THE INFLUENCE OF SERVICE QUALITY PRACTICES ON THE COMPETITIVENESS OF THE FIRM

A review of literature

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DECLARATION

I, the undersigned, declare that this independent study paper is my original work and has not been submitted to any other college, institution or University for academic credit.

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ABSTRACT

Quality is very essential for the performance of any business. Customers determine the success or failure of business today and in the future. They demand quality and expect to be given that quality. Not all service providers can offer quality service to customers who have an opportunity to assess quality given to them in comparison with their quality expectations. Quality makes loyal customers who also determine the firm's competitiveness in the market place.

This paper reviews the literature on the service quality and the firm's competitiveness with an emphasis on the influence of service quality practices on the firm's performance today. The review indicates that there is a positive relationship between the pursuant of service quality strategy and the firm's performance, hence the firm's competitiveness. The weaknesses of the reviewed literature are identified and future research is proposed as a contribution towards the elimination of the current knowledge gaps that both the academicians and researchers agree do exist.

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INTRODUCTION

This section commences by briefly examining the importance of service quality to any service business today and its influence to the overall performance of the business.

1.1 Background

Quality was one of the most talked about topics in the business world during the 1980s and 1990s. To date, still it is the most talked about in the business world. There is, of course good reason for this. Quality gives every customer satisfaction. Service quality and customer satisfaction are closely related. Satisfaction is the likely outcome when customers perceive that they have received superior quality service. Consumers demand for quality and the current stiff competition in the business world has essentially made quality the most talked about topic. Every customer is seeking and looking for quality.

"The issue of highest priority today involves understanding the impact of service quality on profit and other financial outcomes of the organization"(Zeithaml *et al.,* 1996, p. 31). This statement represents a dramatic departure from organizational views of quality as recent as a decade ago (Rapert et al, 2009). In initial explorations within the services arena, quality was viewed primarily as a problem to be solved, manifested at the tactical level. Service quality has since emerged as an irrepressible, globally pervasive strategic force (Powell,1995) as well as a key strategic issue on management's agenda (Dean and Bowen, 1994).

As service firms continue to seek unique sources of sustainable competitive advantage (Rapert et al,2009), quality has been discussed conceptually as a potential alternative to traditional skills and resources (Bharadwaj *et al.,* 1993; Shank and Govindarajan, 1994). Just as firms can build cost advantages based on economies of scale and scope, firms which are adept at service quality can build competitive positional advantages (Rapert et al, 2009).

1.2 Concept of Service Quality

There are many researchers who have defined service quality in different ways. For instance, Bitner, Booms and Mohr (1994) define service quality as 'the consumer's overall impression of the relative inferiority/ superiority of the organization and its services'. While other researchers (e.g. Cronin and Taylor, 1994) view service quality as a form of attitude representing a long-run overall evaluation. Parasuman, Zeithaml and Berry(1985) defined service quality as a function of the differences between expectation and performance along the quality dimensions. This has appeared to be consistent with Roest and Pieters' (1997) definition that service quality is a relativistic and cognitive discrepancy between experience-based norms and performance concerning service benefits.

Ghobadian et al. (1994) posit that most of the service quality definitions fall within the "customer led" category. Juran (1999) elaborates the definition of customer led quality as "features of products which meet customers' needs and thereby provide customer satisfaction." As service quality relates to meeting customers' needs, there is need to look at "perceived service quality" in order to understand consumers (Arnauld et al., 2002). Grönroos (1984) and Parasuraman et al., (1985) looks at perceived quality of service as the difference between customers' expectations and their perceptions of the actual service received.

Other researchers look at perceived service quality as an attitude. Arnauld et al., (2002) defined perceived quality "whether in reference to a product or service" as "the consumers' evaluative judgment about an entity's overall excellence or superiority in providing desired benefits". Hoffman & Bateson (2001) defines service quality as an attitude "formed by a long-term, overall evaluation of a performance". Attitude is defined as "a consumer's overall, enduring evaluation of a concept or object, such as a person, a brand, or a service."

(Arnauld et al, 2002) Service quality as "an attitude" is consistent with the views of Parasuraman et al., (1988), Cronin & Taylor (1992) & Sureshchandar et al., (2002). Basis of the view is elaborated by the latter:

"As perceived service quality portrays a general, overall appraisal of service i.e. a global value judgment on the superiority of the overall service, it is viewed as similar to attitude."

Feinburg & de Ruyter (1995) pointed the importance of adapting the definition of service quality in different cultures. Ueltschy & Krampf (2001) contended that differences in culture affect measure of quality in a service sector. They encapsulated service quality measures as "culturally sensitive" and "may not perform properly or comparatively in a culturally diverse group domestically or abroad". Cultural factors are said to have greater influence on people's evaluation of services than on their evaluations of physical goods due to involvement of customer contact and interaction with employees while a service is delivered (Mattila, 1999).

Feinburg & de Ruyter (1995) postulated that the differences "require adapting service quality to an international setting". Furthermore, the service quality dimensions that are critical most to consumers vary according to culture and industry (Winsted, 1999).

1.3 Service Quality Measurement

It is difficult to measure service quality as compared to good's quality (Abu, 2004). The difficulty to measure is due to fewer tangible cues available when consumers purchase services (Parasuraman et al., 1985), fewer search properties, but higher in experience and credence properties (Zeithaml, 1981and Parasuraman 1985), as compared to goods. It also requires higher consumer involvement in the consumption process (Grönroos, 1984).

Researchers operationalize the service quality construct either as a gap between expectation of service and perceived performance of service, or just perceived performance alone (Hurley and Estalami, 1998). On the other hand, service quality dimensions are seen as the criteria to assess service quality (Parasuraman, Zeithaml, and Berry, 1985). Feinburg, and de Ruyter (1995) supported this idea as they postulate that the dimensions are instruments for measuring perceived service quality. They also posit that consumer-perceived service quality is usually seen as a multi-dimensional construct.

The earliest research on service quality dimensions was done by Grönroos (1984). He found that the perceived quality of a service is affected by the experience that the consumer went through for a service. Therefore, he encapsulated the perceived quality of a given service as the outcome of an evaluation process; a comparison between the consumer expectations of the service with his perceptions of the service he has received. He also pointed that expectation is influenced by traditions, ideology, word-of-mouth communication, and previous experience with the service and the consumer's perception of the service itself determines his perceived service. However, he did not discuss the relationship between perception and expectation and how it influences service quality.

Grönroos (1984) found that "service quality" comprises of three global dimensions. The first dimension is the technical quality. This dimension refers to the outcome or what is delivered or what the customer gets from the service. The next dimension is the functional quality which refers to the manner in which the service is delivered or how it is delivered. Customers will measure whether the salespeople are friendly or whether products are easily returnable. Finally, the last dimension is the corporate image. The firm's image is built by mainly both technical and functional quality and to some extent other factors like the traditional marketing activities.

1.4 Service Quality Dimensions

Physical Aspects

Service is said to be distinguished from goods due to its intangibility (Santos, 2002). The tangibility aspects of a service have a significant effect on perceived service quality (Santos, 2002). The tangibility importance varies according to types of service (Santos, 2002).

The importance of physical environment in a service setting is due to its ability to influence consumer attitudes (Koernig, 2003), behavior intention (Keillor, et al., 2004) and behavior (Bitner. 1992; Koernig, 2003). As customers are involved in the production and consumption process of a service conducted within a physical environment, the physical environment will have a deep impact on customers' perception of service experiences. Bitner (1992) also noted that physical environment is often used as cues of a firm's competences and quality by consumers before a purchase.

Researchers have given several names with different interpretations to the "physical" elements of service quality measure. Using the same example Dabholkar et al. (1996) used the term "physical aspects" to refer to the physical appearance of store and layout convenience. Parasuraman et al. (1988) called it as "tangibles" adding appearances of staff besides physical facilities and equipment. Baker (1986) and Santos (2002) acknowledged the appearance of staff as part of tangibles. They also added existence of other customers in the service facility onto the interpretation. Bitner (1992) dropped the social environment as listed by Baker (1986), Parasuraman et al.(1988), and Santos (2002) but focused instead on the "built environment" or what she called as "servicescape". She categorized the servicescape to include ambient conditions, spatial layout and functionality, and signs, symbols, and artifacts. Ambient conditions include colour, music, temperature, lighting, and scent. Spatial layout refers to the arrangement, size, shape, and spatial relationships of machinery, equipment, and furnishings. Functionality refers to the capability of machinery, equipment, and furnishings to enhance performance and achieve customer goals. Lastly, signs, symbols, and artifacts act as signals that communicate information about the service place to customers.

Reliability

The reliability dimension comprises of "promises" and "doing it right" sub dimensions (Dabholkar et al., 1996). Besides fulfilling promise and performing the right service as part of reliability, the researchers added the availability of merchandise as part of the "doing it right" sub dimension.

Inter-personal relationship

The interaction among firm personnel and firm customers are important as customers are more loyal to a firm if the firm is seen as warm, friendly, and impulsive (Bellenger et al, 1976). Several researchers have studied this dimension in different or across cultures and found that the interpretation of the dimension and importance of each item in the dimension is affected by the culture of the society studied (Feinburg & de Ruyter, 1995; Winsted, 1999; Imrie et al., 2002). Dabholkar et al. (1996), put forward that the personal interaction has two sub dimensions namely inspiring confidence of customers by firm personnel and courteousness/helpfulness of same personnel. Inspiring confidence of customers includes error-free sales transactions and record, the ability to answer customers' questions, the behaviour of employees in this firm instill confidence in customers, and customers feel safe in their transactions with this firm. Incorporated in the courteousness/helpfulness factor are employees' prompt services to customers, employees tell customers exactly when services will be performed, customers are given individual attention, employees are consistently courteous with customers, and employees treat customers courteously on the telephone. Darian et al. (2001) also pointed on the importance of sales personnel's knowledge who is aware of new products, technical developments, prices, and other variations of firm offerings, who is responsive but provides only information required, and who is not talking down to a customer.

Odekerken-Schröder et al.(2001) in their research emphasized the importance of inter-personal relationship which refers to "the opportunity for customers to affiliate with other individuals during the service encounter" They elaborated the interaction as both the customer-to-customer and customer-to-service provider social interaction. Previously, Harris et al. (1995) proved in their study that 48% customers of a firm interacted orally with the service personnel while nearly 12% of the customers interact orally with other customers.

1.5 Customer Assessment of Service Quality

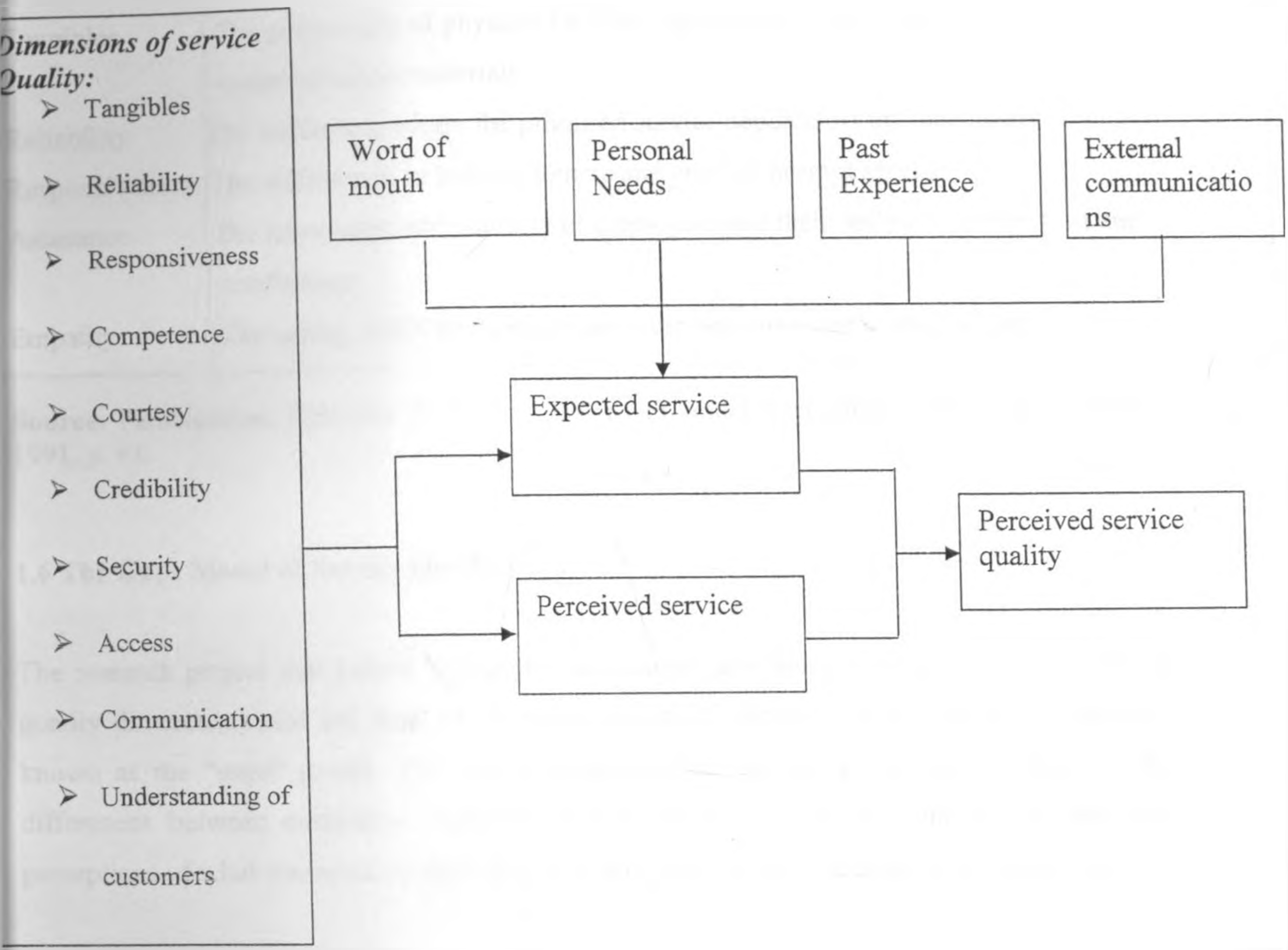
The most popular service quality model in the 1990s (Robinson, 1999) is the model by Parasuraman et al., (1985). Their model supported Grönroos' findings on as the models are based on these three underlying themes: "1) Service quality is more difficult for the consumer to evaluate than goods quality; 2) Service quality perceptions result from a comparison of consumer expectations with actual service performance; 3) Quality expectations are not made solely on the outcome of the service; they also involve evaluations of the process of the service" (Parasuraman et al.,1985,)

Unlike Grönroos (1984) who used global measure of service quality, Parasuraman et al. (1985) identified 97 items or criteria in measuring service quality. They argued that consumers used similar criteria irrespective of the type of service in measuring service quality. They then grouped these criteria into 10 key categories which they labeled as "service quality determinants". The determinants are reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, and tangibles.

1. **Reliability** involves consistency of performance and dependability. It means that the firm performs the service right the first time. It also means that the firm honors its promises. Specifically it involves: accuracy in billing, keeping records correctly, and performing the service at the designated time
2. **Responsiveness** concerns the willingness or readiness of employees to provide service. It involves timeliness of service which involves: mailing a transaction slip immediately, calling the customer back quickly and giving prompt service (e.g. setting up appointments quickly)
3. **Competence** means possession of the required skills and knowledge to perform the service. It involves: knowledge and skill of the contact personnel. knowledge and skill of operational support personnel, research capability of the organization e.g. securities brokerage firm
4. **Access** involves approachability and ease of contact. It means: the service is easily accessible by telephone (lines are not busy and they do not put you on hold) waiting time to receive service (e.g. at a bank) is not extensive convenient hours of operation and convenient hours of service facility

5. **Courtesy** involves politeness, respect, consideration and friendliness of contact personnel (including receptionists, telephone operators, etc.) It includes: consideration for the consumer's property (e.g. no muddy shoes on the carpet) and clean and neat appearance of public contact personnel
6. **Communication** means keeping customers informed in language they can understand and listen to them. It may mean that the company has to adjust its language for difference consumers-increasing the level of sophistication with a well-educated customer and speaking & plainly with a novice. It involves: explaining the service itself, explaining how much the service will cost, explaining the trade-offs between the service and the cost and assuring the consumer that a problem will be handled
7. **Credibility** involves trustworthiness, believability and honesty. It involves having the customer's best interests at heart. Contributing to credibility is: company name, company reputation, personal characteristics of the contact personnel and the degree of hard sell which involves interactions with the customer.
8. **Security** is the freedom from danger, risk or doubt. It involves: physical safety (will I get mugged at the ATM?), financial security (does the company know where my stock certificate is?) and confidentiality (are my dealings with the company private?)
9. **Understanding the customers** involves making the effort to understand the customer's needs. It involves: learning the customer's specific requirements, providing individualized attention and recognizing the regular customer
10. **Tangibles** include the physical evidence of the service: physical facilities, appearance of the personnel, tools or equipment used to provide the service, physical representations of the service, such as a plastic credit card or a bank statement and other customers in the service facility

FIGURE: 1 Customer assessment of service quality



Source: Delivering Quality Service: Balancing Customer Perceptions and Expectations by V. Zeithaml. A. Parasuraman and L.L Berry (1991)

Later in another research (Parasuraman et al., 1988), a lot of correlations were found among these 10 criteria and they refined the dimensions as shown in Table 1 into only five dimensions - tangibles, reliability, responsiveness, assurance, and empathy. These dimensions represent how customers organize information about service quality in their minds.

Table 1: SERVQUAL's Five Dimensions

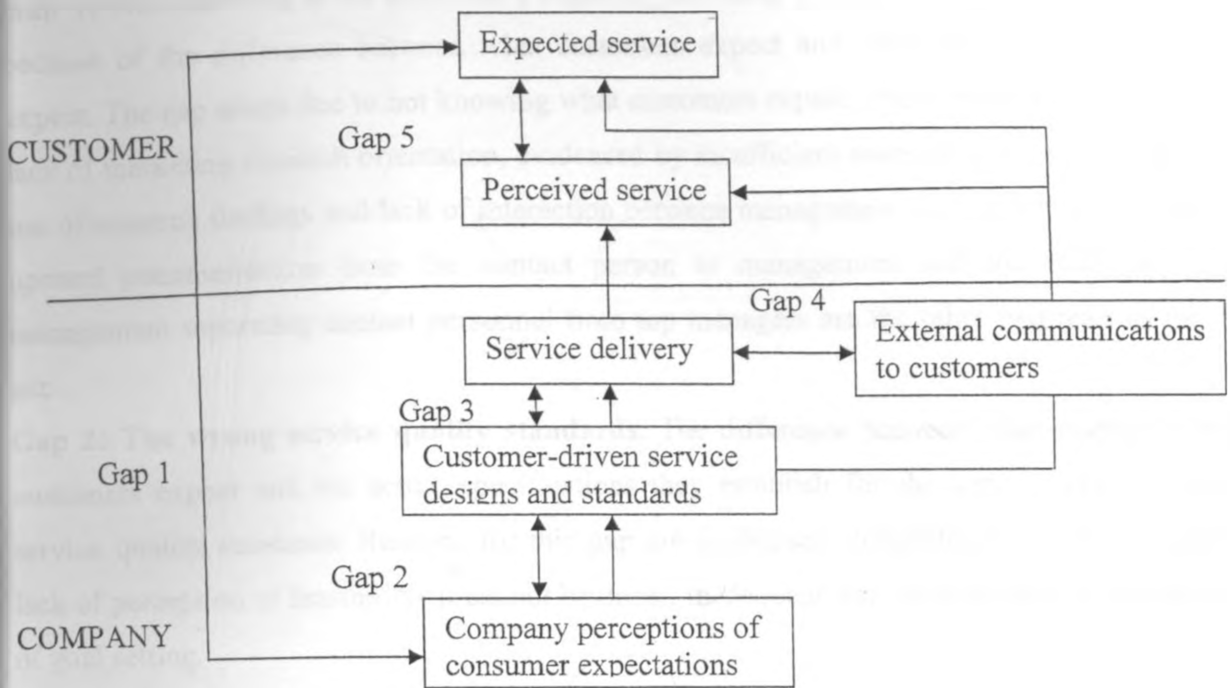
Dimensions	Definitions
Tangibles	The appearance of physical facilities, equipment, appearance of personnel, and communication materials
Reliability	The ability to perform the promised service dependably and accurately
Responsiveness	The willingness to help customers and provide prompt service
Assurance	The knowledge and courtesy of employees and their ability to inspire trust and confidence
Empathy	The caring, individualized attention the firm provides to its customers

Source: Parasuraman, Zeithaml & Berry, 1988, p. 23. and Parasuraman, Berry, and Zeithaml, 1991, p. 41.

1.6 The Gaps Model of Service Quality

The research project that helped Zeithaml, Parasuraman and Berry to identify the five service quality dimensions also led them to develop a model of service quality, which is commonly known as the "gaps" model. This model conceptualizes service quality on the basis of the differences between customers' expectations with respect to the five dimensions and their perceptions of what was actually delivered. If a difference exists; it is characterized as a "gap."

FIGURE: 2 Gaps Model of Service Quality



Source: A. Parasuraman. Valarie A. Zeithaml, and Leonard L. Berry, "A Conceptual ,model of service quality and its implications for future research, "Journal of marketing

1.7 What are the Servqual Gaps?

Gap 1: The difference between management perceptions of what customers expect and what customers really do expect.

Gap 2: The difference between management perceptions and service quality specifications- the standards gap.

Gap 3: The difference between service quality specifications and actual service delivery- are standards consistently met?

Gap 4: The difference between service delivery and what is communicated externally- are promises made consistently fulfilled?

Gap 5: The difference between what customers expect of a service and what they actually receive. Expectations are made up of past experience, word-of-mouth and needs/wants of customers.

1.8 Reasons for the gaps

Gap 1: Not knowing what customers expect. According to the model, the first gap occurs because of the difference between what customers expect and what managers perceive they expect. The gap arises due to not knowing what customers expect. Major reasons for this gap are lack of marketing research orientation, evidenced by insufficient marketing research, inadequate use of research findings and lack of interaction between management and customers. Inadequate upward communication from the contact person to management and too many levels of management separating contact personnel from top managers are the other two reasons for this gap.

Gap 2: The wrong service quality standards. The difference between what managers think customers expect and the actual specifications they establish for the service leads to wrong service quality standards. Reasons for this gap are inadequate commitment to service quality, lack of perception of feasibility-'it cannot be done', inadequate task standardization, and absence of goal setting.

Gap 3: The service performance gap. The discrepancy between service specifications and the actual service delivered creates this gap. Simply, this gap is created when employees are unable and/or unwilling to perform the service at the desired level. Various reasons for this are: role ambiguity and role conflict –unsure of what your remit is and how it fits with others, poor employee-job or technology-job fit –the wrong person or system for the job, inappropriate supervisory control systems or lack of perceived control on the part of employees –too much or too little control and lack of teamwork.

Gap 4: Service delivery and external communications gap. This gap is created when promises made do not match actual delivery. Two factors contribute to this gap ;(1) inadequate horizontal communication among operations, marketing, and human resources departments or services, as well as across branches; and (2) propensity to over-promise in communications.

Gap 5: Expected service and perceived service gap. This gap was defined as service quality. The authors argue that gap 5 is influenced by the preceding four gaps. This is the difference between what the customer expected to receive and what she believes she actually did receive. As indicated in the diagram, customers' perceptions are influenced by many sources, which include word-of-mouth communications, personal deeds, past experiences, and communications from the service organization. This is the most important gap because, if the perceived service falls short of the customer's expectations, the customer will be disappointed and dissatisfied. Conversely, if the perceived service exceeds the customer's expectations, the customer will not only be satisfied but delighted.

2.0 Concept of Competitiveness

Competitiveness refers to the relative position of an organization against its competitors in the market. It is a multidimensional concept which can be looked at from three different levels: country, industry, and firm level. Competitiveness originated from the Latin word, competer, which means involvement in a business rivalry for markets. It has become common to describe economic strength of an entity with respect to its competitors in the global market economy in which goods, services, people, skills, and ideas move freely across geographical borders (Murths, 1998). Competitiveness is a comparative concept of the ability and performance of a firm, sub-sector or country to sell and supply goods and/or services in a given market (wikipedia).

Some authors view competitiveness with the competency approach. They emphasise the role of factors internal to the firms such as firm strategy, structures, competencies, capabilities to innovate, and other tangible and intangible resources for their competitive success (Bartlett and Ghoshal, 1989; Doz and Prahalad, 1987; Hamel and Prahalad, 1989, 1990). This view is particularly among the resource-based approach towards competitiveness (Prahalad and Hamel, 1990; Grant, 1991; Barney 2001, 1991 ; Peteraf, 1993; Ulrich, 1993). Ability to develop and deploy capabilities and talents far more effectively than competitors can help in achieving world-class competitiveness (Smith, 1995).

Productivity has often been termed as a surrogate of competitiveness and good indicator of long-term competitiveness of a firm by many authors. Porter defined competitiveness at the organizational level as productivity growth that is reflected in either lower costs or differentiated products that command premium prices. The generic strategies given by Porter also emphasizes these criteria (Porter, 1990). It has been said the company, industry, or nation with the highest productivity could be seen as the most competitive (McKee and Sessions-Robinson, 1989).

For providing customers with greater value and satisfaction than their competitors, firms must be operationally efficient, cost effective, and quality conscious (Johnson, 1992; Hammer and Champy, 1993). Also related to this condition are a number of studies focusing on particular aspects like marketing (Corbett and Wassenhove, 1993), information technology (Ross et al, 1996), quality of products (Swann and Tahhavi, 1994), and innovative capability of firms (Grupp et al, 1997).

2.1 Firm Level Competitiveness: Concepts and Measures

2.1.0 Introduction

The topic of firms' competitiveness is greatly debated today among managers, politicians as well as academics. Globalization and changes in the world economy over the last years have raised new challenges for firms, industries and countries. The popularity of the concept of competitiveness is clearly demonstrated by the fact that there is an increasing interest around the issue of competitiveness benchmarking at the country level as well as the policies through which governments can enhance national industrial competitiveness (Depperu,2006).

Although the definition of the competitiveness appears to be straightforward, such construct is often used in different and somewhat ambiguous meanings (Cerrato, 2006).

Firm level competitiveness can be defined as the ability of firm to design, produce and or market products superior to those offered by competitors, considering the price and non-price qualities (D'Cruz, 1992). Firm-level competitiveness is of great interest among practitioners. Nations can compete only if their firms can compete, argues Christensen of Harvard Business School. Porter says "it is the firms, not nations, which compete in international markets", (Porter, 1998). The environmental factors are more or less uniform for all competing firms. Research shows that 36 per cent of the variance in profitability could be attributed to the firms' characteristics and actions (McGahan, 1999). Other pro-firm views (Bartlett and Ghoshal, 1989; Prahalad and Doz, and 1987; Prahalad and Hamel, 1990) focus on individual firm and their strategies for global operations, and resource positions to identify the real sources of their competitiveness

2.2 Competitiveness and Competitive Advantage

The concept of competitiveness reminds of that of competitive advantage. According to the largely consolidated view of competitive process, a firm's performance is affected by its competitive advantages. In its turn, the nature of such advantage results in one or more specific sources of competitive advantage which a firm controls.

The concept of competitive advantage is central in strategic management studies (Porter, 1985; Ghemawat, 1986). It recalls that of comparison and rivalry. It can be interpreted as "the asymmetry or differential among firms along any comparable dimension that allows one firm to compete better than its rivals" (Ma, 2000). A competitive advantage refers to the position of superiority within an industry that a firm has developed in comparison to its competitors. Firm-level competitiveness indicate a firm's ability to design, produce and market products superior to those offered by competitors, where superiority can be evaluated from several factors, like price, quality, technological advancement, etc.

Competitiveness can be considered at different levels of aggregation: firm, industry, and country. Firm level analysis focuses on behaviors and performance of firms. Competitiveness is frequently analyzed also at industry level or "cluster" level. The competitiveness of an industry can be assessed by a comparison with the same industry in another region or country with which there is open trade. Beyond firm-specific and industry-specific factors, in recent years globalization has emphasized the importance of country-related effects as determinants of performance. Resource endowments, cost of labor and production inputs, financial and technological infrastructure, access to markets, institutional and regulatory frameworks are examples of country-specific factors that affect firm performance.

The different dimensions of competitiveness are strongly related: for example, a country's competitiveness factors are determinants of its firms' international competitiveness. On the other hand, the most evident aspect of a country's international competitiveness is represented by its firms' competitiveness in comparison to other countries' firms.

At the firm level, profitability, costs, productivity and market share are all indicators of competitiveness. Generally, competitiveness is considered synonymous with success. In very simple terms, success can be intended as achievement of company objectives. Hence, performance should be measured in terms of how an organization manages its critical success factors (Ferguson and Dickenson, 1982). Today, beyond financial or market-based indicators, measures of competitiveness increasingly include other variables such as innovativeness, quality, and social ones like ethical standing, social responsibility, working conditions of employees, etc. Competitiveness at the firm level needs to be analyzed. The importance of such analysis is indirectly proved by all research works about the importance of firm variables in explaining performance. From an empirical point of view, research about the influence of firm and industry effects on performance shows that a relevant percentage of the variance in profitability is attributed to firm-level variables (Schmalensee, 1985; Wernerfelt, Montgomery, 1988; Rumelt, 1991; McGahan and Porter, 1997). Theoretically, resource-based view scholars argue that the sources of a firm's competitive advantages rely on its set of unique and differentiated resources (Wernerfelt, 1984; Barney, 1991; Peteraf, 1993).

2.3 Analysis of the Literature on Firm-Level Competitiveness.

In order to develop a systematic review of the research works that directly or indirectly relate to the topic of competitiveness at firm level, Depperu and Cerrato(2006) propose an organizing framework that positions mainstreams of literature in a 2 x 2 matrix (Fig. 3).
The vertical dimension refers to the way competitiveness is intended. Competitiveness can be treated as a dependent or independent variable: the first approach looks at competitiveness as driver of a firm's performance whereas the second one considers competitiveness as outcome of a firm's competitive advantages. In different terms such distinction can be expressed as difference between competitiveness 'ex ante' and competitiveness 'ex post'. The horizontal dimension distinguishes the approach to the study of competitiveness in terms of static *vs.* dynamic analysis.

Competitiveness as a driver

Within the view of "competitiveness as a driver" all research contributions about the sources of a firm's competitive advantage are included. The main classification of the sources of a firm's competitiveness distinguishes between internal sources, i.e. sources that arise from a firm, and external sources, i.e. industry- and country-based factors. Internal sources could be classified as tangible and intangible and employee-related and firm-related (Cater, 2005):

- Internal intangible firm-related sources mostly include organizational resources, transformational and output-based capabilities (Lado et al., 1992), and the knowledge of the firm as a whole;
- Internal intangible employee-related sources mostly include a firm's strategies, human resources, managerial capabilities, and the knowledge of individuals;
- Internal tangible firm-related sources include physical and financial resources and input-based and some functional capabilities.

On the other hand, external industry-related sources include all the variables related to the industry structure and competition, such as for example weak bargaining power of suppliers and buyers, low rivalry among existing firms in the industry and low threats of substitution and new entrants (Porter, 1980).

Finally, external national-economy-related sources encompass variables representing the characteristics of the national economy. Internal sources of competitive advantage can be looked at by either a static or a dynamic approach: the first one focuses on the resources and assets at the basis of a firm's competitiveness; resource based view studies fall within this domain. The second one refers to management processes that transform and deploy those assets so as to achieve performance.

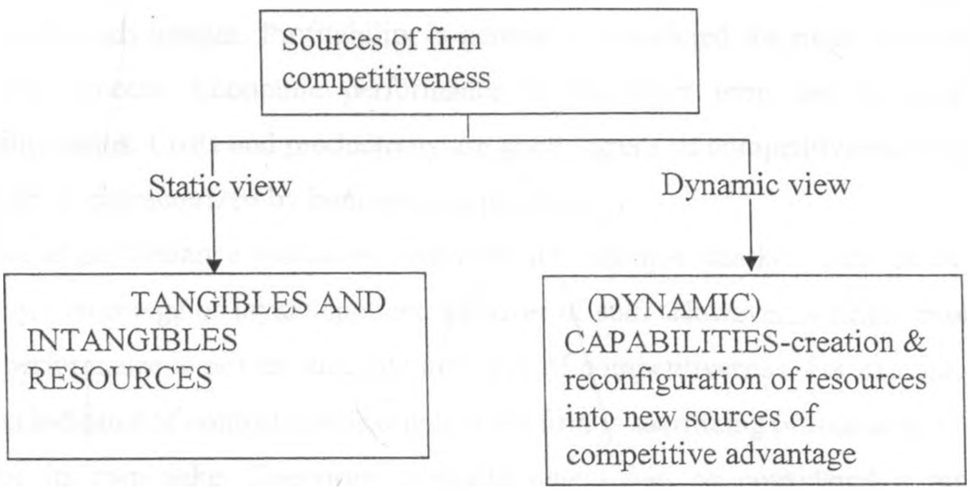
Fig. 3 Analysis of competitiveness

Approach / Nature of Competitiveness	Static (Assets/resources)	Dynamic (Processes)
Driver	1 Resource-based view	2 competence-based View
Outcome	4 *Performance measurement Literature* Financial ratios, market profitability, Share & other non-other financial parameters	3 Trend of market-based & indicators

Source: Depperu and Cerrato (2006); Analyzing International Competitiveness at the firm's level: Concepts and Measures, A Research Study.

Specifically, the competence-based approach emphasizes the dynamic component of the competitiveness construct. Whereas resources are the basis of firms' capabilities, capabilities represent the way firms unfold their resources. Specifically, dynamic capabilities (Teece, Pisano, Shuen, 1997) are those which transform resources into new sources of competitive advantage as they are processes that enable firms to obtain new resource configurations and generate new and innovative forms of competitive advantage (Fig. 4).

Fig. 4 Sources of firm competitiveness



Source: Depperu and Cerrato (2006); Analyzing International Competitiveness at the firm's level: Concepts and Measures, A Research Study.

The distinction between a static and a dynamic approach can be understood by referring to the distinction between the competitive advantage as a firm's position within an industry and the competitive advantage as a firm's actions and abilities to work more effectively and efficiently than its competitors. Such distinction recalls Ma's (2000) dichotomy of "positional" and "kinetical" advantages: positional advantage derives from ownership or access-based resources, while kinetical advantage derives from a firm's knowledge, expertise and competence or capabilities. Several classifications of firm's capabilities are possible as for example entrepreneurial, technical, managerial, etc.

Firm positioning within an industry can be defined in terms of different aspects, which typically recall the relationship between the firm and the main competitive forces like customers, suppliers, competitors, and other stakeholders like government and partners. For example, a better access or exclusive control of inputs and productive factors is related to the position with suppliers. Assets like greater brand recognition and customer loyalty are related to the interaction between the firm and its customers. Network resources involve the relationship with partners and better access to distribution channels has to do with positions with distributors.

Competitiveness as an outcome

In the lower side of the matrix in fig.3, research works about a firm's performance measurement are positioned. Superior economic or market performance are generally considered an indicator of competitive advantages. Profitability is generally considered the most important measure of competitive success. Economic performance in the short term can be measured through profitability ratios. Costs and productivity are good signals of competitiveness especially in case the industry is characterized by homogenous products.

Nonfinancial performance indicators could be, for example, market share, percentage of loyal customers, percentage of loyal suppliers, turnover of staff. However, a single explanatory factor of firm performance is not an adequate indicator of competitiveness. For example, market share can be an indicator of competitiveness unless the firm is sacrificing profits so as to pursue market share for its own sake. Therefore, competitiveness can be considered a multidimensional construct as a number of variables should be jointly adopted to measure it. The factors affecting such construct may have different weights which generally vary from firm to firm as well as from industry to industry.

Moreover, indicators cannot rely on a single period measurement as competitiveness is a time-based construct. For example, the concept of profitability itself may be ambiguous as it requires the definition of a period of time over which the measures are carried out.

Profitability could be referred to the short term or long period. More generally, any measure of a firm's competitiveness should take into account a long rather than a limited period of time. A dynamic analysis emphasizes the trends of competitiveness indicators over time rather than single-period measures.

2.4 Disentangling the concept of international competitiveness

The topic of international competitiveness raises new issues and makes it necessary to take into account more variables. In broad terms, international competitiveness can be defined as a firm's capability to achieve higher performance than its competitors in foreign markets and preserve the conditions that sustain its higher performance also in the future. A firm's international competitiveness may diverge from its competitiveness in the home country. In fact, a firm might be profitable in its country with a large domestic market share but it might show low international competitiveness in case the domestic market is protected by barriers to international trade. In this case the present competitiveness would be compromised if domestic market were opened to trade. In addition, some firms may sacrifice competitiveness in the home market for a greater penetration in foreign markets.

Export market share is frequently used as international performance measure at the firm level. However, such measure is not satisfactory in case market share is maintained through significant price cutting and, consequently, profitability decrease (Buckley et al., 1988). As a result, the growth of foreign sales is achieved at the expense of profitability and prospective competitiveness.

On the basis of these considerations, in order to analyze a firm's international competitiveness, it is necessary to move from the distinction between internationalization and international competitiveness. International competitiveness is a broader construct than the degree of Internationalization Depperu and Cerrato (2006). A higher degree of internationalization, for example in terms of foreign sales, cannot fully capture a firm's competitiveness abroad if such information is not integrated by information about how a foreign expansion affects a firm's profitability and about the factors which drive such expansion.

In other terms, the degree of internationalization expresses the firm's presence abroad, while competitiveness refers to how such presence is gained and sustained.

Buckley et al. (1988) propose a framework for the analysis of international competitiveness based on three groups of variables: competitiveness *performance*, competitiveness *potential* and management *processes*. Performance is the outcome of past or present competitiveness. As Buckley at al. (1988: 184) argue, performance measures "provide a historical perspective, and are all characterized by their inability to provide insights into the sustainability of such performance. Using only these measures leaves too many questions unanswered". Economic and market performance achieved by a firm in its internationalization processes derives from past choices and initiatives but does not allow to make a complete evaluation of the firm's capacity to preserve and regenerate that performance over time. Consequently, it is necessary to focus not only on performance but also on competitive potential, intended as a firm's capability to defend and renovate its sources of competitive advantage. So, performance is mainly related to past and present competitiveness while competitive potential is related to a firm's future competitiveness. On the other hand, a competitive potential is not necessarily turned into higher performance: there can be the case of competitive potential which remains unrealized or not adequately exploited. Therefore, beyond performance and competitive potential, the analysis of firm competitiveness should take into account a third group of variables concerning the management processes of the firm i.e. management practices and organizational mechanisms and systems. Such analysis helps explain how a competitive potential can turn into positive performance. As Buckley et al (1988: 179) point out, "when statistical measures have been used to show, for example, that one firm performs better in the market place than its competitors, and has generated and sustained more competitive potential, the qualitative information derived from researching management processes helps to explain the reasons for success".

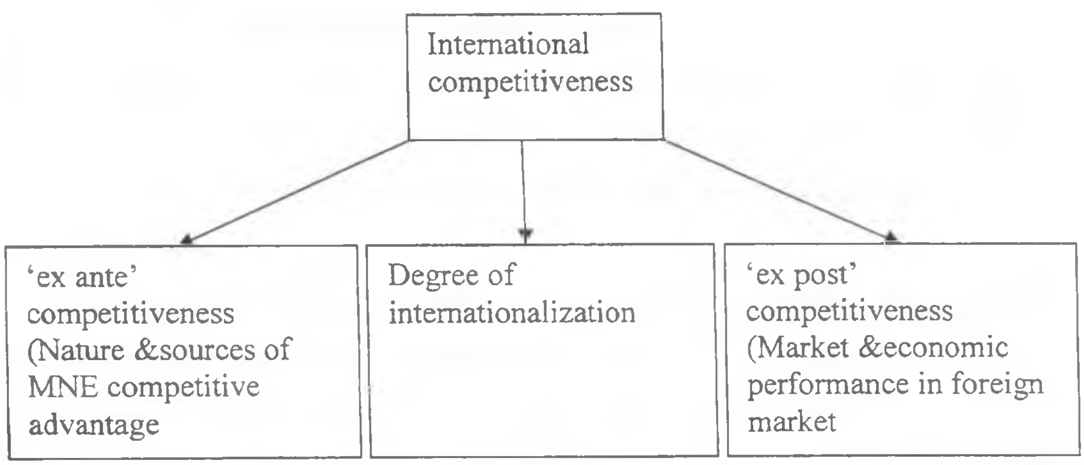
The model by Buckley et al. (1988) has been substantially validated by a few empirical research works, based on the analysis of the most relevant factors of firm competitiveness in the perception of managers (Buckley et al., 1990a; Buckley et al., 1990b; Coviello et al., 1998). These studies also provide evidence of the contingent nature of the construct of competitiveness: industry factors and variables related to firms' international strategies affect managers' perceptions of competitiveness.

Following the framework presented above, performance can be considered as competitiveness 'ex post', while competitive potential represents competitiveness 'ex ante', i.e the competitive position that could be achieved in the future. The link between competitive potential (prospective competitive position) and (actual) competitive position is competitive strategy, which encompasses choices, behaviors and processes that facilitate transition from competitive potential and competitive position.

Extending and revising Buckely et al. (1988) classification and building on the distinction between competitiveness ex ante and competitiveness ex post, Depperu and Cerrato,2006 maintain that the analysis of firm's competitiveness should be disentangled into three different but related aspects (Fig.5):

- nature and sources of an MNE's competitive advantages (competitiveness ex ante or competitive potential)
- degree of internationalization, which summarizes the extent to which a firm is present in the international competitive arena;
- MNE's market and economic performance in foreign markets (competitiveness ex post).

Fig.5 The Disentangle of International Competitiveness



Source: Depperu and Cerrato (2006); Analyzing International Competitiveness at the firm's level: Concepts and Measures, A Research Study.

2.5 How do we measure International Competitiveness?

Depperu and Cerrato(2006), proposed a number of indicators that could prove useful to measure the concept of international competitiveness. Given the dynamic nature of such concept, all the proposed parameters should be considered in the medium-long term.

International performance ('ex post' competitiveness) could be measured through the following indicators:

- *International market share*: such parameter however does not have an absolute value.

In fact, a rapid growth in the international market share could be achieved at the expense of the firm's profitability. In order to jointly consider profitability and market share, Buckely et al. (1988) suggest the adoption of 'profitable market share' as an indicator of international performance. Through the concept of profitable market share, they argue that we should consider market share "whilst sustaining at least the industry norm of profitability (Buckley et al., 1988: 197);

- *Rate of growth of the ratio 'foreign sales/total sales'* (given a non decreasing trend of a firm's total sales);
- *Return on foreign investments:* such variables could be measured through ratios like

ROI or ROA, calculated on foreign investments

On the other hand, the measure of 'ex ante' competitiveness could rely on the following factors:

- *Quality of international customers:* such indicator could be measured in terms of dimension, notoriety, reputation and rate of fidelity of foreign customers;
- *Brand recognition in international markets*: such indicator measures an intangible resource which is increasingly considered as a key determinant of a firm's competitive potential;
- *Listing in foreign stock exchange*: such parameter is a proxy of the capability of attracting financial resources at the international level;
- *Number of international patents and trademarks.*

Both qualitative and quantitative variables are necessary to define and measure international competitiveness at firm level. However, qualitative factors raise some operationalization problems as they largely respond to managers' perceptions rather than to objective are:

- *Capacity of attracting skilled human resources at the international level*;
- *Imitation attempts by competitors;*
- *Quality of international partners;*
- *Quality of management staff involved in international activities.*
-

3.0 Service Quality and Competitiveness

Service quality has been seen as critical for service firms to position themselves strongly in a competitive environment (Parasuraman, et al, 1985, Shemwell, et al, 1998, Mehta,et al, 2000) and also as indicator of business performance (Hurley and Estelami, 1998). Substantial empirical and theoretical evidence in the literature suggests that there is a direct link between service quality and behavioural intentions (Bitner, 1990, Bolton and Drew, 1991). Among the various behavioral intentions, considerable emphasis has been placed on the impact of service quality in determining repeat purchase and customer loyalty (Jones and Farquhar, 2003). As pointed out by Boston (1998), service quality influences a customer's subsequent behavior, intentions and preferences. When a customer chooses a provider that provides service quality that meets and exceeds his or her expectations, he or she is more likely to choose the same provider again. Besides, Cronin and Taylor (1994) also found that service quality has a significant effect on purchase intentions.

Other studies which support that repurchase intentions are positively influenced by service quality include Zeithaml, Berry and Parasuraman (1996), Cronin and Taylor (1992, 1994), Cronin, Brady and Hult (2000) and Choi et al (2004).

Service quality is so important for survival of any business. Some of the reasons that make quality so essential for survival include the following; higher customer loyalty, higher returns to investment, higher market share, loyal employees, lower costs and lesser vulnerability to price competition.

Service quality is not something that everyone does well. Firms with a deeply ingrained service quality orientation often develop both an intrinsic culture and an extrinsic reputation which tend to be very enduring and difficult to copy (Rapert et al,2009). Resources and skills of this nature may be more sustainable than those which are easily imitated or subject to substitution (Barney, 1991).

It is surprising that little empirical evidence exists regarding the relationship between pursuing service quality as a strategic orientation and the subsequent impact on organizational performance (Rapert et al, 2009). Recently, Fojt (1995b) provided evidence of a consistent positive link between quality and bottomline performance. This important finding, combined with a wealth of anecdotal evidence, underscores the need for further exploration of a link between quality and performance. This call for research was recently reaffirmed by contributors to a special quality-related issue of *Journal of Services Marketing*. If service quality truly holds potential as a source of sustainable competitive advantage, its link with long-term performance must be demonstrated (Rapert et al, 2009).

Nearly a decade ago, academicians and researchers alike lamented the lack of research on quality within the services arena (Parasuraman *et al.*, 1985).

Today, service-based research studies of quality are quite extensive. In fact, quality has become a major research interest (Bebko, 1993; Cronin and Taylor, 1992). Quality has been linked to factors such as customer satisfaction (Gombeski *et al.*, 1993; Peyrot *et al.*, 1993), return behavior (John, 1992), recommendations to others (Headley and Miller, 1993), choice behavior (Richard and Allaway, 1993) and interaction with employees (John, 1991).

Organizations worldwide have heard the promise of performance excellence through quality and have responded by making quality a predominant strategy (Anderson, 1992; Stafford, 1996). From a strategic point of view, quality was initially proposed as a complementary component of cost leadership strategies through the development of value (Stahl and Bounds, 1991). Quality has also been incorporated as a means by which firms may enhance differentiation strategies, allowing organizations to increasingly distance themselves from the competition (Wiley, 1991). For example, Bharadwaj *et al.* (1993) identified quality and customer service skills as potential sources of competitive advantage. In their contingency model of sustainable competitive advantage, Bharadwaj *et al.* maintain that delivering quality service can help support a firm's competitive position in much the same way as cost synergies, organizational expertise, and brand equity do. Indeed, quality can play more than a supporting role in the strategic arena.

The benefits to be gained from combining quality orientations with traditional generic strategies, such as cost leadership and differentiation, have resulted in a situation where quality now assumes a role as a strategy unto itself (Rapert et al, 2009). Indeed, quality is a viable competitive opportunity that may assume a singular strategic role within the organization (Whipple and Edick, 1993).

The wide realm of anecdotal claims and accolades have resulted in high expectations for quality-related outcomes. What is it that organizations hope to gain through the pursuit of a quality competitive advantage? Research conducted in USA on general service hospitals regarding the pursuit of a quality competitive advantage, showed that CEOs feel that quality orientations have a particular strong impact on customer satisfaction and the overall image of the organization (Rapert et al, 2009). On pursuit of service quality, organizations expect quality to positively impact on three financially-related items; market share, overall financial performance and growth in net revenue.

In light of anecdotal claims combined with high expectations of benefits to be gained, it is incumbent upon researchers to examine the performance implications of quality in further detail (Rapert et al, 2009). Quality has clearly assumed a prominent role, both in the organizational and marketing literatures. It is surprising, then, that the empirical linkages between quality and organizational performance have been minimal. Ironically, this lack of evidence occurs at a time when practitioners are under pressure to validate the financial wisdom of pursuing quality initiatives (Fojt, 1995a; Rust *et al.,* 1995). While most consider quality an essential strategy for success and survival in today's competitive environment (Zeithaml *et al.,* 1996), skepticism remains as to the bottom-line performance implications of pursuing a strategic quality advantage. In sharp contrast are the widely publicized failures of quality-oriented companies. Woodside (1991) notes that organizations need additional evidence that the pursuit of quality makes a difference.

4.0 Emerging Issues

Customers have choices to make and are always looking for quality for satisfaction. They have different tastes and preferences which keep on changing. They have become more sophisticated such that the service providers who put much effort and time to understand them and do according to their wishes win their hearts and business. In service business, service quality is the most talked topic by business executives nowadays and it will continue dominating business discussions in future. This is because of stiff competition and the sophistication of today's customer. Survival and success of any service business entirely depends on service quality provided. Customers demand quality service. They are insensitive to price but much sensitive to quality service. As Jubelirer, 2009 argues, service and not price, is what makes loyal customers. Customers always assess their service expectations with what they actually perceive to have really received.

Research indicates that customer perception of poor quality service often strikes without warning. A recent *Harvard Business Review* article ("What Service Customers Really Want," September, 2009) reports that customers experiencing poor quality often stop doing business with the offending companies without warning or complaint. On average, 40 percent of customers with poor experiences do not return. Research over the years indicates that service quality contributes more to customer loss than price (Jubelirer, 2009).

There is a positive relationship between pursuant of service quality and the competitiveness of any service firm. Service quality is not something that everyone does well (Rapert, 2009). Firms operating in the same service industry enjoy different marketing productivity. This is as a result of variations in service quality practices put in place by each player in the market.

One of the distinguishing characteristics of services is that they are heterogeneous; therefore no two firms provide services in exactly the same manner (Rapert, 2009). If one firm builds a superior service quality system, it is unlikely that another firm will be able to copy it exactly. This imperfect imitability of quality strategies provides a barrier which is difficult for competing firms to overcome (Bharadwaj *et al.*, 1993).

Unless a company offers a unique product or service, the major competitive advantage is high quality service. Quality service results in repeat and additional purchases from existing customers. Referrals capture new customers. This increase in market share is the difference between financial success and failure.

5.0 Weaknesses of the literature

It is surprising that little empirical evidence exists regarding the relationship between pursuing service quality as a strategic orientation and the subsequent impact on organizational performance (Rapert et al, 2009). This has created a knowledge gap in the concept of service quality and the firm's competitiveness literature. Though service quality researchers (e.g Rapert et al. 2009) agree that the pursuit of service quality strategy leads to a sustained competitive advantage of a firm, research linking the relationships of the role of service quality to the competitiveness of the firm is lacking.

Academicians and researchers alike have been and are still lamenting the lack of research on quality within the service arena. Service quality is a major research interest that needs to be addressed especially on its influence on the firm's competitiveness.

6.0 Recommendations on the weaknesses

Researchers and academicians all agree that the literature on role of service quality and the ultimate influence on the firm's competitiveness is lacking. Research on the influence of service quality practices on the firm's competitiveness will make a good contribution towards the

elimination of the existing knowledge gaps. The research findings will hopefully contribute towards the understanding of the role and impact of service quality practices on the service firms' performance. Hence, showing clearly the link between the service quality practices designed by a firm and the same firm's competitiveness in the market place.
The following proposed conceptual framework will guide the research.

7.0 Proposed Conceptual Framework

The proposed study suggests that firm's competitiveness is a function of its service quality practices and the marketing productivity as facilitated and affected by contextual factors. The conceptual framework will explain the relationship that exists. It will assist in the study, understanding and explanation of the following;

(i) The influence of service quality practices on the firm's competitiveness

(ii) The impact of service quality practices on the firm's marketing productivity

(iii) The impact of marketing productivity on the firm's competitiveness

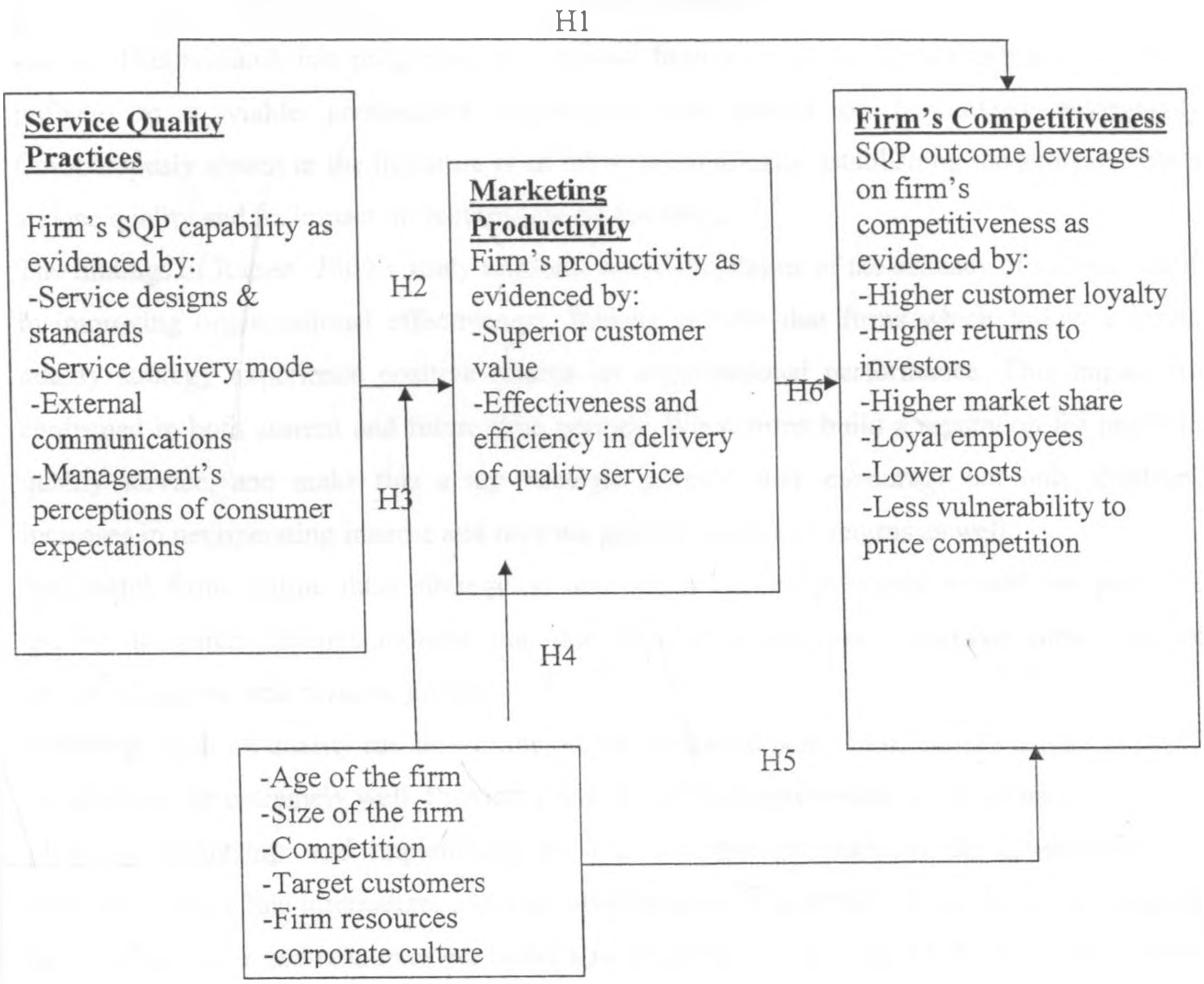
(iv) The effect of contextual factors on the link between service quality practices, marketing productivity and firm's competitiveness

(v) The influence of service quality practices, marketing productivity and contextual factors on the firm's competitiveness

(vi) The influence of contextual factors on the firm's marketing productivity

The proposed conceptual framework is diagrammatically represented by the following conceptual model in figure 6.

Figure 6: Conceptual model of service Quality Practices and Firm's Competitiveness



Source: Author (2010)

The conceptual model in figure 6 above shows that the firm's competitiveness (dependent variable) is directly affected by service quality practices (independent variable) and through marketing productivity (intervening variable). The level of service quality practices and the firm's marketing productivity is also influenced by the contextual factors.

8.0 Conclusion

Over the years, a great deal of research has been conducted relating to the concept of service quality. This research has progressed the concept from a rough conceptualization of a tactical problem to a viable competitive opportunity that should be maximized strategically. Conspicuously absent in the literature is an effort at empirically establishing the strategic role of service quality and its impact on bottom-line performance.

The findings of Rapert, 2009's study reinforce anecdotal claims of the efficacy of service quality in improving organizational effectiveness. Results indicate that firms which follow a service quality strategy experience positive returns on organizational performance. This impact was confirmed in both current and future time periods. When firms build a reputation for providing quality service, and make this a top strategic priority, they encourage not only short-term increases in net operating income and revenue growth, but future returns as well.

Successful firms define their strategy as one which centers primarily around the pursuit of quality. Research findings indicate that this singular pursuit has a positive impact on both operating income and revenue growth.

A strategy built on quality can be sustainable for several reasons. First, quality is something that not all firms do extremely well. Providing quality services necessitates a commitment in terms of planning, leadership, and implementation. This commitment leads to the development of a corporate culture that internalizes a quality orientation in all activities. Thus, firms which possess the requisite skills and resources are better able to pursue a quality-based strategy that less-adept firms cannot.

A related advantage of pursuing a quality-based strategy is that of inimitability. Firms with a history of successfully pursuing service quality develop a reputation. Unlike other corporate assets, reputations must be developed and earned over time, becoming virtually impossible to copy. The unique distinctive competencies that must be nurtured to support a quality orientation serve as a barrier to the immediate adoption of similar strategies by the competition. This makes advantages based on quality relatively enduring.

The bottom line is that a firm that is very adept at quality can capitalize on this competency just as firms that are good at containing costs can exploit their unique advantages. The pursuit of quality should be motivated by a desire to build competitive advantages that can be uniquely translated into superior organizational performance.

The findings of Rapert, 2009's study demonstrate that firms adopting a quality strategy realize positive effects on financial performance in both current and future time periods. This suggests that quality not only has a temporal effect on organizational performance, but can also translate into long-term performance.

Therefore, quality serves as a concurrent and long-term enhancer of performance. Hence, while the strategic pursuit of quality is certainly time-consuming, the initial results suggest that the pursuit of quality is worth the effort now and in the future.
A firm's competitiveness is related to the existence of sustainable competitive advantages, i.e. to a firm's capacity to build and defend some factors of superiority against competitors (Abu, 2004).

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