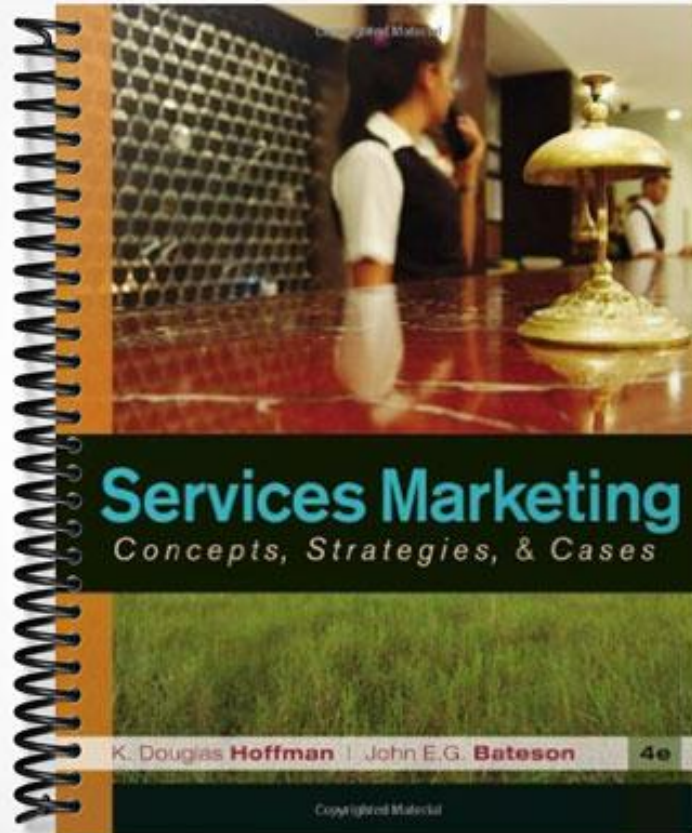


SOLUTIONS MANUAL



CHAPTER 2: THE SERVICES SECTOR: SUPERSECTOR AND ETHICAL CONSIDERATIONS

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"Washrooms will always tell if your company cares about its customers."

Unknown

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 which 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 consumer's 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 experience 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 negative public images 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, specifying standards of conduct through codes of ethics, leadership training, increasing employee service/product knowledge, monitoring employee performance relative to ethical conduct specified by the organization, and stress to employees the benefits of long-term customer relationships.

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Opening Vignette: Know the Code, It's Your Responsibility

- Vail Resort has recognized its responsibility to its guests and is aggressively promoting skier safety. Vail has developed "Your Responsibility Code." Vail Resorts hopes that by its guests following the code and sharing the responsibility of safety everyone will have a great experience.
- In addition to skier safety programs, Vail Resorts demonstrates its commitment to social responsibility in a number of other ways that protect the surrounding environment including waste reduction, recycling, chemical management and educational programming.

Lecture Outline:

I. Introduction

- A. The focus is the service economy.
- B. An in-depth look into the service economy by providing an overview of the service economy supersectors including 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.

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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 US Service Economy (Employment Growth Projections 2006 -2016)
2. Figure 2.2 Past, present, future: US Service Supersector Employment

B. Education and Health Services

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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 provide 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% increase because the growing need for investments and securities to fuel the global marketplace, as well as the increase in need for financial advise

D. The Government

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1. Consist of three subsectors:
 - a. Not-for-profit sector (advocacy, grantmaking, and civic organizations)
 - b. Federal government
 - c. State and local government
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.
4. Read Global Services in Action – charity.com

E. Information

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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. Represent 2.6% of all employment and 1.9% of all establishments
 - b. Software publishers are currently the fastest growing industry, with a projected growth rate of 32% (2006-2016)
3. Read E-Services in Action – Game, Set, match.com

F. Leisure and Hospitality

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1. The arts, entertainment, and recreation subsector
 - 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. The accommodation and food services
 - a. Establishments providing lodging and/or meal, snack, or beverage preparation for immediate consumption
 - b. 22% of employees are between the ages of 16 to 19
 - c. 2 out of 5 employees work part time

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G. Professional and Business Services

1. Consulting

- a. One of the highest paid industry
- 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

H. Transportation and Warehousing and Utilities

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1. Transportation and warehousing

- a. Transportation of passengers and cargo, warehousing and storage, scenic and sightseeing transportation, and other support activities related to the primary modes of transportation (air, rail, water, road, and pipeline)
- b. Truck drivers and driver/sales workers occupy 45% of all jobs
- c. Job opportunities are best for truck drivers and diesel mechanics; projected employment growth of 15%

2. Utilities

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

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I. Wholesale and Retail Trade

1. Wholesale Trade

- a. Wholesale merchandise (generally without transformation) and provide services related to the sell of merchandise
- b. Wholesalers are small and employ fewer than 20 workers, which 7 out of 10 of whom work in office and administrative

support, sales, or transportation and material moving occupations.

2. Retail Trade

- a. Retail merchandise and provide services related to the sell of merchandise
- b. Most retail trade jobs (84%) consist of sales and administrative support positions

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, grant making, 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

K. Service Sector Concerns

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1. *Materialismo Snobbery – reflects the belief that without manufacturing there will be less for people to service and so more people available to do less work*
2. *Dichotomization of wealth – the rich get richer and poor get poorer*
3. 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 Service 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.

C. What are Ethics? Commonly defined as:

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i. A branch of philosophy dealing with what is good and bad and with moral duty and obligation

ii. The principles of moral conduct governing an individual group

D. 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 – The Triple Bottom-Line

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IV. 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. Time lapse between performance and evaluation. The final evaluation of some services is conducted at a time in the distant future. Hence, service providers may not be accountable for their actions in the short run.
4. Services are often sold without warranties and guaranties.
5. Services are often provided by boundary spanning personnel who work without direct supervision.

-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 unacceptable performance.
7. Outcome-Based Reward Systems often dictates the behavior of its employees, and it does not take employees long to figure out the shortest route to the most money.
8. The consumer's involvement in the service delivery process enables a service provider to try to influence the consumer through fear or guilt.

V. Issues that Create Ethical Conflict

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- A. Conflict of Interest
(see Figure 2.3 types of ethical issues encountered by businesses)
-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
-the characteristics of just truthfulness, integrity, and trustworthiness
- D. Fairness
-the characteristics of just treatment, equity, and impartiality
- E. Communication
-range from mass advertising to warranty information to interpersonal communication between the service provider and the customer

VI. The Effects of Ethical Misconduct

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- A. Employee responses
 - 1. job-related tension, frustration, anxiety, ineffective performance, turnover intentions, and low job satisfaction.
- B. Organizational responses
 - 1. customer dissatisfaction, unfavorable word-of-mouth publicity, and a negative image

VII. Controlling Ethical Decision Making

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- 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
 - providing employees the knowledge of what the service can and cannot accomplish
- F. Monitoring employee performance
- G. Stress long-term customer relationships

VIII. 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 decision-making reflects the moral philosophies in which they believe. Organizations have utilized a number of strategies that attempt to control the ethical behavior of employees.

DISCUSSION 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?

For the period 2006 – 2016, projected growth rates of the nine service supersectors including: (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, (9) other services

Answers may vary. The highest projected growth is Education and health services. Education will see the growth because one in four Americans is currently enrolled in educational institution. Health services are currently the largest industry in the private sector. The second highest projected growth is professional and business services because the supersector includes multitude of activities. Professional, scientific, and technical services is one of the highest paying industries across all supersectors. Finally, the third highest ranked supersector is information, software publishers are 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?

The Utilities subsector employment projections forecast nearly half of current utility workers will retire with the next 10 years, resulting in many more job opportunities than the 6% growth forecasted. The future job growth is projected due to a large number of job openings resulting from employment growth, employee turnover, and low paying wages.

3. Go to <http://www.bls.gov/iag/leisurehosp.htm> and click on 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. Define and discuss the term materialismo snobbery.

Materialismo snobbery reflects the attitude that only manufacturing can create real wealth and that all other segments of the economy are parasitic and/or subservient. It is the belief that without manufacturing there will be less for people to service and so more people available to do less work.

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

In 1850, 65 percent of the population was connected to farming. During this period, many voiced concern over workers leaving their farms to work in factories. Today, 3 percent of the US 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.

6. Discuss the difference between ethics and social responsibility.

On one hand, social responsibility would 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.

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

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

8. Explain how reward systems impact 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 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 condition set forth in it must be enforced. Enforcement of the code of ethics may be accomplished through corrective control, 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. Consumers of services often must base their purchase decisions on information provided by the service provider. Service firms need to constantly train all employees concerning the details of what the service product can and cannot provide. For example, the insurance industry now requires continuing education of its sales agents.