

CHAPTER 2: THE SERVICE ECONOMY: SUPERSECTORS AND ETHICAL CONSIDERATIONS

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"If you don't have integrity, you have nothing. You can't buy it. You can have all the money in the world, but if you are not a moral and ethical person, you really have nothing."

Henry Kravis

Chapter Objectives:

This chapter provides an overview of the service economy by introducing the nine service supersectors. Although on the surface many of these supersectors seem quite diverse, service classification schemes are discussed that assist in our understanding of the commonalities among service industries. Trends and concerns pertaining to the growth of service industries are presented that further our understanding of the service economy. Finally, this chapter introduces the very important topic of ethical issues in services marketing. Service marketers as well as service customers often face unique ethical issues that merit discussion.

Learning Objectives:

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After reading this chapter, you should be able to

1. Describe the nine supersectors that comprise the service economy.

- An in-depth look into the service economy provides an overview of the service economy supersectors including: (1) education and health services, (2) financial activities, (3) government, (4) information, (5) leisure and hospitality, (6) professional and business services, (7) transportation and utilities, (8) wholesale and retail trade, and (9) other services.

2. Identify the trends and concerns pertaining to the growth of the service economy.

- Several key forces continue to influence the growth of the service sector. These trends include the emergence of technologically based e-services, socio-cultural forces derived from an aging population, and the competitive force of "outsourcing," which involves the offshoring, outsourcing, and industrialization of many services.

3. Understand the reasons consumers are particularly vulnerable to ethical misconduct within the service sector.

- Reasons contributing to consumer vulnerability include: (1) services possess few search attributes; (2) services are often technical and specialized, thereby, difficult to understand; (3) a time lapse sometimes exist between service performance and consumer evaluation; (4) many services are sold without warranties or guarantees; (5) many services are provided by unsupervised boundary-spanning personnel; (6) services are nonstandardized; consequently, some variability is accepted; (7) reward structures based solely on sales tend to reward and fail to punish ethical misconduct; and (8) due to the consumers' involvement in the production process, consumers often accept part of the blame for less than perfect performance.

4. Appreciate the types of ethical issues that often arise in the business sector.

- The most typical issues that managers and/or employees will face while conducting business include: conflict of interest, organizational relationship, honesty, fairness, and communication.

5. Discuss the consequences of ethical misconduct.

- Employees forced to deal with ethical issues on a continuous basis frequently suffer from job-related tension, frustration, anxiety, ineffective performance (i.e., reduced sales and reduced profits), turnover intentions and lower job satisfaction. In addition to the personal effects of ethical misconduct, the organization as a whole suffers. Ethical improprieties have also been linked to customer dissatisfaction (loss of sales), unfavorable word-of-mouth publicity for the organization, and a negative public image for the entire industry.

6. Explain strategies that attempt to facilitate positive ethical behaviors.

- Strategies suggested to control the ethical behavior of personnel include employee socialization, standards of conduct, corrective control, leadership training, service/product knowledge, monitoring of employee performance, and the building of long-term customer relationships.

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Opening Vignette: Getaway2Give

- Getaway2Give (G2G) is the world's only philanthropic vacation club. Its destinations include elite resorts and privately owned homes in coveted beach, ski, city and international destinations, such as Anguilla, Aspen, New York City, and Tuscany. Its designated charities receive half of new membership fees and a percentage of all rental fees.
- Another way G2G differentiates itself is by facilitating "voluntourism," or special

activities that allow members to give their talents and time to deserving charities while on vacation.

- G2G appeals to affluent Americans who feel grateful for their fortunate lifestyle and want to give something back.

Lecture Outline:

I. Introduction

- A. The first half of the chapter focuses on the nine service supersectors that collectively comprise the service economy. For students seeking a career in services marketing, the information on projected supersector growth, salary implications, and educational requirements should be particularly helpful.
- B. Next, the chapter introduces and discusses concepts related to social responsibility and services marketing ethics. Because of the unique opportunities that exist for ethical misconduct in service organizations, students of services marketing courses in particular should be made aware of the issues surrounding ethical decision making.

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II. What Is the Service Economy?

- A. It is generally accepted that the service economy *includes the “soft parts” of the economy consisting of nine industry supersectors* – education and health services, financial activities, government, information, leisure and hospitality, professional and business services, transportation and utilities, wholesale and retail trade, and other services.

1. Figure 2.1 The U.S. Service Economy (Employment Growth Projections 2006–2016)

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2. Figure 2.2 Past, Present, and Future: U.S. Service Supersector Employment

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B. Education and Health Services

1. The educational services subsector includes schools, colleges, universities and training centers.

- a. The second largest employment industry.

- b. Accounting for 13.3 million jobs.

2. The health care and social assistance subsector is comprised of:

- a. Health services such as hospitals, nursing care facilities, physician's offices and home health care services.
 - 1. The largest employment industry in the private sector.
 - 2. Accounting for 14 million jobs.
 - 3. Seven of the top 20 fastest growing occupations are in health care.
- b. Social assistance such as individual and family services, vocational rehabilitations services, and community food and housing, and emergency and other relief services.

C. Financial Activities

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- 1. Banking and Insurance subsector is comprised of:
 - a. Commercial banking, savings institutions, credit unions.
 - b. Banking employment expected to increase by 4% (2006–2016).
 - c. Insurance subsector provides clients protection against financial loss for a variety of incidents.
- 2. Securities, commodities, and other investments
 - a. Manage the issuance, purchase, and sale of financial instruments.
 - b. Staggering 46% employment increase expected because of the growing need for investments and securities to fuel the global marketplace, as well as the increase in need for financial advice.

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D. The Government

1. Consist of three subsectors:
 - a. Not-for-profit sector (advocacy, grantmaking, and civic organizations)
 - b. Federal government
 - c. State and local governments
2. Employed approximately 1.2 million personnel in 2006; projected increase by 13% (2006–2016) in the not-for-profit sector.
3. Federal government is largest single employer with 1.8 million civilian employees.

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E. Information

1. Consist of establishments that produce and distribute information and cultural products, provide the means to distribute or transmit these products, and/or process data.
2. Major players include publishing industries, the motion picture and sound recording industries, the broadcasting industries, the telecommunication industries, Internet service providers and web search portals, data procession industries, and information services industries.
 - a. Represents 2.6% of all employment and 1.9% of all establishments.
 - b. Software publishers are currently the fastest growing industry within the Information supersector, with a projected growth rate of 32% (2006–2016).
3. Read E-Services in Action – Top Ten Social Media Retailers

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F. Leisure and Hospitality

1. Arts, entertainment, and recreation
 - a. Establishments that produce, promote, or participate in live performances, events, or exhibits intended for public viewing.
 - b. Establishments that preserve and exhibit objects and sites of

historical, cultural, or educational interest.

- c. Establishments that provide amusement, hobby, and leisure time interests.
- d. More than 40% of the workforce has no formal education beyond high school.

2. Food services and drinking places

- a. Establishments providing a meal, snack, or beverage for immediate consumption.
- b. More than 20% of employees are between the ages of 16 and 19.
- c. Two out of 5 employees work part time.
- d. Employment projected to grow by 11%; jobs are plentiful due to high turnover.

3. Hotels and other accommodations

- a. Similar statistics to food service and drinking places.
- b. Account for 2/3 of leisure and hospitality employment.
- c. Employment projected to grow by 14%.

G. Professional and Business Services

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1. Consulting

- a. One of the highest-paying industries.
- b. Projected growth rate is 78% (2006–2016).

2. Professional, scientific, and technical services

- a. Will change the face of how we do business and how we live our lives.
- b. Job opportunities are best for scientists and engineers who have obtained doctoral degrees.

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H. Transportation and Warehousing and Utilities

1. Air transportation

- a. Most jobs are in ground operations.
- b. Pilots with seniority are the highestpaid workers in country.
- c. Expected employment growth is 7%.

2. Truck transportation and warehousing

- a. Variety of activities that link between manufacturer and consumer.
- b. Truck drivers and driver/sales workers occupy 45% of all jobs in this subsector.
- c. Job opportunities are best for truck drivers and diesel mechanics; projected employment growth of 15%.

3. Utilities

- a. Electricity, natural gas, steam, water, and sewage removal.
- b. Nearly half of current utility workers will retire within the next 10 years.

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I. Wholesale and Retail Trade

1. Wholesale trade

- a. Wholesale merchandise (generally without transformation) and services related to the sale of merchandise.

- b. Wholesale firms tend to be small with fewer than 20 employees, of which 7 out of 10 work in office and administrative support, sales, or transportation and material moving occupations.

2. Retail trade

- a. Retail merchandise and services related to the sale of merchandise. Includes automobile dealers.
- b. Growth projected at 11%.

3. Clothing, accessory, and general merchandise stores

- a. Most retail trade jobs (84%) consist of sales and administrative support positions.
- b. Growth projected at a modest 7%.

4. Grocery stores

- a. Modest expected growth, at 1%, but many opportunities due to industry size and employee turnover.
- b. Many jobs are part-time, with half the jobs comprised of cashiers and stock clerks.

J. Other Services

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- 1. A “catch-all” for all of the services that do not neatly fit into the preceding eight supersector categories.
- 2. A myriad of establishments that are engaged in a variety of activities including equipment and machinery repair, promoting or administering religious activities, grantmaking, advocacy, dry cleaning and laundry service, personal care, death care, pet care, photofinishing, temporary parking services, and dating services.
- 3. Represents 3.3% of all employment and 12.6% of all establishments.
- 4. Projected employment growth of 1.3%.

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K. Service Sector Growth Concerns

1. Materialism and snobbery

- a. Reflects the belief that only manufacturing can create real wealth.
- b. With less manufacturing, there will be less for people to service and so more people available to do less work.

2. Dichotomization of wealth

—Some fear that as the economy shifts further away from manufacturing to service jobs, there will be further dichotomization of wealth—*the rich will get richer and the poor will get poorer.*

3. Low wages associated with service employment

—“Most service enterprises consist of a well-paid brain trust and poorly paid support staff; \$500/hr lawyers and \$10/hr secretaries.”

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III. Ethical Considerations for Services Marketers

A. Topics specific to the service sector

1. Consumer vulnerability in services marketing
2. Issues that create ethical conflict
3. Factors influencing ethical decision making
4. The effects of ethical misconduct
5. Strategies for controlling ethical behavior

B. To encourage ethical vigilance

— *paying close attention to whether one’s activities are “right” or “wrong,” and if ethically “wrong” asking why you are behaving in that manner.*

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IV. What Are Ethics?

-Commonly defined as:

- A. A branch of philosophy dealing with what is good and bad and with moral duty and obligation.
- B. The principles of moral conduct governing an individual group.

IV. Business ethics

–comprises moral principles and standards that guide behavior in the world of business.

1. Businesses must make a profit in order to survive.
2. Business profits should not be obtained by any means necessary.
3. A trade-off must exist between the firm's desire for profits and what is good for individuals and society.
4. Read Sustainability and Services in Action feature.

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V. The Opportunity for Ethical Misconduct in Services Marketing

- A. Intangibility complicates the consumer's ability to objectively evaluate the quality of service provided.
- B. Heterogeneity reflects the difficulty in standardization and quality control.
- C. Inseparability reflects the human element involved in the service delivery process.

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- D. Consumer vulnerability within the service sector can be attributed to several sources.
 1. Services are characterized by few search attributes; consequently, consumers have little prepurchase information available to help them make an informed, intelligent decision.
 2. Many services are technical and specialized; consequently, the opportunity exists to easily mislead customers.

3. Some services have a significant time lapse between performance and evaluation; hence, service providers may not be accountable for their actions in the short run.
4. Services are often sold without warranties and guarantees.
5. Services are often provided by boundary-spanning personnel who work without direct supervision.

–Boundary-spanning personnel: *personnel who provide their services outside the firm's physical facilities.*

6. Due to heterogeneity, variability in service performance is somewhat accepted. Unethical service providers may attempt to broaden the window of acceptable performance.
7. Outcome-based reward systems often dictate the behavior of employees, and it does not take employees long to figure out the shortest route to the most money.
8. Customers are active participants in the production process.
 - a. The consumer's involvement enables a service provider to try coercive influence strategies.
 - b. Conflict avoidance is one of the major reasons customers do not complain to a service provider.

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VI. Issues that Create Ethical Conflict

(See Figure 2.10 Ethical Issues Encountered by Businesses)

A. Conflict of interest

–*the situation in which a service provider feels torn between the organization, the customer, and/or the service provider's own personal interest.*

B. Organizational relationships

–*working relationships formed between service providers and various role partners such as customers, suppliers, peers, subordinates, supervisors, and others.*

C. Honesty

–is a partner of truthfulness, integrity, and trustworthiness.

D. Fairness

–is an outcome of just treatment, equity, and impartiality.

E. Communication

–ranges from mass advertising to warranty information to interpersonal communication between the service provider and the customer.

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VII. The Effects of Ethical Misconduct

A. Effects on employees

–job-related tension, frustration, anxiety, ineffective performance, turnover intentions, and low job satisfaction.

B. Effects on organization and industry

–customer dissatisfaction, unfavorable word-of-mouth publicity, and a negative image for the entire industry.

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VIII. Controlling Ethical Decision Making

A. Employee socialization

–the process through which an individual adapts and comes to appreciate the values, norms, and required behavior patterns of an organization.

B. Develop standards of conduct

–code of ethics: formal standards of conduct that assist in defining proper organizational behavior.

C. Corrective control

–the use of rewards and punishments to enforce a firm's code of ethics.

D. Leadership training

–subordinates look to their leaders to set an example.

E. Service/product knowledge

–Provide employees the knowledge of what the service can and cannot accomplish.

F. Monitoring employee performance

G. Stress long-term customer relationships

IX. Summary

It is generally accepted that the service economy includes the “soft parts” of the economy consisting of nine industry supersectors—education and health services, financial activities, government, information, leisure and hospitality, professional and business services, transportation and utilities, wholesale and retail trade, and other services. The nine service supersectors illustrate the diversity of activities within the service economy.

Service consumers are particularly vulnerable to ethical misconduct for a variety of reasons. The most common ethical issues involve conflict of interest, confidentiality in organizational relationships, honesty, fairness, and the integrity of the firm’s communications efforts.

The behavior of service providers engaged in ethical decisionmaking reflects the moral philosophies in which they believe. Organizations have utilized a number of strategies that attempt to control the ethical behavior of employees.

REVIEW QUESTIONS:

1. Rank and discuss the projected growth rates of the nine service supersectors. What do you believe is driving the growth of the three most highly ranked supersectors?

Based on projected growth rates for the period 2006–2016, the nine service supersectors rank in the following order: (1) education and health services, (2) professional and business services, (3) information, (4) financial activities, (5) leisure and hospitality, (6) wholesale and retail trade, (7) transportation and utilities, (8) government, and (9) other services

Answers may vary. The highest projected growth is expected in education and health services. Education will see growth because one in four Americans is currently enrolled in an educational institution. Health services is currently the largest industry in the private sector and will likely see growth due to an aging population that is living longer. The second-highest projected growth is expected in professional and business services. Consulting is the fastest growing of the professional and business services and one of the highest paid. As science, technology, and computer systems become more advanced and complex, demand for consulting and other services in these areas will continue to grow. Finally, the third-highest projected growth is in information. Software publishing is currently the fastest-growing industry in the economy.

2. Explain how a service supersector can have minimal projected growth yet still have many job opportunities available.

Overall employment numbers can remain stagnant or have modest growth while high employee turnover can still result in many job openings. For example, nearly half of the current utility workers are expected to retire within the next 10 years, resulting in many more job opportunities than is represented by the 6% employment growth forecasted.

3. Go to <http://www.bls.gov/iag/leisurehosp.htm> and click on the Hotel and Other Accommodations Career Guide link found at the bottom of the scrolled page. Discuss working conditions, current and projected employment, occupations, and earnings as they related to the hotel industry.

- Answers will vary. The site has ample information about the hotel industry.
- Work in hotels and other accommodations can be hectic, particularly for those providing check-in and checkout services. Hotel desk clerks must quickly, accurately, and cordially process large numbers of sometimes impatient and irate guests.
- Service occupations, by far the largest occupational group, account for 66 percent of the industry's employment.
- Hotels employ many young workers and others in part-time and seasonal jobs.
- Average earnings are lower than in most other industries.

4. Compare changing from an agricultural economy to an industrial economy with moving from an industrial economy to a service economy.

In 1850, 65% of the population was connected to farming. During this period, many voiced concern over workers leaving the farms to work in factories. Today, 1% of the U.S. labor force is involved in farming operations and provides an abundance of food. Similarly, with advances in technology and new management practices, the need no longer exists to have as many people in manufacturing as we had in the mid-1900s.

5. Discuss the difference between ethics and social responsibility.

On one hand, social responsibility could promote the stance that the firm's survival provides employees' salaries with which employees feed their families and educate their children, thereby leading to the betterment of society. On the other hand, business profits that are necessary for the firm's survival should not be obtained by any means necessary. A trade-off must exist between the firm's desire for profits and what is good for individuals and society.

6. How does the public feel about the ethical behaviors of businesspeople?

According to a *Business Week/Harris* poll and other surveys: (1) 46% believed that the ethical standards of businesspeople were only average; (2) 90% believed that white-collar crime was somewhat or very common; (3) 76% relate the decline in moral standards in the United States directly to the lack of business ethics; (4) 66% of employees believe that businesspeople will occasionally act unethically; and (5) 15% believe that ethical misconduct occurs often in the business sector.

7. What type of company has more difficulties controlling the ethical behavior of its employees—a centralized firm or a decentralized firm? Please explain.

Because of the physical distance from the main office inherent with decentralization, branch managers and their service providers may have more opportunity to act in a manner inconsistent with organizational standard operating procedures without repercussions from upper management.

8. Explain how reward systems affect ethical behavior.

The reward system of an organization often dictates the behavior of its employees, and it does not take employees long to figure out the shortest route to the most money. Reward systems may encourage the unethical conduct of its employees. For example, straight commissions and quotas reinforce activities that are directly linked to making the sale while discouraging nonselling customer support activities.

9. Discuss the relationship between a code of ethics and corrective control.

For the service firm's code of ethics to be effective, the conditions set forth in it must be enforced. Enforcement of the code of ethics may be accomplished through

corrective control, or the use of rewards and punishments.

10. Describe the relevance of a “search attribute” as it applies to service marketing ethics.

Search attributes can be determined prior to purchase and include such attributes as touch, smell, visual cues, and taste. Services possess few search attributes and therefore are difficult to evaluate before the purchase decision has been made. Consumers of services often must base their purchase decisions on information provided by the service provider. This leaves consumers vulnerable to the ethical misconduct of a provider who might misrepresent the service. Service firms need to constantly train all employees concerning the details of what each service product can and cannot provide as well as provide and emphasize its business code of ethics. For example, the insurance industry now requires continuing education for its sales agents.