

# Does it Really Make a Difference? On the Cultural Characteristics of Service and Production Companies

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## SUMMARY

*The study intends to analyze the validity of the hypothesis whether production and service organizations differ significantly. First a service management approach is introduced. The significance of service organizations in business is proved. Further on the study analyzes the problems of comparison between production and service firms.*

*In the second part of the study, results of an empirical research are shown. The survey deals with the culture of 106 organizations. Six dimensions of comparison are used for cultural analysis: role of the leader, employees, strategy and culture, structure and coordination, organizational climate, national cultural background.*

*The results show significant difference in all dimensions of organizational culture between service and production firms. Third group of organizations, namely public service companies, seems to represent a third significant cultural group. As a conclusion it can be said that the hypothesis is valid: there are major differences in the culture of service and production companies.*

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## INTRODUCTION

The objective of the article is to give a response to the validity of the question whether the organizational culture of service and production companies shows great differences or not. In order to analyze the question the theoretical background was examined. Then the hypothesis was tested on a sample of mainly Northern-Hungarian companies and organizations to see if there is a validity of further research concerning other characteristics. The authors regard the location of the sample as well-focused, since the particular region (i.e. Northern-Hungary) has been acknowledged as a traditionally production driven culture. Therefore, if our hypothesis is correct, a significant cultural change is under way in the region.

## THE EXPANSION OF SERVICE ORGANIZATIONS

If there is a labor intensive activity then service is a typical example. Moreover, what distinguishes one service from another is the level and quality of the human input. The challenge for all service providers is that they cannot handle

customers as part of the ‘faceless crowd’ (except for the so called service factories like McDonalds). It is no coincidence why the staff of service organizations has to be trained and developed the most. It is because the staff of such organizations is in constant contact with the customers. On the one hand it is an interesting human relation and on the other hand the most challenging task to work up to the expectations of the ‘*moments of truth*’ all the time. The fast development of the service sector since the seventies is the same situation like, when the productivity of agriculture reached the level that masses of workers became free and then became occupied in industry. In the last decades the efficiency of production (and the mechanization) has developed so much that a significant amount of production labor became free for other activities. The parallel is naturally not perfect, since the interrelation is more complex than that between the different sectors of the economy. Agriculture has developed so fast because its mechanization had drastically improved (Normann, 1995, p.1). Despite the fact that many still consider services as of secondary importance to the economy, the fact of the matter is that regardless of the firms’ production- or service-orientation, they have to face the constantly fierce competition of the service economy. (Grönroos, 1988.)

## SERVICE AND/OR PRODUCTION COMPANIES

The definition of services is not as simple task as one might think, as soon as we get away from the traditional approach. Schmenner (1995, p.1.) goes as far as arguing that it is easier to define what could not be considered services than what could be. Traditionally we view hotels, restaurants and garages, places of entertainment, such as cinemas and theaters, and places of health care, such as hospitals and private clinics as services. Professional (mind ware) services like, engineering, legal and taxation consulting offices, insurance and the real estate sector and education fall into the service category as well. We also consider wholesale and retail trade, transportation and logistics to be services. Despite the relatively broad sense of the service category, in many cases the situation is less than clear. Public service companies are taken as service organizations, whereas an electricity company "produces" electricity and then distributes it through its network, which is far more capital intensive than most of the activities of the production companies.

A plain demonstration of the dilemma is the case of IBM. After the decline and cloning war of the eighties it redefined its activity and transformed itself from being a desperate straits device producer into a leading service company (Hamel, 2001). Had it not done so, IBM may not have been on the market anymore.

The case of GE is just as valid: from being one of the world's industrial giants, it developed into a corporation which earned more than 50% of its income from financial services in 2000.

Grönroos (1990., p.3.) also argues this duality of production companies, when most of them have to include a series of services in the production package to remain competitive. A state-of-the-art technological development does not provide a competitive advantage any more. To focus the question further: anyone can produce products. It is just not enough any more. Competitiveness derives from the services one can offer in the package jointly with the product: technical services, repairs, maintenance, training of customers, consulting, delivery etc.

This train of thought leads us to the phenomenon of what is called 'hidden service sector'. According to the definition, much more service is being produced than recorded and registered. A significant part of services is produced by production companies (Evans and Berman, 1987, p. 618.).

## COMPARISON OF SERVICES AND PRODUCTS

The comparison of services and products has always been a focal point in the service management literature. Very few authors miss the opportunity to prove the equal importance of services. The need for the defense may arise, since a false superiority is attributed by many authors to production. However in many organizations it is rather challenging to separate the two. Most of the activities of traditional production companies are product- related services.

Low prestige services exist indeed. But the opposite is also true. Low prestige services are the ones that:

- > were traditionally performed by individuals granted lesser status when they were part of the informal economy
- > everybody claims to have expertise in and knowledge of (however not always correctly)
- > require employees with lesser formal education and
- > are considered "dirty" work or necessary evils.

This category includes activities like cleaning, kitchen work and child care. These are the services traditionally carried out by women, and which everybody claims to have expertise in. We tend to underestimate people performing these services. The activities in the fourth category mentioned above are other services like security, sanitation and waste disposal, which we consider dirty but necessary (Normann, 1993, pp. 11-12.).

The characteristics of services mentioned above are summarized in Table 1., which also demonstrates the comparison with the same characteristics of products.

*Table 1.  
Differences between Services and Physical Goods  
(Grönroos, 1990, p.28.)*

Physical Goods	Services
<i>Tangible</i>	<i>Intangible</i>
<i>Homogeneous</i>	<i>Heterogeneous</i>
<i>Production and distribution separated from consumption</i>	<i>Production and distribution and consumption simultaneous processes</i>
<i>A thing</i>	<i>An activity or process</i>
<i>Core value produced in a factory</i>	<i>Core value produced in buyer-seller interactions</i>
<i>Customers do not (normally) participate in the production process</i>	<i>Customers participate in production</i>
<i>Can be kept in stock</i>	<i>Cannot be kept in stock</i>
<i>Transfer of ownership</i>	<i>No transfer of ownership</i>

### *The production vs. the service process*

Admitting that in many management aspects production and service processes can be handled similarly, we would like to draw attention to some differences:

1. Most production strategies are useless in case of services, mainly because of the fact that services cannot be stocked.
2. The differences of the management and leadership aspects.
3. The intangibility of services causes natural differences compared to the well-known methods of marketing and logistics.

4. Most of the services can be described as an activity and interaction, thus a kind of social event. The control and management of such events call for a different set of leadership skills and abilities.

5. The role of the customer changes as well by being part of the service process, usually not in a passive way. Therefore his/her expected behavior and acts should be considered in the planning and subsequent stages of services.

## ANALYSIS OF THE RESULTS OF THE RESEARCH QUESTIONNAIRE

### *Structure of the questionnaire and methodology*

The research questionnaire was constructed within the frame of a comprehensive OTKA-research<sup>1</sup> and is based on the chapter examining the organizational culture. The chapter is divided into 6 question groups and contains a total of 40 statements. The statements are to be qualified on a scale ranging from 1 to 7 depending on how much the respondents agrees with the content of the statement (1: *I do not agree with it*, 7: *I totally agree with it*). One of the purposes of the questionnaire is to explore the differences among the companies of the production, the service and the public sectors. In this phase of the research we have analyzed 106 organizations on the basis of the questionnaires returned to us. We used the 'expert opinion-method' in the course of the research, so we cannot form a real notion of the culture of the individual companies, we can only draw an overall picture of the branches of economy. The structure of the sample was the following:

- > 50 companies from the production sector,
- > 12 companies from the public sector,
- > and 44 companies from the service sector.

The question groups examining the organizational culture were the following:

1. **Personality of the leader:** culture-forming and shaping role of the leader, representation of the employees, representation of the interests of the group, sources of leadership credibility.
2. **Employees:** typical behavioral norms, motivations, criteria of individual success, transfer of norms and scores, clan vs. competitive organizational culture.
3. **Strategy and (organizational) culture:** strategic consciousness, application and acceptance of strategic methods, evaluation of the social and market environment, acceptance of change.
4. **Structure and co-ordination:** organizational adaptability, methods of decision-making, technology and standardization, rules and procedures as cultural elements, information and power.

5. **Organizational climate:** informal relationships, out-of-work relationships, level of trust, level of mutual loyalty, ceremonies and rituals.

6. **National culture:** universalism vs. particularism, monochronic vs. polychronic cultures, feminine vs. masculine scores, individualistic vs. collective society, performance vs. ascription.

### *Question group No. 1: The Leader*

The first group of the questions examined the cultural influence of the leader. The scores of the answers were between 3.58 and 5.92. Both of the extremes appeared in the public sector. The statement "Successful leaders in the organization are professionally competent, effective and their loyalty for the organization is strong." achieved the highest score of the group; within this the score of the public sector was the highest.

Within the 6 statements, the lowest scores were in the production sector in five cases: the leadership style is the least employee-friendly here. The leaders in this branch were evaluated as the least fair, loyal and task-oriented. It is also interesting to note that the level of loyalty between the leader and the employees, as well as between the leader and the organization, was also the lowest production companies. The highest scores generally appeared in the public sector, except for the question dealing with the issue of authority and command, which was the most strongly linked with the professional skills mainly in service companies.

Question group No. 1 (Leader)

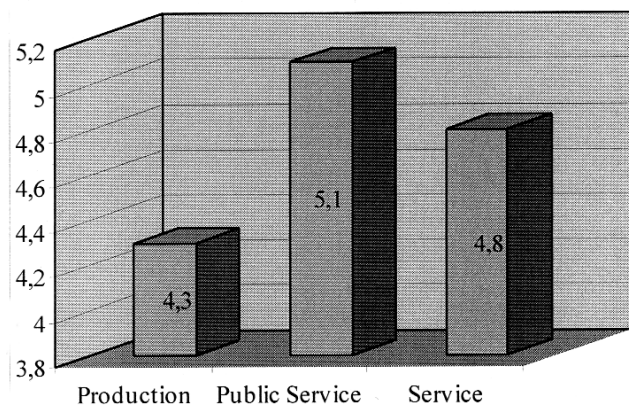


Figure No. 1

### *Question group No. 2: The Employees*

The results of this question group have showed fairly large differences: the scores of the branches were between 3.31 and 5.92. The highest score was reached by the public sector in the case of statement No. 2: „The good employee is

<sup>1</sup> The research has been a part of the research "A Complex Study of the Factors Influencing the Efficiency of Strategic Control in the Mirror of Globalization and Regionality", which is carried out at the Institute of Management Sciences at the University of Miskolc, supported by OTKA.

internally motivated and works for the best of his/her knowledge. His/her individual development is fundamentally important for him/her, (s)he accepts others' help and learns with pleasure." For the first question which deals with the approach to work and the organizational loyalty of the employees, the best score was also in the public sector.

We can find the lowest score in the production companies for statement No. 6: "The organization is a very friendly place, it is like a big family. Everybody helps and support the others."

The strongest competition and the measurement of staff performances, as well as the acceptance of the disparity of performances could be seen in the service sector.

The statement about the respect of employees has the lowest score in this group in the production sector. The best results of this group could be found alternately in the public and service sectors: in the public sector the basic value is the tradition, in the other branch the most important value is competition.

**Question group No. 2 (Employees)**

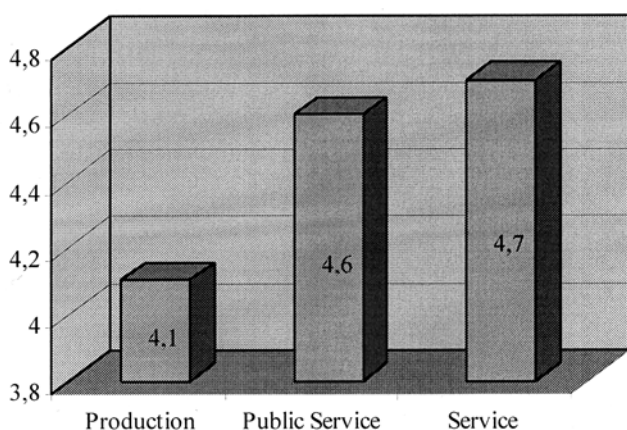


Figure No. 2

### Question group No. 3: Strategy and Organizational Culture

The lowest average score of the questionnaire resulted in this group of questions, namely in the public sector, for question No. 5, which reads as follows: "Market- and competitor-analysis is part of the organizational strategy". With this statement the representatives of the public service sector disagreed so much that they evaluated it as low as 1.375. It is very interesting that also this sector gave the highest result in connection with the adaptability of the market- and social environment. The lowest score for this question was in the production sector. The service companies reached the highest scores associated with the use of the strategic planning tools and in the daily routine of implementing the strategy.

The degree of predictable changes happening in the environment was the lowest also in the public sector, while it was the highest in the service companies.

**Question group No. 3 (Strategy-Culture)**

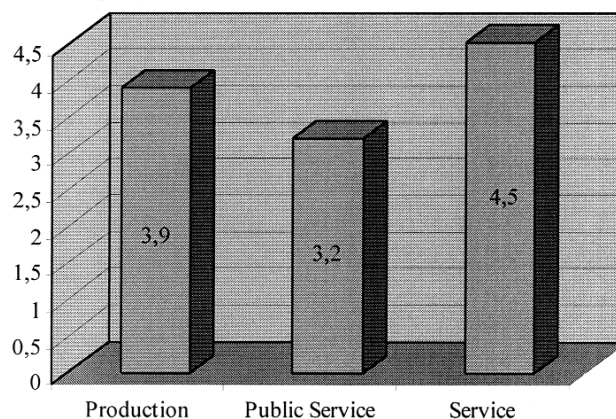


Figure No. 3

### Question group No. 4: Structure and Co-ordination

Among the 7 statements of this group the production companies reached the lowest scores in 5 cases referring to shared decision-making and information sharing. The statement "The communication is mostly selective, people often give or keep information back as a mean of control."- had the highest score also in this sector. Because of the inverse logic of this sentence we could evaluate it as an inverse score. Surprisingly, the degree of standardization demanded by the technology was also the lowest here.

In this group of questions, examining the adaptability of the structure in the daily routine, service companies reached most of the highest average results. It means that their working and decision-making processes are more democratic than those of the public companies and much more democratic than in the production sectors. So obtaining information is also easier at lower levels of the organizational hierarchy in service companies than in production companies.

**Question group No. 4 (Structure Co-ordination)**

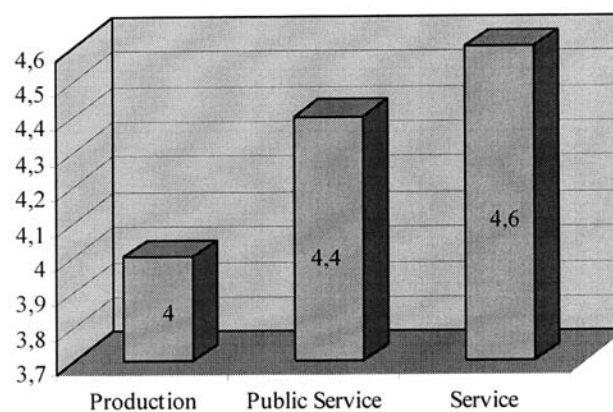


Figure No. 4

### Question group No. 5: Organizational Climate

In accordance with Question group No. 2, which is about the level of care for the employees, the lowest result was scored also in the production sector. All of the 6 statements had the lowest scores here: regarding mutual loyalty between the organization and the employee and also at the level of informal, friendly relationships. The espoused values of the company are not known or clear. The latter statement reached the highest score in the public sector, while the most pleasant organizational climate and the best informal, friendly relationships appeared in service companies.

Question group No. 5  
(Organizational Climate)

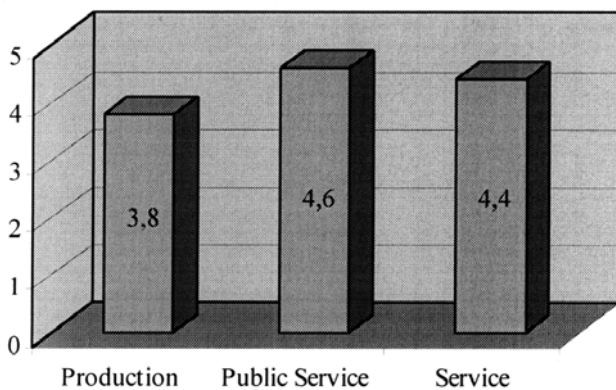


Figure No. 5

### Question group No. 6: National Culture

The last question group examined how far the national cultural background influences the behavior of the employees at the workplace. Because of the character of this group the least significant differences could be shown here, since the national level was dominant and not the organizational one. One of the most important questions was about rules vs. organizational efficiency: the production companies were the most flexible and the public sector was the most bureaucratic in this respect. That is why it is not surprising that the same sector (i.e. public) reached the highest monochronic average result in connection with keeping deadlines and working to schedules.

The appearance of these opposite poles is very interesting to observe along the masculine vs. feminine scores. The public companies were thought to be rather masculine organizations, while the difference between men and women was the least in the production sector. The role of innovation is set the highest score by the service sector and the most flexible (i.e. polychronic) working rhythm was also the most typical here.

The following Figures (Figures No. 1-6) show the comparative results of the questionnaire according to the production, public and service sectors.

Question group No. 4  
(National Culture)

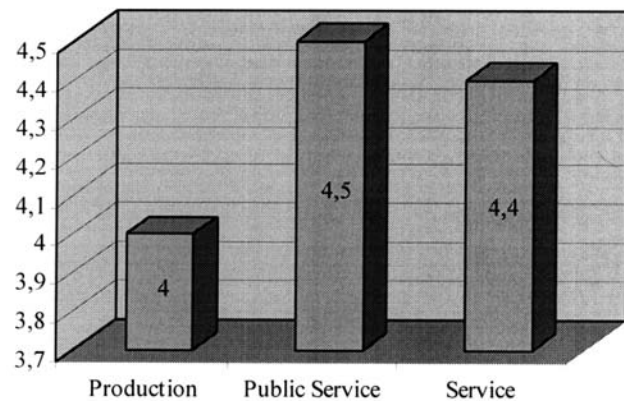


Figure No. 6

## CONCLUSIONS; FURTHER RESEARCH DIRECTIONS, OPPORTUNITIES

On the basis of the analysis of the results of the questionnaire the following could be argued:

- > It is worth continuing the research in the examined sectors: significant differences are shown between the organizational cultures of production and service companies. This relevant variance has appeared sharply in all of the 6 question groups.
- > Comparing culture in the production and the service companies we can say that in the production sector the role of the leader is less caring, the level of informal relationships is lower, the organizational climate is not so friendly (lack of readiness to help and climate of intimacy) and the employees keep information back because of retaining power.
- > Internal competition is very strong in the service companies: it does not create an unfriendly climate, but motivates people. These companies use mainly the strategic methods analyzing their environment and the mentality - accepting naturally the changes arising from it - could be built into the culture.
- > There are significant differences between the public and the production/service sectors. A culture appears, which lives along (much) more traditional values. It raises the question: whether a real cultural change has taken place in these companies since the change of the economic and political system or not. On the one hand we can find here the most positive results in several question groups (the culture-forming role of the top leader, organizational climate, etc.), on the other hand, there is the monopoly or quasi-monopoly market situation of the organizations. Although they consider the market- and social environment suitable for their work, some of the methods of strategic planning are completely lacking in their practice. In spite of this these companies find the changes taking place in their

environment the least predictable....This, at least as a hypothesis, assumes the constant faith in ‘*omnipotence of the state*’.

➤ As we can see, it is necessary to use further classifications and new points of view for examination. We assume that the organizational size (according to the number of staff) and the geographical location of the organizations can also serve as influential factors.

Our study summarizes the present state of the organizational cultural analysis which is being constructed as a chapter of the complex OTKA-research as mentioned

above. Therefore we do not consider these results permanent, but we think that the initial analysis is useful for outlining the future investigating points of view. Data processing is especially required at this stage of the examination, because the questionnaires will be followed by in-depth interviews according to the methodology of the research. This is particularly important from the point of view of culture: the ‘*expert opinion-method*’ can be considerably refined by the results of the qualitative methods in the case of the informal picture of the organization.

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## Zusammenfassung

Das Ziel der Studie ist, über die Gültigkeit der Frage zu entscheiden, ob man tatsächlich andere kulturelle Charakterzüge bei den Dienstleistungs- und den Produktionsorganisationen beobachten kann. Zwecks der Prüfung dieser Frage haben wir zuerst das theoretische Rahmensystem des Service Managements untersucht, dann haben wir diese Organisationen längs verschiedenen Dimensionen miteinander verglichen.

In dem zweiten Teil der Abhandlung haben wir unsere Hypothese als Ausgangspunkt anhand eines Musters von 106 Organisationen vorwiegend aus Nordost-Ungarn darauf geprüft, ob es sinnvoll ist, unsere Forschung in dieser Richtung weiterzuführen, und/oder eventuell andere Gesichtspunkte in Betracht zu ziehen.

Im Rahmen des kulturellen Vergleichs haben wir sechs Dimensionen angenommen:

- > die Rolle des Leiters/der Führungsebene
- > die Angestellten
- > die Strategie und die Kultur
- > die Struktur und die Koordination
- > die Organisationsklima
- > der nationale-kulturelle Hintergrund.

Durch die Forschung konnte es nachgewiesen werden, daß es zwischen den Dienstleistungs- und Produktionsorganisationen in allen Dimensionen wesentliche Abweichungen gibt. Von dem kulturellen Standpunkt aus mußten die öffentlichen Dienstleistungsorganisationen getrennt werden: sie zeigten besondere Züge im Verhältnis zu den anderen zwei Gruppen. Unsere Hypothese hat sich als wahr erwiesen: wir haben die Erfahrung gemacht, daß es wesentliche Unterschiede zwischen den Kulturen dieser Organisationen gibt.

## Összefoglaló

Az írás célja, hogy eldöntse legalább annak a kérdésfeltevésnek a jogosultságát, hogy valóban más szervezeti kulturális jellemzők figyelhetők-e meg a szolgáltató vállalatoknál, mint a termelő szektorban működőknél? Ezen kérdés vizsgálatára először a szolgáltatás menedzsment elméleti keretrendszerét vizsgáltuk meg, majd a termelő és szolgáltató szervezetek összehasonlítása történt meg különböző dimenziók mentén.

A tanulmány második részében egy főleg észak-magyarországi vállalatokból, szervezetekből álló 106 elemű mintán teszteltük a hipotézist kiindulásként, hogy van-e értelme tovább folytatni a kutatást ebben az irányban, más jellemzőket is figyelembe venni. A kulturális összehasonlítás alapjául hat dimenziót használtunk: a vezető szerepe, vezetettek, stratégia és kultúra, struktúra és koordináció, szervezeti klíma és nemzeti kultúra. A felmérés alapján mind a hat dimenzióban jelentős eltérések észlelhetők a szolgáltató és termelő szervezetek között. Kulturális szempontból külön kellett választani a közszolgáltató vállalatokat, minthogy a másik két csoporttól nagyon eltérő jellemzőket mutattak. Hipotézisünk helyesnek bizonyult, a termelő és szolgáltató szervezetek kultúrája között jelentős eltérések tapasztalhatóak.