

# Conceptions on Services within Traditional Society and Knowledge-Based Society

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## *Abstract*

*The evolution of society from an industrial society to a knowledge-based society determines conceptual transformations of services. This study investigates the similarities and differences in conceptions on services within the knowledge-based society, as compared to the traditional (industrial) society. The findings of this study reveal that even though services have usually been defined in the literature by comparing them with economic goods, this comparison may not be so significant today because of the rapid technological development which has changed the production process of goods and services. The study was conducted using evidence provided by a set of policy documents such as strategies, regulations, reports, as well as articles and books. The findings of this study could be helpful in order to better address the problems encountered in managing service organizations within the knowledge-based society.*

**Keywords:** *services, goods, industrial society, knowledge-based society.*

**JEL classification:** L80, M10, M31

## **Introduction**

In the last decade, services became the main dynamic component of economic competition within developed countries. The broaden interpenetration and integration relations between the sector of services and other sectors of the economy and the growth of economic development opportunities through the extension of international transactions with services may be the main causes of the increasing role of services within national economies. Moreover, nowadays people often buy goods for the services that these goods are offering to them.

Services were independently studied quite recently, within the second half of the 20<sup>th</sup> century, due to the explosive development of the tertiary sector. There is a strong demand for services associated generally with the evolution of society

from an industrial society to a knowledge-based society and specifically with raising living standards. Today services are a central area of a modern economy, used by private and public companies, institutions and individuals. They have a major contribution to Gross Domestic Product, employment, and economic growth. According to the European Commission (2008), the sector of services generates around 60-70% of the economic activity and of the overall employment. In addition, this sector offers a considerable potential for economic growth and creating jobs. The expansion and diversification of services are sustained by technological progress, social division of labour intensification and companies' demand for services expansion. As a result, the increasing importance of services within the economy and the spectacular progress of services have intensified the preoccupations for better understanding this sector.

The study was conducted using evidence provided by a set of policy documents (regulations, reports, green papers), as well as articles and books. It has illustrated the similarities and differences in conceptions on services within the knowledge-based society, as compared to the traditional (industrial) society by identifying logical connections between changes in society and changes in conceptions on services. The research question was answered by analyzing published sources, and by evaluating and interpreting evidence. Answering the research question was difficult, due to the variety of approaches, concepts, definitions, criteria, and classifications found in the literature.

### **Conceptions on services within traditional society and conceptions on services within knowledge-based society**

The specialists' concerns to overcome the relative lag of theory behind practice were unsurprisingly focused on defining the concept of service which may provide some insights for practice. The action of defining the concept of service was very delicate, given the heterogeneity of this kind of activities, as well as many different meanings of the term "service" in everyday life. Etymologically, the term "service" derives from the French term "service" and from the Latin idiom "servitium".

There are at least six different meanings of the term "service" nowadays. For instance, "Dicționarul explicativ al limbii române" (DEX) (1998, p. 979) registers as main meanings of "service": "1. The action, the fact of serving, form of work performed in the benefit or interest of someone. (...). 2. Occupation of someone as an employee; job (...). 3. Subdivision within the internal administration of an institution, company etc. which includes several sections (...). 4. Group of objects that make up a whole with special destination (coffee service) (...)". Additionally, in "Dicționar Enciclopedic" (2001, p. 854) the term "service" has also the sense of "helping someone in a certain circumstance". According to Mocanu (2007, p. 380), the term "service" has the following synonyms: job, occupation, function, post; mission, task, duty, obligation; ceremony; benefit; help, support; (sport) putting in game the ball.

In a strictly economic sense, the notion of “service” covers a much more restricted area, which is delimited by the notion of “utility” (value for use). Even so, the coverage area of services remains quite large. In this sense, the American Marketing Association defined services in 1960 as “activities, benefits or satisfactions which are offered for sale, or are provided in connection with the sale of goods. (...). The term also applies to the various activities such as credit extension, advice and help of sales people, delivery, by which the seller serves the convenience of his customers” (1960, p. 21). Compared to the definition given in 1960, the actual definition of services agreed to by the American Marketing Association (2008) has considerably changed, the meanings of services being now the following:

“1. Products, such as a bank loan or home security, that are intangible or at least substantially so. If totally intangible, they are exchanged directly from producer to user, cannot be transported or stored, and are almost instantly perishable. Service products are often difficult to identify, because they come into existence at the same time they are bought and consumed. They comprise intangible elements that are inseparable; they usually involve customer participation in some important way; they cannot be sold in the sense of ownership transfer; and they have no title. Today, however, most products are partly tangible and partly intangible, and the dominant form is used to classify them as either goods or services (all are products). These common, hybrid forms, whatever they are called, may or may not have the attributes just given for totally intangible services.

2. Services, as a term, is also used to describe activities performed by sellers and others that accompany the sale of a product and aid in its exchange or its utilization (e.g., shoe fitting, financing, an 800 number). Such services are either presale or post-sale and supplement the product, not comprise it. If performed during sale, they are considered to be intangible parts of the product.”

The difference between the two definitions suggests that the meaning of services has been enriched over the years. Services are now not only activities that accompany a good, but also self-standing activities. However, the idea of “value for use” is currently accepted, and it is encountered in other definitions of services provided by specialists over time:

- Within the “Petit Larousse” (1967, p. 965) and within the “Petit Larousse Illustré” (1977, p. 943) the service is defined as “a product of human activity aimed to satisfy a human need, but that is not under the aspect of a material good (product) (transport, lesson, scientific research, household work, medical or juridical consulting etc.)”. The “Le Petit Larousse Illustré” (2009, p. 936) defines services as “advantages or satisfactions provided by the companies or the State to the public for free or not (transport, research, household work, medical or juridical consulting etc.) as opposed to goods”. Even though 43 years have passed (1967-2009) this prestigious dictionary maintains the idea of defining services through delineation from goods.

- Services are activities conducted by a person or economic unit, at the request of another person or economic unit, or having their consent, in order to change the status of the beneficiary (recipient) or to change the good belonging to that person (beneficiary) (Hill, 1977, p. 315).

- The service may be defined as “useful activity designed to meet (satisfy) the social needs” (Nusbaumer, 1984, p. 4).

- According to Pine and Gilmore (1999, p. 8), services are “intangible activities customized to the individual request of known clients.”

- Lovelock (2000, p. 3) defined the service as “an act or performance offered by one party to another. Although the process may be tied to a physical product, the performance is essentially intangible and does not result in ownership of any of the factors of production”.

- Bruhn (2001, pp. 71-72) defines services from the perspectives of resources, processes and results. The definition from the perspective of resources starts from the idea that services represents the potential generated by the equipments used and the specific ability of the provider to offer certain benefits to the client. From the perspective of processes services are considered processes that have material or immaterial effects. These processes combine internal factors (personnel, office blocks, facilities, equipments) and external factors in order to meet the needs of others (of the clients). The definition of services from the perspective of results (outcomes) starts from the premise that not the process itself is the service, but the outcome of this process. Therefore, the provider performs a combination of factors of production in order to achieve useful, beneficial effects on external factors, people or goods in their possession.

- Bowen and Ford (2002) emphasize the idea of intangibility. According to them “an intangible service includes all the elements that come together to create a memorable experience for a customer at a point in time” (Bowen and Ford, 2002, p. 449).

- Vargo and Lusch (2004, p. 326) defined the service as “the application of specialized competences (skills and knowledge), through deeds, processes, and performances for the benefit of another entity or the entity itself (self-service)”. Moreover, they argued that the service is provided at times directly and at times indirectly through the provision of tangible goods, which are distribution mechanisms for service provision.

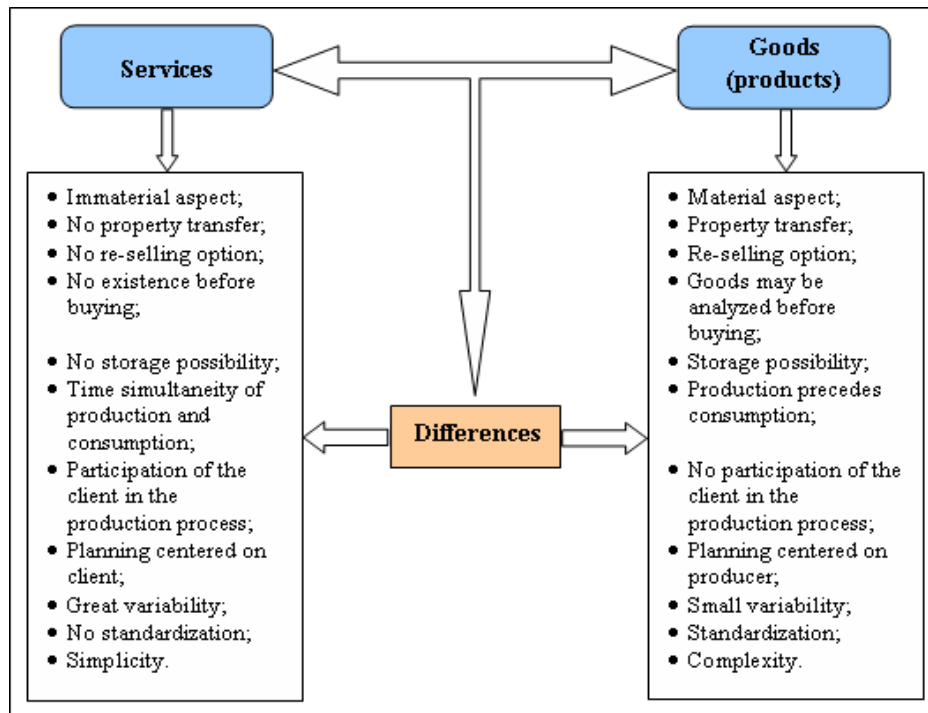
- Grönroos (2006, p. 323) states that “services can be defined as processes that consist of a set of activities which take place in interactions between a customer and people, goods and other physical resources, systems and/or infrastructures representing the service provider and possibly involving other customers, which aim at solving customers’ problems”. On the other hand, “a service as an activity can be defined as a process where a set of resources interact with each other and with the customer aiming at supporting the customer’s processes in a value-creating way” (Grönroos, 2006, p. 324).

Regardless of the perspectives taken into account, the definition of services may be sought in the sphere of activities which have generated these services,

which means finding those elements of their identification and demarcation (separation, delineation) from other economic activities. The starting point is the delineation between services and goods. Most definitions found in literature emphasize the fact that services are activities whose result is immaterial and cannot be stored, activities not materialized in products (goods) with self-standing existence. Figure 1 reveals the suitable (valid) differences between services and goods (derived from these definitions) both within industrial society and within knowledge-based society. However, it should be mentioned that these differences are not intended to be generalized, but only to give some insights for managerial purposes.

Lately, as a result of technical progress, the separation between the production of goods and services becomes difficult. Both goods and services may be considered products because there is a process of producing and selling. Moreover, in practice there are situations where it is very difficult to distinguish between goods and services. This is because the purchase of a good includes an element of service, as the purchase of a service often entails the presence of tangible goods (Plumb et al., 2004). For example, although a car is bought for the service it provides (transportation) it is considered to be a good (product); concomitantly, when a car is purchased there is a service package offered that includes warranty, maintenance and repairs, leasing, etc.

Moreover, an increasing number of services take a tangible form (e.g. editorial services, information services stored on CDs, DVDs etc.). Some services have a material expression (tangible part) which has a specific self-standing form (CDs, DVDs etc.), but the intrinsic value of information contained is clearly superior to the value of the tangible part. As a consequence, the tangible/intangible forms of the activity's result as a criterion of demarcation between goods and services becomes questionable. Furthermore, information becomes a fundamental resource of the present society, inexhaustible and renewable, that underpins the knowledge-based society. Informational goods and services acquired a major importance in modern economies. They include both classical informational public or private services (such as education, research, consulting etc.) and the production of informational goods (computers, TVs, books, telephones etc.) and the infrastructures for informational services (telecommunications networks, computer networks, Internet etc.).



**Figure 1 Suitable (valid) differences between services and goods both within industrial society and within knowledge-based society**

(Source: Adapted from Plumb et al., 2004, p. 13)

The knowledge-based society has more or less changed the conceptions on services and goods. Although some of the valid differences between services and goods within the industrial (traditional) society remained suitable within the knowledge-based society considering the traditional pure services and goods (Figure 1), there are other elements that have not been preserved (Table 1).

Starting from these distinguishing elements between goods and services (revealed in Figure 1), we can describe services as a system of utilities in which the beneficiary does not buy or use a product, but a value for use (an effect), which gives them certain advantages (that in most cases may not take the form of a tangible good) designed to meet personal needs or social needs. In other words, services are specialized human activities that usually have as a result immaterial and intangible effects designed to meet the social need. They are stand-alone, autonomous activities organized in a distinct economic sector known as the tertiary sector. It includes services in education, banking, insurance, research, transport, distribution ("Dicționar de economie", 2001, p. 398). However, the term quaternary is more frequently used lately to designate the modern area of the economic activities within the tertiary sector. The quaternary sector, born with the development of new services, includes information technology, higher education, and research ("Dicționar de economie", 2001, p. 398).

**Differences between services and goods within the industrial society which are no longer relevant within the knowledge-based society**

**Table 1**

No.	Differences between services and goods within the industrial society	Reasons why these differences are no longer relevant within the knowledge-based society
1.	Production, selling and consumption occur in the same (physical) place in case of services, while they occur in different places in case of goods.	The development of the information and communication technologies made possible the consumption of some services from distance, through computers, cell-phones etc. For example, a medical consultation may be performed through computers and internet. As well, a course may be delivered online. These examples reveal that the production of the service occurs in the place where the provider is, while the consumption of the service occurs in the place where the client is, and these places may not be the same. One could argue that both the producer and the client are “meeting” in the same virtual place. However, they are only virtually meeting in the same place, in fact physically being in different places. Furthermore, the selling process does not imply anymore the physical presence of the provider and client in the same place because the contract and the payment can be made electronically.
2.	A direct contact between producer and client is needed in case of services, while there are indirect contacts between the company and its client in case of goods.	On condition that we accept the idea that the producer of a service and his/her client may be physically situated in different places, it is reasonable to admit that they cannot have a direct (face-to-face) contact.
3.	Services cannot be transported (only providers can move), while goods can be transported.	Informational services have a specific material form (tangible part) which can be transported (e.g. information stored on CDs, DVDs, Flash memory, etc.).
4.	Services cannot be exported (only the providing system can be exported), while goods can be exported.	If a service can be transported, then it can be exported too. Changes in communication and transportation technologies have made possible the export of services. Moreover, according to the UNCTAD/WTO International Trade Centre (2001a, 2001b), there are four modes of delivery or ways in which services may be exported: (1) <i>cross-border trade</i> , where the trade takes place from one country into another and only the service itself crosses the border; (2) <i>consumption abroad</i> , where the customer travels to the country where the service is supplied; (3) <i>commercial presence</i> , where the supplier establishes a commercial presence abroad; and (4) <i>movement of natural persons</i> , where the provider of the service crosses the border. These ways in which services may be exported are considered “trade in services” on condition that a local company is being paid by a foreign one (“non-resident”), regardless of where the service is actually provided.

Even though services have been usually defined in the literature by comparing them with economic goods, this comparison may not be so significant today. As new technologies have rapidly emerged, the production process of goods and services has also changed. According to Grönroos (2006) mass customization and modular production allow clients to participate in the production process, to interact with the company that produces goods (e.g. using cad/cam techniques) and, moreover, some goods are no longer perceived as tangible. As well, Vargo and Lusch (2004) argue that services and goods are not reciprocally exclusive (e.g. intangible versus tangible) subdivisions of the general domain named products, explaining that:

“Attempting to define service by contradistinction from tangible goods both prohibits a full understanding of the richness of the role of service in exchange and limits a full understanding of the role of tangible goods. Rather than illuminating understanding, it constrains understanding.” (Vargo and Lusch, 2004, p. 326).

All these issues associated with the variety of the conceptions on services may hinder the understanding and management of this field.

### **Conclusions**

We highlighted in this study that even though services have usually been defined in the literature by comparing them with economic goods, this comparison may not be so significant today because of the rapid technological development which has changed the production process of goods and services. This conclusion is based on the premise that the evolution of society from an industrial society to a knowledge-based society determines conceptual transformations of services.

The findings of this study could be helpful in order to better address the problems encountered in managing service organizations within the knowledge-based society.

Further research could focus on analyzing the main characteristics of services both within the industrial society and within the knowledge-based society, as well as the changes in the management of services due to the knowledge-based society. Another direction for further research could be to investigate how the conceptions on services can be used to manage services within the knowledge-based society. We may assume that the emergence of new types of services creates a new business environment where service providers are facing both opportunities and challenges in managing their service organizations. Therefore, we suggest that further research should be done in this direction in order to identify the main opportunities and challenges for service providers within the knowledge-based society.



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