is important in all services, but its character will be different within for example, advisory services and transport.

#### Existing service management theory is too general

The fundamental hypothesis of the driving force in manual service is based on the following theoretical considerations:

The service business has, in the last ten to fifteen years been interpreted on the basis of the customer encounter as already mentioned. That means that services have been generally characterised as a production where the customer must be present in the moment of production and he may, and normally will, participate in production. There are advantages of this situation, for example in relation to the manufacturing production and selling process where production and sales are separated. The service firm involves primary (face to face) interaction with the customer in the moment of production/sales and can thus make another, personal and individual oriented form,

of marketing. The service product can be individually designed for the single customer and this can be difficult to avoid if the customer is present at the moment of production and present his individual wishes. On the other hand, the service management and marketing theory also launch models of how the customer can believe that he gets a good and individual treatment although very often they get the standard core service in an seemingly individual packing. This can for example be done by delivering peripheral or extra services (cf. Normann 1991). The concept of peripheral service illustrates that often the individual part of the service that the customer gets is something added which is not important to the core service that he wants. They are things like free champagne in the aeroplane or when a cleaning firm leaves a gold-labelled stripe in the bathroom of private homes saying "We have cleaned your toilet".

This customer relativeness, or prosumption, approach (that the customer must be present at the moment of production and consumption and often participates in the production process) has led to an exaggerated focus on the delivery situation or "front office" functions, and an under-estimation of the production organization or "back office" functions. The customer is not always present at the moment of production. For example, cleaning is normally carried out when the customer is not present - at night for example. The customer only sees the result some hours later, or, if the result is good, they do not see it at all, everything is just normal. Only if the result is not good, will they will be aware of it because the office is dirty. The moment of truth is long in the cleaning services.

My studies in manual service firms have lead me to the conclusion that this prosumption or service management theory is too general and not the most valid and relevant theory for understanding the business problems of all services. Services are not the same and researching them should reflect the differences. This book is one in which manual services are considered as being different from knowledge services and having different conditions.

My approach goes back to what has been termed service operations (Johnston 1988, Hope and Mühlemann 1997), which emphasizes the construction of services and the design and management of the production organization before any customer enters the process. The words 'service operations' has been used in different ways from an exact characterization of the construction of services and the production organization to every aspect of service production, including the delivery situation and marketing. This book deals with a more delimited part of the service production issue, namely the service product and the production and delivery organization. Other topics such as marketing in a broader sense, accountancy or corporate structure will be mentioned, but it is not the core of the analysis, which particularly emphasizes production organization before the customer encounter ("back office" functions). This narrower perspective is the reason why the term service operation is generally not used in the book. Besides, books on service operations generally do not specify which types of service they deal with. This has been a fair approach since the discovery of the particular characteristics of service business have been new, which has led to a general approach. As service research develops, it is necessary to be more specific and selective as mentioned. This book deals with manual services only, and within that sector particularly with cleaning. Still, many organizational issues such as motivation, organization of team work etc. are general and models may be valid, not only for all

service industries, but also to manufacturing industries. This is also the case of some of the models in this book, but they will not be discussed as such. Only their validity for manual services will be discussed.

This does not mean that the customer encounter is not important for manual services. Even if the customers are not present at the moment of production, the result of the cleaning means something. Individual cleaning may also be negotiated with the customer, for example when the customer wants something other than stipulated in the contract. The result and the customer's opinion of it has been treated by using the concept of quality, which will also be used here. Quality assurance is a core parameter in organization of manual service production.

Furthermore, the behaviour of the manual service personnel and peripheral services mean something to the customers when they meet the personnel. The factors that the service management and marketing theories emphasize are important. They will be included in the analysis in this book.

### **The theory of the driving forces of manual service**

The theoretical formulation in this book will take its starting point in knowledge services which will enable it to provide a better characterisation of manual services and how they differ from knowledge services. Knowledge services aim to solve the customer's intellectual problems or fulfil his mental needs, either directly as advisory service or indirectly as delivers of information that makes him capable of solving the problems himself. The problems that knowledge service solve are central and important to the customer, and are often of a strategic nature; they concern how he should develop his business (if they are business services) or his life (if they are consumer services). Change, adaptation to change and creation of change is really at the top of the priority list in our time of flexibility and permanent change. The knowledge service may be simply entertaining, but even then the customer finds it important for his life. To be bored can be a problem too. Knowledge services normally create value added for the customer (if they are successful, of course); business and advisory services do that more than entertainment services.

Because knowledge services solve problems, they must be interactive. For them the service encounter and presumption theory is a relevant explanation, at least to the typical business knowledge services. The competence of the knowledge business firm includes their ability to use the client's ability in solving the problem and to improve the client's problem solving ability (Wood 1992, C. Gallouj 1997). Because the services are crucial to the customers, they look more at the quality than the price, thus the competition pressure for lowering the price is moderate. Pure entertainment services such as TV broadcasts are not interactive, but they should maybe have their own category and their own theory.

As mentioned in chapter 4, manual services are generally not central to the customers' main activities and are rarely of any strategic importance; even though there are exceptions. Manual services do not add value for the clients, they just ensure the status quo. This might not be true, but the attitude of most clients is so. Therefore, the single manual service firm is not considered as a strategically important partner.

The encounter situation is not the most important thing for manual services and is not the best way of coming to understand what drives the manual service business. Of

course customer satisfaction and high quality of the services are important competition parameters in manual services as well, but they are not the key to understanding the fundamental problems of these services. The activities carried out by manual services firms are not the place where the client invests his limited time to develop positive personal satisfaction. He is mostly interested in just having it done discretely and cheaply. The main problem is that manual service firms sell products that really do not interest the customers, but unfortunately are necessary for them. This problem can not be solved by marketing or other elements in the encounter situation to convince the customer that these are services that are crucial to his business or life.

The core problems of manual service firms are not on the output side - the sales situation, but on the input side. Manual service firms have severe problems on the input side, which is the constellation of the production factors: the elements that must be available if production should be established. These problems with the production elements are larger than those of the customer encounter, and they are an impediment to developing the output side, whether we talk of the customer encounter, innovations or price reduction through productivity increase. The production element problems are caused by the inferior situation of manual services, in society, in the economic system and in the clients' mind. This situation produces the manual service squeeze.

Therefore, the key to understanding the problems of manual service business is the input elements. The following model is developed to demonstrate that. The analysis is not a universally valid test of this theory. The data base is far too limited for that and it is an open question if such a fundamental hypothesis can be universally valid proved at all. The theory is used as a helpful tool to explain the problems of cleaning firms and other manual service firms and this will also develop the theory in more detail.

The theory should not state that manual service firms are doomed to stay in an inferior position for ever without possibilities of escaping it. On the contrary, the theory should be historical and dynamic. The theory explains the fundamental conditions which are the point of departure. The manual service firms can develop on their own and thus escape the situation. This is exactly what the examples and discussion of the firms' development activities should demonstrate. There are cracks in the barrier. Even though shopping is an irritating, but necessary, activity when it is purchasing of food after working hours for the evening meal, small special shops attempt to make it an interesting entertainment to shop. Some manual service firms have already broken the barriers, or attempted to do that.

The theory is probably most valid for physical services as personal manual services are closer to customers' life core. However this issue will be discussed throughout the book.

## **2. Model for understanding manual service production**

Now an operational model will be developed. The model will be used throughout the book to analyse the theory stated above. It will be organized on four levels. The first level defines the general business field of the service firm. The second level is the input level, which defines the production elements. The third level is the process level, which also defines the interface with the customers. The fourth level is the result, which is the ultimate proof of any production and change of it: that it creates something valuable to the customer and a surplus to the service firm.

### 3. The model

The four levels above can be specified and specific elements of each level defined. This will be done here for each level.

#### *1. Business Field*

This term characterises the industry and market, which the actual service firm is in and its type of products. It defines the actual environments that the firm operates within and which constitute the actual conditions for its behaviour. It includes the market segment, and which type of service products the firm provides. If this is expressed in statistical and macro terms, it means the industry, but at a micro level, seen from the single firm, it is a broader phenomenon. Behaviour and attitude of customers, competitors, the state and other actors are part of the business field.

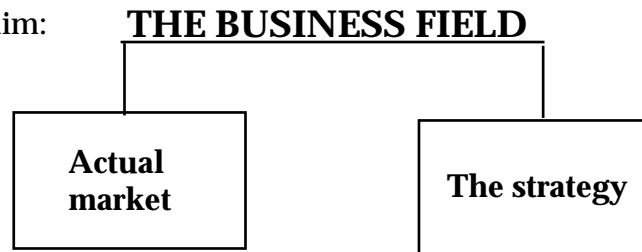
These actual conditions can be changed by the firm itself, and its development activities often is an attempt to change the external conditions for their business so this level includes the development perspective. Business field also characterises what the firm is aiming at - consciously or unconsciously, which means that it has a strategy. The term strategy is here used more freely than in many books on strategy (such as Ackoff 1970, Porter 1980, Pettigrew 1985 etc.). It is a general factor that characterises that the firm has formulated some goals in one way or other (but these can be very different). The top management of the firm has formulated, expressed, confirmed or registered these goals, which may be very specific (e.g. if the firm uses strategical planning, cf. Ackoff 1970) or just very broad, and sometimes vague, ideas (e.g. if it is just single persons' considerations in concrete situations or very general ideas).

The development of the firm may also be unconscious which means that nobody has formulated an overall goal or taken an overall decision. The development may be run by incremental innovations, maybe carried out decentrally in the firm so the top management will not know before the innovations are almost implemented. It may also be run by a more anarchic decision process where no single person takes the final decision.

The idea of defining this level is that since every firm develops a direction of the development may be observed, and this direction is the result of somebody's decisions in the firm (even though these decisions may be forced by the situation and not explicitly expressed).

This level is composed of two elements: 1. The characteristics of its actual industry and market, which shall be called the Actual Market, and 2. The aim for development, which shall be called the Strategy.

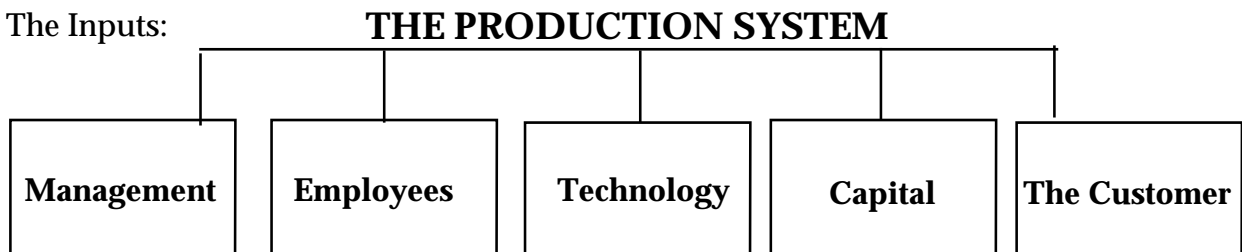
The overall aim:



## *2. The Production System*

It describes the input elements in the service production process. Which production factors must exist to carry out the service production? There are five inputs to service production as shown in the model below.

The Inputs:



Management is the competence of the managers including their ability to delegate power to employees if relevant. It is a factor that is strongly emphasized in modern business literature, and is also often mentioned as an explanation of concrete changes such as the case below.

### **Management as an explanation factor**

In an interview with the Danish managing director of Rentokil I asked for the explanation as to why Rentokil has grown to be one of the worlds largest manual service firms. His answer was firstly to point to the former British empire which gave British firms possibilities of going abroad because of the traditional relations within the Commonwealth and the lack of language barriers. Secondly he explained it as being part of the competence of the managers; they wanted to expand internationally and they had the ability to do it.

Capital is necessary to start and run production, this also applies to services. However, investment in fixed production equipment may be very low - or non-existent - in services, even in manual services. You may start a cleaning firm without more capital than you need to buy a bucket, a cloth and a bottle of cleaning materials and run the firm from your home. Several of the small cleaning ("Home Service") firms that I have interviewed have done that. Large service firms need some capital, particularly for their development. The capital factor ought to be included as an input element in service production. However, this analysis emphasizes the organization of the production process and the procurement of capital is outside that topic. Only when this element may explain the production process, it will be stressed.

The employees, their competencies, motivation and behaviour are the most important part of service production (also cf. Normann 1991) since technology is not as dominant as we for example know from manufacturing. To characterise this factor, I will use the concept of competence, which is broader than formal qualifications and skills that the employees have from their formal education or from training. It also includes personal characteristics such as friendliness (to customers), ability to be flexible etc. This element includes the motivation of the employees.

Technology includes the material objects such as buckets, PCs, chemical materials etc., the methods and the knowledge behind the methods and use of the technology. By methods I mean working methods such as a description of how one should carry out the process of cleaning an office or a slaughterhouse machine. It describes the steps in the process, which materials to use at each step etc.

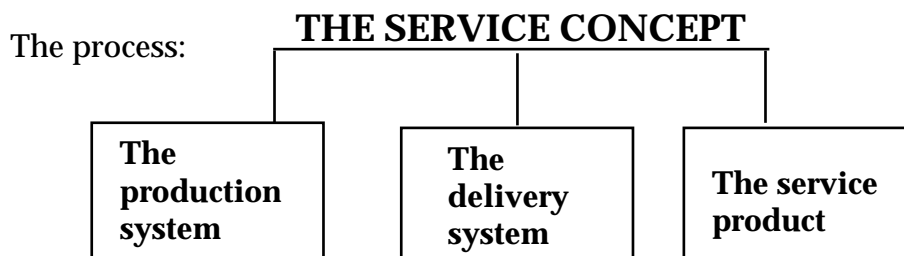
In service management theory the customer is supposed to always take part in the production process. This is not what the approach of this book states as discussed earlier. It is not always the customer that defines the service product, as when SAS transports him from Copenhagen to London in accordance to the flight schedule. Sometimes the customer is not even present in the moment of the service production and delivery as with cleaning. However, the customer is present in many cases and directly takes part in the delivery process in some of these cases. The customer may even take part in the production process in some cases, but this is rare. Generally the production process is designed beforehand and only smaller modifications can take place, which then means that they belong to the delivery process. However, the customer must be defined as a production factor for the cases where he takes part in

the production or delivery process, but only as such. The general satisfaction of the customer and his assessment of the service quality belong to the next level, the service concept or the process level.

The firm resources and competencies, which are concepts that have been stressed in some current business literature dealing with firm development (e.g. Teece 1992, Hamel and Prahalad 1994) are also relevant in this analyses. Resources refer to the understanding of firms as not only driven by economic factors, but also by social ones. Competencies are traditionally something that individuals possess. These competencies disappear if the individuals disappear. Therefore, there has been an interest to identify how the firm as an institution can codify and keep competencies as an institutional knowledge that remains in the firm independent of the movement of individuals (cf. Hamel and Prahalad 1994). The resources of the manual service firm are, in this model, the production system elements, and the firm competencies are the abilities to select the right resources in the right form in the right time. These abilities are found in the management and employee competence elements in combination.

### *3. The Service Concept*

By this I mean the elements of the service product. In manufacturing this would be the commodity, but service is more complex. The production and delivery process can not be separated from the result as in manufacturing, thus these two elements must be included in the characterisation of what is delivered. The combination of the production process, the delivery process and the services product is thus called the service concept.



The production system is defined in the following way: The firm has an idea of how the service activity should be carried out without any specific customer encounter being taken into consideration. Then the firm creates certain procedures for how the employees should carry out their work to reach the desired result. The production system also includes technology that is used in the production. It might also be characterised as the "back office" functions. The production system is the planned production and the input elements before the service employee actually do the job.

The delivery system is how the service product is delivered to the customer. This is where the employee is active. He or she will follow the prescriptions of the production system, which will only be materialised via the delivery system. There may be no formal work prescription, but that does not change the logics; the work prescription



will then be the employee's own experiences. The delivery system includes the eventual modification of the service product to the single customer and the extra, or periphery, services that are added. It also includes the behaviour of the service personnel towards the customer. The customer encounter is a part of this element, which are the "front office" functions.

The service product is what is delivered to the customer. It is a change in his knowledge (if knowledge service), or in the constellation of the physical objects he possesses (if physical manual services) or his personal well-being (if personal care service). This is the very core of service production. The product is the change in the customers structure that, hopefully, will solve his problem (at least that is the intention of carrying out the activities).

The service product could also be considered as an output and is, together with the delivery system, the interface to the result level. These two factors might have been classified as output. When they are classified as a part of the process here, it is because the product in service is so connected to the production and delivery processes that these factors can not be separated. Further, I want to stress the design and planning of the objective service product - the one that the firm intends to deliver. The customer's subjective interpretation of the service product and delivery is defined as belonging to the fourth level, the result level.

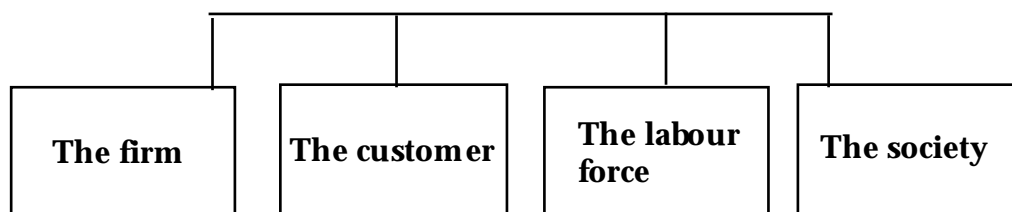
#### *4. The Result*

The whole production process should lead to an output or a result. There is a result for different parties, who, according to the service management theory, are the following: 1. The service firm, where the result is that it get a surplus, it survives and perhaps grows. 2. The customer, who will, or will not, get his problem solved or will get into a better state concerning his knowledge, physical object-structure or personal well-being.

One could also stress that the process has results for other parts. Obviously it has consequences for the labour force in general and the employees in the service firm in case, because their jobs and economic welfare partly depend on the service production process and the development of the service firms. Thus the result is also of interest to the society. Service production may create new, or reduce the number of existing, jobs. Development of single manual service firms may contribute to the development of production and export structure.

The output:

#### **THE RESULT for:**



## 6 Method and analytical approach

This chapter discusses the analytical approach of the book and presents the data base for the analysis.

### 1. The focus of the analysis

The model created in chapter 5 has introduced a number of elements which will be used in the coming analysis to hold it together. The four levels will have a different position in the analysis.

The business field is important in the analysis of service firms because it determines the field within which the service firm can operate. Thus, the business field as a conditional factor will be treated as the point of departure of the analysis.

The inputs and the service concept will be the core of the analysis because that is where the problems actually are as has already been stated in the previous chapter.

The result level is also a background and determining factor which will not be as central to the analysis as the input and process factors. It will in particular be emphasized at the beginning of the analysis and at the end where I will discuss how manual service firms could improve results - both for the firm and the customers.

This has led to an analytical approach that has structured the coming chapters. By analytical approach I mean a selection of the issues that will be presented and creation of a logic in the analysis. This logic attempts to present and discuss the framework that conditions and sometimes determines the manual service business, i.e. the business field. Afterwards it leads to a focus on production and delivery problems. The development activities of the service firms will also be analysed. Finally, it will be discussed what manual service firms can do to break the conditions set by the business field and the other factors that the analysis has revealed. This will be a more in depth discussion than was provided by the first parts of the analyses, but it will still be based on information from the interviews and other empirical material.

### 2. Empirical basis and validity of the analysis

The empirical basis for the analysis is the case studies supplemented by existing analysis and statistical data.

The model and the general approach of the analysis did not exist when I started the case studies. Only the aim: to study the production process in manual services and its problems, was clear. The interviews were very open, particularly in the beginning. It was only in the process of doing case studies that I realised what the core problems of manual service production actually are. The model and analytical approach (i.e. the manual service squeeze) have been developed after most of the interviews and the collection of other material had been completed.

The empirical basis for this analysis is restricted as stated in chapter 1. Most part of the data concerns cleaning, and one firm, ISS, and the situation in Denmark. Such

restrictions on empirical data collection are necessary if one wants to go into any depth. However, interviews and other material, including research reports and analysis, from other manual service industries, other firms and from other countries have been included so the core data could be related to other situations. Some manual service industries, e.g. catering, health care services, and hair cutting, have the same production problems as cleaning. Others are in different situations, for example transport that has much transport technology. However, transport has also problems and situations common with cleaning. The results are, therefore, relevant to these industries as well, at least for some elements. Problems connected to the employee element are for example common to almost all manual services. However, it is impossible to provide the precise inputs to the validity of the analysis. It is up to the reader to decide whether he or she can use the book.

### **3. Data**

The main data are case studies with interviews. The Danish ISS has been the main case, but interviews have been carried out in ISS companies in other countries (Sweden, Finland and the UK). ISS' situation, the problems this company meets and the solutions it has created is the core basis for the book. However, the book is not solely a book on ISS. The intention with the analysis is to create knowledge that can be generalised and thus be of use to other manual service firms. This is ensured through the analytical approach. Further, as a supplement interviews have also been done in other manual service firms in Denmark: In other, mostly small, cleaning enterprises, and in companies which provides other types of manual services. Within ISS other services than cleaning is emphasized.

The case studies are supplemented with existing analysis and reports, most of them from Denmark. I have been involved in the compilation of some of them, and thus have a more profound insight into them. Empirical and theoretical analysis and reports from other countries will also be used. Research visits to France and the UK when I wrote this book have been useful to collect material from these countries.

Table 5.1 below gives an overview over the interviewed persons.

Table 5.1 Firms and number of persons interviewed

<i>Firms and departments</i>	<i>Category of persons</i>		
	Managers	Middle managers	Employees
<b>ISS</b>			
General functions (strategy, development etc.)	6	2	
Cleaning	1	14	7
Catering	1	2	4
Food Hygiene Serv.	2		
Hospital Service	2	1	
ISS Sweden	4		
ISS Finland	1		
ISS UK	2		
<b>Other firms</b>			
United Cleaning	1		
Rentokil	1		
Falck	1		
AMI	1		1
James Home Serv.	1		
Larsen Home Service	1		
Merry Maids	1		
<b>Representatives of business organizations etc.</b>	3		

The firms will be described in chapter 7.

A total number of 62 interviews were carried out. Each interview lasted between 1 and 2 hours. I have used a technique of noting the statements of the interviewees and immediately after writing a report. The interviews were made in the period 1994-97. I have mostly interviewed managers, but in ISS all categories of employed persons have been interviewed. Some of the persons have been interviewed several times.

Hence, I have collected a large amount of documentary material from ISS and the other firms included in the case analysis, which will be used throughout the study.

Information from seminars and meetings on production of manual service that I have participated in has also been included.

## 7 ISS and the other firms in the analysis

This chapter presents the firms in order to provide some background to the case studies. ISS is presented in greater detail as it is the firm most thoroughly discussed in the book.

### 1. ISS

ISS is a multinational manual service company which has its headquarters in Copenhagen, Denmark. Its core activity is:

\* General cleaning

It also provides other manual services:

- \* Special cleaning services (such as traffic service (cleaning of trains, aeroplanes etc.))
- \* Building maintenance (including indoor climate service)
- \* Damage service (e.g. cleaning and clear-up service after fire, storm accidents etc.)
- \* Environmental cleaning services
- \* Food hygiene service (cleaning and ensurement of bacteriological standard in food industry)
- \* Catering
- \* Hospital services (all physical manual function in hospitals)
- \* Welfare and personal services (such as operation of elderly peoples' home, kindergartens, personal service in elderly and sick peoples' homes)
- \* Pest control

The product portfolio is changed regularly so it is impossible to give a complete picture and the firm is also different in different countries. With rare exceptions the company provides business service. When it provides consumer services, it is normally as an operator on behalf of a municipality; the service is not then sold on the market directly to the private customer.

ISS actually has (1998) about 103.000 employees world-wide, but this number also changes as a consequence of growth, closure or the selling of activities. In Denmark the company has actually about 11.000 employees. Roughly 3/4 of the employees are employed in general cleaning, most of them as part-time workers.

The company operates in Europe, Asia and Brazil. It has grown mainly through acquisition, but some organic growth (introduction of new services provided by existing subsidiary companies or establishment of new companies) has taken place, particularly in Scandinavia. Until 1996 ISS had activities in the USA and the company might enter the North American market again.

ISS is organized in four divisions: Scandinavia, Europe, Asia and Brazil. When the USA was included, it was also a division. National companies exist under each

division-headquarter in the countries in which ISS operates. Each division and each national company has a large degree of independence and decides which service activities it wants to provide. However, the corporate strategy and guidelines from the head quarter have had a great influence on the product portfolio, the production organization and service delivery principles in all national companies.

The corporate head office in Denmark is very small and the same pattern can be found in every national ISS company. There are few persons in the management and staff functions, the production is organised via a large staff of front line managers ("supervisors") and a large number of employees.

The managers in the divisions and national companies are very independent, hence the company has always had a strict financial accounting system (the North American catastrophe was caused by hidden irregularities; the accounts looked reliable for long time).

According to the interviewees there is a common corporate culture: Common logo in all countries, some common traits in the production organizations and a certain personnel policy inspired by the Scandinavian welfare system. "We are in the unionized states of the USA and not in the non-unionised" as the corporate personnel manager said in the interview. However, the corporate culture is not sought to be market very hard. "We invite the national managers on courses each year to teach them the Scandinavian ISS culture and convince them of its usefulness, also for them, but as long as they have a surplus on their accounts, they can in reality do as they wish" says the corporate personnel manager.

In 1996 the turnover was 10.7 billion Danish kroner (£ 1 billion) in the remaining concern, excluding the sold USA companies. The result for 1996 is (due to the US accounting irregularities) of more interest to historians of accounting or criminology than to service production analyses, but in 1994 where the USA companies were included, the total turnover was 14 billion Danish kroner (£ 1.3 billion) and the surplus before taxation was 633 million Danish kroner (£ 58 million), which does not makes it an enormously profitable business.

## **2. Other firms included in the case studies**

The other firms falls into two categories.

The first category are what in Denmark are called home service firms. They provide cleaning, gardening, shopping services and other practical services to private households. The other category is firms that provide other types of manual services.

### **2.1 Home service firms**

The firms in this category have all been established as a result of a Danish business support programme, entitled "Home Service". The programme was introduced as an experiment in 1993 and made permanent in 1997. The Home Service Programme provides financial support to firms delivering manual services to households. They get a subsidy from the state of 85 Danish kroner (£ 7) per work hour they invoice. The subsidy is restricted to certain physical services such as cleaning, gardening, shopping etc., and is not given to personal services. The system is described and analysed in details in chapter 23 (and in Sundbo 1997b). This system has procured some new firms

and made other, existing small firms entering the system. The first category of firms would not exist without the subsidy system because the household would do the activities themselves or buy them as black labour (the labourers not declaring the income to the taxation authorities nor paying VAT).

### *AMI*

One of the first firms to utilise the Home Service system was started by an entrepreneur and his wife in Copenhagen. He had formerly been employed in ISS and thus had some competencies and experiences with cleaning. They started by taking training courses in cleaning and employed their first persons while functioning themselves as front leaders. The firm was located in their private house. The firm has grown and has now nation-wide activities and 1,000 employees, all part timers. They have established an organization with a layer of front leaders who manage the operational part including personnel recruitment. The two founders now administer the firm, still from their private house.

The firm provides primarily cleaning, but also any other physical service to the households. It operates only domestic, but they are ready to go abroad if any country near Denmark introduces the home service system (as for example have been discussed in Sweden). The customers are mainly private households, but 5-7% are small businesses such as lawyers, dentists etc. (the services to these clients are not subsidised by the Home Service Programme).

After the completion of this investigation AMI has been closed down.

### *James' Home Service*

The firm was started by one person and soon another person come into it so they now are two owners. The firm started at the kitchen table in the founders home, but is now administered from an office. They provide home services to private households in Copenhagen; this means primarily cleaning, but includes all the physical services allowed by the system. The firm has 130 part time employees and 7 front leaders.

### *Larsen Home Service*

A very small firm with 2 to 3 employees, all part timers. The firm was started by a woman who was a nurse that wanted to be independent. The owner also do home service work herself besides the administration. The customers are a few private households. The owner does not want to extend the firm much more; the intention is to employ five people. If more were employed, she would need to do more administrative work and could not herself do operational work - which she want to do. The firm provides all physical services (including sewing and ironing) accepted as receivers of financial support. She would like to expand the activities to personal services, particularly medical or psychical care since she has been a nurse, but this can not be included in the subventioned home services.

### *Merry Maids Denmark*

The firm was started by a Danish entrepreneur, but he is a franchiser. The parent company is a large American manual service company Merry Maids, which provides manual services to private households. Merry Maids is part of Service Master, one of

USA's largest manual service corporations. Merry Maids entered the Danish market through this entrepreneur, who himself contacted Merry Maids because he looked for a business concept. Merry Maid has supported his establishment and this firm is one of the few they have in Europe. The establishment must be interpreted as an attempt from Merry Maids' side to a more expansive establishment in Europe.

The firm has 55 employees. It operates within the home service system and provides the usual physical services cleaning being the main activity, but it has chosen a particular market segment which the entrepreneur thinks may bear a future expansion outside home services. This segment is the northern part of the Copenhagen area where the most wealthy people live. The style and culture of Merry Maids is also different from those in other home service firms. The employees wear uniforms, they operate in two-person teams, use firm cars for transportation (where employees in other Home service firms transport themselves by bicycle or bus), and they attempt to signalise a more high class style (e.g. by leaving small golden labels saying "Your bath room has been cleaned by xx").

Merry Maids Denmark are looking for new service areas within physical services where they can expand.

After the completment of this investigation, Merry Maids Denmark has been re-organized with a Danish franchiser.

## **2.2 Other manual service firms**

These firms have been included as supplement and to control some of the results from ISS. They are all large companies who provides either cleaning or more specialised physical manual services.

### *United Cleaning*

Denmark's third largest cleaning firm with about 3,000 employees, mostly part timers. They provide cleaning to firms and have not entered the consumer service market. They also provide catering and window cleaning. Their way of operating and organizing production and delivery is similar to that of ISS.

United Cleaning has attempted to go into the market for outsourced public services. They provide Home service to elderly and sick people, but they do not operate as market firm in this respect. They have contracts with some municipalities who's citizens can use United Cleaning and other manual service companies as an alternative to public service. The citizens do not pay for the service, it is a free public service. The company has no export or foreign establishments.

### *Falck*

This is an old company, almost an institution, in Denmark with 7.500 employees. For most of this century it has provided ambulance, car breakdown and fire brigade services to Danish households and municipalities. The company operates mainly through contracting. Households can make a contract which cover car breakdown service, transport service in case of illness and cleaning up and protection service in case of fire or other disasters. Ambulance and fire brigade services are contracted with municipalities. The company has a branch in nearly every Danish town (a total of 130) and each branch delivers all the services. The corporate culture is very strong and



much like in civil services such as fire brigades and the police. Besides, they produce fire-fighting and other equipment for the services. The head office is in Copenhagen.

Falck has recently expanded the range of services by buying a security company from ISS; this division both provide manual security services and electronic surveillance. Because they have many constantly manned branches, they have developed different ICT based watch services such as IBM's 24 hours PC programme help service. Falck is only the practical operator who transfers the calls to the right experts.

Falck has some foreign activities in Scandinavia, Poland, Hungary and Germany, but they are very limited, compared to the domestic.

### *Rentokil*

Rentokil is a world-wide service company with head office in the UK. A major shareholder (a little more than 1/3) is the Danish company Sophus Berendsen. Rentokil provides specialised manual services, 15 service areas totally which do not include general cleaning. Rentokil's strategy is to develop more specialised manual service, very often knowledge based. Rentokil has recently bought the British company BET which also provides different types of specialised manual services and general cleaning.

I have only included the Danish division of Rentokil in the study. It provides only 3 of the services areas: 1. Pest control. This service demands a large amount of knowledge of biology and chemistry and Rentokil Denmark has employed academics and other highly qualified people besides the operating units where demands for qualification is much lower. 2. Health care. Hygiene services to toilets etc. This service is not very knowledge based. 3. Office plants. These plants are special, often tropical plants. The service demands high botanical knowledge, which partly is delivered from the main company in the UK; the operating personnel do not need high skills. Rentokil Denmark only provides services to firms.

The Danish division has a total of about 90 employees and has its main office in Copenhagen, but operates nation-wide.

Rentokil UK has a large organization that includes R&D departments which deal with biological, chemical and other science fields. The steering of the international company is tight, particularly concerning accountancy, and the corporate culture is strong. Rentokil is very focused on profit, and has in the last 10 years increased the profit extremely for a manual service firm, in average 22% per year.

## 8 The traditional Sectorial Production Principles

Now I will start the empirically based analysis of the production problems in manual services. The most important issue is the character of the production system in manual services. The service literature (Illeris 1989, Normann 1991) has discussed the fact that service production and delivery is different from manufacturing. The observation that services cannot be stored and that the consumer is involved in the production process etc. are well-known. On the other hand there are similarities to the production organization system in manufacturing, particularly in manual services.

What then is the specific about the production system in manual services and what are its development problems? This question will be discussed in this chapter. The example of ISS's development strategy will illustrate that the answer to this question is historical and has changed over time. ISS has gone through two phases, each of them an attempt to develop a new production principle that could overcome the barriers that the manual service squeeze sets up and each of them again running out of dynamism when it shows that they may improve the business, but they can not break the squeeze.

### 1. Standardisation and individual customer care as conflicting demands

As argued in the previous chapters, manual services are simple, the competition high and price is the crucial factor. These conditions favour standardised mass production which can be rationalized. The production becomes industrialised in a similar fashion to the production of physical goods. By industrialisation I mean the production of a large amounts of similar products by the use of standardised production methods. Those who can standardise and rationalize production most, will have the lowest costs and can sell at the lowest prices. Since the products are standard, these firms will win in the market place. This is the logic of traditional fordist manufacturing (cf. Piore and Sabel 1984, Lipietz 1987). It is also the logic of manual mass services such as cleaning.

The industrialisation of services has been discussed in the literature (e.g. Levitt 1976, Olsen, Sasser and Wyckoff 1978, Sundbo 1994). It has been questioned whether industrialisation is at all a fact, and if it is a fact, whether it is so only for mass produced services. Within cleaning it is a fact. ISS has standardised its cleaning procedures so they are similar to fordistic manufacturing production processes. By doing so ISS not only can reduce the costs, but can also ensure a standard result of the cleaning process every time. The customers get the service they have agreed to and can expect. This is important since it hinders discussion with the client every time a service has been delivered, which would create extra costs because it would be time consuming for a leader from the service firm.

The tendency towards industrialisation is also a fact in other manual service industries such as wholesale, transport and laundry where the service products are standard and simple and price competition is characteristic.

Service management and marketing theory (Normann 1991, Grönroos 1991) have emphasized other characteristics of service production as mentioned earlier. They take their point of departure in the fact that the customer must be involved in service production. The service firm then has the customers in a face-to-face situation. It is crucial that the service encounter is a good experience for the customer, otherwise he will buy his service from another provider. Not only the delivery of the core service (which is the real reason for the interaction) is important, but also other factors such as the kindness of the service personnel, extra or peripheral services and other socio-psychological factors. These are crucial to the customer's experience of quality and his image of the service provider. I have given the name 'prosumption system' to a production system which fulfils these demands.

The implication of the prosumption production system is that each service delivery should be as individual and tailor-made to the single client as possible to meet his special problems and to make him feel that the service provider is doing something particular just for him. The example of hotels has been used to typify the way in which such a treatment may make us feel comfortable.

The service encounter, and giving the customer an individual treatment are also demanded of manual service firms, even those that produces mass services. Even though there is price competition, the good treatment of the customer in the delivery situation is a competition factor as is the possibility of giving the customer an individual service that can solve his problem. These are competition factors, not only in relation to other service firms, but also in relation to the internalization and do-it-yourself possibility that the customer has.

These two demands are parts of the manual service squeeze. How could the service firm simultaneously follow the industrial mass production system and the individual encounter-oriented principle? This dilemma is the core of the production problem for manual service firms, and the rest of this chapter is dedicated to discussing how manual service firms have attempted to solve it.

### The worlds of service production

The French economist Jean Gadrey (1996) has put forward a model of four service production worlds:

<i>Degree of flexibility of the production</i>	<i>Non-standardised services</i>	<i>Standardised service</i>
<b><i>Providers or demanders dominating</i></b> <i>Clients in a relative strong position: Could get influence and change provider</i>	<b>THE WORLD OF PROFESSIONALS</b> Customer-individualised, professional services; high content of knowledge	<b>THE WORLD OF FLEXIBLE PRODUCTION</b> Flexible, modulized combinations of standard products
<i>Clients in a relative weak position: Can not influence the provider, only accept the provided services or not</i>	<b>THE WORLD OF CREATION</b> Research and creation of new knowledge	<b>THE WORLD OF FORDISM</b> Mass produced standard services

Manual services are mostly placed in the world of flexible production, but some such as traditional cleaning, provided by large firms, are placed in the world of fordism. The latter is a difficult situation for the service firm since the customers in most manual services have many alternative providers. They could, for example, choose a flexible one. On the other hand the world of flexible production puts the manual service firm in a particularly bad power relation compared with the clients since the manual service firm, in contrast to knowledge business service and manufacturing firms, have no advanced competencies and thus not really any expertise to offer. The client could easily do the service activity himself (internalize the service). This is another way of squeezing manual services.

## 2. The elements of the production system

The following paragraphs present the core elements of the production system and the problems related to them. The service firm can emphasize different elements in different combinations.

**The principle core elements in manual service production**

1. Production management
2. Accountancy management
3. Contracting
4. Customer care, trust and image

**Production management**

Every business firm must have control over its production process or must at least know what is going on during production. In contrast to manufacturing firms, service firms often have no direct control over what is going on during production because their personnel are working in the clients' buildings. This is the case in cleaning, catering, hospital service and other manual services. This makes it even more important, but also more difficult, to maintain control. The manual service firm needs to know what is going on at the customers when they send out the employees. They also need to control what the employees should do and should not do there.

This can be ensured if service production and delivery is planned in detail and the personnel are instructed to follow the procedures. Much cleaning work has been unplanned, based on the housewife's experience, but with no systematic description of what to clean, how, and when. The service worker decides subjectively. This is the situation in much private cleaning and household services in many of the small Danish home service firms. The customer does not know what he wants. What should be cleaned may, of course, be negotiated with the customer, but how it should be done and the assessment of the result are much more difficult to ensure by negotiation. The service provider does not know how long it will take and perhaps not even which materials or skills the service worker needs.

The most outstanding initiative that ISS has taken, and which is also the explanation of how it could grow to the extent it has, was to plan production in detail. ISS was an innovator in that field in Denmark. The consequence being that the customer knew exactly what he would get, not only what would be cleaned, but also the quality and when it would be done. The detailed planning has also been the basis for the rationalisation of work that until recently has ensured that the company could lower the prices and thus be competitive. ISS' production system will be described in greater detail in section 3.

Planned and standardised service production also makes it possible for the service firm to plan which materials should be used and when. This may save money and avoid the wastage of time due to the fact that the personnel do not have the material they need. It also makes it possible to define which skills the service personnel should have and give them a more efficient training. Standard procedures also makes it possible to restrict training investments because the firm knows exactly how much the cleaning assistants need to know. Perhaps it is not the best firm development policy to only give the employees the lowest qualification level, but it is possible if the

production is standardised.

Planned standard production also allows for greater more control over the transportation time between customers. Many manual service workers must serve several customers per day because the task at each customer is too limited for a full days work. Transport between different customers takes time and that means money for the service firm since the employees are paid at the same rate for this time. However, there is no income for the service firm, so the time must be reduced. One possibility is not to pay the employees for that time. Some of the Danish Home service firms have chosen this possibility, which has resulted in serious problems with the unions. In large service firms like ISS it is not normal to choose such a solution. Another solution is to plan the work so transport time is minimized.

Now the service firm has established its planned production system. Then the customers start having specific wants that are not included in the planned service production. Perhaps the customer can understand that, but he will nevertheless be a little upset if he does not get his wishes fulfilled and he creates a negative attitude towards the service provider and next time he will choose another supplier. He may also feel that the cleaning assistant is angry and not very service-minded even though he gets the cleaning that he can expect from the contract. It does not help the service firm that they keep to the contract and it is the customer who wants to break it, because he will nevertheless choose another service supplier next time. What can the service firm do now?

The service provider must fulfil the customer's particular wants, but this is very often impossible with a standardised production system. Standardisation also creates other problems. The employees have been transformed into tayloristic workers that must follow the prescribed routines. If they do not, it increases the costs to the service firm and this can not be allowed, particularly not in a low-profit area as cleaning. The employees are not allowed to take independent decisions, so how can they deviate from the rules and make direct agreements with the client? This is the general production problem. The client could direct himself to the service provider's head office, but if it is a small one-shot problem, it is too small a detail for him to call the service provider.

### **Accounting management**

More than other firms, manual service firms need to control expenses because the surplus margin is so small. Small service firms do this on experience based intuition. Large service firms can not do this, they need strict account management because there are so many 'invisible parts' of the company's activities which take place outside the service firm. For a multinational company such as ISS it is important to have a strict management accounting system for all its subsidiary companies and ISS has always had a very strict and efficient accounting system.

The standardisation of service production and delivery helps to control the economy and to plan it rationally. Standardisation leads to accountancy logics that follow the standardised production logic. This logic makes it possible to make exact calculations for bids on tenders which both match price competition and ensure the necessary profit. Perhaps the company will not win all its contracts, but the system ensures that they do not loose money.

This logic has been widespread in for example cleaning, transportation and other manual mass services. These services provide concrete service products, they do not sell time as lawyers and consultants do. It means that they can not just charge the clients for one hour more if the cleaning assistant says that she has used an extra hour. Besides, the employees in manual service firms often have a fixed working time schedule and it is not easy to let them work one hour more.

So, when the customer demands individual treatment, this creates accounting problems because it breaks the logic. If the customer should be served each day on the basis of what he wants done that day, it would demand another charging logic, namely to charge him for the real time being used.

### **Contracting**

The production planning and economic control of the production activities are normally regulated by the contracts. When it concerns regular service activities, the service firm establishes a contract with the client. The contract specifies what the service provider should do each day or week and perhaps the quality and quality control system of the service. The contract works as a production plan. It is also the basis for the economic calculations that lead to establishment of the price. It is extremely important that these calculations are as exact as possible. If the service provider sets the price too low, it leads to a general deficit in production, and he must live with a deficit every day in the contract period. A contract can not legally be denounced during the period of validity, or at least only by paying damages. If the service provider sets the price too high, the customer will perhaps choose another provider.

The principles of contract for industrialised services have been developed by service firms over decades, so there is a great deal of expertise involved. If the service firm is to respond to customers' desires of having the possibility of making individual changes of the contract during the contract period, the service firm faces problems. Other principles should then be followed, however these would be against the industrial planning principle. Another contractual logic such as an hourly payment, or additions to the monthly fixed bills or other flexible variants create a great deal of work, and thus expenses. However, this logic could be developed, but if several alternative principles are to be combined with the fixed industrial calculation and contractual principle, it really creates big problems, not only economically, but even more so, legally. How should one decide when such a complicated contract is broken? There is an insufficient surplus in manual service production to pay for lawsuits.

The production system dilemma stated in section 1 also creates problems for the establishing of contracts.

### **Customer care, trust and image**

As service management and marketing theory has demonstrated, services are very sensitive to the encounter situation. Trust is also an important factor in services, because the customers can not see the product before he has consumed it. He needs to trust the service provider. Trust is determined by the service provider at the moment of presumption (production and consumption) both concerning the core service and customer care. When the customer has experience of the service firm, he will tell his

colleagues or friends about his experiences. An image of the service firm will appear on the market and this image will be decisive for the service firm's possibilities for selling its service products. The direct face-to-face communication with the customer (a primary interaction situation in a sociological sense) is a core condition of existence. For small service firms this is usually the only way in which an image is established. For large service firms the mass media also establishes an image (secondary interaction in a sociological sense). This is often done, not on the basis of concrete experiences with service purchases, but on factors that interest the public. These can include economic results, that the service company has a popular general manager, is innovative, if it is politically very involved etc. Although this secondary image is less important than the primary, it is still an important condition for growth of the service company.

In all of this the core factor is the service that the customer wants and which has been defined in the contract - the core service. If the core service is standard, one can say that it is impossible for the service firm to over-fulfil the expectations, it can only under-fulfil them. It is only through the peripheral factors such as care for the customer, possibilities for flexibility, the behaviour of the service personnel that the service firm can differentiate itself from competitors. However, Taylorised industrial production organization is an impediment to this.

### **3. Development of ISS' version of the production principle**

An illustration of how the production system dilemma has determined several concrete production schemes with different composition of the production system elements is ISS' development.

ISS has until recently developed its version of the production principle in two phases. After describing them, I will go on to discuss the reasons for their loss of dynamics (this is analysed more in details in Sundbo 1996b).

In both phases, the principles were developed in Denmark and then diffused through the company's divisions in other countries. The means for doing that was to collect the managers from all divisions and subsidiary companies and give them training courses.

#### **First phase: Rationalisation**

It was in this phase that ISS first became more conscious about what it was producing and the service production could be developed. It was the period of expansion in the 1960s and 70s. The company emphasized the production system.

The frame of reference for service production was the rational industrial work organization. The company stressed the production organization and how it could be rationalized, which was by applying a Tayloristic approach. Since the company could not imitate the technology development of manufacturing production because very little production technology was available, the focus was on the social organization of the work.

Contracts with the customers became the instrument for customer relations and for production planning. Service production was standardised. This meant standardised work procedures and a hierarchical, control oriented production organization, combined with a systematic use of the available technology. Technology use was specified exactly, e.g. the amount of which cleaning chemical should be used for which



purpose. This industrialisation of the cleaning service production was new, and ISS developed it competently and systematically and it was the basis for its growth.

### **Second phase: Customer orientation and service marketing**

In the 1980s, the dynamic potential of the rationalisation system came to an end. The company was looking for new principles to create further growth and development.

The customer interface and the service concept was emphasized in contrast to the previous period. The customer encounter and service marketing came into focus. ISS was one of the firms that first invented the customer focus and one of those that were the basis for the first formulation of service management theory. The customer focus was a result of an internal learning process and, as such, an innovation. The learning came among others from employees and front leaders that told about customers who wanted extra services that the company did not provide. They also told about customer in-satisfaction that never was communicated to the management because of the industrial production process and strict hierarchy.

The introduction of the new production principle was decided in a top-down fashion by the management, but the implementation was organised as a network of working group with representatives from all divisions and layers of the hierarchy. It soon became clear that it was not sufficient to develop the production system, the delivery system was important because it was through this the customers met the products. The delivery system was defined as something more than the production system and the core service products. It was the element of flexibility which the individual customer wants, it was the way the cleaning assistant behaved towards the customers, the contracting system where ISS should be more flexible towards customer wants and a series of other issues.

It soon became clear that a barrier to implementation of the new principle in the development process was the employees, who were used to the Tayloristic production system where they just should carry out the routines as told. They were not used to customer orientation and flexibility. It was necessary to focus on the motivation of the employees and the corporate culture. The encounter principle developed by Normann (1991) - or "the magic formula" as some managers in ISS called it - became the ideological formula for the production principle. This "formula" has five elements that a service firm should emphasize: 1. Culture and philosophy, 2. Market segment, 3. Service concept, 4. The service delivery system, 5. Image, of which the first element is the most important.

At the same time ISS began to develop new services, which was a consequence of the discovery of unsatisfied customer wants.

In the mid-1990s the dynamics of this customer-oriented principle had started to slow down. Quality improvement and customer care could not increase turnover as much as in the 1980s - early 90s due to the relative unimportance of the manual services to the customers. They were not willing to pay more for customer care. Other types of problems than the customer oriented ones had also become dominant and the expectations to the customer oriented principle and "the magic formula" had perhaps not been quite fulfilled. Which types of problems have become the most important and how ISS, and similarly other manual service firms, try to solve them, is the theme of the rest of the book. Thus, the analysis of the dilemma continues.

This does not mean that the customer focus and service marketing has become unimportant and been abandoned, as already mentioned. It is the relative weight of focus that has shift to other aspects.

## 9 The personnel turnover squeeze

One factor in the production system (cf. the model of chapter 5) creates particular problems in cleaning, namely the employee factor. The problems concern the recruitment and maintenance of the personnel and they are so serious that this also creates a squeeze that the firms have difficulties in overcoming.

### 1. The difficulties of recruiting and maintaining personnel

Many of the persons interviewed in ISS explained that it is very difficult to recruit and particularly to maintain personnel. The maintenance problem is demonstrated by the personnel turnover, which is between 75 and 100 % per year. This means that on average all employees will leave the firm after a little more than one year. However, there is great difference with somebody staying in the firm for years - many have had 25 years' jubilee - and others leaving after short time, maybe a few weeks.

This personnel turnover rate is quite normal in cleaning although there are differences. The director of United Cleaning explained that their personnel turnover is less. They recruit many employees that have been employed by ISS. United Cleaning emphasizes the employees, train them and try to create a corporate culture. This is not different from what the managers of ISS say they do, but United Cleaning might be more successful in doing it; it is also a smaller firm. However, the personnel turnover does not seem to be that different, and even United Cleaning suffers from a relatively high personnel turnover.

This difficulty is due to a sociological factor. Only a limited number of people are really interested in cleaning work. The significance of recruitment channels is small. ISS usually recruit personnel through advertising or people apply themselves for a job. Even if the firm uses alternative channels, it does not help. The personnel manager in one of the provincial regions of ISS in Denmark says that they have tried the official Danish recruitment system (the Public Job Center). All unemployed people that receive unemployment grants from the state must be registered in the Public Job Center and must accept an offered workplace if it is relevant for their education and professional background. Cleaning work is relevant for thousands of unemployed people because many of them have no particular skills. Nevertheless, it was difficult for ISS to get anyone from the Public Job Center and they could not use those they got. The people recruited were unwilling to learn the work procedures, they were unpolite to the customers or they immediately fell ill. It is easy for people not to get a job if they really do not want that particular kind of work, even if they are forced to do it by law.

Also, the small Home service firms complained that it was difficult to get employees. They had customer waiting lists because they could not get enough employees. In Merry Maids that employ young people, the employees stay for three to four months on average.

The recruitment and maintenance problems might be explained by the good Danish welfare system where everybody can get a subvention from the state if they are

without work and income. No doubt the welfare system enlarge the problems of recruiting people, but it is a more fundamental problem. The manager of ISS Hospital service in the UK, which does not have the same welfare systems as Denmark, explained that they also have recruitment problems. The problems are fewer in areas with high unemployment, but still they are there.

Cultural norms also play a role. The personnel turnover is larger in the Copenhagen area than in the rural districts. In a rural district in Jutland the personnel turnover was reported to be 40 to 50 % per year compared to the average in ISS of 75 to 100%.

Cleaning may be extreme, but other manual services also reports problems in recruiting employees and a high personnel turnover. It is, for example, quite common in retailing. However, the problems depend on the type of service. The more special service, the easier it is to recruit people. ISS Food Hygiene Service and ISS Hospital service can easier recruit people and the personnel turnover is less than in general cleaning. For decades Falck have had a character and image of being an institution that has no problems in recruiting people and not at all in keeping them.

The physical manual service companies investigated here have ideas about which type labour force they want to recruit. It is different according to the type of service; particularly for the special services there are special wants. For porter services they seek reliable strong men, for catering they seek cooks etc. For general cleaning and other manual services which do not demand any particular qualifications or physical capacities, the cleaning companies, including the Home service firms, generally seek women between 35 and 45 years old. They are the best and most stable workers and they have the most ambitious attitude to cleaning in the way that they consider it as a necessary activity which must be done in the best possible way (although not many, if anybody, seem to love cleaning). The required type is very difficult to get. A regional division manager in ISS cleaning explained that they have three types of cleaning workers:

### **Types of cleaning workers in ISS**

#### ***1. The temporary workers***

They only want the job for a short period to earn money and are not interested in any career in cleaning. This type is often students.

#### ***2. The confused young***

They do not know what they want from life, so they take a cleaning job to earn some money in the meantime. They may be caught by the career possibilities in the company. Those who are, will advance, the other will disappear.

#### ***3. The steady***

They choose cleaning work because they want a routine job that is flexible in time because this can fit with their family life. They stay in the firm for a long time, but have no interest in promotion and often not in development of their jobs.

The managers in ISS explain that the third type is the desired type, particularly the women, but that the problems arise if the company want to change and develop the jobs. Some employees of this type are not interested in training and change of the job. The second group is not the best working force, but it is a basis for the recruitment of front leaders. The first group is generally the least wanted group, but the students are acceptable; they may not be the best cleaners, but they often remain in the job as long as they study. ISS can not choose the type they want, but must take what they can get.

## **2. Problems created by the large personnel turnover**

The high personnel turnover produces different problems for the firms.

One problem is that investment in training is spoiled, or in many cases in ISS they do not even get the time to train the employees before they have disappeared again. This is not only a waste of money, but it is also an impediment to developing the production, process, which demands other procedures and behaviour of the employees, which is something they must learn.

It also creates difficulties in work and production planning since the firms often lack people and they can not rely on people coming to work every day. Besides employees often quit the job, the attitude towards the manual service jobs, and particularly cleaning, leads to a high absence rate. These planning problems mean that the firms must employ more front leaders to handle them.

If the service firms want to develop the production system, as ISS actually wants as the former system has run out of dynamics (cf. chapter 8), the most crucial problem is not the logistic or cost problem, but the attitude of the workers that lies behind the recruitment and turnover problem. The attitude is not generally favourable to development, because development demands that the employees change job function, are re-qualified and preferably are motivated to change and actively participate in the process. These are demands whether the case is introduction of a new service product or a new service production system. The employees in, for example, ISS are generally not motivated to do this, either because they just want the job for a short period which would create the least possible trouble or they want a stable routine job. Again, there are differences and it depends on the type of organization and service. It is easier to engage the employees in ISS Food Hygiene Service or Falck in development processes, so it is not necessarily manual service work as such that causes the trouble. The problems are worse the more general the service work is, and the fewer competencies it demands.

To ISS this personnel recruitment and turnover problem is the greatest problem today and the introduction of a third phase of production system they are developing intends to solve it (cf. chapter 11).

The personnel turnover and recruitment difficulties may be supposed to be a core problem in other manual services as well. This is the case in all the firms studied here (except Falck), and researchers have reported similar severe problems for example from retail and public personal services in Denmark and from transport in Norway.

### 3. Causes of recruitment and personnel turnover problems

What have caused the problems discussed here? It would have been nice to provide a definite scientific answer to that question, but that would demand an investigation from the supply side on the labour market. Not just the employees in manual service firms, but all the people in the labour market should have been asked why they do not apply for jobs in manual services. Such data does not exist, so it can only be a more limited answer to the question based on statements from the interviewed managers and employees in the firms I have included in the study and on hypotheses.

I can start by stating what the causes could not be. It is clearly not a wage issue though one might suspect it to be. In Denmark there is a minimum wage of 83 kroner per hour, and ISS pays over that (about 86 to 89 kroner per hour). ISS wages may not be high, but it is a little above that of many other manual service jobs. The salary may be a co-cause factor, but is not the main explanatory factor. Also in the UK, even the ISS wages are far below the Danish, they are above the norms of the British manual service labour market (in 1996 ISS paid between £ 2.20 and £ 3.20 per hour).

If one looks at the interviews with employees and managers at ISS, there is a pattern in the answers that points to working time as one explanation. It is mostly part time, placed in evening, at night or in the early morning. These are inconvenient working conditions. Nonetheless, several employees say that they are happy for the "skew" working time because that leaves them time for the family at times where the family members are present. This opinion is common amongst the staff.

Working conditions are also considered as inconvenient by many employees. Often they work alone at the customers' buildings at night. Cleaning work is not considered by the employees as interesting and is generally associated with something "dirty". Physical work environment problems such as working positions and influences of the chemicals on waste water pollution have, to a large extent, been taken care of, but nevertheless cleaning is one of the jobs that is most exposed to environmental problems according to the Danish Institute for Working Environments.

In the small Home service firms the working conditions are worse at the formal level. By this I mean that the employees are not only part timers, but they can have for example two jobs for two different customers, four hours a week. The customers can often change fast, so they risk that some weeks there is no work while in other weeks they must take in extra customers. Sometimes they are not paid for the transport time taken between two customers. These conditions are a result of the conditions that many Home service firms have due to their turnover is small and the profit rate even smaller. If they were to fulfill the normal Danish labour market conditions (full time job, transport time between customers paid etc.), many of these small Home service firms would not exist.

A further element of the explanation has been suggested by several interviewees, but since it concerns the macro level of society it should be proved at that level, which as already mentioned it has not. Some of the interviewees have mentioned the general low prestige of manual service work, in particular physical service work. As the manager of one of the firms said: You have a rank order. On the top are single mothers, then social security claimants and at the bottom people living by cleaning work and the like. Common sense may tell that it is so, but scientifically it must remain a hypothesis because the issue has not been investigated. If true, low prestige could be explained by

several factors. Cleaning and other physical service jobs are inconvenient as we have seen above, they are not associated with anything which develops, is knowledge demanding, or any other factors related to high prestige in our society. Further, low prestige is cumulative: once it has become a norm in society, it becomes self-reinforcing. It creates a barrier to or a squeeze of manual service firms that they have severe difficulties in overcoming.

## 10 Problems with the service concept and the production system

Even though the employee factor is, currently, the most problematic of the input factors in the production system, other factors also create problems. This chapter summarize these other problems and how they have been solved as this has been presented in the case studies. As mentioned in chapter 5, the input problems (or problems in the production system are the most crucial), but the issues of the process or the service concept is also important and present problems to the manual service firms. I will start with the latter.

### 1. Problems with the service concept

The problems seen from the process side are twofold, the general customer loyalty problem (which reflects many sides of the squeeze), and particular quality problems.

- **Maintaining and improving customer loyalty**

The sales effort and the customer focus attempt of the manual service firm has the purpose of retaining the existing customers and attracting new ones. The new customers should hopefully come because the quality and customer treatment is so high that they choose this particular firm.

ISS achieve this through market segmentation and contract specifications. The company offers different degrees of cleaning - more or less cleaning every day, and a series of special services (e.g. windows cleaning, building maintenance, filling shelves in supermarkets) that can be combined with the cleaning. In contract negotiations the company attempts to compose a service packet that fits with the particular customers needs within that market segment.

At the end of a contract period it is normal for the customer firm to gain tenders from several providers. That could include the actual provider, but that may not even be sure if the customer finds the quality insufficient. Normally it is not the quality, but the price that is the crucial factor. Each year ISS in Denmark loses about 8 per cent of its contracts. Half of the changes are due to customers receiving a cheaper offer, the other half are due to some sort of dissatisfaction.

Another means to improve customer loyalty is the customer focus, which is the idea of differentiating one self from competitors in terms of customer care and service quality and thereby get loyal customers who will renew the contract.

The sociological encounter factor - the meeting of the service front personnel and the customer - is important as well. It is more important the smaller the customer firm is. For small firms and private households the personal relation and positive social interaction with the service personnel and front leaders is often the crucial factor. The small customers want to know the people that clean their rooms and their attitudes. This is particularly true to those who have elderly parents and children. To many



single elderly people households in particular the interaction process in itself is important, sometimes more than the manual service. They do not care about the managers of the service firm. One of the explanations as to why the large moonlighting job sector is difficult to eradicate is that there is high customer loyalty. A certain, often close, relationship between the worker and the household is established, which is also caused by the factor that both are parts in an illegal activity. For large customer firms, the personality of the service personnel is of much less interest - except their possible criminal nature, which is highly relevant. These customers are interested in the result of the service process. They only want to interact with the managers of the service firm.

It has turned out that the attempts to create customer loyalty through customer focusing and service management and marketing are problematic. It has created more satisfied customers as quality measurements in ISS show and to a certain degree it has been a success. However, there is different assessment in the interviews concerning how successful customer focus has been at tackling this situation and creating customer loyalty. The Danish marketing director, who has been the leading person in developing the customer focused system in the second phase of production system in the 1980s (cf. chapter 8), believes in it, but says that it has withered away because it has been insufficiently used. "The production engineers are taking over" he says. The corporate strategy manager said that he does not believe in "setting the customer in focus, this is just words". The Danish personnel manager still believes in it, but it must be developed further.

The problem is that the manual services sold are of so little strategic importance to the customers that they rarely become loyal anyway. I talk here of the business customers that are ISS' clients. The clients only, or mainly, look at the price and often think that other service providers offer the same customer care.

Shifts involving service provider are therefore, quite widespread within manual services. A client may even come back to ISS after having tried another provider for a period.

### **A story of clients' greediness and faithlessness**

In the beginning of the 1990s ISS had got the cleaning contract for Heathrow airport, London, which was explained to me in 1994 by the corporate manager for development and quality. The company had really emphasized the customer care aspect, not only for its client - the airport - but also for the client's clients, the passengers. Furthermore, ISS had been innovative. The cleaning was combined with an agreement that the cleaning personnel also could give information to the passengers and could be flexible in relation to tasks that the airport wanted to give them, even if they were not specified in the contract. ISS would use this case as a basis for developing a new total airport service concept.

When in 1996 I asked if I could do field studies in Heathrow airport, the same manager was sorry to tell me that Heathrow was no longer a client of ISS. It had chosen a cheaper solution.

The airport had reached the other moment of truth (than the moment of truth of customer care), namely the price moment of truth. Its customers, the passengers, have increasingly focused on the price and not cared about the extra services, whether it be free champagne on flights or cleaning assistants being able to inform them of where the restaurant is situated in the airport.

- **Quality**

One of the central factors in service production is quality assurance. It is important for keeping customer loyalty. It is crucial to build quality control and development into the production and delivery systems. How service firms have attempted to do that and the problems it creates, will be treated in chapter 13.

## **2. Problems in the production system**

Here I will treat the problems that could be observed at the input side, the production system, besides the personnel recruitment factor.

- **Human Resource management**

There are several management problems.

The first there is a general problem: how to manage the day to day work and develop the firm. Since manual service is labour-intensive, in practice this means personnel or human resource management. As a multinational concern, ISS has particular problems in ensuring that the concern does not fall apart. They manage that through hierarchical divisionalisation, thus it is a traditional hierarchical-Tayloristic firm (this has recently been broken, cf. chapter 15).

The small Home service firms have their force in the very close relationship between the owner, the employees, and the customers. Their problem is that if they grow too much, this relationship disappears and their customers could easily choose other service firms, do the service themselves or buy the service from the black market. That is why the owner of Larsen Home service does not want her firm to grow beyond five

employees. On the other hand, this squeeze makes it very difficult for these firms to develop and grow, and they may go bankrupt.

Daily production management is also a problem, not so much the management of the work (because that is described in details in a work manual), but the procedures in between the service production situations. To send substitutes for sick employees to the right place at the right time. The most crucial production planning factor is the logistics of serving more than one customer per day. If the service worker has to travel long distances and must be paid for this time, it can take all the profit. This is not only a problem in cleaning, but is a core problem in transport (Transport 1994).

- **Technology**

The technology in manual services is generally not very advanced, but the one that is important. The small Home service firms just buy the vacuum cleaners, cleaning chemicals and other technologies that are on the market, but ISS has its own technical development policy. The concern has a technical department that also has an R&D department (although it does not carry out research in a strict sense, but development) and it have had its own company that produces and sells chemicals and cleaning equipment. This company was sold in 1997 as a consequence of a "stick to your core business" strategy (which I will discuss in the coming chapters).

Generally there is only a limited interest in manual service technology, because it is usually not very advanced. However, this also means that there is very little technological innovation and thus very little development, which is a problem. Still manual service firms may make non-technological innovations and thereby develop themselves. These issues will be treated in chapter 18 and 19.

- **The customers as a production factor**

The customer' role as an active production factor has been much emphasized in the prosumption (or service management) tradition. Customers are generally not much of an active factor in manual services, and particularly not in cleaning. Commonly, the customer does not want to participate in physical manual service activities, instead he buys the service to avoid that. A step in the development of the service production system could be the introduction of self service where the service provider can get the customer to do the work, but the service provider retains the profit, this is so in supermarkets and some bank services. However, it is not possible in cleaning or any other services that are studied here.

Still, a general problem in physical manual services is how the customer could be a more active partner in the service production (this is different from personal services, where the customer normally, by definition, is a very active partner).

- **Capital**

The last element in the production system is capital. In relation to the other input elements, this element does not seem to create great problems, particularly not in cleaning. The costs of establishing a small cleaning firm are so low that they hardly demand any capital at all. This is true of many other manual services.

ISS of course needs capital for its acquisitions as, for example, do Rentokil and

Service Master (main company of Merry Maids). How they manage that need will be treated in chapter 22.

### **3. The problems press the manual service firms towards development**

The problems discussed in this chapter are also consequences of the manual service squeeze: That manual services are simple activities that many can carry out and which have only limited importance to the customers; that they have a low degree of technology, and have not been developed very much.

These problems therefore also contribute to a general pressure towards a development of manual services. In part 3 I will analyse the service firms' attempt to develop the production system and the service concept.

## **Part 3**

### **First solution: The development of the production organisation**

## **11 The new production principle: Employee-orientation and modulisatation**

The largest problem for manual services, personnel turnover and recruitment problem, has led to service firms concentrating on find a solution to it. The solutions have concentrated on developing the production and delivery organisation - an internal orientation.

This has also happened in ISS following the customer orientation and service marketing period in the 1980s (cf. chapter 8). The development of a standardised, rational production organisation has come into focus again, partly to lower the costs and partly so that the production organisation has a fixed. The latter gives better possibilities for developing the organisation centrally because the management knows the structure. However, the company wants to take the best of the former elements with it into the new phase. ISS maintains the customer orientation while at the same time the company maintains the advantages of standardisation. The customer's individual needs, as with presumption theory (e.g. deBandt and Gadrey 1994) is still a core factor in manual services, even cleaning. The combination of rational, standardised production and customer care is achieved through the modulisatation principle (which will be explained a little later).

At the same time ISS has wanted to have a strong employee orientation to solve the personnel turnover and recruitment squeeze. Thus, employee orientation and modulisatation are connected in one production principle which both emphasizes employee and customer care, and utilizes the advantage of a standardised production organisation.

In this, and the following five chapters, the principle as it is developed in ISS and the other firms will be analysed.

This chapter briefly presents the principles which will then be analysed in depth in chapters 12 to 15.

### **1. The principle is part of a continuous service development**

As we have seen in chapter 10, personnel turnover is not the only problem that manual services face. Therefore, other developments than employee orientation and modulisatation occur in the firms, these will be analysed in chapter 16 to 20. These problems and their solution are maybe not actually the most crucial, but they may be future problems.

This also indicates that the manual service firms emphasize many factors to overcome the squeeze and that manual service firms are establishing a multi factorial, continuous service development. This is the case in the most advanced of them, a group to which ISS and Rentokil belong. Whether this is sufficient to overcome the squeeze is another question which I will try to answer in chapter 16 and again in the conclusion in chapter 24. There are thousands of manual service firms that do not develop at all. That is the case for most of the Home service firms.

An illustration of ISS' visions for the future is presented below.

**Aim# 2002**

*Extracts of ISS' new vision and strategy 1997*

- \* We expect to have around 200 business units as a result of systematic reorganization and acquisitions.
- \* We will manage and deliver highly focused services, with differentiated and specific business solutions tailored to our customers' individual requirements.
- \* Our ambition is that intensified focus on profitability over the next five years will produce average annual growth in both profit operating and cash earnings per share (CEPS) of a minimum of 15%.
- \* Growth and margin improvement will come from initiatives such as:
  - Continuous efficiency programmes throughout the Group
- \* Cost awareness will be reinforced throughout our organization.
- \* We constantly develop more efficient processes and create methods innovations in our front-line delivery system supported by a parallel development of our back-office functions.
- \* Changing our business culture from product-driven to customer-driven.
- \* Some 80% of our sales five years from now will be delivered by specialist ISS companies and only 20% by general cleaning companies.
- \* Our full-time employees will make 80% of our workforce.
- \* We will maintain and develop our position as a preferred employer through careful pre-selection of employees, appropriate training, promotion and pay. Employee satisfaction will be monitored regularly.

# Ambition, Innovation, Motivation

## 2. The principle

### **The Employee-orientation and Modulisation Principle**

*has four elements:*

- **Modulisation**
- **Quality assurance**
- **Professionalisation**
- **Flexible organisation**

The employee-orientation and modulisation principle concerns the production system as well as the service concept. The principle has four elements:

#### *1. Modulisation*

By which I mean a combination of the standardised industrial production system, that for example cleaning services have always had, and the individualised customer care system that the presumption or service marketing theory talks about. The service products are created as standard moduls that can be combined individually to the single customer.

This belongs to the service concept (the process) level and concerns the combination of the service product, and the production and the delivery system.

#### *2. Quality assurance*

To assure quality will improve customer satisfaction and loyalty. The quality assurance is closely connected to employee care and training since the employees have the direct customer contact.

Quality assurance belongs to the service concept (the delivery system).

#### *3. Professionalization*

Professionalization implies greater demand on skills and more education within a specific field. The members of a profession identify themselves with the profession.

This element may not be professionalization in the strict sociological sense of the term in which it means a self-governing group, often academic, with its own norms and working methods, based on a common high education or skills. Nevertheless, I will allow myself to use the term presented by the managers, professionalization. At least the real professionalization can be hold as an ideal for the employee orientation in cleaning.

This belongs to the production system (the input) level and focuses on the employee factor.

#### *4. Flexible organization*

Flexible means that the products shift regularly, the production system shift and thus



the work tasks for the employees shift. Production can not be organised from a fixed principle such as the Tayloristic organization principle, it must change from time to time. The employees must gain new competencies, and sometimes get new jobs.

This also belongs to the production system level and concerns the whole production system, but the management, employee and customer factors in particular.

## 12 The service concept: Modulisation

This, and the next, chapter deals with the service concept or the process side of the service model. These are "front office" functions. What happens in the "back office" will be analysed in chapter 14 and 15.

In this and the following three chapters I will talk about physical manual services unless otherwise stated. Further, it concerns business service unless other stated.

I will employ the concept 'modulisation' as a basis for understanding recent developments in services hence the chapter begins by introducing this concept.

In this chapter the customer is central in this role of purchaser and thus evaluator of the services; he is a receiver of services. The customer as an active co-producer of service will be treated in chapter 15.

### 1. Modulisation

#### The modulisation principle

The service concept can be of different type. It can be an industrialised production systems which produce standardised mass service products in which the delivery system is not adapted to the individual customer. Services can also be prosumption oriented which means that the customer is supposed to take part in the production and delivery process which is very flexible; the service product is then taylored to the individual customer. Finally, it can be a modularized type which is a system that attempts to unite the advantages of both the former types. The core of modulisation is that standard service product elements, including extra delivery elements (peripheral services cf. Normann 1991) can be combined by, or for, the individual customer.

The standard service process is broken down into parts. Thus the advantage of the industrial production system can be maintained whilst as the customer can receive an individual service. Each modul is service that can be planned and specified in a contract. Each part, or modul, should have its own price. The customer can choose exactly which moduls he needs.

The relation between the modulisation principle and the industrialisation and encounter-oriented principles can be illustrated in the following figure:

<i>Manufacturing - the industrialisation principle</i>	<i>Modulized service - the modulisation principle</i>	<i>Classic service - the service encounter principle</i>
The product is generally concrete (it is technology)	The service is semi-material (it is not technology, but is embedded in a technological form)	The service is intangible (it is not technology)
Ownership is transferred when a purchase is made	Ownership is partly transferred (the right of using the service facility in an appointed period and form)	Ownership is not generally transferred
The product can be resold	The product can be passed on and sometimes resold	The product can not be resold
The product can be demonstrated	The product can be demonstrated by reference to previous examples	The product can not usually be effectively demonstrated (it does not exist before purchase)
The product can be stored by sellers and buyers	The product can sometimes be stored (e.g. self service, discs)	The product can not be stored
Consumption is preceded by production	Production and consumption are separated in many cases (but not in all)	Production and consumption generally coincide
Production, selling and consumption are locally differentiated	Production, selling and consumption are locally separated in many cases (but not in all)	Production, consumption and often even selling are spatially united
The product can be transported	The product can often be transported (if it is an information service)	The product can not be transported
The seller produces	The buyer takes part in the composition of the finished product, but not in the production	The buyer/client takes part directly in the production
Indirect contact is possible between company and client	Direct contact is not necessary for the production, but sometimes for delivery	In most cases direct contact is necessary
Can be exported	The service can sometimes be exported (particularly if it is an information service)	The service can not normally be exported, but the service delivery system can

Source: Sundbo 1994. Taken from Normann 1991 p. 15. The middle column is my addition.

Modulisation as a service concept principle has been developed in service firms

because of several mutual incompatible developments in the market (cf. Sundbo 1994):

- *Price becomes a central competition factor*

This presses the manual service firm to emphasize the next factor:

- *Demand for increased productivity*

Increased productivity normally leads to standardisation.

- *Demand for quality*

This factor stresses greater individuality in the service concept, particularly if we look at the service quality as defined by the service marketing theory (Grönroos 1990) as the customers satisfaction with the delivered service.

- *Innovation and renewal*

Innovations, including technological ones, are found and utilized presenting new market possibilities. If investments in innovation activities should pay off, the innovation must be reproduced, which means that the new service product must be mass produced and process innovations be widespread in the organization. Thus, this factor enforces the development against standardisation.

- *Internationalisation; mergers and acquisitions*

This is one way for manual service firms to grow and gain some economies of scale. This requires standardisation, but often it is impossible to standardise the elements of the service concept because of national cultural differences.

The modulised service concept is developed along the following lines:

## **Modulisation of service concepts**

### *Characteristics*

- **Large-scale operations**

- **Standardisation of products in a combination system**

Standard elements can be combined individually to the single customer.

- **Standardisation and rationalisation of the production process**

- **Separation of production and marketing/delivery**

The production and delivery systems (the latter includes service marketing) are separated with the latter being flexible and customer oriented

- **Self-service**

This has been introduced in retailing and to some degree in transport (e.g. ticket control), but it is not possible in all manual services, for example cleaning. ISS has marketed a disc presenting its cleaning programme and cleaning equipment enabling the customers could do the cleaning themselves, but this has not been any large success.

Source: Sundbo 1994

## Modulisation development and problems

### **Modulised service packet: ISS Service Concept for the sports centre WELL-BEING**

*An example of a modulized service packet composed of general and specialised physical service elements from ISS Sweden. The packet has been combined through contract negotiations with the client who is a large sports centre.*

#### Basic moduls

Customer service	Booking Reception Security service AV, technical equipment
Cleaning Environment	Cleaning Gardening and care of grounds Snow removal
External environment	Inspection Simple repairings
Technical installations	Inspection Preventing maintenance

#### Additional moduls

Craftsmans/joiner service  
 Repairings: Pluming, buildings, electricity  
 Event cleaning and reception: Cleaning, conference service  
 Nature: Fell trees, levelling  
 Spring service: Get equipments in order, plant, get boat harbour in order etc.  
 Autumn service: Covering grounds, lights etc.

The contract states:

Basic moduls are carried out every day, additional moduls when needed.

For ISS this means a cost reduction: They can reduce the staff in WELL-BEING to those that are necessary to carry out the basic moduls. For the additional moduls they call in special personnel who are else engaged in similar activities by other ISS clients.

Another example of modulisation at ISS is that office cleaning has been broken down into different activities: The cleaning of floors, tables and furniture, corridors, windows etc. Each activity can be done more or less often, and more or less thoroughly. It can also be simplified, for example ISS make a specification of the level of cleanness for each activity which should always exist (steering by result instead of

by frequency). This is more on the “soft” side since there are more subjective quality factors involved in specifying a result than a frequency procedure.

Another example of modularisation may be taken from a service industry outside manual service, namely insurance. Some insurance companies have divided their insurance policies into modules. You may ask for an insurance of your bicycle, but must decide where it should be valid. You may, for example, exclude or include coverage by stations where the theft of bicycles is comprehensive.

The customers can choose, and the service company can still calculate all the costs, and thus the price, and it can have a strict planning and production management system. Each employee can still know precisely what to do, although it has become a little more complicated.

The selection of modules is often combined with other “soft” presumption elements such as that the service workers should be trained in having a kind and service-minded attitude towards the customers. They should be flexible in their daily work and should, to a certain degree, be ready to deviate from the schedule.

The modularisation principle is not the final solution to all the production problems and is not without problems - as is the case with all production and delivery principles whatever their inventors say. Here we already see the first problem. These “soft” elements create a problem in the guidance of the production: How much should the employee deviate from specified work routines? How much should she be allowed to deviate without asking a leader?

Modularisation also creates economic control problems. Accountancy management will be less strict concerning the modularisation principle because production is not standardised and planned. This may cause some increase in costs. On the other hand, modularisation will create more satisfied customers with only some compliance of the strict accountancy control. More satisfied customers means more contracts and thus more income, which could create more profit even though the costs could be a little higher. The problem is to reduce too high unforeseen costs which are too high. This demands a certain form of production management.

It is of course a challenge to ensure that a constant deficit caused by the customers rights to flexibility is not built-in the contract from the beginning. This is the contracting challenge in the modularisation principle. The industrialisation principle has already given rise to contractual problems. A means to avoid loss on contracts could be to include a paragraph in which the service provider has a possibility to take up the contract in the validation period and have negotiations with the customer about the payment. However, it could be difficult to formulate this as a juridical right. Service delivery is always to some extent, a social relationship in which certain norms and trust are involved. This is just to say that as the industrialisation principle has been somewhat loosened, the negotiation principle, which characterises “tailored” service will be introduced to a certain degree.

Another solution that ISS has chosen is to say that the employees may carry out some extra services for the client, but if that happens too often and particularly if it is the same type of extra services, the employee should suggest to the client to add it to the contract. In ISS the front leaders have got such a possibility and is encouraged to do it. The unstable nature of the labour force in cleaning means that the service workers themselves do not have this right, or task. Nonetheless, ISS has experimented with

letting the cleaning assistants have this responsibility for proposing contractual additions (however not to make the final contract, which demands legal expertise).

Modulisation solves the customer care, trust and image problem, but it is not without problems. The core delivery is still a standard mass service, and the peripheral services and flexibility might be interpreted by the customer as worthless gimmicks. It is still the delivery of standard services that counts, and the peripheral additions might come to look like an artificial appendix - like the training courses in smiling that for example airline companies such as SAS once had. The customer will discover this and it will not satisfy him. Modulisation is a compromise where the service firm must give up some advantages to get a balanced production system. The customer is not paying for more than a cheap mass service, and he should not expect the service of five starred Ritz-hotel when he has checked in at a one-star automate hotel. To avoid the gimmick-interpretation problem, the service firm can emphasize that fact, in commercials and other public communications, and in contracting and direct interaction with the customer. A five-star luxury all-inclusive version (like in aeroplane first class) could also be created, but probably no customer will pay for it in most manual service business (except maybe just air transport). However, the customer could be taught to appreciate the lower level of individual care by pricing every extra service. Even though you can have a special type whiskey brought to your room in the Ritz, you will have to pay, a lot, for it.

Modulisation is particularly characteristic of large manual service firms such as ISS, Rentokil or United Cleaning. Small firms such as the Home service firms do have difficulties in standardisation and often not the advantages of it, but some tendencies to modulisation can be found in the larger ones of those too.

## **2. Development of the service concepts in ISS**

ISS has gradually changed its service concepts, not following any fixed strategic plan, but as a learning process where experiences lead to new ideas which were tested. The service concepts have been changed because the production system has reached some limits or barriers (which will be explained in the following).

Traditionally, the cleaning production system has been process oriented, the cleaning concept could be called *process cleaning*. It means that the contract with the customer specifies what should be carried out. There are very detailed descriptions of which actions the cleaning assistant should do. The work instructions are on two levels. The first level, which is specified in the contract with the customer, is a description of which activities should be done in each room how frequent. The next level is instructions to the cleaning assistant about how to do it. It is instructions concerning which chemicals and tools to use for different materials (whether a floor or a table, whether the floor is by wood or is covered by linoleum etc.). The instructions also specify how often each part of the process should be done (e.g. wipe away dust from tables in meeting room no. 2 every Monday and Wednesday) and how long it should take. These are very specified, Tayloristic work instructions.

ISS has developed a new cleaning concept called *visible cleaning*. Traditionally the cleaning has been carried out in nights or early mornings or other times where there were no personnel present at the customer. ISS has wanted to do cleaning work in daytime when the customers' personnel is present. The interviews with the managers



in ISS suggest that there are two reasons for introducing this system:

1. Quality reasons. If the customers' personnel are present at the time of cleaning, they can complain directly if they think it is unsatisfactory. They can also express if they want changes in the scheme or extra services. This is a part of the modulisation system: To have a standard service, but being flexible in relation to that, without giving up the contract that states the standard service.

A consequence of this concept is also that the negotiation with the customer is put on the shoulders of the individual employees. They may consider this as an interesting development of the work, which most of them do, or as a burden. It raises a question of how much time they can use on negotiations and delivering extra services that are not specified in the contract. Objective limits can not be established, but, as mentioned, the employees are ordered to propose to the customer to extend the contract if the same extra services are demanded several times. This development of the employees' tasks will be treated in greater detail in chapter 15.

2. Cost savings and employee care. The employees must according to the agreements, have an extra allowance for working in the evening and at night. That can be saved if they work during the day. Many people do not like to work at night time, and that could be avoided by this concept. It is part of the attempt to solve the personnel recruitment and maintenance problem.

The visible cleaning concept seems to work in many situations according to the interviews with managers and employees in ISS. In many situations the customers use the possibility of changing the cleaning scheme. This is one step on the way out of the service squeeze.

A problem is, however, that the customer's personnel are often not aware of the concept. They consider it as an irritating disturbance to their work and they do not want to actively guide the cleaning process, they just want cleanness made through invisible procedures. It is also a quality problem that ISS negotiates with a managerial representative of the customer firm and not with the employees of the customer directly. The customer's employees generally do not communicate with this representative (they often do not know who he is), and the cleaning assistant could easily doubt how much flexibility and extra services he should undertake if she should avoid conflicts with the customer-responsible over the contractual stated procedures.

Another new concept, which was introduced by ISS in 1994, is called *result cleaning*. It may be combined with the visible cleaning concept or not (which is another example of the relevance of the modulisation concept). Result cleaning means that the contract does not state which procedures should be carried out, but instead the result: how clean it should be. The philosophy as explained by the managers in ISS is that the customers do not care about the procedures. They care about whether there is clean or not, which is a subjective matter, and even under the process cleaning concept some customers complain that it is not clean after ISS has been there. ISS then goes to the contract and they have a very detailed control system where the cleaning assistant has marked when she has done each procedure. Sometimes the client is right, but often all agreed procedures have been carried out. Perhaps the customer must admit that, but if he still thinks there is not clean, he becomes dissatisfied and for the next contract period he chooses another cleaning firm. Result cleaning aims at delivering better service quality which means that the customer is satisfied, instead of absolute quality

which means that the customers gets what is agreed.

This is a real modul system. The idea is to save resources used on control activities - or to spare front leaders which are necessary in the absolute quality control system that is a part of the process cleaning concept. Instead these resources could be used on the real service activities: cleaning.

Result cleaning is therefore introduced to emphasize the customer encounter and the service quality. The aim is to get more satisfied customers that will choose ISS as the service provider. The problem is how to control the costs, which is still a core issue in manual service production. Cleaning can still not be sold like consultancy: Do what the client says and send the bill specifying the used hours afterwards. A contract that specifies how much the client must pay per month is still established.

Recent interviews in ISS point out that result cleaning has only been a limited success. In the beginning ISS attempted to force customers to establish a result cleaning contract. Some customers have done that, but many do not want it because it is too expensive. The customers might want cleanness, but it has to be cheap.

#### **4. Extra services, market segmentation and specialisation**

Further attempts to develop the services in ISS has the aim to make the service more central to the customer to overcome the squeeze. The services should be a part of his core business and they should add value to his business. Thus, the general prestige and view of manual services should be raised.

These attempts have different aspects that will be analysed in this section.

##### **Extra services**

Extra or peripheral services have already been mentioned as one possibility of expanding the turnover and perhaps increasing the prestige of general cleaning. In ISS cleaning assistants are allowed, and requested, to do such extra services; that could for example be dish washing, making coffee, distributing post etc. The idea that it should be developed into a complete modulized service packet. Further, it should change the prestige and placement in the customers' business, from inferior cleaning that just re-establishes status quo to something important to this business. ISS in this way attempts to make the customer externalize some of the previously internal functions.

When talking to employees in ISS, it becomes clear that even though they to a large degree do such extra services, it does not break the squeeze barrier. The customers appreciate the extra services, but it has not transformed the purchased manual services into a core activity for them. The idea is that the extra services should be made permanent and the customer should pay for them by putting them into the contract. This happens in some cases, but it is not a breakthrough of a new service concept that raises the functional and prestige situation of cleaning.

##### **Market segmentation and specialisation**

Modulisation can be organised in the way that the service firm provides specialised services and makes market segmentation; the firm organises a service packet to a particular segment. The customers can still combine the moduls as they want, and new special moduls can be developed. The idea is that the moduls should be so crucial to the customers business that it creates really value added for him and that will raise the

general prestige of physical manual service.

This is what Falck always has done. They have specialised services: Rescue services, ambulance and the transport of sick people etc. The services can be combined by the customers in a modul system where a kind of insurance is included: The customer signs a contract that gives him free help in a period. Falck offers the services to private households. Then they have a special kind of contracts with municipalities and enterprises can also sign contracts (e.g. protection of buildings by storm or water damages). Falck has a high status in Denmark and their services are considered as important, not only by the customers, but also by the Danish society and the politicians.

Rentokil has market segmentation and specialisation as its business concept. It only offers specialised, modulized services to selected market segments.

ISS has also done this with success in some areas: Hospital service, Environmental service and Food Hygiene service. This is combined with market segmentation where the services are offered to a certain business segment.

The ISS Hospital service for example offers all types of physical manual services relevant to hospitals: Cleaning, catering, porter service, transport, building maintenance etc. The customers, which are states, counties or municipalities and in rare situations, private hospitals, can combine the different moduls as they want. ISS wants to sell the total package, but the customers mostly want to combine the services from different service providers. ISS offers hospital services in several countries: Denmark, Sweden, the UK, the Netherlands etc. This is a market segment where the physical manual services may not be the core service - that is medical treatment, but they are nevertheless crucial. Lack of cleanness may cause bacterial infections and the food is part of the medical treatment and care. Health care service is a high prestige activity in society so this can contribute to breaking the manual service squeeze. There are competitors in this area, but nevertheless is hospital service one of ISS' most profitable fields.

Another profitable field is food hygiene service which is described below.

### **ISS Food Hygiene Service**

#### *A successful example of market segmentation and specialisation*

ISS Food Hygiene Service is a company within the ISS concern that is specialised in providing cleaning services to food industry (slaughterhouses, fish and meat factories etc.) and it operates in several European countries such as Denmark, Sweden, Finland and the UK. To the food industry cleaning is of core strategic interest because the danger of bacteria infections is so large, and infection may have catastrophic marketing consequences. The food hygiene service therefore also demands more knowledge of the employees than general cleaning

ISS Food Hygiene Service not only provides general room cleaning, the company also has developed a series services that is sold in a modul system, including cleaning and repairing of machines, feeding animals at the weekend, building maintenance etc. Some food industry firms have attempted to outsource everything except the production and sales functions to ISS; that includes for example training of the food industry firms' employees, internal transport and other activities. ISS Food Hygiene Service has said no to such a total service package because they do not want to develop the company more than they can control the production and delivery system.

The company is the only one in this field in Denmark and does not have many competitors in other countries. It is market leading in Europe. ISS Food Hygiene Service has a high position in the opinion of its customers and there is a larger surplus margin than in ISS General Cleaning, there are no growth problems and the personnel turnover is very small and not considered as a problem. ISS Food Hygiene Service could expand more internationally, and this is only impeded by internal structural barriers within ISS (such as the national and regional hierarchies that makes it difficult for the Food Hygiene Service managers in different countries to co-operate directly).

ISS has also made market segmentation in its standard cleaning services. The customers have been divided into three groups: Small, medium sized and large. They are offered the same cleaning services, but the production and delivery systems are differently organized - which I will come back to in chapter 14. This gives some productivity advantages. Market segmentation is a core element in ISS' new strategy plan from 1997.

The market segmentation and modulized specialisation system seem to be factors that can help lifting manual services out of the squeeze.

### **5. Conclusion: Modulisation as a model of developing service concepts**

The ISS service concepts are becoming more modulized. This makes it more possible to combine the advantages of the low costs and high control of the industrialised service production system with the marketing advantages of the individually customised system. It is becoming a kind of mass customisation (cf. Pine 1993).

For manual service firms the topics treated in this chapter present some tools for developing the service concepts: Modulation, specialisation and market segmentation. By themselves these tools can not lift the manual services out of the squeeze, but if they are combined with development of the input factors, they may do. This will be analysed in the coming chapters, but first I will analyse another aspect of the service concept, quality assurance.

However, even though the single service firm enters more profitable and high prestige market for personal services - or the areas of special physical services, it still leaves some areas of general physical service such as cleaning, catering, or even transport and retailing in the squeeze. One possibility at a macro, society level, could be that these areas remain as residuals with no prospect of being developed, but carried out by small family owned enterprises, that can exist in the market because they are highly flexible, the whole family participates, and the aim is just that the family can exist, not to increase the surplus. What will happen in the future is impossible to say.

## 13 Quality assurance

An important part of the service concept is quality assurance. Here I will, after a short presentation of the quality concept, describe what the service firms I have studied do to develop and ensure quality. After that, I will discuss whether this contributes to a break in the manual service squeeze.

### 1. What is quality in services

Quality has two different forms as already mentioned: 1. Zero fault (e.g. Juran and Gryna 1988, Crosby 1976) which means that an objective prescription of the delivered service is set up, and it is measured if the actually delivered services fulfil the prescription. If not, there is a fault. The aim is to avoid faults, although zero fault not always is the goal; it can cost much and for the service firm the expenses for that can exceed the extra income a zero fault level could give. 2. Service quality or relative quality (e.g. Brown et al. 1990, Parasuraman et al. 1985). Many services may vary because they are not standardised, and a problem is, thus, that neither the producer, nor the customer can know the exact quality beforehand. This quality is a psychological phenomenon since the customer has certain expectations and compares the delivered service to these. The difference to the zero fault form is that the service quality do not focus on the objective technical prescription of what should be delivered.

Quality assurance concerns the delivery system because it is an ensurance of the service that is intended to deliver, is actually delivered. The production system as defined in chapter 5 is the planning of the service production and procedures, and quality has, in principle, no meaning here. In practice, however, the production and delivery process is intertwined for the cleaning assistant or any other manual service worker, so it is difficult to separate the two processes. If we go further to service quality, it is composed of the quality of the service and the customer's assessment of the way it is delivered (cf. Grönroos 1990), including extra and peripheral services. Therefore, quality will often, in practice, also include the service product and can thus be a general phenomenon for the total service concept. The service management and marketing theory, particularly the Scandinavian School (Grönroos and Gummesson 1985), has therefore used the quality concept as a general approach to for analysing and making prescriptive models for the service concept (including innovation). The idea is that the quality approach can be used to solve service firms' problems. I will discuss in the final part of this chapter whether quality assurance and development can break the manual service squeeze.

A third quality form, Total Quality Management (TQM), is more a tool for organizational development and will be treated in chapter 15.

### 2. Zero fault quality control in process oriented cleaning service

This is an objectivised approach to quality assurance, which means that the service

delivered should be measured and compared to objective descriptions of the the service that must be delivered. It is not always possible to measure the quality objectively, but the aim is to do it as objective as possible. This quality assurance form is particular relevant to the process specification oriented cleaning service.

In this service ISS establishes form production manuals that clearly specify which procedures should be carried out. All quality issues are related to ensure that the manual is followed.

This is in ISS ensured through a series of means, such as described below.

**Quality control systems in ISS**  
(developed from the zero fault philosophy)

*\* Inspection*

The front leaders (called supervisors) control the quality regularly by going through the rooms using check-lists. The check lists are elaborated on the basis of the contract, that is the production plan. From time to time the supervisor goes through the rooms with the customer's representative.

*\* Employee self-assessment*

The employees also use the check lists to go through their own work to control whether anything has been forgotten.

*\* Objective measurements*

In some cases objective instruments are used to measure cleanness. This may be bacteria control where the cleaning assistant can use measuring instruments and samples are sent for laboratory control. This is particularly relevant in the food industry and hospitals. There are also instruments which can measure dust particles, they are used in special cases such as production processes which must be dust free.

*\* Environmental factors*

A criterium that is important for society, and thus to many customers, is that the cleaning process should pollute as little as possible. Therefore, ISS has its own laboratories that test chemicals and working methods to ensure this.

*\* ISO9000 certification*

Some divisions of ISS are ISO certified.

This form of quality assurance has the aims to avoid faults, but also the aim to place responsibility. ISS Food service in Finland mentions for example that some of their customers, the supermarket chains, want documentation for the quality control of all procedures so they can place the responsibility. Bacteria in the food can come from the slaughterhouse, the food industry, the transport, the cleaning in the supermarket or from the supermarkets own treatment of the food such as having too high a

temperature in the cold counter. Since bacteria not only may cause diseases, but also enormous damage to the image of the supermarket chain and therefore decrease sales, it is extremely important to place a responsibility.

The ISO certificate that became popular in the 1980s is not very popular in ISS. The firm thinks it is an unnecessary, costly bureaucratic procedure. However in some divisions within Food Hygiene service and Hospital service they are ISO9000 certified. Primarily because the customers demand it, but also because they use the certification procedure to develop their own organization. Other cleaning companies such as United Cleaning are ISO certified. The conclusion is that an ISO certificate does not in itself develop the service or provide a competitive advantages, but it can be used as an opportunity to develop the production and delivery system.

### **3. Service quality assurance and development**

The more customer oriented, service quality has also been applied in ISS. Through the 1980s and 90s the company has introduced such elements in all its service concepts. In the beginning of the 1990s, the company established a quality institute which had the purpose of developing quality methods, zero fault and service quality oriented, and diffuse them throughout the company world-wide. The institute has recently been closed down. Formally this has been due to the financial problems that were the consequence of the loss on the North American ISS division in 1996 (cf. chapter 22), but it may also be a consequence of the fact that the quality aspect has become such a well established part of all the delivery systems within the concern that there was no reason for having a particular institute. Furthermore, other topics such as innovation (cf. ISS' strategy plan 1997) have been given priority in the development plans.

Although service quality is relevant, and has been applied to all service concepts, it is particularly so to the visible and result oriented cleaning and other extremely customer oriented service concepts. In its result cleaning concept ISS has also introduced an element of customer evaluation of the delivered service. This is more than just a delivery control of an agreed service, it is the continuous negotiation of the service product. The service is the result. It is a more open discussion whether there is completely clean, what is the criteria in result cleaning, than whether the cleaning assistant has wiped the table with a wet cloth two times as agreed in procedure-contracting cleaning. In the interviews with the service leaders and cleaning assistants, they express that sometimes this discussion goes fine, but sometimes it does not, mostly because of the customer, i.e. his responsible middle manager, is not interested in negotiating results, only in complaints and control. The cleaning assistants say that result cleaning and relative service quality leads the customer to expect more cleanness without paying more, which means that the cleaning assistants must work harder.

Below is a description of ISS' service quality methods.



### Service Quality assurancement in ISS

ISS has a general quality quadrant which means that the company has four general quality measures.

	Evaluation	
	Internal (ISS)	External (Customer)
Process	<i>Employee satisfaction</i>	<i>Interaction with the customers</i>
Result	<i>Profit</i>	<i>Customer satisfaction</i>

\* *Customer assessment*

The customers are asked about their opinion of the service quality. In most divisions this is done once a year through a questionnaire. ISS uses a gap model (Parasuraman et al. 1985): The customers are asked of the importance of different services and how good ISS is at delivering the service. ISS produces on this basis a Customer Satisfaction Index for each department.

\* *Interaction with customers*

Besides that, there is an ongoing informal negotiation process between the customer, his employees, the cleaning assistants and the inspectors of ISS. ISS also uses formalised questionnaires to customers asking about the delivery procedure and works out a Quality Standard Index for each department.

\* *Employee satisfaction*

Each year the satisfaction and motivation of the employees is measured by a questionnaire. The company attempts to increase employee satisfaction through TQM (cf. chapter 15). On the basis of the questionnaire, an Employee Satisfaction Index is produced for each department.

\* *Profit*

The profit (before tax) is taken as an indicator of quality. This may be right as the purpose of establishing good delivery quality to ISS is to earn more money, but it is a dubious measure since many other factors influence the profit.

Service quality is broadly defined, and according to service management theory (e.g. Normann 1991) employee motivation is the most important factor in ensuring quality, so part of the quality assurancement is measurements of the employees' satisfaction.

One ISS manager mentions that there have been speculations about substituting the customer satisfaction index with counting the number of customers that has quit the contract and employee satisfaction index with personnel turnover rate. The indexes are too expensive to make because many questionnaires must be sent out and analysed.

The small Home service firms do not have any quality assurancement system, but they have a natural service quality and service flexibility system. The employees in these

firms are in very close contact with the customers, who, in contrast to business service firms such as ISS, really care about the cleaning and how it is done. So these firms have a natural service quality assurance, and they have a natural flexibility because they do not have fixed procedures. Because of these conditions, they seem to be more able to deliver a good service.

#### **4. Can quality assurance break the manual service squeeze?**

Is the quality approach the key that can solve the fundamental problems? There is no doubt that quality control and development and service quality are phenomena that are important in the service production and delivery process and that it is a competition factor. As such it is an element in developing the manual services and gives them a position where the customers respect them more. However, there are limits of how much quality assurance, even relative service quality, can lift the physical manual services as we have seen above. The customers do not take result cleaning, which is an extreme service quality oriented concept, seriously. The quality must be good without many faults, if not, the physical manual service will sink further down and firms will probably internalise the services.

Furthermore, it is not sufficient to make the cleaning more sophisticated and improve the service quality, because the customers only want this service quality to a limited degree; they still look mostly on the price.

The great faith in quality that characterised the early 1990s is perhaps being replaced by other attempts such as specialisation and innovation as means to take big steps out of the manual service squeeze, but quality assurance and developments are still important instruments in service delivery systems.

## **14 Personnel recruitment and motivation model: Professionalization**

Now we are entering the input side, the production system. In this chapter the notion of employees as a production factor will be treated. As concluded in chapter 11 this is actually the largest impediment to the development of cleaning, and investigations from other service sectors (e.g. other physical manual services, personal services (Serviceydelsler 1994), tourism (Turisme-Fritid 1993), transport (STEP group 1997)) show that it is also an impediment to development of these services. As it has been demonstrated, development of the employee factor is a core solution to overcome the manual service squeeze, and in ISS it is actually the most important activity to develop general cleaning.

This chapter describes what ISS and the firms do to develop the employee factor.

### **1. Professionalization as an ideal**

Orientation towards and care for employees is not a new phenomenon. The history of organizational and labour sociology is full of examples of motivational and competence developing interventions. There is a system of cycles in production management - from focus on employee motivation towards focus on other factors such as technology, rationalisation or productivity and back again. This cyclic movement will probably never change because running businesses is a difficult task. What is special in this case is perhaps that society has for the first time reached a stage where people expect an interesting and enriching working life and refuse to accept disengaging routine jobs (development of work, extended barter cf. Bevort, Pedersen, Sundbo 1995). It has now become economically possible for them to do so. Further, that manual service firms attempt, or will be forced, to, lift a whole sector, or at least industry (the cleaning industry) out of the existing one and into a new stage. That task corresponds to the transformation from manufacture (organization of many people) to mechanised industrial production (by introducing production machines) that the manufacturing industry went through in the beginning of the nineteenth century.

The actual personnel policy within many manual service firms is not intended to operate directly on psychological motivation factors such as basic needs for self realisation etc., that has been used in earlier motivation movements. Employee orientation is called professionalization by the managers in cleaning. By which they mean to make the employees proud of the work they do and make feel it can be a basis for their whole working life.

The intervention also has the purpose of increasing the motivation of the employees through professionalization.

ISS attempts to solve the personnel problems described in chapter 11 by professionalization. This means in their words (as expressed in the interviews) that the cleaning work should be full time, continuous working hours for one customer or at one meeting place. Now the cleaning work is often for several customers and the

working time spread out. The content of the work, the cleaning processes, should be developed so it demands more qualifications and competencies. That means that it should be more specialised and therefore often more knowledge based. The employees should see cleaning work as a basis for their working life and not as a temporary, unpleasant job to satisfy the need to make some money. They should identify themselves with the job much more than they do today. Professionalization is also an aim in other physical manual services that ISS produce such as catering, building maintenance, environmental services etc.

The employees must increase their skills by which I mean the ability to do the technical part of the cleaning, or other manual service work, gained through formal training and on-the-job learning. They must also have more competencies - broader abilities to do the job in a service-minded way (this includes the ability to listen to the customers and be flexible to their wishes, to be able to co-operate with colleagues in teams, to be interested in the firm's problems and participate in innovation processes, to be able to work independently and be responsible etc.). The latter characteristics are related to the attempt to sell result oriented, flexible manual services.

Through these initiatives ISS hopes to make cleaning and other manual service jobs more attractive and prestigious so they can attract a workforce that remains in the jobs permanently or at least for a long time and thereby reduce the personnel turnover. The company does not intend to raise the salaries; the initiatives demand more resources for recruitment and training, but the result should be that the employees becomes more independent and not need so much inspection and the company could reduce the number of leaders.

Most of the Home service firms I have studied do not, to the same extent, attempt to develop professionalization among the employees although they have the same recruitment problems, but some do. Falck has always had a very strong professionalization element among their employees. Although the employees are formally unskilled and members of the union of unskilled male workers, they appear to themselves and the population as professionals in the real sociological meaning of the word: They are supposed to have high skills in specialised fields (e.g. saving peoples' life, fire-fighting etc.) that are extremely important to the customers. This is a very special case, which is caused by the importance to society of these services, but the management of the firm has been able to further develop and maintain this position. Rentokil also attempts to professionalise its service work. They have a more differentiated type of workforce than ISS and employ, for example, academics, which are professionals, to develop pest control, and unskilled people to clean toilets and the like in their Health Care Service; the latter are not very professionalised and Rentokil has also personnel turnover problems in these fields. Merry Maids also has a strategy of professionalising their employees.

Thus, professionalization is a core means to overcome the manual service squeeze according to the current ISS strategy and some of the other manual service firms.

In the next sections I will describe what ISS and the other service firms do to develop more professionalization.

## **2. Recruitment**

When recruiting new personnel, none of the firms, nor ISS, emphasize the cleaning

experiences much. Cleaning can be learned. They emphasize "soft" service-oriented competencies such as responsibility, kindness (to customers), willingness to co-operate, and independence. ISS also emphasizes that the applicants must live close to the customer (where their working place will be) because otherwise there is a greater probability that they will quit. Often, the workforce that the firms can get, is students, and this type will not improve the professionalization and life-long employment that ISS aims at. Professionalization should make it possible to engage another type of workforce that will remain in the company for a long time. The interviews show that until now it has been difficult to change the recruitment pattern radically.

ISS has established a large recruitment procedure for cleaning assistants, which is the hardest group to professionalise. In Denmark job applicants will be called to a job centre where a recruitment procedure that takes half an hour will be carried out. Managers from the firm will begin with a short talk with the applicants and after that these will watch a video that tells then about ISS and the cleaning job; for example that it often takes place in night time or early morning hours. The intention is to get the applicants to consider if a cleaning really is something for them and thereby improve the professionalization tendency. After that some applicants drop out. The remaining are interviewed by a manager and if they are still interested and the manager finds they are suitable, they will be registered. When a leader in ISS needs a new cleaning assistant, she or he applies to the job centre and will get three names that she can contact; she is supposed to engage one of these.

The inspectors and other front leaders must use the job centre. Previously they could recruit the personnel themselves if they wanted. They are forced to use the job centre because the company can ensure that it get the most professional employees through the recruitment procedure. However, the recruitment is dependent on economic cycles; in boom periods it becomes even more difficult to recruit employees.

In special services within ISS such as hospital services, environmental service, food hygiene service etc., the procedures are simple and are often reduced to an interview with a manager (often the one that actually needs more personnel). These personnel groups are more professional by definition because they have a certain education (such as a cook, a porter etc.). In the other firms the procedures are like that.

### **3. Training**

The personnel within special service such catering, hospital service etc. in ISS has a formal education within the field. It is supplied with special courses that ISS either organises itself or which are offered by public or private training institutions. All employees will get on-the-job training when they start. For example, all employees in ISS Food Hygiene Service will have one month's on-the-job training and after that they will be sent to a public training centre and have three courses each of which lasts two to three weeks. These schemes may vary from country to country, but all ISS employees in all countries will get on-the-job training, and if it is special services, they will have formalised training courses.

Rentokil has a fixed internal training scheme where the training last at least 1 week for the jobs that demand the lowest skills (e.g. Office plant care) and two days per week for three months for the service works that demand higher qualifications (e.g. Health Care). The salesmen will have a three months' internal training programme.

The general cleaning assistants at ISS start working with a front leader (a supervisor) that must give them on-the-job training of between one and five days and they will have an internal course of one to two days. The aim is that all cleaning assistants later should go to a public training centre for minimum two weeks' training, however, the interviews show that this very often does not happen. The inspectors need the workforce immediately, and then it takes some time before the employees will be sent on the training course. Often it takes so long time (e.g. three to six months) that the employees have left the firm again. The interviewed employees and front leaders complain that they have too little training and it comes too late. Of course this situation is unsatisfactory to ISS if it want to professionalise the cleaning workforce. The Danish branch of ISS has included in its new professionalization strategy the condition that the employees must have the intended training courses.

The training emphasises technical and cleaning skills as well as competencies in customer orientation and co-operation. The more the employees learn, the more competencies they have, but still general cleaning is simple, although some technical development has taken place. Thus, it is still difficult to give general cleaning work a professional image not to mention content.

ISS also has a large training programme for the front leaders and middle managers with a series of courses. Managers from all countries get a series of common courses. ISS has had an internal training and education institution called "the ISS University", but it has recently been closed down together with the Quality Institute as a consequence of the cost reductions that the loss of the North American division has caused (cf. chapter 22).

The Home service firms only give some on-the-job training that does not last many days (rarely more than one day). Merry Maids gives the employees two weeks' internal training as a mix of on-the-job training and formalised courses.

One of the factors that could raise the prestige of the manual service work and make it more professional is corporate culture. The large firms attempt to link the employees to the firm through a corporate culture. ISS attempts to create a employee friendly culture. Merry Maids usually engages young people, they get a uniform and a car and the firm attempts to create a youth culture. Rentokil has a strong corporate culture among the managers and they try to induce that in the employees as well; in contrast to the other firms I have studied they use the system of payment by result. Rentokil emphasizes more hard-core business methods in their culture than ISS. This company has a widespread system of wages related to results, and central systems for defining and assessing results.

#### **4. Professionalization in practice**

Does the professionalization strategy work in practice? Can we conclude anything about it from the data of the case studies?

The professionalization strategy has so far not been implemented in ISS. Several factors have hindered that. One is that ISS has not yet succeeded in implementing the necessary conditions; the jobs have not been transformed to full-time jobs, the training system does not work optimally because it takes too long before new employees are sent on courses, the working hours have been changed, but it is still night and early morning for many cleaning workers and for some people ISS still has a worse

reputation of its personnel policy than reality warranties.

Below is an extract of the opinion of different employees and managers in ISS concerning how well the professionalization strategy has succeeded until now.

**Work, qualifications and professionalization in cleaning  
Tendencies and problems**

*Extracts from interviews in the Danish ISS*

Production leader in a provincial town:

The personnel turnover will always be high in general cleaning. There is more prestige in special tasks, for example cleaning of PCs or slaughterhouses.

An investigation has shown that the reason for half of the resignations has been too few continuous working hours. Most employees want full and continuous working.

Investigations also show that to the customers the engagement is crucial - they can accept quality defects if they can see that the cleaning workers do their best.

ISS can get the type of people they want, but it is difficult as long as the working hours are abnormal and the prestige low. However, the salary is higher than in retail and much factory work.

Production leader, hospital catering in a provincial town:

The employees must be professional; therefore must the employees be skilled (cooks, catering officers etc.). Besides that, the demands to the work are "soft" and new qualifications: The employees must be able to communicate with the patients and colleagues.

Cleaning assistant, provincial town:

ISS has provided some courses in cleaning methods and quality assurance. She does not feel that she has need or time for more training.

Cleaning assistant, 27 years old, provincial town:

Has not got much instruction, that was not necessary. She must go to a two week cleaning course soon, but think two weeks is too much for that.

The professionalization strategy has been more successful in the specialised services than in general cleaning. One reason for this is that they are specialised, but it is not a sufficient explanation. The cleaning and other physical service jobs in hospital service, food industry or pest control do not demand that many more competencies and the employees do not get that more training; they are still relatively simple jobs. Another explanatory factor is the one discussed earlier as a main factor in the manual service squeeze: The importance of the service to the customer. The cleaning and other physical service activities are more important to for example hospitals and food industries than general cleaning, which is cleaning of offices, corridors etc. which are of no core importance to the customer's production.

The other firms that attempt to implement a professionalization strategy also have difficulties. Rentokil, which emphasizes professionalization more than ISS, has difficulties in recruiting and maintaining employees in their more simple work such as toilet cleaning, office plant service etc. In Merry Maids, who try to develop a professionalization programme that can be combined with a corporate culture (something like Macdonalds), the cleaning workers were employed 3 to 4 months in average, so that is no great success either. Only Falck has succeeded completely in a professionalization strategy. The services that Falck delivers are, as mentioned, all of core importance to the society and have high prestige. This again underlines the squeeze factor as very important to the development of manual services.



## 15 Organization model: Flexibility

In this chapter I will analyse how manual service firms attempt to develop organization and management principles to overcome the squeeze and create growth and development. As in chapter 14, the attempt concerns the input factors in the production system and this chapter concentrates more specifically on the management, employee and customer factors. The analysis focuses on another aspect of the employee' factor than that in chapter 14, namely the interrelations between the employees or the organizational aspect, whereas chapter 14 emphasized those of individual competence. The management factor also concerns the organizational aspects or how the production and delivery is organised and is related to, and interacting with, the employee factor.

The chapter will generally be based on ISS Denmark, but the organization of the other service firms that I have studied will be analysed in section 4.

The customer will be treated as a production factor, not as the purchaser of the service. This means that the customer factor will only be included in the analysis when customers actively take part in the service production.

### 1. From Taylorism to flexible organization

The traditional form of organization in cleaning has been Tayloristic with a detailed description of all production procedures as was described in chapter 12. This has been related to the procedure cleaning as is also described in chapter 12. Recent developments in the ISS service concepts, which has been analysed in chapter 12, have led to the introduction of a series of flexible elements in the organization, and this has also happened in other manual service firms that I have studied.

### The concept of flexible organization

The term flexibility comes from contemporary theoretical analysis of general tendencies in organizational development. Starting with the discovery of a general tendency towards individualisation and fast shift in products in some manufacturing branches - which was called post-fordism (e.g. Piore and Sabel 1984, Lipietz 1987), this theoretical movement has led to current theories concerning the organization of the firm as a flexible organization, which is characterised by regular changes. This is due to the fact that new goods must be produced or existing goods must be produced in new variants for specific customers because of permanent market turbulence. This demands greater autonomy for the single employee, who must be more competent, in terms of knowledge and in the ability to adapt to new situations, solve problems and be innovative. The variation in goods is often combined with greater customer quality awareness and delivery of services with the goods (e.g. repairs, information). The old Tayloristic or fordistic organization form is not efficient in this situation, the organization must be more flexible. Management becomes more a matter of coaching than a commanding function, one reason being that the employees often have higher

professional skills than the middle managers, who often become more personnel leaders than technical leaders (Bevort, Pedersen, Sundbo 1995). The flexible organization is often team based, but it is characteristic that there is no fixed organizational form and it may shift regularly.

The flexible organization form has been developed as a theoretical category from studies of manufacturing, but it has also been observed in service firms (Sundbo 1994), which are often much more flexible than manufacturing firms and are forced to be so because of the individual customer orientation. The flexibility concerns the form of organization (e.g. whether function oriented departments or goal-oriented teams or both) and the situation of the single employee.

Flexible organization has been characteristic of traditional small manual service firms that have not had any very fixed organizational form. However, with the development of large firms such as ISS or United Cleaning, the organizational form has become fixed and Taylorised. The flexible organization is re-invented in the 1990s, but in a new form because these firms are not longer small ones with a close relationship to their customers as the small manual service firms are.

### **Flexible organization in ISS**

Neither ISS nor the other firms that I have studied have totally changed their organization to being flexible ones. ISS has introduced some elements that makes the production organization more flexible. These elements have been of different types.

The first type is a differentiation of the production organization. The cleaning work is organised in different ways according to customer group. Each of the special services have their own type of organization, and in some cases - for example in hospital services and personal services such as care service for elderly people - the ISS personnel is adapting to the customer's organization. They follow his organizational form and even wearing his uniform so the users or customers of the customer can not separate the ISS personnel from the customer's personnel. The examples given are from situations where the customer is the public sector, but there are also examples from the private sector where ISS has been willing to fit into the customer's organization or wear the customer's uniforms (e.g. airports or supermarkets). This type will be treated in section 2 below.

The second type is the greater responsibility towards the single employee in the individual customer care. This should also create greater employee involvement at work. This type will be treated in section 3 below.

The above description is the one that the managers interviewed have presented as the company's plan to overcome the manual service squeeze. It should make the production system more flexible and oriented towards the individual customer's wants and it could be implemented within the modulisation principle of service concepts. There still is a production plan and an economic calculation of it, so it is not up to the single employee to do whatever she or he wants.

### **The customer as an active production partner**

That the customer could be an active partner of the production is an evident idea, particularly in a flexible organization and within services, at least at the theoretical plan. In practice, the service squeeze or the low importance for the customer of the

manual services manifests itself. The customer is rarely an active production partner. In the interviews within general cleaning firms there are only a few reports about the customer or his personnel being active partners. The examples given concern extra services such as arrangements in relation to a meeting where the customer's personnel and the cleaning personnel can participate side by side.

In specialised services, the situation is sometimes different. For example, in hospital services where ISS only carries out some functions and the public hospital or other service firms other functions, the personnel co-ordinate the work there is some degree of flexibility in relation to who is doing what. Also environmental services demand the customer's active involvement. In other specialised services such as food hygiene service and catering, the customer or his personnel is not an active production partner - often simply because they are not present at the time when the ISS personnel is.

The type of service where the customer is most active as a production partner is personal service. Thus, new forms of organization must be developed in this field. Until now ISS has only a little experience with personal services in Denmark, but ISS Sweden has a great deal of experience, for example with home care for elderly people, running elderly people's homes, kindergartens and manual services. These types of services are taken over from the public sector and the Swedish division of ISS has taken its organizational form and the corporate culture from the public sector. The organization of production of personal services will be discussed in section 4.

These results are also confirmed in the case studies of the other manual service firms.

From these case studies we can thus conclude that the customer is generally not a very active production partner in physical manual service compared to personal manual services and knowledge services, where the customers are reported to be very active (e.g. in advisory services or as producers in self service in for example banks) (Gallouj 1994, Sveiby and Riesling 1987). However, this conclusion is limited to the services treated here (cleaning and similar services) while the customer plays an active role in production in other physical manual services such as retailing (e.g. self service in super markets).

## **2. Differentiated form of organization in ISS**

In this section the different forms of organization that ISS have developed will be analysed.

ISS has differentiated its production organization according to the type of service. The general cleaning service is divided into three organizational types according to customer segmentation where the criteria is the number of customers. These types will be treated first and then the special services.

### **Small cleaning customer-firms: Teams**

These are customers that only demand cleaning a few hours a day or maybe a week by one or two cleaning assistants. The customers are typically shops, dental clinics, small offices such as an lawyer's office and small public institutions (e.g. a kindergarten). The demand for cleaning can be at different times, but it is nearly always daytime (sometimes morning or late afternoon-early evening) and often the customer is flexible concerning when the cleaning is done.

The problem with these customers is transport logistics: ISS has used so many resources on transport time between the customers and in planning this transport that many of the contracts have become unprofitable. Therefore, the company has recently organised teams which service these customers. A team consists of a team leader and one or two team members. There is a production leader, who leads up to 10 teams, in a geographical district. Over him in the hierarchy is a regional production manager. Each team gets a car and must plan the work including the order in which they visit the customers. The team leaders have a great deal of freedom to negotiate with the customers about the number of hours, extra service, when the team should be there etc. This gives maximal flexibility and maximal customer orientation, but demands independence and responsibility of the teams, particularly the team leaders. Each team functions as an independent firm with the team leader as manager. For the customers this has the advantage that it is always the same people that come from ISS. If one team member is ill, the other(s) take over, which also is a form of flexibility.

Each team has its own budget.

The team is an organizational innovation in ISS, and the production manager says that it has been difficult to get this innovation accepted by the company. The change to team organization has led to a better overview over which customers are profitable and which not because the teams make a profitability analysis of each customer. The unprofitable customers have been given notice.

### Opinions in ISS on the work in teams

*Production leader, female, large provincial town*

We have two employees in each team. We have tried to have three, but that did not function socially, they split up into two versus one. It works fine with two - of which one is the team leader. The team members are equal, but the team leader takes particular care of quality assurance, finances, administration, customer contact, administration and vacancy. The team leader engage the employee herself. The production leader's role is coaching.

*Team leader, female, large provincial town*

She has the customer contact and can sell extra services to them. It is not her task to find new customers, ISS has salesmen which she appreciates because she would not like to sell.

The teams function as small independent enterprises. She does not think that the teams will develop into real independent firms (e.g. through a franchise system) because the employees are not interested in that possibility. The profit margin in cleaning is too low for anybody to wish that.

She has tried traditional cleaning methods, but team work is much better. You are together with other people and the work is independent.

*Team leader, female, large provincial town*

The team visits fourteen customers (not all of them each day) between 4.30 am and 11.00 am. The team is a new organization form that has increased the demand to work, to the ability to co-operate and to responsibility. She is satisfied with her work.

*Cleaning assistant, team member, female, large provincial town*

She works in a team from 2.00 am and has in reality more than full time. Sometimes she is offered spring cleaning as additional work.

She is satisfied. She has got used to night work, which is higher paid than day work and that matters to her. The team can solve all problems by talking and she finds that everybody in ISS can talk together. It is nice to have positive reactions from customers.

All interviewees persons characterise the team organization as a success - although there are different criticisms and suggestions for improvement as is exemplified in the extract from the interviews. The managers interviewed say that it has improved the economy of this market segment, but if this is due to the team organization or the notice of unprofitable customers, they cannot tell. The employees and production managers say that the work has become more interesting and the satisfaction of the employees has increased enormously - very different to the attitude towards traditional cleaning.

Team organization is a solution that could increase the motivation and satisfaction of the employees, and thus, perhaps, the satisfaction of the customers. ISS is thinking

about how the team principle could be applied to the other market segments; it would be in another form, but it might be an advantage. The personnel turnover has fallen in the team organization, which was a core goal for ISS to overcome the manual service squeeze.

### **What makes a success successful?**

#### *The most successful team organization in ISS*

One team organization with a production leader and nine teams on the outskirts of the Copenhagen area has been nominated as the most successful team organization in ISS. This organization has been investigated by ISS to find success criteria for a team organization. They are as follows:

#### *A production leader*

- \* delegates to the team leaders, including handling of complains from customers, but he intervenes to support the team leader if this can not solve the problems
- \* has confidence in the team leaders and communicates often with them so he knows their problems and their customers
- \* has regular meetings with the team leaders; he functions as coach in collective problem solving at the meetings the teams have; the meetings also have a social element (common meal etc.)

#### *A team leader*

- \* do not want to be independent, but appreciate the combination of being employee and independent
- \* could ideally be a former independent
- \* are interested in autonomy and co-operation (although these could be conflicting goals)
- \* is honestly interested in the interaction with the customers
- \* emphasizes quality in work, the social aspect and employee influence
- \* is characterised by an sportive and amusing attitude to the performance (not an aggressive competition mentality)

#### *Team members*

Team members (as well as leaders) were found to be very different personalities according to psychological personality tests. A general characteristic of the good team member can not be stated. However, common to the team members are that they:

- \* are interested in autonomy and influence
- \* are interested in co-operation and team work (the social aspect)
- \* are interested in creating a good work result that the customers are satisfied with

The economic results (4th level in the model in chapter 11) do not arrive simultaneously as this "ideal" team organization is introduced, but some time after.

Merry Maids also has a team organization, which seems to function very well in relation to customer and employee satisfaction - although it can not prevent personnel turnover from being high.

#### **Medium sized customers: Traditional organization**

The large and medium sized customers do not get that much flexibility although ISS follows the modularisation principle and attempts to let the employees be flexible. This is, however, more difficult for larger customers because of these customers' internal hierarchy which often means that the cleaning personnel can not negotiate directly with the people they meet (namely the customer's employees).

The ISS employees are only employed to service one medium sized customer, which means that the cleaning assistant meets at the customer's place and does her job and leaves for home. Since the cleaning needs are limited, the jobs are only part time. In rare cases an employee may have two medium sized customers and might, consequently, create a full time job. The front leaders are inspectors who control several working places; they are mobile. Above them in the hierarchy are production leaders, each of whom leads four to five inspectors, and above them regional managers.

Sometimes several cleaning assistants work for one customer, but often it is only one cleaning assistant. The cleaning assistant must follow the cleaning plan. She can negotiate with the customers as has been ISS' policy, in particular when it concerns result cleaning, but the interviews show that the cleaning assistants in practice not do that very much nor feel themselves motivated to do it.

#### **Large customers: Organization at the customer's place**

The organization of the cleaning production at the large customers is similar to that at the medium sized except that the whole organization including management and control is placed at the customer's place. Ten to thirty employees and one front leader are allocated stationary to a large customer. None of them are working at other places. The employees are normally part-time. Although there are much work to do, it must be done in the same few hours so it is very difficult to create full time jobs.

The organization form is the traditional hierarchy, in this case with the front leader being permanently at the one work place. Above the front leader is a production leader, who supervises up to fifteen front leaders, and above him a regional production manager. The work has detailed guidelines that the employee must follow - again with the addition that ISS attempt to implement more flexibility and autonomy to the employees, with a modest result as in the medium sized customer organization.

**Opinions on the work in the traditional organization form in ISS**  
(Large customers)

*Production leader, female, Copenhagen area*

The organization and management system has been changed. The hierarchy is flatter and the many mobile inspectors have become fewer.

They try to add new services, and succeed but in limited volume. Nevertheless, it provides a closer connection between the customer and ISS. It is possible for ISS to get payment for the extra services.

*Production leader, large customers, male, large provincial town*

The personnel turnover is stable high despite the attempts to decentralise responsibility.

*Service manager, male, Copenhagen region*

It is difficult for ISS to calculate the number of hours that both customers and employees feel fair for each activity. Therefore, the decisions must be decentralised.

*Cleaning assistant, female, 47 years old, provincial town*

Generally she is satisfied, but complains over not having more working hours. The contact to the customer's personnel is important. The contact to the supervisor does not function well. It is important for her to have a work place near her home.

*Supervisor, female, 33 years old, provincial town*

ISS is a life style, you either love or hate. It is hard to be a supervisor. The customers complain unfairly, the personnel criticize, but she gets support from her boss and colleagues.

The form of the cleaning organization for medium and large customer firms where the cleaning personnel only go to the customer's and rarely visit results in the cleaning assistants identifying themselves more with the customer than with ISS. They know the customer's place. Often, if another cleaning company gets the contract, the ISS employees become employed in the new company. This is a situation where the employees stay while the contract shifts between diverse service providers.

### **Special services**

The special services have their own and differentiated forms of organization. These forms are not only different for each special service, but within each there is a variation. These special services are most often carried out at the customers' place.

The production organization of these services is generally flexible, but many production procedures are standardised. This is necessary because it often has disastrous consequences if mistakes are made, e.g. in food hygiene or hospital services.



They are not organised in teams as are cleaning service to small customers.

Rentokil, which provides special services, has a particular organization which is flexible for each special service. But at the same time it has a lot of standard procedures that must be carried out.

### **3. Employee involvement**

ISS has introduced several programmes to increase employee involvement and to develop the organization.

#### **TPP (Team Planning Process)**

The company has developed new strategies from time to time - in the 80s and beginning of the 90s and most recently in 1997. The development of the strategy has in these cases followed a procedure in which the managers of the company have been involved (Nøkkentved and Rosenø 1995 p. 160-62).

#### **TQM (Total Quality Management)**

TQM is a general quality development idea (e.g. Oakland 1989) that emphasizes many factors in the organization including many social ones. It does not follow a fixed scheme, but is applied to local conditions in each organization. The core idea of TQM is that the employees should be involved and quality development is not a matter of control, but of motivation.

TQM has been the most fundamental programme for the development of the organization and development of employee competencies in ISS since the late 1980s and many changes that are described in the interviews are results of it. TQM intends to ensure quality as well as organizational development.

#### **BPR (Business Process Reengineering)**

BPR is the idea that a firm should go through all its production system from one end to the other - from the first inflow of input factors to the last outflow of goods and services, and then look at every part of the flow process to see how it could be rationalised (Hammer and Champy 1993).

In 1994, ISS Denmark, established a BPR programme. In 1997 managers, leaders and employees expressed the general opinion that the BPR project not had succeeded. Too much time had been used and the results were too inconsequential, and where they are of significance they are difficult to separate from the results of the TQM programme.

### **4. Conclusion: Breaking through of flexibility?**

ISS attempts to make the production organization more flexible, the production organization of the Home service firms is naturally more flexible, but is the production organization all in all becoming more flexible in the manual services treated here (which is mainly cleaning)?

It is becoming more flexible through the introduction of some flexible elements, but only slightly. Most flexibility has been introduced in the delivery organization. The pure production system is still much rigid; result cleaning has for example not been a very large success as was demonstrated in chapter 14.

Only the team organization which ISS and Merry Maids have introduced to small

customers, seems to be a breakthrough of an efficient flexible organization, which at least gives more involved and motivated employees. Whether it is a breakthrough in relation to the customers, i.e. creates growth in turnover and profit, is more doubtful; it is not very clear that it does.

## **Part 4**

### **Second solution: Development of market behaviour**

## 16 Other ways out: The innovation and business-renewal principle

This chapter presents a second solution to the squeeze. It has been developed in ISS and some of the other service firms to help solve the problems and develop the business. The presentation of this second solution is based on a discussion of how well the employee-orientation and modulisation principle works.

The second solution is called the innovation and business-renewal principle. It is primarily oriented towards the market and external changes such as the introduction of new products or invading new business fields.

### 1. How well has the employee-orientation and modulisation principle succeeded?

The analyses in chapter 12-15 show that the employee-orientation and modulisation principle has succeeded and that some of the problems have been overcome. The production system has been modularized whereby individual customer care and standardised, cost rational, production have been combined. Several professional elements have been introduced to attract and maintain qualified workers, but until now this attempt has only been of limited success. The organizational forms have become more flexible. In particular, the teams for the small customers have been successful in motivating and keeping people at ISS (but not so much at Merry Maids). However, the production organization of the medium sized and large customers in general cleaning has, although some flexibility has been developed within the delivery system, in general remained a rigid production system that has not motivated the employees to remain in the company.

Thus, the principle has only been successful to a certain degree. It has moved the product life cycle slightly. For the customers, the principle has meant better service quality and extra (peripheral) services, but still is cleaning and similar physical service activities in general not very important for them. They will not pay much more for these services even if the quality is increased and extra services added. Further, the effect of the principle might only last for a shorter period after which hard market competition will press the prices down again. The employee-orientation and modulisation principle is easy to imitate and other service firms may copy ISS and other firms in front. Therefore, this principle can help to solve the squeeze, but it is not sufficient. Other means must be added and these means should be at the core of the firm's development without the employee-orientation and modulisation principle being abandoned.

One conclusion of this analysis is that the most crucial factor for overcoming the squeeze is the importance to the customers of the activities. As long as the manual services are of only inferior interest, a new product life cycle is difficult to create. Therefore there is a need to develop new types of services that can improve the strategic importance of the manual services to the customers.

This conclusion is valid for general cleaning, catering and other general manual

services. When we turn to special services such as the food hygiene service and hospital services, the situation is different. They are already of crucial importance to the clients, and the profit margin in these services is large and growth and development possible.

## **2. What else can be done? - Development of innovation and business-renewal**

What can firms do to develop the service concept and production system so as to increase turnover and profit? In this section, I will describe the most important means that could be used to do this. These means have been used by some manual service firms and they have all been implemented or discussed within the ISS. I have selected these means from my analysis of the industrial situation of manual services and the experiences that have appeared from analyses of manufacturing and other service sectors. These means are those that may be assessed on this basis in that they are the most obvious ones to implement to overcome the manual service squeeze. The criteria for this has been that the means should increase service prestige and make them more important for the customers.

These means can be presented as the innovation and business-renewal principle. I will briefly present them here and then discuss them more in detail in the coming six chapters.

### **The innovation and business-renewal principle**

*has four elements:*

- **Specialisation and knowledge basis**
- **Technology and innovation**
- **Move to less residual fields**
- **Internationalisation**

The innovation and business-renewal principle goes further than simply improving the existing production and delivery organisation. The whole business must be changed. The service firm should create a completely new market situation and this principle is thus primarily externally oriented - where the employee-orientation and modularisation principle was primarily internal oriented.

Four elements could be relevant for the implementation of the innovation and business renewal principle in manual service firms - not necessarily all of them in all firms. They are of two types: The two first elements concern the service concept and are intended to develop new service concepts, and perhaps production systems, which are of greater core value to the customers. The final two concern the business field (cf. the model in chapter 11) and intend to move the service firms into new, more prestigious business fields. The service firms could either introduce new types of service concepts or change to a new business field or both.

These elements have both external and internal effects (however, the external ones

are the most important). Innovation and technological development can develop the production organisation.

The four elements are:

#### *1. Specialisation and knowledge basis*

The manual services could be more specialised and knowledge based; even science could be introduced as a basis for the development of manual services.

This will be discussed in chapter 17.

#### *2. Technology and innovation*

Introducing more and advanced technology could develop the services as could innovations. The innovations could be technological, but it is not necessary; in services many innovations are non-technological (Sundbo and Gallouj 1998) - they can be new non-technological service products, new way of organizing production etc.

This will be discussed in chapter 18 (technology) and 19 (innovation).

#### *3. Move to less residual fields*

The firms could find service activities that are of more core interest to the clients and have greater societal prestige. Such fields could, for example, be personal services or environmental services. These fields demand new competencies and production systems of the firms and new skills of the employees.

These fields, particularly within personal services, will often be within the public sector, or in relation to that if it concerns outsourced public services. Thus, the relationship of the service firms to the public sector is of importance as already mentioned.

This will be discussed in chapter 20 (production organization in personal services) and 21 (the relationship to the public sector).

#### *4. Internationalisation*

Internationalisation could diffuse new ideas, create a broader market basis for businesses and perhaps increase the prestige of manual services.

This will be discussed in chapter 22.

## 17 Specialisation and the knowledge basis

The first tendency towards developing new service concepts may be characterised as specialisation. This is related to a tendency to make the manual services more knowledge based which means that it demands more knowledge and qualifications to develop and produce the services; this may be developed so that service is based on science and eventually laboratory work.

Different types of services can be developed within this framework, the crucial characteristic is that they must be based on a narrow specialisation, preferably based on a profound knowledge.

This chapter will present the attempts by service firms to and discuss the perspectives of this attempts.

The solutions discussed here concern what the single manual service firm can do to improve its situation. They are principles for firm's strategies. These principles are discussed for the manual services that this book focuses on - cleaning, catering, laundry etc. They may be an inspiration to manual service firms operating in other industries, but the conditions vary between industries thus one could not use the solutions directly without analysing the specific conditions of each industry.

### 1. Specialisation

#### Why specialisation?

The manual service firms must get out of the mature industry squeeze by specialisation and innovation. That implies a shift from economies of scale (as ISS has practised, and which characterises mature industries) to economy of scope. The shift could lead to an economy of scope and scale, but does not need to do it.

This has been the route that firms in other mature industries have followed when they have succeeded in bringing themselves, and thus the industry, out of the crisis of maturity.

Services are about solving problems that existing or potential customers have. Some of firms' and household's problems have been solved while others have not yet been solved; the customers are not always aware of the fact that they could be solved. Services are not always about solving defined problems, but can be an offer to make life a little easier for the customer by solving problems that they do not realise could be solved.

As concluded in chapter 16, the manual service firm must find service concepts that are of core value to the customer and which increase the value added. That means that he can buy more services - to be interested in more sophisticated services for which he is willing to pay more. Thus the service firm will be able to get out of the price squeeze, raise the price, and increase profit that could be invested in further developments of the services (i.e. further specialisation and knowledge input and more innovations) and thus start a new product life cycle.

One of the managers interviewed in ISS has expressed the situation as follows:

<b>From general services of peripheral value to the customer to specialised services of core importance</b>
<i>Reflections in ISS</i>
Until now ISS has mostly sold general cleaning that is characterised by it having a low risk of supply, which means that it does not matter much if it is not delivered in time or at all, and it creates no, or little, value added to the customer (situation I).
ISS should move towards providing services that fit the situation II: High risk of supply to the customer - his production is seriously disturbed if the supply does not work, and creation of much value added to him (it is important to his production).
<i>Source: The figure is due to HRM manager Poul Poulin, ISS</i>

Specialised services can increase the value added for the customers and make them more dependent on the external service provider because the solution of the problems now requires greater expertise, which is more difficult and expensive for the client to manage in-house. Specialisation, and innovation, can increase the externalization tendency and make it more permanent.

ISS earns much more money in relation to turnover in its specialised food hygiene service than in general cleaning, and there is not the same price-lowering squeeze. One could compare ISS, which main activity is standard cleaning (about 85 per cent of the total turnover), with Rentokil. It has, at least until recently where a stock extension took place when Rentokil bought BET (a large UK service company), not provided standard cleaning, but only special services. Rentokil has a much higher profit level than ISS. In ISS they accept a surplus from the subsidiary companies of 4-5 per cent of the net capital while Rentokil operates with 15-20 per cent. Rentokil also had a revenue growth of 165% in 1996 while ISS had a growth of 17% (The Economist 1998). The



difference is not all due to different policy of letting profit remain in the subsidiary companies for new investments, it also reflects a real difference in surplus. Falck is also an example of a service that has successfully specialised their services

ISS employs more people than Rentokil per £ turnover, thus they are more valuable to society because they create more employment, and they employ people with the lowest skills, who are those who are most difficult to employ. The special services that Rentokil provides demand higher qualifications (although they are not necessarily much higher). However, it is an open question as to whether it benefits society that this very low qualified service work is maintained. It might create jobs in the short term, but in the longer term it might withhold people at a level of qualification that is not required, e.g. if the specialisation tendency wins within all manual service fields. That would imply that simple manual service activities such as general cleaning disappear or at least are minimised and substituted by specialised and highly skill demanding activities (e.g. office cleaning implies the sorting of papers and the preparation of meetings, factory cleaning implies environmental protection, home cleaning implies maintenance of security equipment etc.). It might be better to develop the services and the qualifications of the workers. One could also argue that some simple manual service activities will always exist because they can not be specialised and science or knowledge based, and they should be manned. Only time will show which tendency will win.

The specialisation also solves the problem of simple standard products which all the firms in an industry offer. The single firms will offer special services and do so in their special way, thus a general differentiation of the industry will be the result. This will decrease the direct competition between the numerous service firms although there will still be competition between firms within each specialised area. This competition, however, will not be pure price competition, but also a competition in terms of quality, innovation, and other factors that can create a greater surplus.

### **What is specialisation?**

Specialisation means that the solution of the customer's problems must be more sophisticated. It implies also a development of the service product and production methods. Particularly efficient methods must be developed which solve the problems better, as much technology as possible must be developed and used. This means that each type of problem must have its own methods and its own technology. To clean machines in slaughterhouses is different from cleaning a chemical plant which has a risk of polluting the environment. The solution to a series of problems that the same customer has could be combined. Each solution should be specialised. Thus, specialisation both in different customers segments and the solutions of different problems should be developed. The service firms should increase their expertise, meaning that they become specialists and have a deep knowledge of their speciality.

By specialisation each service product becomes unique, it is not standard cleaning anymore. It creates better solutions and greater value added for the customer. The services can not be imitated by other firms as easily as, for example, standard cleaning or standard catering. The way of running the canteen at my university could be imitated by most people that know how to cook. The three-starred French restaurants such as Michel Guérard in Eugénie-les-Bains, and MacDonald's are specialised,

although it is in different directions; neither one of them could be imitated easily.

Specialisation does not say anything about whether the solution provided should be specifically “tailored” to the single customer or a standard, industrialised service. Michel Guérard tailors his service while MacDonal industrialises it.

As the specialisation principle has been introduced, it is easier to find unsolved problems at potential customers, which will say to create new markets. This demands new solutions, which means the development of new service concepts or innovation which will be treated in chapter 19.

For the single service firm, e.g. ISS, that has standard manual services such as office cleaning as their core activity this should not lead to an abrupt abandoning of these products and instead starting an extensive innovation process to develop these specialised services. That would be too dangerous because innovation is a risky process. This book generally follows a dyadic principle: To combine two different - and sometime opposite - development principles in a balanced way. The service firm should keep the old standard activities and attempt to develop these from their own conditions and simultaneously specialise by introducing new specialised service fields.

## **2. Knowledge and scientific base**

Specialised services also often mean that they must be developed "in depth", i.e. they are based on the advanced knowledge of that particular area. They become more knowledge based. Specialisation and knowledge basis are in practice often, although not logically necessarily, combined. It could be obvious for manual service firms to combine them. The more knowledge behind the special service, the better the solution of the customer's problem should be and the greater the value added it would give to him.

The knowledge basis could be developed to be scientific basis where scientific results and research are the foundation for the specialised service concept. Examples of this may be found in Rentokil, who's pest control service is scientifically based. Biological science is used to investigate the life and behaviour of the pests and biological and chemical science to investigate how they are controlled. Rentokil even has laboratories and its own research and development unit and biologists are employed in the national companies to ensure the knowledge and scientific basis.

The knowledge or scientific basis has also other advantages for the service firm. The service concepts are more difficult for competitors to imitate because they are complicated and imitation demands much knowledge, and it may be supposed to give more social prestige since science in general has high prestige.

The knowledge basis demands new competencies in manual service firms like ISS. They must employ people with university education and other specialists and even the service workers often must have higher skills. On the other hand, the jobs will be more demanded and personnel turnover reduced; at least this is the situation in ISS Food Hygiene Service, which is a knowledge based specialised manual service.

If the service concepts should be scientific based, it demands R&D departments, which would be a new organization that may not fit into the corporate culture and which demands high investments; both could be a problem in many manual service firms.

### 3. Problems that knowledge based specialisation may solve

- **The customer loyalty problem**

The customer loyalty problem is solved by the single service product having a higher value for the customer. The way it is produced and delivered will become more important.

- **The rationalisation limits**

The problems of the limitation of further rationalisation of the production organization will also be solved because this will not be the only, or even the most, important competition parameter. Further, service production will be established in new forms within the specialised field, which will allow the rationalisation movement to start from zero again. Thus, a new future rationalisation potential will be created.

- **Problems of low entrance barriers**

The problems that the low entrance barriers of the manual service industries have created will also be solved by specialisation and innovation. Specialised service which have a complex production and delivery structure demand much expertise, and in turn will heighten the entrance barriers.

- **Problems with image and black sheep**

If the services become more specialised and science based, this will improve the image because science and expertise (as specialisation implies) have a great deal of prestige in society. This could be used by the service firms to differentiate themselves from the black sheep that do not have these characteristics.

- **The problems of do-it-yourself**

The service firms may also use specialisation to increase the private market. New services could be developed - such as taking care of plants, lawns and looking after the house when people are on holiday, or more specialised services such as washing linen napkins for people that are against paper napkins for ecological or other reasons.

Another strategy is to make the products advanced and specialised self service products. This could be relevant to specialised service firms because problem solving is difficult and demands expertise. However, this step demands that the service could be put into a technological form such as bank services have been (ATMs and other automatic bank machines). To standard services such as cleaning it is of less value. This possibility was discussed in chapter 15.

- **Relationship to the public sector**

Many of the manual service industries also need to develop a better relationship with the public sector. Specialisation in delivery to the public sector could solve that problem. This will be discussed in chapter 21.

### **5. Implementation of the specialisation and knowledge basis principle**

The implementation of the principle can follow different routes. As mentioned, Rentokil has developed a scientific approach with laboratories and R&D departments developing the specialisation. ISS is in a different situation where the principle has not been so consistently introduced and the company is in an earlier stage of development of the principle.

#### **ISS Strategies**

In the 1980s and early 90s ISS has had a double strategy: To develop standard cleaning from its own conditions and simultaneously develop new specialised services (Pade 1991). This strategy has been changed in 1996 and beginning of 1997. In that period the company has stuck more to its core business, standard cleaning. Many specialised areas have been sold out and development activities been laid down. The explanation has in some cases been that they did not earn money from the activities, but in other cases it was a pure strategic decision (however, not all special service fields have been sold or abandoned).

By the introduction of its new strategy, Aim 2002, in autumn 1997, ISS showed that the company has changed their core business strategy. Cleaning still is the core business, but the company attempts to specialise the cleaning. This strategy turns around completely in relation to the one that has been emphasized the previous couple of years.

#### **The standard services left**

A tendency towards specialisation will mean that much of the current standard service will be transformed into high-expertise special services, but still some tasks of banal standard manual services will be left. Who should be responsible for that? It could very well be small firms established by individuals with no particular competence. These firms can utilise their flexibility and the fact that they do not need any investments. For society it is a problem if such firms are illegal. The political system may need to introduce a regulation mechanism such as subsidies for such firms (as in the Danish Home service system cf. chapter 23), authorisation or control.

These small firms may have competition for large firms such as ISS that have decided to have a market leader strategy, at least for a time. Whether that will be permanent, depends on the large firms' ability to develop other elements of their production and delivery system instead of work rationalisation. This is an issue that will be discussed in the following chapters.

## 18 Technology

Technology is one of the five factors of the production system (the input factors) that has not yet been treated in this analysis.

Technology has been a core factor - somebody would say *the* core factor - in the development of manufacturing. The logic of manufacturing production has been that machines take over an ever increasing number of the production procedures. Service procedures might have followed the same logic. In principle there is no logic nor scientific laws which say that movements that people make during the production of a service are not as easy as the movements in manufacturing and could be copied by a machine. However, it is not so in practice. Ironically the largest and fastest development of introducing technology has, in the last decade, been within knowledge services (such as accountancy, consultancy etc.), which one would have characterised two decades ago as being impossible to mechanise because the procedures are intellectual thinking. This development is due to the fact that ICT (information and communication technology) has gone through a revolution the last decade. That may not necessary lead to all knowledge services being automated and done by machines, but even more knowledge services will be delivered by a machine, operated by the customer (e.g. self service in banks).

Manual services have not gone through the same technological development, nor is there any sign that they will do it in the near future - although there have been some technological developments. That characteristic is particularly true in cleaning, catering and similar services that this book in particular deals with. However, there are great differences between the manual services. In other manual services such as retailing and transportation, there has been a more rapid technological development with greater impact on the production and delivery process.

Why have manual services lagged behind other sectors in technological development, and what are the consequences of this? These questions will be discussed in this chapter.

### 1. Slow technological development

As we have seen, manual services have a development problem. The productivity does not increase or only slowly in many manual services, new products are not developed very well and other attempts to develop the service products or the delivery system have difficulties in being applied as this whole book demonstrates. Manual services are still very labour intensive. These facts mean that manual services have great difficulties in improving the business by providing the services more cheaply. They also have difficulties in providing new and more interesting services that the customers are willing to pay more for.

Technology could be a factor which could solve these problems as it has in manufacturing. Technology could increase productivity, and if a larger part of the service production and delivery process was carried out by technology - either as a

tool for the service personnel or as automated production - this could also be a basis for technological innovations, which again would create new services (or at least new forms of delivering services). The latter could be a basis for selling more services.

It is not because there has not been technological development at all in cleaning. Some new technology has been introduced, and together with development of methods it has resulted in increase of the average cleaning rate from 40 square meters per hour in 1965 to 350 square meters per hour in 1992 (Nøkkentved and Rosenø 1995 p. 157). Most of this development is however due to method and organizational development and the technological development have been very small incremental steps so technology has not been a main factor in developing cleaning.

The need for technological development at the same time as the system (the society and its actors, including firms) do not deliver much new technology constitute a technological squeeze of the manual services.

## **2. The problems**

### **Little R&D within relevant fields**

The main problem is that the technology is not developed. There is in general very little research in technological spheres relevant to manual services, neither in universities nor in applied research and development institutions. It is rare to find a university with an institute of cleaning machines or gastronomic, technological cooking procedures. There are exceptions such as transport and building repairing where research in different areas are widespread, but generally no society has defined manual service areas as a large field for research and higher education per se (still with a few exceptions such as tourism and retailing which, however, both do not include much technology development).

The service firms themselves do not research and develop much technology in-house either. This is due to the lack of a tradition of doing research or even systematic, experimental development of technology within the manual service field. Such a tradition would normally come from the basic research and university level from which individuals bring with them the tradition of doing technological research. Since this level does not exist, such a tradition has not been diffused into manual services.

One could ask if manufacturing firms that sell machines, chemicals and other goods to the manual service industries not develop new technology and provide it to the service firms, perhaps in collaboration with these? They do, but according to the interviews carried out in the manual service firms not to a very high degree. They are generally also in a situation where their market and product life cycle is in a mature phase.

This is a limited truth. Some technological development, e.g. of new chemicals within cleaning, have taken place. However, these developments have nearly without exception been incremental changes and not radical ones that could give the manual services a kick so they could take a qualitatively jump in development (cf. the difference between incremental and radical technological innovations, Abernathy and Utterback 1978)).

The state could have been an actor that had created the development of new manual service technology, for example by creating special research programmes or setting up special research or change agent institutions. This has also happened in many

countries. In Denmark there is, for example, an Institute of Cleaning Technology. Other institutes for the development of technology for other manual services exist, but they are not many and the allocated resources small compared to those allocated to research areas relevant to manufacturing industries, or even knowledge services (if one thinks of accountancy, management science, law departments and the like of the business schools and universities as R&D institutions for knowledge services). Further, the existing institutes have not succeeded in producing many radical technological breakthroughs.

### **Small money for investment in technology development**

Even if a tradition for R&D orientation, strongly emphasizing technology had existed in manual services, or where it exists, very few service firms can afford to undertake technological experiments and research. The profit margin is far too small for the firms to create any basis for investing in technological innovation activities.

### **Political unwillingness**

The political system has proved to be unwilling to, or un-interested in, promoting the development of manual service technology to a larger degree. The issue is not the focus of the political debate.

An exception is again transport services, which has so much prestige, and the development of which is so connected to the development of transport equipment industries (e.g. automobile industry, shipyards etc.) that the technology development is greatly emphasized.

### **Inertia**

Even though many manual service firms are change and innovation oriented, they are used to thinking within a labour-intensive logic. This means that if a problem occurs, they tend to solve it by quick organizational changes instead of starting a long, insecure technology development process. This is more marked in the small service firms that I have interviewed than in the large ones such as ISS, but even there inertia exists.

## **3. Solutions to improve technology development**

Here I will discuss some means for solution of the technology squeeze.

### **Internationalisation**

The more internationalisation of manual services, the more technology will be introduced. If some service firms introduces more new technology and goes abroad, this process could force the local firms in the countries where they establish themselves to introduce new technology.

### **Old-fashioned luxury service strategy**

A solution for the single service firm could be to choose a strategy that emphasizes old-fashioned service approaches. Instead of introducing the newest technology to increase productivity and create an image of being the most technological advanced service firm, the company could emphasize another image, namely the old-fashioned

luxury personal service.

### **British Supermarkets offer delivery directly to people's home**

Several British supermarket chains now offer a service where people can phone to the supermarket and order goods, and then the supermarket will bring the goods to their homes. An appointment of delivery within a two hours interval can be made. The system is supplement by catalogues which show the goods, sometimes on the internet. The supermarket chains have made an extra investment in cars to deliver the goods and engage people to drive the cars and pick up the goods.

The customers pay between no and five pounds per delivery.

This personalised service goes against the technology based self service tendency. It is supposed to be used particularly by people that can not come by car to the supermarkets - either because they do not have time, can not park the car, have traffic jam problems or do not have a car.

Could this be a strategy which leads to market leadership or is it only a niche strategy? It is generally only a niche strategy. The personnel intensive service is more expensive than the technology based service. Could the manual service firm get the customers to pay a higher price for the old-fashioned personalised service? Experiences until now, in retailing, hotel and restaurants, and the Danish Home service shows that this is very difficult.

The possibilities of realising this strategy are also related to the wage level since the strategy demands more personnel. It is more realistic in, for example, the USA where the wages are perhaps one fourth or less of the wages in Denmark.

So, many factors points to the fact that the technology squeeze can not be avoided by choosing this strategy if on will enlarge one's service business.

### **Governmental technology development programmes**

The government often establishes a programme to promote technological development.

However, such a way of thinking could be inconsistent to the politicians' own goals of increasing employment if it includes the view that new technology decreases the number of jobs. This might be one reason why such technological development programmes have been so few. A way out could be that the politicians become convinced that technological development creates more jobs. However, they should also be convinced that these jobs can be fulfilled by the low skilled people that now are unemployed.

### **Technological R&D in manual service firms**

The service firms themselves could invest in technological R&D. As argued earlier, many of them can not afford to do this. Thus, it demands cooperation with other actors, for example suppliers of technology, customers, trade or public organisations.



This leads to a general discussion of innovation which will be introduced in the next chapter.

The discussion of the solution of the technology squeeze thus will continue in the next chapter.

## 19 Innovation

Innovations are crucial for developing the manual service business as it is to all other business. No firm can stay in the same position producing the same services or goods in the same way. Then they will be caught in the product life cycle squeeze.

Service firms have extraordinary good possibilities for developing an innovation system. The basis for innovations will be the question of which problems the customers will face in the future. This is the case for all industries and to services in particular. Since service firms are forced to have a close relationship to the customers in the delivery situation, they have the best possibilities for getting an impression of the customers' future problems.

### 1. The notion of innovation in service firms

Renewals in service firms take place as small adaptations to the customers needs in the daily delivery, somebody would say. That is right, but innovation as a more conscious process where the firm has - or at least attempts to gain - control over the situation is also important. Further, in some situations it is necessary to develop the business more than these single-event adaptations, thus a more organised innovation process must be introduced.

This also leads us to the definition of innovation as the term will be used here: It is a more organised and managed process than just scattered adjustments of the production or delivery (Sundbo 1997a). These scattered adjustments are often not communicated to anybody and when the same problem occurs in other situations, the employees or the managers need to invent the solution once more - sometimes in a less efficient version. Solutions to problems must be diffused within the firm and thus must be in large scale - what I here call an innovation. An innovation must be an identifiable project.

Still there is a need for adjustments in production and delivery, e.g. if failures occur, but this is already treated in chapters 12 and 13 as production and quality problems. In this chapter we talk about innovation as conscious large scale renewals as defined above.

Innovation is often (e.g. Coombs et al. 1987, Dosi et al. 1988) understood as technological innovation, but it does not need to be so. Social innovations such as new forms of organization, new interactional relationships to customers, and new management principles also exist, not at least within services where even new products can be non-technological (e.g. a new type of advise from an consultant). Therefore, when I speak of innovations, they may be technological as well as non-technological. In this chapter I will discuss the importance of both types in manual services. The general issue of the use of technology in manual services was treated in the previous chapter. This chapter is about innovation so it focuses only on new technology which becomes an element in the innovation processes.

Innovations can have different forms. They can be:

- New products - whether goods or services;
- New ways of producing and delivering the products (goods or services) - process innovations;
- New forms of organization or management principle;
- New market behaviour - marketing as well as market behaviour in a broader sense such as new strategies, new types of alliances and co-operations, opening new markets etc.

Some innovations are radical and change the whole industry fundamentally, some are more modest incremental innovations that change details. It has been discussed whether the phenomenon (the innovation) must be new to the whole industry or the world, or it is sufficient that it is new to a certain firm, to be called an innovation. When I talk of innovation, I mean something that is new to the industry in one country, because this is the crucial point concerning the strategic competition situation.

One must admit that an innovation is not always a positive activity that necessarily leads to business success. It is a risky process where failures are more common than successes. So manual service firms are careful when undertaking innovation activities and they should be prepared to waste a lot of resources - money or man-hours. Why do service firms innovate? Because there are situations where firms need to if they are to reverse a downward trend. You need to take the risks, also of dying a quick death, because otherwise you will die in the long run. Of course, you can apply different strategies towards innovation such as being number two, which means letting another firm take the risk and be the first and then copy his behaviour and imitate his innovation. Even that can be risky, for what if he runs away with the market because he is the first mover and you never get the opportunity to establish yourself on the new market?

## **2. Manual service firms have not been sufficiently innovative**

### **Service firms have particular problems**

The service industries, in particular the manual services industries, have traditionally not been very innovative compared to manufacturing (cf. Sundbo and Gallouj 1998, Djellal 1998). Service firms have not been aware of the possibility of innovation as much as manufacturing firms. Although service firms, including manual service firms, have recently become more innovative, it is still an open question if they are as innovative as manufacturing firms.

Why are service firms, including manual service firms, relatively bad at innovating? A set of contingent factors have produced a squeeze which maintains the firms at a low level of innovation.

One factor is that service innovations can easily be copied. Manufacturing innovations - whether product or process innovations - are generally more complicated because they involve complex technology, and to copy that the competitors must have great deal of knowledge of the specific field. Service innovations are often simple rules of behaviour which can be copied very quickly by competitors. A new cleaning principle or restaurant concept can easily be investigated and imitated by other service firms. For example ISS reports in the interviews that their system of producing and delivering the standard cleaning services are soon

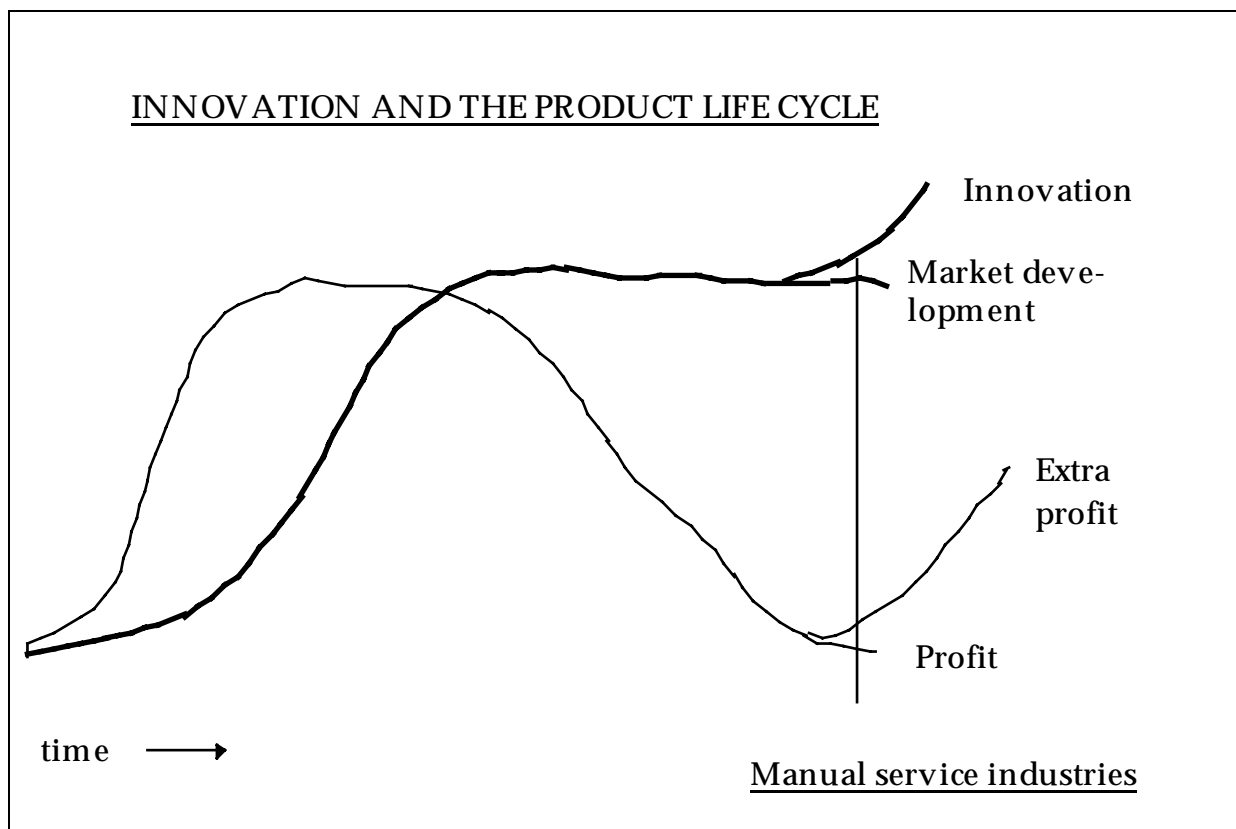
copied by other cleaning firms. This is the case with organizational principles as well as technology. This has been confirmed by the other cleaning firm I have interviewed, and they say that this is done, among other things, when managers from ISS move to another firm or establishing their own cleaning firm. To the question of why ISS has become a market leader, the answer is that it is not because of innovations, but because the customers have confidence in ISS delivering what is expected. The crucial factor is thus a standardised production, tight control of the production and quality, and a size factor. The fact that ISS is already big and market leading makes the customers believe in the firm's ability to deliver the agreed service.

Thus, the protection of manual service innovations is difficult. Every service firm has the risk that an innovation in which they have invested a lot of money is copied by a competitor within a short time. The innovating firm has thus invested in a development that is to the benefit for its competitor as much as for itself. Furthermore, the extra profit is highest in the beginning just when the firm has launched a new product, production or delivery process or whatever the innovation might be. An innovating service firm has a risk of never getting this extra profit if competitors imitate the innovation very quickly. The consequence is that it is not interesting for service firms to take the risk and attempt to innovate.

Innovations in services are also different from those in manufacturing in the way that manufacturing innovations are more often driven by science-push than in services, where the innovations are more often driven by market-pull. Ideas for innovations come relatively more often from interaction with customers in services and there is not nearly as much basic research of relevance to service business as of relevance to manufacturing, where all natural and technical sciences provide a stream of results. This situation makes it difficult for service firms to get ideas for innovations. They can not induce research that will result in new ideas, but have to wait to some customer in interaction with the service personnel expresses a new idea, or the service firm must get new ideas from its employees directly. Manufacturing innovations can follow a technology trajectory (cf. Dosi 1982) where one innovation leads to the next. Since services, including many manual services, are not nearly as technology intensive - or has not been so - this situation has not been valid to these services.

### **Product life cycle problems**

The consequence of the missing innovations is that the manual service firms get stuck in the mature phase of the product life cycle where organic growth (through new market areas) is not possible, cf. chapter 4. One of the problems is that the manual service firms lack capital because they can not accumulate much capital due to the low profit rate. Only competitive growth by acquisition or out-competing competitors is possible (and is what for example ISS has done). This, however, has not increased turnover or profit rate. To break the actual stagnation tendency, the manual service firms must innovate to create a new phase of prosperity phase and so a new product life cycle will occur. That would increase profit and demand, and give room for further renewal of the business, including the production and delivery organization.



Innovations can turn the recession tendencies within manual services and create a new product life cycle which can turn the recession tendency and create extra profit because the market will pay more for the services.

The service firms have an advantage of being closer to the customers than manufacturing firms due to the character of the services (that the customer must be involved in the production). However, research shows that many service firms have difficulties in exploiting this advantage because they do not know how to transmit the ideas from the customer interaction situations into systematised innovation projects (Martin and Horne 1993, Edvardsson, Haglund and Mattsson 1995, Sundbo 1997a).

It has been shown, at least for knowledge services, that there is a reversed innovation cycle in services (Barras 1986). This means that new technology in manufacturing is used first to develop new products and then it turns out that it can also be used for reforming the production processes. In services it is the opposite way round - first the technology is used to reform processes, then it becomes a basis for developing new service products. Although this result concerns knowledge services and technological innovations (the theory was developed from studies of banks), it might be valid to manual services and non-technological areas as well. There have been discussions of its validity so it is difficult to say how general it is (Gallouj 1997). If it is valid to manual services, it is another squeeze because process or product innovations where manpower is replaced by machines are then those that has the largest effect on turning the product life cycle and increase profit. Technological innovations in manual services are few, cf. chapter 18, and there are narrow limits for

pure social process innovations because people can not run much faster or better than they already do.

In fact, manual services such as cleaning, catering, environmental services, security services etc. are not among the least innovative service industries according to a Danish survey, cf. below. Their overall innovativeness is above the average and this is the most innovative of the manual service industries - of which particularly retail has a low degree of innovativeness.

<b>Innovation in Danish service firms</b>					
<i>The share of enterprises which have implemented essential renewals within different areas 1992-96. Results from a survey to Danish service firms</i>					
<u>Percentage that have implemented essential renewals in:</u>					
	Products	Processes	Forms of organisations	Market behaviour	General*
Average (all services)	63	62	45	55	78
Cleaning etc.	66	62	51	64	83
Wholesale	62	58	43	52	68
Retail	40	40	21	46	64
Hotel and restaur.	50	50	75	75	80
Transport and tele	55	48	45	55	73

\* Essential renewals in at least one of the four categories  
N = 622

Source: SI4S project, DTI Industrial Analyses: Service development, Internationalisation, Innovation. Main results from the Danish Survey, Taastrup 1997

However, the firms in cleaning etc. particularly have a preponderance of market and organisation innovations while they are about average concerning product and process innovations. The rate of product innovation is a little above average and is larger than any other manual service industry. This is not bad, but it has not been sufficient to break the manual service squeeze. These manual service industries may be on their way to doing so, but the innovativeness should be even larger. In particular product and process innovations should be larger, and it would be an advantage if more technological innovations could be developed.

### **3. Increase in innovative behaviour**

#### **The means to increase awareness**

The manual service firms should be more aware of the possibility of being innovative and introducing a more entrepreneurial spirit. Of course they are stuck in the matureness squeeze, and it demands great effort to become more innovative and many projects will fail projects, but if no firm ever takes the risk, the whole sector will remain in a mature situation where the competition will be even harder. There are some ways out of the innovation squeeze that some manual service firms have found. This will be demonstrated.

The first factor, awareness, is probably the most difficult. How to make existing manual service firms entrepreneurial and how create new entrepreneurs (which have an innovative idea, and not just want to open a traditional business)? The cases that I have had possibilities to study are not many. We can set up the traditional means as follows:

1. Awareness campaigns, e.g. worked out by trade or employers organizations
2. Training and education, either directly of managers and owners, or indirectly by introducing entrepreneurship elements in the formal education system
3. Public support systems
4. Strategic analyses that show manual service firms that they will constantly have problems if they do not innovate (such as this book attempts to do)

Of these means, the second has (Rosa 1992) been demonstrated to have low effect. Entrepreneurs can not be made through formal training. The first and fourth means are probably the most efficient, but the problem is: who will do this? The employers organizations are perhaps the best institutions to do it, but they are often very cautious not to treat any members unfairly or support some at the expense of others. The public political-administrative or researchers could do it. The political system could even launch support programmes. In Denmark this has been attempted through the Home Service system, which has - without being a total fiasco - not been a great success either, particularly not concerning increasing innovativeness (Sundbo 1997b). Another example from Denmark, project Green Cleaning, has only been realised in a very small scale (see chapter 23).

#### **New types of innovation**

There are different types of service innovations and different routes of development which the service firm can take. One rough difference is that between prosumption and industrialisation (cf. chapter 5). In the prosumption system innovations becomes isolated ad hoc solutions tailored to tackle the specific situation. The solution, or innovation, has a higher degree of knowledge content and the personnel that should implement the innovation must have high competencies and perhaps skills. The competencies are due to the fact that the employees must make decisions concerning how the job should be done and should interact with the customer in the decision process. Whether the demand is also highly skilled, depends on the type of service. The competencies are primarily founded in the single employees (or managers), and the client's competencies are an element in the innovation process since he is directly

involved in the innovation process. The presumption route is traditionally followed by knowledge services such as consultancy or accountants.

The industrialisation route has traditionally been typical within manual services. The services are mass produced and innovations are standard products or production or delivery procedures that are repeated many times. Innovations can be made as a “back-office” function within the service firm. It may be an advantage to involve the clients in the process, but they only present ideas and their competencies are not directly an element in the innovation process. The service firm’s competencies are more important than the single employee's because the innovation process is an organised one in which many parts of the organization are involved.

This has been the tradition. Recent developments have broken that pattern and new, mixed patterns are evolving. Even knowledge service firms make their services more standardised. On the other hand, some manual service firms attempt to make their services more flexible and oriented towards the single customers needs.

Thus many types of innovations could be relevant to manual service firms. Below is a typology of innovations that can be used as one tool to decide which route a manual service firm should follow, and which type of innovation it thus should develop.



*The French economist Faïz Gallouj (1994) has developed the following*

### **TYOLOGY OF SERVICE INNOVATIONS**

- *The Radical Innovation*

A completely new service system. The service product and the production and delivery processes and methods are new. It demands completely new competencies and technology.

This type appears in all service industries, but is very rare.

- *The Amoleration Innovation*

Improvement of one or more of the existing product or production elements. It could be better quality in the service delivery, a better way of cleaning, improved methods etc. This enhances the existing services and the competencies of the firm.

This type appears in all service industries.

- *The Incremental Innovation*

The addition of a new element (not a change of an existing element as the amelioration innovation). This may not necessarily enhance the competencies very much, but it increases the value of the service products. It often adds new technology.

This type appears particularly in mass producing service industries such as manual services where the service products can be defined exactly.

- *Ad hoc Innovation*

A construction of a new interaction situation with a client to solve a concrete problem. It can have great impacts in that situation and can in general increase the competencies of the service personnel, and maybe the service firm. It is rarely repeated in exactly the same way in other situations.

This type is typical in knowledge services such as consultancy, legal services etc.

- *Recombination Innovation*

Old elements, service products or production procedures, are mixed in a new way. It does not change the competencies or technologies.

This type appears in all service industries, but particularly in the mass producing industries such as manual services.

- *Objectivation Innovation*

No elements are changed or added, but the existing elements are made more visual. The service products and production and delivery process and its characteristics are described more systematically. This is a step towards industrialisation. The innovation is the systemisation and the following management system.

This type is found in all services, also in manual ones, but is cultural bounded: some cultures (such as the American) is more oriented towards objectivation while others (such as the Danish) is less oriented towards it.

The manual service firm could use all types of innovations although some are more natural than others. However, it might be a good idea to mix elements from these types in the innovation activities.

This also demands a new foundation for developing manual services. The manual services could have a kind of service trajectories by which I mean that there could be a service professional system in society in which there is research and diffusion of research results concerning services. The service professional trajectories create certain logics (e.g. principles in recipes that marks catering), which determine the innovations (one idea leads to the next). Such service professional environments exist, but they are not at all as dominant or with as much impact as the manufacturing technology trajectories. The political systems could make a contribution by emphasising and supporting research and education of special importance to manual services.

### **Organization of innovation activities**

The next step is to organise the innovation process in a better way. On the basis of the empirical studies that I have undertaken (in the firms mentioned in chapter 6) and other studies (Sundbo 1996a, 1997a, Sundbo and Gallouj 1998) I will discuss how that can be done.

In services, the core organization is in general not an R&D laboratory. Service innovations can generally not be developed in a laboratory, but must be developed in close relationship to the customer encounter situation, eventually in co-operation with the customers. Service innovations as they have been developed are rarely scientifically based. However, a better scientific basis for service innovations could be an advantage as mentioned above. This is partly a question of manual service firms establishing their own research and developing departments. Such departments could, besides the service professional topics (e.g. cleaning methods), focus on sociological and marketing topics because the foundation for developing service innovations is the question of which problems the customers will face in the future as mentioned precisely.

With or without an R&D department, the most important factor is to have an innovation process in which many - or all - employees and managers are involved. This comes out of the results of the case studies. Innovations are dependent on new ideas, so the firm should have as broad a platform for idea generation as possible. The employees are in contact with the customers, who can produce many ideas. However this corporate entrepreneurship should be balanced (Sundbo 1996a) as it is in the most successful service firms. It can use up a lot of resources and therefore the management should sometime restrict it.

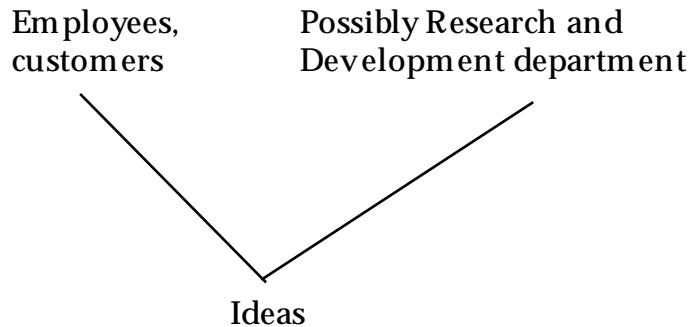
The management normally takes the decision as to whether to proceed with a new idea or not at several stages. It is important for the service firm to have a strategy so that it has at least some idea of where it wants to go. The strategy is the guideline for selecting innovation projects (Sundbo 1997a). However, the management should sometimes consider an idea which is outside the strategy (e.g. a new product and delivery system to households if the firm strategy is to only provide business service to firms). This could turn out to be a radical innovation that could give the firm a head start.

If the firm decides to continue, it is most common in service firms to establish a

cross-departmental project group to develop the idea to a stage where it can be launched on the market as a prototype. Before marketing, the idea must be tested on a limited scale.

## Model of organising the innovation process

### 1. Idea stage



### 2. Development stage

\* The management decides whether to go on with the idea  
If it is decided:

\* A project group with participants from different departments and functions is settled down. The relevant production department and the marketing department must be represented

\* The project group develops the idea in a (often) complex process. The management must decide whether to continue or not at different stages

### 3. Launching

\* The new product, process, organization or marketing behaviour is launched in a prototype by the relevant department (this is the marketing department if it is a product or market innovation, HRM and production departments if it is a process or organization innovation)

\* The prototype testing result is the basis for decision of whether to launch the innovation in large scale. The management takes the final decision

This is how most innovative service firms organise the innovation process (Sundbo 1997a, Martin and Horne 1993). Elements could be changed and new ones added; this is not a fixed recipe.

### **Co-operation with external actors**

Newer research has also pointed to co-operation with external actors as an important part of the development process. They can be research institutions, providers of technology, consultants or other firms. Due to fact that service innovations are easily imitated, it may be difficult to co-operate with competitors although their competencies may be complementary. A good solution is to co-operate sometimes with firms from other industries - in this case from other manual service industries. Many ideas and solutions, and not least organizational innovations, can be transmitted to other fields.

Co-operation with customers is particularly advantageous, but can be difficult because the customer often has no specific interest in the development of the manual services. However, sometimes they have, and even if not, the manual service firm can try to persuade them, for example by allowing particular favourable conditions, maybe also for the old services.

### **ISS Food Hygiene Service has a successful innovation process based on customer involvement**

ISS Food Hygiene Service, which provides cleaning service to the food industry, has developed an advanced model in which they involve the customers. They request for ideas from all employees, and connect the innovation with quality assurance. Often innovative ideas arise from existing quality problems. The ideas are collected and decided upon by the management, and for those accepted a project group is established to develop the idea further. At a certain stage before the prototype a customer firm is contacted and asked if it will join a common development project. If the customer accept, which he mostly do, a contract is set up and the rest of the innovation process is carried out in the customer firm by the ISS personnel as a common process between ISS and the customer. The customers of ISS Food Hygiene Service are in different position than most manual service customers because the cleanness is of crucial importance to their production and sale. Even when the manual services are not of that crucial importance, the manual service firm can attempt to involve customers.

Innovation could also come from classic entrepreneurship - entrepreneurs establishing new firms on the basis of innovative ideas. However, this is difficult in mature industries such as physical manual services. Classic entrepreneurs are intuitive people driven by their inner psychological motives. The entrepreneurs come when the

situation is mature - and they are mature for action. They often do not care which industry they establish themselves in, but normally it will be industries with fast development and new possibilities - characteristics that are not exactly valid for manual services. Thus, the entrepreneurs will not come before other have started a development of the industries.

### Protection

Finally we have the problem of how to protect the service innovation. Other means than those known from manufacturing are necessary in services. Patents as is used in manufacturing is very rarely used by service firms. It is of little relevance to service firms because the patent system has no means for defining and describing service innovations. Below is the result of a survey of Danish service firms in general.

<b>Means to protect service innovations</b>	
<i>The most important means mentioned by Danish service firms in a survey to all types of service firms</i>	
	Importance on a scale from 5 (very important) to 1 (very little important)
The image of the firms protects against imitation	4.0
Trade marks, public relations, advertising	3.0
Competition clauses for employees	2.8
Concealment of the process and know-how	2.8
Intellectual property rights	2.6
The used technology is difficult to imitate	2.4
The firm's market position protects against imitation	2.2
Patents	1.8
N = 622	
Source: SI4S project, DTI Industrial Analyses: Service development, Internationalisation, Innovation. Main results from the Danish Survey, Taastrup 1997	

The most important protection mechanisms are market mechanisms such as marketing and announcements, the firm's image in general and clauses which are included in the employee contracts and which forbid employees to start their own business or take jobs within the same industry for a period. More juridical means such as patents, intellectual property rights etc. are of less importance. The best protection is a good market position. The clauses with employees are mostly used within

knowledge services, but may be relevant to manual service firms, for example in a situation where employees or managers participate in an innovation project. If the employees or managers are to be motivated to do that, it is, on the other hand, necessary that they personally get some benefit from it if they should sign such a clause. It could be money, but it could also be promotion or other kind of social rewards.

#### **4. Conclusion: Innovation is necessary, but difficult**

Innovations, including technological ones, are one means that could get manual service firms out of the manual service squeeze, and probably the most important. However, since it is both difficult and risky to innovate, it should be combined with the other means mentioned in chapter 16-18 and 20.

## 20 Production of personal services

One possibility for manual service firms is to enter the personal services sector. The firms used as cases in this analysis have mainly provided physical manual services, but they could add personal services to their product portfolio, or maybe change completely to providing personal services. The advantage of this is that personal services are more crucial to customers than physical services because they concern themselves and it is a growth area, cf. the Danish analysis of development of the service sector (Serviceydelse 1994).

In this chapter I will begin by presenting some trends in the development of personal services, then discuss the importance of developing personal services to the society and then describe and analyse how the service firms that I have studied have organised the production of personal services. Finally, I will discuss how the demands to the production organization of personal services differ from those to physical services.

Although some market based personal service branches exist, the entry into personal services in Europe will very often mean that the service firms are moving into a field that normally would have been taken care of by the public sector; in the USA personal services are to a large degree market based. Therefore, in Europe, the service firms must relate themselves to the norms, behaviour patterns etc. in the public sector, and this is a condition for entering personal services. This aspect will be treated in chapter 21.

### 1. Development of personal services

The postulate that there is a large growth potential in personal than in physical services must be backed up by evidence. It is difficult to isolate physical and personal services, such as they were defined in chapter 3, in the statistics thus this will be based on selected indicators.

The Danish analysis of the service sector development (Serviceydelse 1994) mentions some indicators of the development of personal and physical services:

Personal services may be defined as certain welfare services, i.e. health care and social services (the latter primarily care services to elderly people and children). It is difficult to measure this development because of the limitation of the growth in public expenses, which means that the households go to the market, and sometimes the black market (informal work) to buy welfare services. However, the analysis mentions that the employment in the welfare service sector in Denmark has been increasing since the 1960s with a certain slowdown in growth since 1980 (Serviceydelse 1994 p. 259).

The analysis provides some indicators of an increasing future need. The number of households that have received home care services from the public sector have started to grow in 1988 and has over a period of two years (up to 1990) grown by 12.5 % (from 160.000 to 180.000) (Serviceydelse 1994 p. 262). The number of elderly people over 60 years who will have increasing needs in the future, is forecast to increase from 20.1 %



in 1993 to 26.3 % in 2030 in Denmark (Serviceydelser 1994 p. 265).

Personal care (which primarily in this statistics means hairdressers) has, in Denmark, grown 5.6 % in terms of employment and 0.7 % in turnover 1980 to 1990 (Serviceydelser 1994 p. 312). Physical household services (repairing of buildings, machines, cars, cleaning, gardening etc.) fell 17 % in employment and the turnover fell also. Physical business services however grow by 30 % in terms of employment 1980 to 1990 (Serviceydelser 1994 p. 61).

This shows that quantitatively there is a growing market for personal services to private households, but that the market for physical business service is also growing. However, this does not say anything about the possibilities of increasing profit within these categories.

## **2. The importance of personal services to society**

Personal services are important, not only to the clients, but also to the society at large and the state and other political authorities. They are important in two ways: They ensure the welfare system and they create employment.

Most of the personal services are part of what we in Western Europe consider to be the welfare system. This is the case in, for example, health care services, care service for elderly people and children. It is important for a society where the citizens expect a welfare system to exist that such a system is developed, whether the production is in public institutions or market based service firms. The system must be developed, in productivity thus the services become cheaper as well as in variation, which means that new types of services should be offered so the citizens have a choice and can have unsolved problems solved. Given the rapid development of society including work and job patterns, the needs changes continuously. A service system should be able to fulfil these changing needs.

A market based personal service sector can also create employment. The rationalisation and technologisation is not as developed as within physical services and it is probably not possible to develop it to the same degree. A core characteristic of personal services that many analyses point to is that the social interaction between the service worker and the client is very important and the clients are often prepared to pay for this.

The outsourcing of the production of public personal services may increase productivity and maybe quality, and it will increase the turnover of the firms, but to the society the outsourcing has not changed much. If it should improve things decisively to society, it might be through providing new services - solving of unsolved problems - to the citizens or by increasing employment. It demands innovations in personal services. Of course there can be innovations in personal services, but this has not been characteristic in the firms that I have studied. The public sector may be needed to launch programmes that stimulates innovations in personal services.

## **3. The organization form in personal services**

In personal services the customer is an active production partner. Personal services might be standardised or modulated, and this can, in some cases, be necessary to ensure the right treatment, for example in health care service. However, many personal services must be individual, or at least individually adapted to the single customer.

Even when standardised or modulated, the individual customer aspect in the delivery must be much stronger than in physical services. Flexibility must be much larger than in personal service - either in the total production system or at least in the delivery system.

ISS has attempted to move into personal manual services. This clearly demands another form of organization than ISS is used to and the company has discovered that it can not even use the experiences from physical services. ISS Denmark tries to solve the problems by establishing independent enterprises or departments for personal services, until now without success since very little personal service has been outsourced to the market. ISS Sweden has been more successful in this field and ISS uses the Swedish company to develop a new form of organization in Denmark: The Swedish division of ISS bids for tenders when municipalities outsource personal services. However, even the Swedish division of ISS does not sell personal services directly to households, but only to municipalities. This creates other problems of entering a public sector area, but these problems will be treated in the next chapter.

### **ISS Junior Service**

#### *An attempt to develop personal service*

ISS Denmark has decided that they must enter the personal service market - which in Denmark is identical with outsourced public services. They have made several attempts to do this. One is ISS Junior Service.

The attempt started when an employee in the ISS University, a woman in the thirties who is an engineer, became superfluous when the University was closed. She was nominated as one who, inside ISS Denmark, should develop a new service concept for kindergartens. The reasons why this happened were twofold: 1. She was superfluous, 2. She was a woman and had small children herself.

She had to develop the concept herself; a steering group of managers was settled down, but they had only few resources to invest in this project. She started by going around talking to employees in municipal kindergartens and to go to training courses for nursery teachers and thereby develop a pedagogical concept. Later on she developed another concept based on activities where ISS is strong: Building maintenance, cleaning and other physical services. She combined the two concepts into one: ISS Junior Service, which she has tried to sell to municipalities.

The first two years she sold nothing despite much sales activity, but after that the first contracts has been signed. The further destiny of personal services to the children and youth area probably will depend on how these first cases will develop.

The greater importance to the customers of personal rather than physical services that may be the basis for larger sales and profit also has a seamy side. Quality failures

in personal services can have much more disastrous consequences than in physical services. ISS realised that in 1997 where a case in Sweden became a front-page story both in Sweden and Denmark. The story was that there had been some cases of neglect in a nursing home for elderly people which ISS runs in Sweden. To what extent the situation was as the press depicted it, and to what extent it was a story invented by the press as maintained by the top management of ISS said, is impossible to say, but that is in this case not the important thing. The important thing is that very small quality failures, or just suspicion of it, can very quickly lead to a company having its image tarnished in several countries with decreasing turnover as the result. Thus, manual service firms may gain by entering the personal service field, but they can easily loose as well.

Merry Maid's parent company in USA, Service Master, has had a great deal of experience in organising production of personal services. This experience has not been transmitted to the Danish Merry Maids company (except in small quantities). The situation in USA and Denmark is very different with a tradition for personal services in Denmark being nearly always public services. It is not easy to sell market based personal services in Denmark, and Merry Maids have not yet broken that squeeze.

#### **4. Personal services demand other competencies and another product organization than physical services**

The production organization of personal services must be different from that of physical services. It must be more flexible and customer oriented. It can not be standardised to the same degree and it is therefore difficult to rationalise. Technology only plays a marginal role in personal services, except in a few areas. Most personal services can not be technologised and will remain labour intensive. Some personal services such as medical care are characterised by standardisation and high-tech, but it is only the pure medical part of it. The general care for the patients are not standardised and has recently been increasingly emphasized.

Since personal services concern the customer's person, one might askare the customers in personal services much more an active production factor (cf. the production system model in chapter 11) than is known from physical services?

The experiences of the Home service firms are that private customers can be very difficult and their complaints and proposals can take a lot of time in relation to that used for the production of the services. ISS and other large providers of physical business services are not used to negotiate with household clients and have no experiences with that as mentioned earlier.

The personnel must also have other competencies. The ability to interact with the clients becomes more important, but also the core competencies must be different. The employees must have higher, and other, skills, must be more flexible, independent and responsible. These may be difficult competencies for the service firms to find, the salaries are not considerable higher in personal services than in physical, and managers in the public sector in Denmark maintain in interviews that I have undertaken that the public sector also has difficulties in hiring people for personal services. Personal service work may be more interesting, particularly if the employee is interested in the human interaction-aspect but also more difficult due to the complains from and near contact with the clients.

**5. Personal service is development possibility - but difficult**

Entering the personal service market is probably one of the most promising ways for manual service firms if they want to break the mature situation, but it is also difficult. The firms must negotiate with private customers that care a great deal about their personal welfare, which often leads to very difficult customers. The firms must also find a new, more competent, labour force.

## **Part 5**

# **Manual services and society**

## 21 The relation to the public sector

The public sector is a large provider of manual services in all European countries, thus it is a large potential market for manual service firms. This chapter is on how service firms relate to the public sector to become the producers and providers of these services and thus improve their business.

This demands a form of privatisation of the public sector and the fiscal crisis further pushes towards privatisation. The privatisation of public services is a very large and important political issue. That will not be treated comprehensively here since this is not a book on politics or the welfare state. However, the political issue of privatisation is central to trade with the public sector, even a long time after private service firms may have taken over public services or have started offering services that the public sector has traditionally provided.

### 1. Definition of the public sector and forms of privatisation

Although the problems and political issues of privatisation are not the topic of the book, it is necessary to present a short definition of what I mean by the public sector and privatisation and outsourcing.

The concrete take over public services or offering services that the government sector has traditionally provided can take many forms. It can be genuine privatisation where the supply is completely left to the market and private firms. It might be private firms offering the same services as the government sector (e.g. hospitals) and in competition with this. It can be services that still are public and the political system decides about form, amount and price, but the production is left to firms that makes contracts with the public sector, typically municipalities, or other forms.

In Denmark the form that politically has the greatest consensus is one where the public personal services are still public, which means that the political authorities decide on which services the citizens can get and the price, and the production of the personal services is outsourced to private firms, which makes a contract with the public authority. The political system decides the goals and who can get the service, the citizens do not pay anything to the service firms, which will be paid by the political authorities.

This chapter does not presume a particular form. The book is on business development and thus the relationship to the public sector is seen from the perspective of the service firm.

The criteria for whether the relation to the public sector is interesting to discuss here, is that the production of the services is left to service firms. Thus, only the forms where the production of the public services are outsourced to firms, give the firms more turnover and this is the relevant criteria here. The financing of the services when the production is outsourced - could be organised in many ways - from the municipalities or the state paying the services directly to the firm to the citizens paying the services 100 per cent themselves. The decision of which services the citizens should

have, could also be organised in different ways. The citizens could decide and pay everything themselves or the state or the municipality could decide (whatever percentage they pay). This does not matter that much either; the different situations may result in a different contracting situation with which the firms must learn to cope, but all forms opens the market for producing the services for the firms.

However, even the relationship to the public sector in situations where the services are produced completely by public institutions are important. If the private firms want to enter these service fields, the condition is that the political system will allow outsourcing of the production of the services. The firms could influence this decision through the right attitude and behaviour towards the public sector.

By the public sector I mean municipalities, counties, the state and other formalised partners. I also include the public in a sociological meaning - the public room of discussion, including the press, TV etc. The political decision process takes also place in a wider political forum - the public, and not only in formal political organisations such as a parliament or a municipal county. Even when a service firm has taken over the production of the former public services, the public might start discussing the activities of the firm (as it did when ISS had some problems in a Swedish elderly people's home, cf. chapter 20) and thus interfere in the firm's sphere (the production, image, contracting etc.) (cf. Aakerstroem 1996). The political system listens to the public.

When we enter the public sector area, the services we talk about becomes what generally could be called welfare services. These are personal as well as physical manual services (we here exclude knowledge services), within public services these two types are often intertwined and are difficult to separate. The care aspect (personal service) is almost always a demand, at least implicitly. The personal care, which in physical services are considered as peripheral additions becomes more central if we enter the public sector. This fact will be central to the discussion in this chapter.

The production of personal services are differently organised in different European societies. In addition to private firms, there are different forms of public institutions or state or municipally owned firms and in many countries personal services are provided by charities, either by volunteers or professional personnel. Although all these forms of service providers are not in the market squeeze as the private firms, the means for developing the production and delivery organisation discussed in this book may be relevant to them as well.

## **2. The different nature of service firms and the public sector**

The public sector is by nature political (i.e. guided by opinions about goals or a struggle of distribution between different groups of the population) meanwhile private manual service firms by nature are business oriented. This is a problem when we talk about relations to the public sector and it is part of the manual service squeeze. The political nature of the public sector leads to that even service functions may be ideological and there is different opinions on how they should be carried out. The difference in opinions will perhaps never disappear. This does not make it easy to achieve full customer satisfaction

The public sector is divided into a political and an administrative part. The administrative part, which is managed by the civil servants, will attempt to run the

administration from a rational economic and functional perspective, but must take the political system into consideration. The political part primarily follows political purposes, and the services are thus managed on the basis of opinions. These opinions could be that the service functions should be organised and run on specific principles, but often is the costs a factor that must be taken into consideration. The citizens may have political opinions, but they are taxpayers also, and sometimes this aspect is stronger than the political opinion.

The goals and ideas of the means change in a democratic political system as the opinion change. Nothing is ever fixed, and an agreement with another part, e.g. a manual service firm, could always be discussed, in public, e.g. in newspapers. The political system is used to this, even the administrative part of it, but it is strange for private service firms, which are managed by other logics. If service firms want to sell services to the public sector, they have to learn the political nature and to get used to a contract and other relations to the public sector may be discussed and criticized publicly. The service firm must be political, which means that it must be prepared to be engaged in discussions of ideology and group (not to say class) interests. If it does business with the public sector, it can often not avoid that. This has been concluded in a Danish analysis of ISS' attempt to sell welfare services to the public sector (Aakerstroem 1996).

The problems are not equally grave for all manual services. It depends on how long the function has been outsourced. The public sector has a series of pure physical functions that has been outsourced for a long time. These are functions like the construction of roads, bridges etc. - which have a long tradition for outsourcing - and cleaning, gardening, building maintenance etc. The mixed physical and personal services such as manual hospital service, home help, elderly people's homes and kindergartens have only recently been outsourced in most European countries, but a mainly state financed charity sector providing these services exists in many European countries. Purely personal services such as medical health services are generally not outsourced although some countries allow a private sector to exist besides the public. The general tendency is that the pure physical services have been outsourced the most, and they are those where the problems are less marked meanwhile and the more personal service there is involved, the less time they have been outsourced the more marked are the problems.

The typical manual service dealt with in this chapter is thus not pure cleaning or gardening, but services like manual hospital service, home help, kindergartens etc. where personal and physical services are mixed.

### **3. The problems of relationship to the public sector**

#### **Ideological resistance**

There is in all countries (at least in Europe) an ideology against private initiatives. It might be more or less widespread among different groups and it has generally become weaker over the last few decades. This ideological resistance towards private firms providing services to the public sector or taking over former public service activities must be taken into account by the service firms that want to enter the market for public services. The ideology often exposes itself in a manifest or potential critics of the service firm's activities. People will find something to criticize, no matter how the



service firm organises its activities. The deeper purpose is not to criticize that particular service firm, but to convince the political system that all welfare services and related activities should be public.

Since privatisation is such a hot political issue, it means that selling manual services to the public sector is political. On the other hand manual service firms may influence the privatisation process by being political; they could demonstrate that they fulfil the demands of the major political opinion in their service delivery, but do it more cheaply or for better quality than the public sector could itself.

In particular the working conditions in the privatised service functions are criticized in ideological terms because they are presumed to always be worse than in the public sector. This may be true in many cases, but not generally. Several employees, e.g. in hospitals, home help, and catering in Denmark, have declared (in interviews in newspapers and magazines and research) that their work has become more interesting after privatisation, they have more autonomy and they can develop their work more. The working tempo will generally be harder in private service firms. Job security has traditionally been larger in public organizations, but for example ISS guarantees that all former public workers will get a job in ISS when they take over a public service activity. That of course does not hinder that those who cannot cope are fired later on (something that has happened) or that the firm must reduce its workforce because it has fewer contracts.

### **The game of entering a political ideological fight**

#### *The experiences of ISS Catering*

An example of an extreme ideological struggle was seen in ISS's attempt to sell catering services to Lyngby-Taarbæk, a municipality in the Copenhagen area (cf. Aakerstroem 1996).

The municipality council, which has a right wing majority, decided after a hard discussion to call for a tender for delivery of meals to elderly people living in their own homes. Even the social democrats voted for this as an experiment, but there was resistance among their members, particularly the large group of people employed in the municipality. The resistance was caused by a fear of losing the jobs, but there was also an element of ideological resistance. The resistance led to public criticism after ISS had won the tender, e.g. readers' letters in the local newspapers, pressure on the elderly people and their relatives. It was not formulated as an ideological or job-security criticism. The latter was difficult since ISS according to the contract was obliged to employ all the employees from the former public catering organization.

The criticism was over the quality of the food delivery. The political system here entered the game of criticising the product and delivery quality, which is normally a purely business issue. The situation created a dilemma to the company: Should they keep quiet, take their stand on the terms of the contract hoping the criticism will calm down, or should they enter the discussion to win the political arena, and if they did the latter, should they emphasize the production factor (that they deliver a good, cheap service product) or the political-ideological factor.

What they did was a catastrophe. First they did not enter the discussion. Then they suddenly decided to do it, after pressure from newspapers and TV, but they did it in a bad way. They acted offended, referring to the contract and that they had fulfilled the contract. This is not a way of winning a political discussion, because the citizens will think: Since they only refers to juridical matters, the criticism is probably right.

The ideological resistance is very cultural dependent. In Sweden there has also been an intense debate about privatisation. However, when the state and municipalities have decided to privatise a service activity to one degree or another, the service firms are not met with ideological resistance. There, the political system (inclusive the public) to a larger degree accepts that when a decision is taken and it has come to an agreement with a firm, you can not start an ideological fight again. In Denmark it is not so. The Swedish political culture is more technocratic while the Danish is more anarchistic. The service firms must take into consideration such cultural differences. This is one factor that makes it difficult for service firms to establish themselves abroad.

### **The political management culture**

Even if there is no ideological resistance and the public sector wants to outsource some

service activities and leave the negotiations and contract-making to the administrative part, there are cultural barriers to the service firm.

The general business and corporate culture is different in the public sector and private service firms. The latter have a business culture where you talk turnover, profit, production planning, customer satisfaction etc. The public sector - when we talk about manual services - is characterised by professional norms. Different groups of employees have through the time developed professions with their own norms, language and paradigms (e.g. what they talk about, what is defined as problems etc.). These professions in many cases also manage the public sector.

The professionals talk of the citizens' welfare in an ideal manner and they talk about work conditions and professional methods. This a language different from the business language of the firms. The firms need to learn the public professional management language, even they in fact are invited to enter the public sector to make it more efficient and production oriented. This is necessary, not only to influence the general development towards more outsourcing from the public sector, but also for the single service firm to win the contract. The Danish government has established a Quality Institute which has the purpose to improve quality of outsourced public services. The manager of this institute maintained that Danish manual service firms do not understand the public management language, they do not accept it and they refuse to learn it. Swedish service firms have learned the public management language. They talk about citizens' welfare, work conditions and professional methods and norms first and only secondly of production efficiently and price. In those calls for tenders where Swedish and Danish service firms bid for the tender, it is almost always the Swedish firms that win due to this factor. They appear as qualitatively much more competent, and that becomes the crucial factor. The municipalities mostly prefer a better quality at a price that is a little higher. The Danish firms often deliver a quality similar to the Swedish (in some cases they are Swedish and Danish ISS companies), but their ignorance of the public management culture cost them the contract.

### **Customer expectations and quality**

The quality of the services provided is often assessed by the users and this is also the case in the public sector when a service is outsourced. It may be formally as when ISS regularly ask their customers if they are satisfied or informally when the small Home service firms get telephone calls complaining about the gardening last Wednesday. The service quality is always a combination of the customer's expectation and the service he gets.

There is nothing new in that. However, a new element when providing services to the public sector is that the quality expectations and the quality measurement becomes political.

### **Political inducement of customer quality expectations**

#### *The continued story of ISS Catering in Lyngby-Taarbæk*

In Lyngby-Taarbæk municipality the contract with ISS included that the quality of the food delivered to the elderly people should be measured. The employees in the catering functions that ISS had taken over argued that the food had become worse. That might have influenced the elderly people and their relatives to increase their expectations so that the food that ISS delivered appeared to be low quality. They also emphasized this in their letters to the press. This started a political reaction in the municipality council which hired a consultancy firm to control the quality measurement. The latter decision was used by ISS to withdraw from the contract. They did not like to be controlled by a third part. This was another mistake by ISS in this case. Manual service firms must be ready to be evaluated by independent evaluators.

This demonstrates that service quality in the public sector is more political than in the market sector and that the expectation factor in service quality is not only an individual factor, and thus unstable, but it can also become a political factor, and thus even more unstable.

Large manual service firms such as ISS are used to negotiating quality in relation to contracts with a firm represented by a responsible manager. These service firms have no experience in negotiating quality with the single end-users, whether employees in customers firms or private households, and this is a problem. The interaction with the latter type should be different from the interaction with the first type, and the quality assessment of these single end-users is much more labile and unpredictable. The Home service firms have this experience.

#### **4. What service firms can do to overcome the barriers to the public sector**

In this section I will discuss what service firms do, and can do, to overcome this squeeze: the different “business” and corporate cultures of the public sector and service firms. This is done on the basis of the experiences of ISS and other service firms.

##### **Development of competencies**

The manual service firms must develop competencies in personal services and quality negotiations and measurement with private customers (the citizens). This may be difficult if the service firm has no experience in that field.

One way to solve that problem is to take the point of departure in other service fields that the firm provides. For example, ISS has a hospital service which includes personal (care) services. Managers and front leaders from the hospital service department could be allocated to other departments providing personal services which were previously public.

Another way is to start to build the competence from the beginning in a new

department or maybe a new venture company outside the old organization. In ISS they have attempted to establish such organizations. First to develop products for the elderly. This was organised as an independent company, Scan-Care in co-operation with Falck. It has also been attempted within the kindergarten field. That was organised as a group within the Danish ISS division (which has cleaning as its main activity) cf. chapter 20.

Unfortunately for ISS they have sold very few of these services. This does not mean that the solutions are worthless, but only that the political barriers (the resistance to outsourcing and privatisation) are high. The Swedish division of ISS has developed and sold many of these services.

Most important, when we talk about these mixed physical-personal services (which still are not advanced professional personal services), is the behaviour of the employees. We do not talk of formal skills that can be taught, but of personal qualifications. Another way is to select a certain type of employee in the recruitment process as ISS does, cf. chapter 14.

### **Learn the public management culture**

It is necessary that the manual service firm can speak the public management language. The public sector is the customer and the contracts are negotiated with representatives of the public administration. This means that the service firms should be able to think and talk as professionals - such as nurses, physicians and social workers - and fulfil the norms of the public sector which is not production, but profession, oriented.

Some small manual service companies are established by public employees who have started their own business. It might be home helpers, gardeners or building or road maintenance workers. They are able to talk the language of the public professionals. Most manual service companies, whether small or large, do not. They have to create that competence.

One way of doing it is to employ people from the public sector who will then bring the competence into the firm. By taking this solution the firm must realise that it also brings a potential conflict into the firm. The firm culture is different from the one that the former publically employed persons have, and this may create conflicts. It is also necessary that the former public employed people get responsible management positions. The public language is required in the writing of bids for tender and contractual negotiations. This could be done by large firms that can afford such an investment, but a small service firm may be unable to afford it. However, to employ formerly publically employed people (e.g. former home helpers) as workers is also a solution for them. Many Danish Home service firms have done that. There is not a long way from the top to the bottom, thus the workers may easily be involved in writing bids for tenders.

One possibility that international service firms have is to use cross-national competence building when ISS lets the Swedish division bid for tender in Denmark. The Danish division then learns from the Swedish. In ISS there is a strict national division of responsibility, which is an impediment to intense learning transmission because communication must go via the top management, but sometimes a Danish manager is stationed in a Swedish ISS company operating in Denmark. This exchange

system could be extended and thus be more efficient.

### **Image creation and political participation**

The problem of the market for outsourced public services becoming political could be solved by two strategies, which can be observed in the service firms that I have studied.

The first is the passive where the service firm does not market itself politically or enters any political debate. It can have either a hiding or a professional variant. The hiding variant is that you just do not comment publicly any aspect of your business, hoping that all political discussion or criticism of your service product or delivery system will disappear without any consequences for the renewal of the contract. This has been the first approach of the Danish ISS Catering company, cf. earlier. The professional variant is the attitude that we are only producers, our competence is how to produce the agreed services cheaply and in good quality, but we do not interfere in political matters. Both strategies are in accordance with the business thinking and language that the firms are used to. Not many large service firms use the hide variant anymore because they realise that they can not avoid the political sphere, not even in the pure market since the appearance of the political consumer who cares about the products' effects on the environment or whether they have been produced by children. The professional variant of the passive strategy has been the most widespread among large manual service firms including ISS.

The other strategy is the active one - to enter the political scene following the principle of "if you can't beat them, join them". This does not mean to enter in an ideological way asserting that the public services should be private. This would at a maximum give the 10 per cent most right wing municipalities as customers while all the others will close the door to the firm. The service firm must demonstrate in public that it is aware of the social responsibility which must be the foundation for the services in case and that the end users will be involved in assessment of the services and that the political system ought to set the goals. The service firm is only the producer of the services and distributes them according to politically decided goals. The service firm may also signal a socially responsible attitude.

The latter implies a good personnel policy within the firm, for example by having fair conditions concerning sickness, training and education, that the service firm takes over all employees when it got a contract with the public sector, and that it gives a job guarantee. This is the policy of ISS. With a personnel turnover of about 75 per cent per year they do not have any problems in this.

It is important to underline that the creation of a social image should express a real attitude. The service firm should really mean it. If it does not, it is better not to enter the public sector because it will only result in losses. An "advertising" approach which communicates an attitude with no behavioural correspondence will soon be disclosed by the public. So, when we speak of creating an image, we mean both an attitude within the firm and an image of that attitude in the public.

### **Joint ventures with public authorities**

The demonstration of social responsibility and an image creation could be that the service firm is involved in social projects, eventually in a joint venture with a public

unit such as a municipality. ISS has been involved in a project together with a municipality in the Copenhagen area where the long-term unemployed are engaged in manual service activities. The municipality contributes with social-professional competence, ISS with its management competence, and the goal is that the unemployed people should establish their own manual service firms, or at least be better qualified to get a job on the labour market.

Small manual service firms have difficulties in establishing a joint venture enterprise due to their lack of resources. A construction that could improve small firms' possibilities for having public management culture transmitted and create an image of social responsibility, is what could be called the public market. It has been introduced in Søllerød, another municipality in the Copenhagen area. The municipality has invited service firms to bid for the public home help service. Through a procedure five private firms were selected and a contract set up with them. The citizens may choose between these five firms and the municipal home help service. The municipality pays for all the services. This ensures a certain degree of competition on quality and user satisfaction including the possibility of the citizens could use the municipal service so the public providing system will not be squeezed out.

This is not a system the service firms can create themselves, but they can take an initiative by addressing themselves to municipalities or counties as some have done in Denmark.

## 22 Internationalisation and economic "growth engines"

The last means to overcome the manual service squeeze as presented in chapter 16 is internationalisation, which will be analysed in this chapter. The analysis is primarily based on the internationalisation process of ISS, but internationalisation of other manual service firms will also be included. The chapter will analyse how the internationalisation process has taken place, and the problems and benefits to the service company.

The internationalisation of manual service firms is also of interest to society. It needs industries and large companies that due to their development can create a general economic growth by functioning as economic "growth engines". Their growth can pull the growth of other firms, either because of a multiplier effect - the manual service firms buy goods and services and their income is diffused in society through salaries and investments, or because of other firms follow the manual service firms abroad as partners. The chapter will thus analyse the question: Can large manual service firms which becomes international (such as ISS) function as a "growth engine" for general economic growth in their home country?

### 1. Internationalisation tendencies in manual services

#### Internationalisation in general

There is an increasing tendency towards internationalisation in manual services. Internationalization is not new, but it has been increased tremendously in recent years and is supposed to increase by an even higher rate the coming years (Mandag Morgen no. 35, 1994).

Manual services normally become international by manual service firms establishing themselves abroad via acquisition or the establishment of subsidiary companies. Export as we know it from manufacturing are generally not possible because the nature of manual service production demands that the production must take place where the customers are situated. Certain manual service sectors, i.e. transport and tourism, are by a nature difficult to classify as either domestic or international. These two sectors are almost international by definition.

The statement that increased internationalisation of manual services is taking place is based on different case studies and some statistical investigations (Illeris 1996 p. 169-76). There is no valid general statistical data. Thus a full description is not possible. We can find several examples and case stories that illustrate the internationalisation tendency.

Transport and tourism, in particular hotels, were the first manual services to be international. Later has other sectors become international by establishing foreign outlets: Cleaning and other physical services (e.g. Rentokil, ISS, Service Master), restaurants (e.g. Burger King, McDonald), machine and car leasing (e.g. Avis, Hertz), and temporary employment agencies (e.g. ManPower). Personal services are the last



ones to become international. They are more culturally tied and closer to the individuals' personality and body thus the entrance barrier for foreign companies is higher. However, even in these cases tendency towards internationalisation can be seen. Danish service companies attempt, in co-operation with the public authorities, to establish and run social institutions (elderly peoples' homes) in other countries, the American Kinder Garden attempts to establish Kindergartens in Europe etc.

Some of the firms that I have studied in the case studies are international. ISS is of course. Rentokil has its main base in the UK even though a large portion of the shares is owned by the Danish company Sophus Behrendsen. Denmark thus has two very large international manual service corporations if one examines the ownership structure. If one looks at the management structure, Rentokil has its top management and related development and staff functions in the UK, ISS has its' in Denmark, and functionally both companies have their activities spread out throughout many countries. Thus, the internationalisation structure of manual services is complex. Service Master, which is a large USA service company, has established itself in Denmark by franchising.

The basis for the internationalisation of Rentokil and Service Master is some clear and, at least for Rentokil, specialised service concepts, a general structure of management and production organization, which is not more fixed than it can be applied to the national cultures - even though the organization structure seems to be more fixed in Rentokil than in ISS. Further, the management is internationally oriented.

Another Danish company, Falck, has also gone international, but more slowly. The basis for their internationalisation is also a few fixed and well developed service concepts and a fixed and well developed form of production organization. This also has lead to the production costs for Falck ibeing lower than any private or public company in Denmark and the neighbour countries within its field.

A Danish analysis (Mandag Morgen no. 35, 1994) has recently concluded that manual USA service companies are invading Europe and that they will get success and beat the European companies in the competition. The European market is fragmented with many cultural barriers and thus difficult to enter. On the other hand this has led to the European manual service branches being characterised by small, non-international firms that are not specialised or have well developed service concepts and production organizations. The American firms are large and are more industrialised or modulised. They have standardised service concepts and production organizations.

European manual service companies on their side have difficulties in establishing and remaining in USA, as we shall see in the ISS example below. This may be assessed to be caused by a cultural barrier, which means that the business culture in USA is different from that in Europe - e.g. the managers' norms and behaviour, the relationship between the firm and its employees and the unions etc. However, there are many factors and barriers that influence the internationalisation process and we only know a few of them since internationalisation of service firms is a field that is very poorly investigated. Whether this prediction of an international USA dominance in manual services will be true or not, only the future can tell.

### **ISS' internationalisation**

To be more specific of the internationalisation process and problems related to it, in this section I will describe ISS' internationalisation process.

ISS started its internationalisation process in 1938 when the company bought a cleaning company in Sweden, but the process really started to accelerate in 1962 where a new general director, Poul Andreassen, who was a visionary entrepreneur, joined the company, and it has continued since (Strandskov 1994).

ISS has established itself in other countries by acquisition. The reason for this is that cultural barriers make it much easier to buy an existing company than establish one's own new company. The existing company has absorbed the national traditions for management, relation to the employees and society (Strandskov 1994). When ISS buys a company, they slowly introduce the ISS service concepts and production organization. Often ISS keeps the existing management, but these managers are also often fired after a short time because they have difficulties in adapting to the ISS model.

Poul Andreassen's entrepreneurship is a core factor in explaining how ISS has grown to be the world's biggest cleaning company. Another explanation is that ISS started to industrialise and systematise the production organization very early at the same time as it maintains a good personnel policy and trains the employees thus diffusing the Scandinavian tradition for industrial relations. These are reasons that have been emphasized in the interviews.

It is in general cleaning that ISS has expanded internationally most of all. They have bought general cleaning companies. Special services have then sometimes been introduced later to the acquired company, but ISS has had difficulties in expanding special services internationally. Other analyses (e.g. Strandskov 1994) as well as statements in the interviews explain these difficulties in terms of the organizational structure of the company. In the organizational structure the special services subordinated to national head companies and the world regional head companies (of which ISS in 1998 has three, one for Scandinavia, one for Europe and Brazil and one for Asia). This means that decisions and development must go through these head companies whose managers do not necessarily have the competencies or interest in the special fields. This is a barrier to the internationalisation of the special services. How the situation would have been if the special services had their own companies that independently of the hierarchy in general cleaning could expand internationally, is not possible to say empirically, but the arguments are for that this would have made a greater success. This was also the argument about an improvement of the innovativeness, cf. chapter 19. ISS has also in its new strategy Aim 2002 established the goal that the special services should be emphasized much more which could point to a complete restructuring of the formal organization would be a possibility.

### **ISS losses in the USA**

#### *An example of national cultural barriers*

Until 1996 ISS had a division in the USA. This division was sold in 1996 after a large deficit as already mentioned. The deficit was caused by accounting irregularities made by one manager. This may be seen as a coincidental criminal act, but the background for that act is cultural. Profit is so important in American business culture that managers can be driven to these types of activities. This is strange to Danish business culture.

## **2. Determinants of and problems in internationalisation**

As a researcher I have started with a question: How is possible that Denmark as a small country could have two of the worlds largest international manual service companies (ISS and Sophus Behrendsen)? This led to a new question: What are the conditions for, or the determinants of, manual service firms becoming international? This question will be answered in this section. Further the main problems related to an internationalisation process will be discussed. This is done on the basis of my case studies and analyses, primarily Danish (Pade 1991, Strandskov 1994), of manual service firms' internationalisation. Still ISS is the main case, but experiences from the other firms that have been studied are also included as part of this analysis.

### **Determinants of the internationalisation process**

The most important determinants are the following:

- ***Capital***

You need capital to buy foreign companies. Where does it come from? Cleaning is, for example, an industry with a small profit margin which does not suggest that cleaning firms should hold large amount of capital.

To buy a cleaning or other manual service company is not particularly capital demanding. There is little technology, buildings or any other fixed systems, manual services are extremely labour intensive. One ISS manager has said "Service activities are not capital demanding, but capital generating" (Strandskov 1994 p. 456). Contract cleaning as ISS provides generates even more capital as the clients often pay a sum in advance and the salaries to the cleaning workers will only be paid later.

The manual service company mostly has to pay for goodwill if it purchases a foreign company. If the service company is well-reputed, there is no great difficulties for it to get investment capital, whether by loan or shares. It will get the capital on an expected future surplus. Besides, ISS has a large amount of internal capital.

- ***Industrialisation***

The systematisation and industrialisation, or modulisation, of service production is a factor in all successful internationalisations of service firms. This is a factor in the

internationalisation of ISS and the success of American service firms' internationalisation.

- *Care for the personnel*

ISS has a special policy which includes care for the personnel. That has been one factor behind the successful internationalisation. However, the condition is not only good personnel care, but also the ability to adapt that to the different national business cultures.

- *Management*

Good management is the factor that has been mentioned most times in the interviews as an explanation for successful internationalisation. However, to some degree it is an empty factor. "Good management" - what does that mean?

One condition is necessary - that the management must be interested in internationalisation of the service firm, but this is not sufficient. I can not on the basis of this study give the description of a "good manager"; in the investigation of successful cleaning teams in one Danish region in ISS it was concluded that the successful team leader were very different individuals (cf. chapter 15), and that may be true to international managers as well.

What ISS, Rentokil and other big international manual service companies do is that they train the managers to give them a common culture and professional behaviour, but they also respect some national differences.

- *Universal products*

The products, or service concepts, must be universal. If they are too national bounded, they are too difficult to move to another country.

- *Innovations*

If an internationalisation process has started because the service firm wants to create an organic growth where each subsidiary company will sell more, innovation is one factor that can accelerate that process. Probably this is the most important factor if the manual service firms want to escape the manual service squeeze that also exists internationally.

However, this is not a necessary condition. Some manual service firms exist and grow without much innovation, e.g. McDonalds and ISS in general cleaning, but nobody knows for how long.

- *The home market as a basis*

Porter (1990) has emphasized a critical and difficult home market as one of the most important determinants of internationalisation because it forces a firm to shape all competition parameters. This is also the case for manual service firms and ISS (Pade 1991). ISS develops most of its new ideas in Denmark and diffuses them internationally. This may not be explained by the Porter factor, i.e. that Denmark is a particularly competitive market, but more by the fact that ISS has its development capabilities built-in the Danish division of ISS. ISS no longer has an innovation

department. Responsibility for innovation activities is divided throughout the Danish division of ISS.

### **Problems in the internationalisation process**

There are also problems in the internationalisation process of which the following are the most crucial:

- *Cultural barriers*

The differences in business culture and national culture, which characterises the customers, is a barrier to internationalisation as mentioned. It might be overcome by teaching customers in all countries the service firm's culture such as McDonald's has succeeded in doing, but this is rare. Most manual service companies have to adapt to national cultures without losing its own corporate culture.

- *Large competition*

The large scale competition that characterises national markets for manual services also exists in international markets. The entrance barriers to all national manual service markets are low, but it is equally easy to be squeezed out of the market again, even if the company has been there for a long period.

- *Low prestige*

The explanation still is that manual services have low prestige, which also makes it difficult to get qualified managers in other countries.

- *Special services*

It has become clear that services with a high degree of specialisation and preferably knowledge base is a key to future success, but the international diffusion process of these types of services may be impeded by the organizational structure of the companies if the tops of the hierarchies are not qualified or interested in the special services.

### **3. Manual services as economic "growth engines"?**

Can international growth of national manual service companies create economic growth and business development in the home country? The issue of what creates growth in one country is complicated. It will be discussed here in the case of ISS. ISS can be a growth engine in Denmark in at least three ways: 1. It may transmit the profit from foreign companies to the home country, Denmark and invest it in Danish companies. 2. The international growth may create increased demand from ISS in Denmark, which could give a multiplier effect in the Danish economy. 3. ISS could create innovations and development activities in Denmark that could lead to other innovations in Danish companies.

When ISS goes abroad, it generates profit in the different countries, which means that capital is transferred back to Denmark. However, the capital is used to invest in acquisitions of new foreign service companies. If they had invested the capital in other Danish service or manufacturing companies, this might have contributed to an

economic growth. The size of that is not clear, but it is not be very large. Besides, capital as an isolated factor does not create business development, that demands innovations and entrepreneurial drive of the firms in a country. The international growth of ISS do neither have much multiplier effect in Denmark through ISS demands goods and services in Denmark. The ISS companies purchase goods and services in the countries where they operate. Another possibility could be that ISS has so much corporate administration and development activities that they infect Danish innovation and development activities in general. That has been an argument for innovation and development in manufacturing; the invention of for example a new material could lead to this material could being used in other industries. However, manual services do not have many R&D activities, ISS has very few and the international head office of ISS in Denmark has had 50 people employed at its maximum and is now down-sized. These activities do not create much general business development in Denmark.

This leads to the conclusion that manual services have so few innovation and development activities that they hardly can act as an economic growth engine as the situation currently is. They do generate capital, but as long as they use it for investment to further their own-expansion, it does not generate much economic growth in the home country. The diffusion structure of new ideas in manual services is in all or most countries very weak (Sundbo and Gallouj 1998), so eventual diffusion effects of the service development are weak. There might be differences between service firms and between countries, but at least in Denmark, France and the UK manual service firms have not been industrial "growth engines" when they grow and become international. They do even not create much employment in the home countries.

Internationalisation of manual service firms may, in some respects, lead to business developments. Not in a strong way as when we talk of industrial "growth engines", but at least some minor developments. This is the case to a country when foreign service firms establishes themselves in the country. Thus they may introduce new service concepts or new forms of production organization that the domestic firms, not those only in the same branch, but also in other, can learn from. In that way "import" is better than "export". When ISS establishes itself in other countries on the basis of service concepts or production forms of organization developed in Denmark, it does not contribute anything new to Danish society, but may contribute to service development in the receiving societies.

However, if the manual service firms become more innovative and develop more special services, they may be "growth engines" or at least create more business development in their home countries than they currently do. In the UK with Rentokil and other large manual service firms that emphasizes specialisation and innovation such a situation is perhaps developing. It could also be the case in Denmark as well if ISS develops in the same direction, and particularly if other specialised manual service firms grow and develop in that direction as well - but even that is not sure. The process of internationalisation is complicated so even if these service companies are Danish owned, there is no guarantee that the "growth engine" in such a situation will be placed in Denmark. Sophus Berendsen is an example of that. Even though it is a major shareholder of Rentokil (and before Rentokil bought BET, it owned the majority of the

shares), the headquarter and development activities of Rentokil have stayed in the UK, not only because Rentokil was originally a British company, but also because the management and development climate in Britain was the best. Thus, Denmark has not got any “growth engine” from the internationalisation of Sophus Berendsen.

#### **4. Conclusion: Can internationalisation break the manual service squeeze?**

The different aspects of the manual service squeeze that have been discussed in this book exist internationally, so the firms can not find another country where they do not exist. They might escape the squeeze in the developing countries, but the markets for manual services in these countries are small because people and firms do it themselves.

Internationalisation in itself will not break the squeeze because it is just a reproduction of the domestic situation. Instead of problems of hiring employees in one country, the manual service firm gets problems of hiring employees in twenty countries. If internationalisation is combined with other means such as specialisation and knowledge base of the services, innovation, development of the production and delivery organization and others that have been treated in this book, it could be a factor that could enforce the effect of these means. The enforcement is due to internationalisation means a much larger market where the extra profit that should follow from these activities will be doubled up several times. An international position will also improve the image of the service company and thus be a development factor.

## **23 The state as creator of manual service development: Job creation**

In this chapter I come to the question raised in the introduction of whether manual services can solve the society's unemployment problem. This is done by discussing whether the firms' development will create more employment and what states have done, and can do, to improve that process.

The latter has led to the political system attempts to influence the development of the manual service sector to increase the growth rate, either by getting existing firms to grow or establishing new firms. In the foregoing chapter, the industrial business growth aspects of these attempts were analysed, in this chapter the job-creating aspects of manual services and the public intervention will be discussed. The growth term in this chapter refers solely to growth in employment.

Even if manual service firms may not be leading and "growth engines" in economic development, they could create more jobs, for examples by just expanding their actual activities. This is also of interest to society.

As we saw in chapter 3, there has been some growth in employment in manual services, but it has been moderate and different in different countries and periods. It is not very evident that there will be a great deal of employment growth in the future, and this makes it relevant or necessary for states to intervene to stimulate employment growth.

There is not only employment and unemployment, at least not seen from a legal and a Ministry of Taxation point of view. A third variant is moonlighting where people have work that they do not include in their income declaration to the taxation authorities or which they are not allowed to have because they receive unemployment relief or other social subventions. This variant is illegal and the political system wishes to suppress or reduce it. Some of the intervention systems such as the Danish Home Service or the French Checque Emploi have a dual purpose, to create more jobs and reduce moonlighting (cf. section 3 in this chapter).

### **1. Potential job creation in manual services**

Society, as well as the manual service firms are interested in expanding the market for manual services, and at least society is interested to simultaneously create new jobs.

Manual services could also be expanded since there are many activities in the informal economy, which means households, that are not purchased on the market because members of the households do it themselves. The size of the potential market might be calculated in many ways which all are very uncertain. The Danish Ministry of Finance (1992) has given probably the most optimistic prognosis. They started counting how many hours all households in the country used on cleaning, cooking, shopping, washing etc. plus the numbers of moonlighting jobs and transmitted the result into full-time jobs. A great deal of the service work that households buy, in Europe as well as the USA, is a kind of moonlighting or other type of illegal work



(such as hiring illegal immigrants as is widespread in the USA).

The conclusion was that about 400,000 new jobs could be created in Denmark if the households purchase the services from the market instead of doing it themselves and if moonlighting is suppressed. This is a high number of new jobs in a country with about 2,500,000 registered jobs (and about 300,000 unemployed people in 1993). It is totally unrealistic to create these 400,000 jobs, but nevertheless a potential for the expansion of the number of service jobs exist.

Firms also have many manual functions that are not yet externalized, and this is also a potential market for manual service firms. The size of this potential market is unknown, but it is large. There are national differences in the externalization rate; Germany has for example a low externalization rate while France has a high one (Illeris 1996 p. 65). This indicates that the potential market exist, at least in the countries with the lowest externalization rate. However, how many new jobs externalization will create, is an open question. The functions were also manned inside the firms. The possibility of increasing the number of jobs by externalization is that take over by service firms leads to an increase in the activities, for example because of a higher quality or innovations in these activities.

The actual job expansion is, however, not that big, and not at all big enough to suppress unemployment as the political system wishes. The demand growth has been too small. The natural job creation is too slow and too small, even though manual services are very labour intensive. The do-it-yourself, moonlighting and firm-internal solution of practical problems still often win, or the manual service firms have not been capable to sell enough more service to create a sufficient market expansion.

It could be that there is a market expansion (which there has cf. chapter 3) without proportional job expansion. This is often the case in manufacturing industries because market and turnover expansion is combined with process innovations or rationalisations. Although there are strong tendencies to rationalisation of the work in manual services, they still are very labour intensive and there is generally little technology, which could have substituted labour. So, an expansion of the market and the turnover will lead to more jobs.

## **2. Barriers in the households towards expansion of manual household services**

The expansion of households' demand for more manual services from the market has met some barriers. This is an impediment to job creation and development of manual service firms.

### **Self-service and economic barriers**

First, one may ask the question: If the members of the households do not like to do practical work such as the laundry, dish washing, shopping, repairing, taking the dog out themselves, would the manual service sector benefit from that? This is not obvious. According to the British economist and sociologist Jonathan Gershuny (1978) the tendency is not towards a service economy where households buy even more manual services.

### **Gershuny's theory of the self-service society**

The British economist and sociologist Jonathan Gershuny (1978) has discussed the idea of a service society. He has analysed the households' behaviour in relation to purchasing services and his conclusion is that the households do not buy more services. Instead they do the activities themselves by buying machines (such as dish washing machines, electric drills etc.). It is the manufacturing industries that expand, not the manual service industries. On the basis of these conclusions he rejects the idea of a service society

Gershuny's theory has been discussed and criticized (Gadrey 1992, Silver 1987). There are some theoretical absences, for example he does not take the growth of public services into consideration, and some empirical evidence go against it (Gadrey 1992), but there is also evidence which supports his theory (Sundbo 1997b). The households want to do the activities themselves, with or without purchasing of household machines, is an impediment to increase of manual service jobs.

Even if the households decides not to do it themselves, there are barriers towards the expansion of their demand for manual services.

There are economic barriers. The households must pay for the services, thus they will save money by doing it themselves. It may not be as comfortable as having other people to do the work, but households can do the activities themselves. Maybe only elderly people can not carry out these activities due to physical debilitation (therefore they are the largest customer group for Home services). When a person, due to the tax system, has to work for up till 5 hours to buy 1 hour of manual service work (Finansministeriet 1992), it is a further incentive to do the work himself.

In all Western societies a norm has been developed that you are cautious with hiring people to do your household work. The situation is different in different societies, but at least in Europe it is too expensive for most households. Within some areas such as repairing and rebuilding which demand special skills, the households are more disposed to buy services, but even there the do-it-yourself system is widespread. In the USA it is more widespread to hire people, however they are mostly employed directly in the household (as maids or gardeners) and the services are not as much bought from manual service firms.

**Danish households' tendency to buy Home service at different prices**  
*Results of a survey to a representative sample of the Danish population 1994*

*Table 22.1 Share of households which "surely" or "maybe" will demand selected services if these are provided at a "fair" price. Share of households which will demand services at a given price. % of the total number of interviewed people (1037)*

	Will demand at a "fair" price	Price per hour 100 Dkr (9 £)	Price per hour 90 Dkr (8 £)	Price per hour 80 Dkr (7 £)	Price per hour 70 Dkr (6 £)	Price per hour 60 Dkr (5.2 £)	Price per hour 50 Dkr (4.4£)	Price per hour 40 Dkr (3.5£)
Spring cleaning	36 %	7 %	8 %	12 %	17 %	21 %	30 %	32 %
Cleaning	33 %	4 %	4 %	8 %	12 %	16 %	27 %	30 %
Gardening	27 %	3 %	4 %	6 %	9 %	13 %	23 %	25 %
Advice about economy	21 %	8 %	9 %	11 %	13 %	14 %	16 %	17 %
Subscription on house repairing	20 %	4 %	5 %	7 %	9 %	12 %	17 %	18 %
Care of sick children	17 %	4 %	4 %	6 %	8 %	10 %	14 %	15 %
Shopping	13 %	1 %	2 %	2 %	4 %	5 %	8 %	9 %
Care of children in general	13 %	2 %	2 %	3 %	6 %	7 %	10 %	11 %
Providing meals	12 %	2 %	2 %	4 %	5 %	7 %	9 %	10 %

Source: Industriministeriet 1994 p. 21

From the example we can see that the households will buy more services the lower the price, but there is a limit of how many services they will buy. Even at a "fair" price not more than 36% of the households will buy the services. This is really a limitation due to the economic factor, the households rarely act as "economic men".

### **Social barriers**

There are also social barriers (Sundbo 1997b). In many European societies, particularly in Scandinavia, norms have been developed whereby households do not employ "servants". To buy household services is similar to when the nobleman hired servants which had very bad working conditions or when the capitalist hired labourers which also had bad working condition. It is against modern egalitarian welfare ideology that private persons should engage servants or act as capitalistic "exploiters". We have

been used to this norm for so many decades that we cannot discard it. Even though we talk about regular firms providing household services, this ideology, to a certain degree, is a factor in the creation of barriers.

We have also developed an intimate sphere barrier, which means that we are not used to having strangers in our most intimate sphere such as our bed room. We often prefer to do the work ourselves and not to have strange people in the house.

Further, a fear of the service workers should be criminal and use the situation for criminality is an increasing impediment to buying manual services. Finally, in many households the practical activities are social functions where the members of the family work together, or they have are considered as healthy because the individual will get exercise by carrying out the activities (e.g. gardening).

These social barriers have a different importance in different cultures and different countries (they are lower in the USA) and are being weakened. However, they may in many situations be barriers to households expansion of their demand for manual services.

### **There are barriers, but they might be overcome**

There are economic and social barriers, the latter are strongest in some countries (such as Denmark). The question is whether they can be overcome. This is what public interventions like the Danish Home Service system and similar systems in other countries attempt to do. Below I will discuss how well they have succeeded.

### **The public intervention systems**

Here, only the direct job creating attempts are treated since the more general interventions towards firms is treated in the foregoing chapter. The systems that will be discussed here are attempts to increase the households' demand for manual services and thus create jobs. The systems have different forms in different countries.

Insufficient growth has led the government in several countries to create programs through the 1990s for increasing the jobs in manual services, primarily through systems that economically support manual service firms or new manual service jobs outside such firms.

### **Different systems of job creation through state intervention in household services**

#### *1. To give the households a tax reduction.*

Earlier in the 1990s this method was successfully used in Denmark to increase construction work. The households could (up to a certain limit) reduce their income by the amount of money used for construction work. The household could only get the reduction if they used a VAT registered firm. Tax reduction has been used in Germany as a subvention to household services.

#### *2. To give the households a grant.*

This is a practice in France, which also attempts to increase jobs in household service through the Cheque Emploi system. The households can get a service cheque from the state and for that they can engage an unemployed person as a maid or other daily help directly (but only for 8 hours per week or 1 month per year for each person). There will normally not be any service firms involved. In Belgium and Finland they have a similar system, but there the municipality send out the service worker, who also must be an unemployed person.

#### *3. To give the household service firms a subsidy.*

This was used in the Danish Home Service system. Home Service firms can be registered by local authorities. Then they will get a certain amount of money per hour they invoice. This amount was in 1997 85 DKr (£ 8). This can be compared to a normal price for household cleaning services varies between 130 DKr (£ 12) in small firms to 160 DKr (£ 15) in large firms. The market price for moonlighting work is between 50 and 70 DKr (£ 4-6).

The experiences of these attempts are quite negative. Some, but only few, jobs have been created, and under no circumstances near enough to solve the unemployment problem (Sundbo 1997b). The systems have not succeeded in increasing the demand for manual services substantial according to analyses, maybe because the systems only uses economic market factors such as prices in the intervention system.

The Danish Home Service system has also been a minor success, but not the large success the government intended it to be. Even though the system lowers the price, and even though that becomes comparable to the price for moonlighting work, the system has not created many jobs. In Denmark more than 1,000 new service firms have been established as a consequence of the Home Service system. However, almost all are very small firms. A man or a woman without any employees, and often only with a few hours' work per week. Thus, according to assessments in 1996, three years after the introduction of the system, 4-5,000 people are active in the Home service industry. This does not mean that 5,000 new jobs have been created, because many of them are part-time jobs, and many are jobs that existed before, but they are now registered under this system (e.g. small cleaning firms that want the grant and becomes registered as Home Service firms). In 1995 a more exact calculation showed that 2,800 new jobs were

created in the Home Service industry, but only between 200 and 500 of these workers were unemployed before. The others were just transferred from the cleaning or gardening or another manual service industry.

Investigations show that here is two explanations for the limited success (Sundbo 1997b). These are the ones already mentioned.

One is the economic barrier. The economic factor has not even reduced the moonlighting very much. The market price for home services should also be under the market price for moonlight work if it should be worth the trouble for the moonlight worker to be registered as an official firm. Further, families often want to keep their moonlight workers instead of switching to an official firm because they know them.

The other explanation is the social barriers.

The political creation of a market that could expand employment has appeared to be very difficult.

### **3. Firm outsourcing**

#### **Causes for externalization and internalization**

Another factor that could create job growth is externalization as mentioned. Firms could outsource more of their manual service activities. From a rational point of view they would do this if the external service provider could carry out the activities more cheaply, better and faster than the firm could itself. Besides that some management and sociological factors also influences the decision. The more strategically important the function is, the less the tendency to outsource will be; however the activities we are discussing in this book under the heading manual services are in most cases of no strategic importance to firms. The decision is also influenced by fashions in management theory such as the actual tendency is to “stick to your core business” - outsourcing every activity that is not a part of the core business. Manual services benefit from that since they are very seldom core activities.

Inertia is also a factor that influences the outsourcing tendency. If the firms have done these activities internally for years, this system simply continues until somebody really questions the situation (this could for example be a service supplier). Outsourcing is a possibility if a firm needs more flexibility and independence. If they internalize the activities, they must have a permanent workforce which must be trained and managed. This is inflexible while it becomes much more flexible if the firm buys these activities as external manual services.

All this would increase turnover for manual service firms, but will it also solve the unemployment problem that we are discussing here? In the short term, no! People are employed to carry out these activities in manufacturing, or other service, firms. If the functions are outsourced to external service firms the employment will likely fall due to the service firms are more efficient and nobody will spend some of the working time by doing nothing.

One could state a theory that says that in the long term, outsourcing will create more employment because the specialised service firm will develop new products thus the total amount of manual service activities in society will increase. This is an unproved, and somewhat questionable, theory because there is no guarantee of such a development. This is probably the reason why the public intervention systems are directed towards private households and not towards firms. It is in the private

households that an employment expansion is possible.

<b>The outsourcing tendency</b>			
<i>Outsourcing of business services in the European Community 1988</i>			
	<u>Origin of the service (%)</u>		
	Solely external	Solely internal	Combined
Engineering and related activities	56	14	30
Management consultancy	35	37	28
Advertising	49	24	27
Public relations	11	59	30
Computing services	22	26	55
Research and development	12	58	30
Legal services	41	21	38
Operational services (physical services: cleaning, catering etc.)	58	22	20

Source: Illeris 1996 p. 65

Business service activities, particularly physical service activities, are often outsourced

### **Innovations are necessary**

The condition for the realisation of the above increase in employment through specialization is that the manual service firms are very innovative and develop new services, which as we have seen earlier (chapter 19) they generally not have been. In the past it has been more likely that they would make process and organizational innovations, which would reduce employment. However, this may change in the future, cf. the discussion in chapter 19.

If the state wants to increase employment, it then must either stimulate all firms to do the manual service activities themselves and over-employ people, which is not likely to be very successful, or to stimulate manual service firms to be more product-innovative.

### **4. People do not want the manual service jobs**

As I have discussed in chapter 9, there is some indication that people mostly do not want the jobs in the manual service sector, particularly not if one thinks of the jobs in terms of a career.

This is, of course, a barrier to employment growth in manual services. To society it raises a big issue of the welfare system concerning whether people should be forced to take a job, and if so, what type of job they are supposed to take, voluntarily or compelled - if they should keep their unemployment relief. However, this is a political issue that calls for an extended discussion and analysis and this is outside the topic of this book.

## **5. Solutions for the state**

What should the state do with respect to job creation in manual services? In this section I will on the basis on the foregoing analysis discuss different means that the state could use.

### **Creating new markets**

One conclusion could be that the artificial market creation that the Danish Home Service system is an example of, is impossible, and the state should leave the market to itself. However, the Danish Home Service system is also a proof of a small market and a small increase in employment could be created (and customer attitude measurements have demonstrated that the potential is even larger). So, another solution could be to pursue that possibility. That would demand harder economic means to create a sufficient economic incentive for households (and perhaps firms) to buy manual services at the market. The grant to the Danish Home Service system should be larger (minimum 110 DKr (£ 10) per invoiced working hour), or the tax reductions, if that subvention system is chosen, should be large. Some of the Danish service trade organizations have proposed that services should be except from paying VAT (which in Denmark is 25 per cent).

This could create a service market of some size, but even a grant comparing to the full price for marketed manual services would not lead the households to buy instead of doing the work themselves for all activities as demonstrated earlier in this chapter. The effect will be limited. Economically, it would be a bad business for the state; it would be cheaper to give all unemployed people unemployment relief or a National Assistance. The state could choose the market creation only to reduce moonlighting which is considered as both illegal and immoral. It could also be considered as a social norm or a political attitude that all people must have a job and this could also be a reason for market creation. The problem in this case is that many people actually prefer to be unemployed to a manual service job. An un-answered question is: How many maintain this preference if they do not get any, or reduced, unemployment relief?

### **Influencing social norms and behaviour**

Probably more important than the price to destroy the households' impediments to buy more manual services from the market are the social barriers. They are not reduced by economic means, it demands sociological, and maybe psychological, ones. The norms and behaviour of people must be changed.

In modern families both grown ups are members of the labour market and have a career. They need relief for practical activities and it could be normal, maybe chic, to engage manual service firms at doing this. The argument is also that people are competent to do their jobs, not to do practical household work, which the manual service firms are competent to do. Therefore, people should work some hours with their interesting jobs to be able to buy some hours household services to relieve them from the boring practical activities. They can use their spare leisure time by being together with the family and engage in activities with them. The major customer group of the Danish Home service firms, after elderly people, is high-income middle-class families with small children. They can afford to buy household services, and although



they must abstain from other goods or services, they prioritize services in this way. Further, elderly people have a need for extra services as their demand increases and the public services can not fulfil all these demands. If it becomes institutionalized, as a generally accepted norm, that the elderly people purchase more market based services (with or without grants from the state), it will also increase the demand. This also raises a series of political welfare issues that I shall not deal with in this book.

This development demands a change of norms and patterns of behaviour. The means to create such changes could be several. Discussion in the media would be one central tool. This might be induced by suggesting political proposals that will result in a debate. To induce research in the field could also start the debate and changes of norms if the research results are discussed. However, such campaigns are like commercials: They can emphasize the issue, but it can not change attitudes if people are not ready for that. Further, a moral campaign would be more efficient if it was combined with economic incentives that lower the price of manual services.

The problem of moonlighting may be more easily solved by moral campaigns. The citizens have some moral scruples in advance which could be touched. Such moral-emphasizing means have been efficient in other fields, e.g. drunken driving. However, they are more efficient if they are combined with control, which in this case would be increased control of incomes and moonlighting activities.

### **Supporting the development process in manual service firms**

The public sector can stimulate job creation by supporting the development process in manual service firms, particularly to increase the sales to firms, but also to households. The manual service firms must specialise and develop more professionalization within the specialised service, and they must be more innovative.

However, this business development does not necessarily solve the unemployment problem. Specialised, professional services demand higher skills from the employees, and this demand may eventually not be fulfilled by a large number of unemployed people.

Therefore, the public system should - from a pure employment perspective - primarily support innovation activities that lead to new labour-intensive services. This, however, may be more doubtful from an economic, industrial development point of view. The manual service firms might increase their competitive advantage by being technology-intensive, cf. the discussion in chapter 18.

### **Improving working conditions and raising the prestige of manual service jobs**

To create permanent jobs in manual services, it is also important that the working conditions are improved and the prestige of the jobs is raised. The latter is achieved via the first and through the professionalization of service work.

The improvement of working conditions could be ensured by the authorities for improving working conditions. They could control the working conditions and develop, or support the development of, new working methods, technology and other factors that could better the conditions. If all the service firms also had more regular employment conditions and tried to create more normal working hours (such as cleaning in the daytime - "visible cleaning"), if the workers and their unions manifested themselves more as a professional group in the press, and if more

prestigious stories about manual service work could be created by all interest-partners, this would raise the prestige of manual service work. As long as price competition is the major market competition parameter, it is difficult to raise prestige. The interest-partners should nevertheless attempt to do this. The specialization and professionalization of manual service will help increasing the prestige.

The state may attempt to solve the manual service squeeze problems in large, integrated projects such as project "Clean Cleaning" that has been proposed in Denmark. It is a very ambitious project that has not yet been granted by the government on a full scale, and perhaps never will (a grant of about 1% of the project budget has been given in 1997). The explanation of why it has not been granted is:

- It is very large and integrated; the state would prefer several smaller projects where results could be evaluated successively.
- The manual service sector still does not have sufficient prestige to grant such a huge amount of money.
- The project starts its argumentation and institutional set-up with the working conditions. This is the wrong place to start since this is not actually highest on the political agenda. It should have started emphasizing business development or job creation.

### **Project Clean Cleaning**

The project was launched in 1996 in Denmark by the Institute of Work Environment under the Factories Inspectorate which is a state department within the Ministry of Labour. The initiative came from a small group of people in the institute, who have engaged a lot of individuals and organizations including employers association and unions in it. A complete project has been set up.

*The purpose of the programme is:*

To develop the cleaning work through research. The programme should lead to:

- \* better cleaning quality and indoor climate for the customers
- \* improved working conditions
- \* less pollution
- \* strengthen business position for cleaning firms through increased knowledge content of the services, both in terms of technology and organization.

*Implementation of the programme:*

It is an innovation programme that should benefit the cleaning firms through developing the service products as well as improving working and environmental conditions. All good purposes should therefore be fulfilled.

The programme is very research oriented, but has also a great chapter on practical implementation and the development in the cleaning firms.

It includes research and development of technology, cleaning methods and organization.

*Organization of the programme:*

The programme should be carried out by universities, clinics of industrial medicine, cleaning firms and producers of material for cleaning.

It should be financed by the state with 107 mio kroner (£ 9 mio), the firms with 25 mio kroner (£ 2,2 mio) and the research institutions by 15 mio kroner (£ 1,3 mio).

Whether it is advisable to create such a large integrated project is difficult to say in relation to: 1. How sure we can be of the results, 2. If it can be managed (an alternative would be a programme with several smaller projects). It could be an interesting attempt and experiment if a country (or for example the EU) would create such a program. The relevant to the society is very obvious, and the amount of money may seem large, but in relation to what most societies spend on mature manufacturing sector such as shipyards, or on agriculture, which will never create any new job, it is only peanuts.

## **Part 6**

# **Development model**

## 24 Conclusion: The model for developing manual services

In this chapter I will conclude as to whether the service firms may overcome the manual service squeeze by developing the services and the service production system. This will be done on the basis of the analyses of the foregoing chapters. The ways to a possible solution of the squeeze will be discussed by collecting the results of the analyses into a generalised model of how the service firms could develop the services and the production system.

This is important for the firms, but also society because these services may contribute to solving the unemployment problem. The state could support the service firms' development through industrial policy, and this will be discussed in the final section of the chapter.

### 1. The manual service squeeze can be overcome

The analyses of the foregoing chapters and the examples given demonstrate that the services and production systems can be developed and the squeeze that has been shown to exist thus might be completely or partly eliminated. However, this can not be done easily via one single solution. It demands a set of different solutions, which some service firms have introduced. The firms must operate on several levels and it will not be an easy task. However, the conclusion of this analysis is that through hard work, it is possible for service firms to create developments on so many levels that they can escape the squeeze and lay a foundation for a better situation in the future.

This will affect the result level (cf. the model in chapter 5) for the single firm. Its profit and turnover will grow and it will be easier to develop new products and production systems in the future. It will also improve the results of other actors. The customers will get better service products which will solve unsolved problems for them, the labour force and society will also gain because this will reduce unemployment and it will produce a better trained workforce that will be more competent to meet the future challenges. For a country, this development will improve its competitiveness.

The developments that will be presented in the next section are means that can influence the product life cycle (cf. chapter 4) so it will get out of the mature stage and into a growth stage (cf. chapter 19) - if a large number of firms introduce these developments. This will change the situation of the service industries and may create economic growth to society.

It is only a small probability that the manual service sector can be an industrial "growth engine" which can generate general economic development, cf. chapter 22, but a development and growth in employment of some size can be created in the manual service sector itself, which is also useful to the society.

## **2. The elements of the service firms' development strategies**

The analyses in the foregoing chapters has led to a model of service development. The manual service firm can choose some of the following elements to include in its development strategy. A firm does not need to choose all the elements, but it is necessary to selected several elements to develop the firm. Development here is quantitative and qualitative. Quantitative development means selling more of the same product while a qualitative development means selling new products or old products in a new way (cf. Schumpeter 1939).

### **Elements of development solutions**

#### *The SMIP model*

Most important is a series of elements that develops the service concept as well as the production system (cf. chapter 5), as was discussed in chapter 16. These elements in combination could be called a SMIP model. These elements are not greatly emphasized in the service literature, particularly not in this combination.

The model is put forward below.

### The SMIP model

The model emphasizes four elements:

**Specialisation**  
**Modulization**  
**Innovation**  
**Professionalization**

#### *Specialisation and higher degree of knowledge content*

is the introduction of more specialised services that might be provided to a limited market segment (cf. chapter 17) such as food hygiene services in ISS. The specialisation demands greater competence from the firm and the employees. It is an advantage if the specialisation is combined with a high degree of knowledge in the service concept thus it is more scientific based such as in Rentokil.

#### *Modulisation*

is the combination of the industrial mass production system including standard products and standardised production system with the customer oriented individualisation of the service products and delivery systems that the service management and marketing theory has emphasized (cf. chapter 12).

#### *Innovation and technology development*

is introduction of new service concepts (cf. chapter 18 and 19). It can be new service products, new forms of organization, new production and delivery processes or new market attempts. Technology has played an inferior role in most manual services, and will continue to do so in many. However, as far as new technology can be introduced as process or product technology, it can give an advantages in form of better products and greater insurance towards imitation of the innovation (cf. chapter 18).

#### *Professionalization*

is increase of the employees' competencies (cf. chapter 14). This will also improve the firm's competence and increase the prestige of the service work thus it will be easier to recruit personnel. Professionalization is connected to specialisation.

Also other elements treated in the analysis are important. These are:

#### *Change of business field*

The firm can change the business field (the first level in the model of manual service production cf. chapter 5) to less residual areas. In the analysis personal service and environmental services have been stressed as areas with growth and development potential. They have higher prestige in society than traditional physical manual

services such as cleaning, catering, transport etc. They also represent unsatisfied markets that will grow in the future. Other areas might also be possible.

This element was discussed in chapter 16.

#### *Flexible organization and employee orientation*

The flexible production organization including increased employee orientation: more autonomy and delegation of responsibility to the employees - has been a core means in ISS and other manual service firms. Although the analysis has shown that this is insufficient in itself, it is a means that must be a part of a development strategy because it is essential to all service delivery (cf. Eiglier and Langeard 1988, Normann 1991). The organization may not be made flexible without employee orientation.

This element of the production system level (cf. chapter 5) was discussed in chapters 11 and 15.

#### *Internationalisation*

Internationalisation can develop the single service firm because the firm needs to adapt to new market situations in different countries and thereby learn and get ideas for innovations. For the society, internationalisation is also a phenomenon that can develop national industries and create employment. When foreign service firms come to a country, they bring with them experience that is new to that country and which the domestic firms can learn from, and they often bring innovations.

Internationalisation was treated in chapter 22.

#### **The manual service production model and the development solutions**

Now I can go back to the model of the service production suggested in chapter 5. The solutions of the development problems that the manual service squeeze has created and the development means, which have been discussed here, can be put into the model which then gives an overview of them. This is an overall model which includes all the means, also the most important that was structured in the SMIP model.



<b>THE SERVICE PRODUCTION MODEL</b>		
		<u>Development means</u>
<i>The overall aim:</i>	THE BUSINESS FIELD	Change business field Internationalisation
<i>The inputs:</i>	THE PRODUCTION SYSTEM	Flexible organization Innovation Professionalization
<i>The process:</i>	THE SERVICE CONCEPT	Specialisation Modulisation Innovation
<i>The output:</i>	THE RESULT	Increased: - turnover - profit - competitive advantage Economic growth More jobs

### **3. The role of the state**

Primarily the firms must develop by themselves, but the state may support the development of the service firms thereby creating general business development in the society, economic growth and growth of employment. Other public authorities such as county administrations and the EU Commission could also introduce support programmes. The support would relate to general elements and the most obvious would, according to the analyses in the foregoing chapters, be the following:

#### *Innovation support*

The service firms are often not aware of innovation as a possibility, and when they are, they do not always know how to organise the innovation activities (Sundbo 1997a, Sundbo and Gallouj 1998). The state could introduce awareness campaigns and other activities that can improve the awareness and by providing ideas and models for organising the innovation activities; the latter may demand research in this field. Networks through which ideas and innovations can be diffused can also be a means.

Technology can also be a development factor, traditionally manual services has with a few exceptions such as transport been little technology-intensive and used very little advanced technology. Support for introducing more, and more advanced, technology could also be a task for the state.

*Develop relevant research and sciences*

As stated above, the manual service concepts should be more research or science based. However, the research system directed towards the development of new service concepts is either non-existent or weak compared to that directed towards supporting development of new manufacturing products. Existing sciences such as economics, sociology, law, business administration etc. should be developed to meet the challenges that manual service firms meet. They should undertake more research in societal development which is relevant to the innovation of new service concepts and service production systems. These sciences exist, but they are generally either directed towards general, fundamental problems (basic research) or problems that face manufacturing firms. Since most research is state financed, this will be a task for the state to change.

*Education and training*

This is an important part of development of professionalization of the manual service production. The public sector can develop the public education and training system to meet the demands of the manual service firms. This is particularly important for manual service firms since they have generally a low profit margin and have difficulties in financing training activities themselves.

*Outsourcing*

Outsourcing of public services is a sensitive field that provokes many reactions and touches ideological issues. This makes it difficult to operate on that dimension. The issue is mentioned here because the analysis has demonstrated that the outsourcing of public services to firms often leads to more innovation because a competition is introduced and because the public sector then starts being a critical consumer (cf. Porter 1990). This makes it obvious to outsource manual service activities. However, political-ideological issues are also an important part of society's life. Since welfare policy has not been the core topic of this book, I will not say how much these issues could or should influence the policy of outsourcing.

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