Literature Review of the Field of the Service Economy

David Petrovski & João Pedro Pestana Neto
Master’s Programme in Strategic Entrepreneurship for International Growth
School of Business and Engineering
Halmstad University, Sweden

Abstract
After the Second World War, the service sector in many countries, including the highly developed and the developing countries, started growing and making up the bulk of the economies of those countries. Some of the factors for that radical change are: the changing patterns of government ownership and regulation, privatization, technological innovations, servitization, internationalization, globalization, etc. The purpose of this article is to investigate and to suggest a classification of the existing literature in the field of service economy. The results of the systematic review of the area of the service economy are presented in a thematic order. Moreover, the findings are connected with the economical schools of thought - welfare state and neoliberalism. The key findings reveal that the social, economic, and technological changes brought by the Third Industrial Revolution were essential for the dissemination and development of the service sector.

Key words: service economy, literature review, servitization, welfare state, neoliberalism, Third Industrial Revolution

Introduction
The term “service” is a complicated phenomenon, which traditionally have been difficult to define (Lovelock, Vandermerwe & Lewis, 2001; Gronroos, 2000). However, many researchers have tried to come up with the right definition of this complicated phenomenon. One of the definitions that covers all of the aspects of the services is the one by Lovelock, Vandermerwe, and Lewis (2001, p.7): “Services are economic activities that create value and provide benefits for customers at specific times and places, as a result of bringing about a desired change in – or on behalf of – the recipient of the service.” Three basic characteristics of services are: “services are processes consisting of activities or a series of activities rather than things, services are at least to some extent produced and consumed simultaneously, and the customer participates in the service production process at least to some extent” (Gronroos, 2000, p.47). There are many classifications of the services, and one of the classifications of the services is on high-touch/high-tech services, and discretely/continuously rendered services (Gronroos, 2000). Besides the services that fall in those two main categories, there are internal services, within many large corporations, which form the hidden service sector, including services such as recruitment, publications, legal and accounting services, payroll administration, office cleaning, landscape maintenance, etc. (Lovelock, Vandermerwe & Lewis, 2001).

“The coming of the Post-Industrial Society”, written in the 1970s by the famous sociologist Daniel Bell, was the book which predicted a radical change of the economic focus from goods to
services (Janson, 2009). The service sector makes up the bulk of today’s economies across Europe and in the developed countries around the world (Lovelock, Vandermerwe & Lewis, 2001; Lovelock & Wirtz, 2011; Pollard, 2005). Moreover, the size of the service sector is substantial not only in the highly developed economies (Lovelock, Vandermerwe & Lewis, 2001). There are different reasons for that radical change, and some of the reasons are due to: changing patterns of government ownership and regulation, privatization, technological innovations, growth of service chains and franchise networks, internationalization and globalization, pressures to improve productivity, the service quality movement, expansion of leasing and rental businesses, manufacturers as service providers, etc. (Lovelock, Vandermerwe & Lewis, 2001; Lovelock & Wirtz, 2011; Gallouj, Weber, Stare & Rubalcaba, 2015).

The main objective of this article is to investigate and to suggest a classification of the existing literature in the field of service economy, since there is a lack of a literature review in that field. Moreover, the article connects the field of service economy with the economic schools of thought – welfare state and neoliberalism, as well as provides further paths and directions for researchers in this field.

The structure of this article is as follows: first, the methodology is explained, second, a review of some of the leading contributions to the service economy field are presented in different thematic categories, third is the analysis which connects the field of service economy with the welfare and neoliberalism perspective, and finally, the conclusion is presented.

**Methodology**

The literature review is based on a systematic review methodology, since it is a scientific and a transparent process of conducting a literature review (Tranfield, Denyer, & Smart, 2003). Tranfield et al. (2003) suggested that the review should be divided into three stages, which will be furtherly divided into phases. During the first stage - planning, the objectives of the literature review have been identified, and clear review, inclusion and exclusion criteria were developed. In the second stage - conducting, only the studies that met all the inclusion criteria and which manifested none of the exclusion criteria were selected. Moreover, the abstracts of the studies that were selected, were checked, in order to select only the studies that are in the field of service economy. In the third stage – reporting, the selected articles and books were presented in the review, which is organized into thematic categories. Furthermore, an analysis was conducted, in which the selected studies have been connected to the appropriate economic schools of thought- welfare state and neoliberalism.

The articles, books and reports used in this literature review are published between 1961 and 2017. The articles were retrieved from the following databases: EBSCO, Emerald, JSTOR, Google Scholar, Proquest, Sage, Science Direct, Scopus, SpringerLink, Taylor & Francis, Web of Science, Wiley online library, etc. The two search keywords that were used were: service economy and service economics. Moreover, this literature review is also based on several paper books, which were available at Halmstad University’s library. The articles and the books were selected based on the inclusion and exclusion criteria. Inclusion criteria includes the following criteria: available full text publication, peer reviewed publication, and English language publication. Exclusion criteria included the following criteria: newspaper articles, editorials, and book reviews. Furthermore, two reports, one by OECD, and one by CIA, were used as sources for the statistics that were provided.
Results
The databases search yield more than 1000 results, however, after applying our inclusion and exclusion criteria, removing the duplications, and reviewing abstracts, in total 20 articles were selected. Moreover, from 5 available books at Halmstad University’s library, which were connected to the field of service economy, only 2 were selected. Finally, two reports, one by OECD and one by CIA, were selected as sources for the statistics that were provided.
The results were divided into the following categories: service economy, economic and social context, servitization, international trade and economic liberalization, social changes, and service economy fallacy. Table 1 presents all the selected articles, books, and reports in the field of service economy:

Table 1. Service economy - selected literature

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Title</th>
<th>Document</th>
<th>Year</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bailey, S.I.</td>
<td>Cities and services: a post welfarist analysis</td>
<td>Article</td>
<td>2001</td>
<td>Service Economy, International Trade &amp; Economic Liberalization</td>
</tr>
<tr>
<td>Berrugue, G.</td>
<td>Outsourcing and the shift from manufacturing to services</td>
<td>Article</td>
<td>2014</td>
<td>International Trade &amp; Economic Liberalization, Service Economy Fallacy</td>
</tr>
<tr>
<td>CIA</td>
<td>Economic World GDP</td>
<td>Report</td>
<td>2017</td>
<td>Service Economy</td>
</tr>
<tr>
<td>Codignone, C., Alaboe, F., &amp; Bresnahan, T.</td>
<td>The Future of Work in the Sharing Economy</td>
<td>Article</td>
<td>2016</td>
<td>Service Economy Fallacy</td>
</tr>
<tr>
<td>Farah, M. F.</td>
<td>The Third Industrial Revolution and the New Productive Paradigm: Some Considerations on Brazilian</td>
<td>Article</td>
<td>2010</td>
<td>Servitization</td>
</tr>
<tr>
<td>Gebauer, H., &amp; Fleisch, E.</td>
<td>An investigation of the relationship between behavioral processes, motivation, investments in the service</td>
<td>Article</td>
<td>2007</td>
<td>Servitization</td>
</tr>
<tr>
<td>Hagan, A., &amp; Wright, J.</td>
<td>Marketplace or Reseller?</td>
<td>Article</td>
<td>2015</td>
<td>Service Economy Fallacy</td>
</tr>
<tr>
<td>Harvey, D.</td>
<td>The Postmodern condition</td>
<td>Article</td>
<td>1992</td>
<td>Social Changes</td>
</tr>
<tr>
<td>Inum, O.</td>
<td>The Era of Globalization</td>
<td>Article</td>
<td>1997</td>
<td>Social Changes</td>
</tr>
<tr>
<td>Lightfoot, H.</td>
<td>The servitization of manufacturing: investigating contributions to knowledge production</td>
<td>Article</td>
<td>2013</td>
<td>Servitization</td>
</tr>
<tr>
<td>Loveless, C., Vanden[erwa, S., &amp; Lewis, B.</td>
<td>Services marketing: a European perspective</td>
<td>Book</td>
<td>2001</td>
<td>Service Economy</td>
</tr>
<tr>
<td>OECD</td>
<td>The Service Economy</td>
<td>Report</td>
<td>2009</td>
<td>Service Economy, Social Changes</td>
</tr>
<tr>
<td>Oliva, R., &amp; Kalleberg, R.</td>
<td>Managing the transition from products to services</td>
<td>Article</td>
<td>2001</td>
<td>Servitization</td>
</tr>
<tr>
<td>Ramon, C.B.</td>
<td>General Economic History</td>
<td>Article</td>
<td>1987</td>
<td>International Trade &amp; Economic Liberalization, Social Changes</td>
</tr>
<tr>
<td>Solberg, K.</td>
<td>The fallacy of the service economy: a materialist perspective</td>
<td>Article</td>
<td>2012</td>
<td>Service Economy Fallacy</td>
</tr>
<tr>
<td>Sweet, P.</td>
<td>Strategic value creation logic and the “new” economy: a service economy revolution?</td>
<td>Article</td>
<td>2001</td>
<td>Servitization</td>
</tr>
<tr>
<td>Taylor, R.</td>
<td>Microsoft to Rent Software on the Internet</td>
<td>Article</td>
<td>1999</td>
<td>Service Economy</td>
</tr>
<tr>
<td>Vanden[erwa, S., &amp; Rada, J.</td>
<td>Servitization of business: adding value by adding services</td>
<td>Article</td>
<td>1998</td>
<td>Servitization</td>
</tr>
<tr>
<td>Wise, R., &amp; Baumgartner, P.</td>
<td>Go downstream: The new profit imperative in manufacturing</td>
<td>Article</td>
<td>1999</td>
<td>Servitization</td>
</tr>
</tbody>
</table>
Limitations
The findings from this study have been limited due to the methodology that was chosen for this article. First, the developed inclusion and exclusion criteria have limited this article. The literature review did not include the available articles in the field of service economy, which are not in English. Also, newspaper articles, editorials, book reviews, and other types of sources, rather than peer-reviewed journals, books available at Halmstad University’s library, and reports, were not used in this literature review. Second, the limited access to the different databases and the limited number of books in the Halmstad University’s library have limited this article.

Service Economy
The emergence of the service economy represented a new era for the world economy. This phenomenon is marked by a transition in the mode of production, migrating from the industrial mode to the informational age. This process took place after the Second World War, changing the world’s economy and society (Bailey, 2001; OECD, 2000).

Nowadays, the services are the productive sector with the highest growth rates in the world economy, representing 64% of the GDP, followed by manufacturing with 32%, and agriculture with 4%. In the developed countries, the service sector is responsible for more than three quarters of the economy. In the USA 79% of its GDP results from services, in France 77%, and in the United Kingdom 76%. (Lovelock & Wirtz, 2010; OECD, 2000; CIA, 2017)

Among some of the definitions, services are described as economic activities between two parties, in which one party offers to another a service or an object, such as access to goods, labor, professional skills, facilities, etc. However, the client does not own or buy the assets used in the process (Lovelock & Wirtz, 2010; OECD, 2000). A more general definition classifies services as a group of economic activities, which process is normally delivered and intermediated by human labor, through advices, varied professional skills, and entertainment. They differ from the other economic activities, due to their perishability, not being inventoried, and their spontaneous consumption (OECD, 2000; Bailey, 2001).

Recently, technological advancements have enabled companies to offer services in a more accessible and massive form. Through the use of the electronical devices, integrated by specific programs developed by the companies, the services can be consumed without the client being physically present. Therefore, the use of the technologies to deliver services have been changing the interaction between the service providers and their clients, thus developing a more independent and customized consumption behavior. (Taylor, 1999; OECD, 2000)

Service Economy and Economic and Social Context
The growth in the service sector, after the Second World War, represented one of the changes brought by the Third Industrial Revolution. This period is characterized by a profound evolution in the technological and scientific fields. The new advancements, especially in the information technologies, have promoted a significant increase in the offer of services, as well as industries and manufactures being progressively replaced by this sector. (Briggs, 1961; Buera & Kaboski, 2011; Powell & Hendricks, 2009; Terborgh, 2003)

Along with all the new technologies, the world’s economies and societies have experienced massive changes. The new political and economic policies have changed the way of doing business, as well as the life in the society. The emergence of a complex international world trade and economic liberalization, assisted by all the new technologies, promoted the globalization phenomenon. This phenomenon enabled the world to be more integrated, and provided the
servitization is a term used to describe the process of creating value by adding services to products. Its adoption is a competitive strategy, adopted by the manufacturers, in order to offer a product with higher added-value, as well as solutions able to supplement their traditional product offerings (Wise & Baumgartner, 1999; Oliva & Kallenberg, 2003; Vandermerve & Rada, 1998; Sweet, 2001; Farah, 2000). As explained by Oliva and Kallenberg (2003), a move towards servitization creates additional value for the products, as well as expansion in the market share for the companies, as this integration between the products and the services, increases companies’ operation market. Besides that, the new complex and high technological equipment made the customers more dependent on their supplier’s expertise (Lightfoot, 2013). Therefore, the offer of services by the manufacturers, is an opportunity to meet the increasing needs of the customers (Wise & Baumgartner, 1999; Gebauer & Fleisch, 2007; Vandermerve & Rada, 1998; Sweet, 2001; Farah, 2000).

Service Economy and International Trade and Economic Liberalization
Many economic barriers to international trade and investment were abolished during the first decades after the Second World War. As a result of that, the international trade expanded at a fast pace, and that was essential for the growth of the service sector (Terborgh, 2003). The change of the isolationist policies to open economies, allowed the manufacturing and the service companies to increase their international operations. The service providers benefited from those new policies, as they were able to start exporting their services, or establishing themselves in foreign markets (Berlingieri, 2014; Rezende, 1997). The technological innovations were a key factor for the expansion of the services, as they have enhanced the ability of the service providers to interface with their foreign clients in a more efficient and cost-effective manner. The economic liberalization allowed the end of the monopoly power, and it created greater competitive environment for companies to be more cost-effective and innovative, which pressured the service industry to achieve higher advancements. (Bailey, 2001; Terborgh, 2003)

As a consequence of the expansion of the international trade, many companies transferred some of their key functions to other countries by outsourcing and offshoring. Therefore, service-related functions ended up being performed by specialized companies. The process of outsourcing some of the departments and functions to third party companies, or offshoring the production, allowed the expansion of the services sector (Berlingieri, 2014). As the companies were aiming for better performance and reducing costs, a wide range of services were developed, in order to meet the increasing demand from the companies (Berlingieri, 2014; Te-Cheng, Yan-Shu & Jin-Li, 2014).

Service Economy and Social Changes
The transition to service-oriented economies raised the importance of qualified human capital. Higher level of education and skills have become mandatory for the new workforce used in the service sector. Therefore, educational reforms were promoted, with governments and companies investing heavily in education and trainings (OECD, 2000; Harvey, 1992; Rezende, 1997). The college boom, in the 1950s, as well as a series of laws, guaranteeing protection and rights to the population and workers, represented some of the policies adopted by the political and economic
organizations of that time (Briggs, 1961; Buera & Kaboski, 2011). The welfare state was firstly established after the crises in 1929, with the government being more active in the economic and social policies, as well as providing the population with public education and healthcare (Powell & Hendricks, 2009; Briggs, 1961; Harvey, 1992).

In the early 1980s, due to crisis caused by the high public spending on the public services, the welfare state was gradually replaced by a new economic model called Neoliberalism. As a consequence, once again, the service sector gains incentive to grow. At that moment, the services expanded in order to cover the gap left by governments’ decisions, especially in the areas of health and education (Ianni, 1997).

**Service Economy and Future Trends (Fallacy)**

Nowadays, the service sector is of a greater importance in comparison to the manufacturing sector. There is also a high inter-relationship between those two sectors, but the decline in the manufacturing sector may be harmful for the economies in the long run. Since the manufacturing sector is very important for the existence of the services, there should be a balance in the economies, limiting the extensive shift towards services through outsourcing of the production. (Buera & Kaboski, 2011; Berlingieri, 2014)

According to Søilen (2012), the focus exclusively on services does not lead to a competitive advantage. Services are an important sector of economies, however, many reasons show that the shift does not acknowledge the fact that much of the service economy is related to production, since the services are often offered together with products. Besides that, services are much easier to be copied and reproduced by competitors, which weakens the competitive advantage. Therefore, production and service companies would perform better if they are in the same market with their competitors. (Søilen, 2012)

The emergence of new technologies and conceptions, such as sharing economy and new communication applications, show that the way of creating and delivering services is still in progress and continually being improved and changed. The future trends of service economy, may also evolve in emergence of new laws and methods, which proves that this sector is constantly being reinvented (OECD, 2000). However, some authors believe that the excess of regulation and policies may inhibit the creation of those beneficial innovations (Codagnone, Abadie & Biagi, 2016; Hagiu & Wrigh, 2015).

**Analysis**

The commercialization of services existed since the earliest times, but its expansion and vertiginous growth occurred after the Second World War, with the technological advancements caused by the Third Industrial Revolution. According to Buera and Kaboski (2011), and Terborgh (2003), after the Second World War, the service sector developed rapidly. The Third Industrial Revolution provided the world with new technologies, which allowed an increase in the offer of services, with industries and manufactures being progressively replaced by this sector.

The post-war period was also a period marked by major changes in the society and the economy. The new technologies contributed for those changes, as the way of living, working, communicating and social relations were affected by those new advancements (Schools of Thought, 2017). At this time, due to the great economic problems resulted by the liberal economic policies, such as the Great Depression in 1929, the world was experimenting and applying the welfare state model (Schools of Thought, 2017).
After the Second World War the service sector affected by the new technologies experienced high growth rates. Besides that, the world has experienced massive changes in its economies and societies with the new political and economic policies changing the way of doing business, and the life in the society (Buera & Kaboski, 2011; Powell & Hendricks, 2009). The manufacturing companies aiming to achieve higher profits, also started investing in the services, by offering services with their products. Servitization is the term used to describe the process of creating value by adding services to products. Its adoption was a competitive strategy, adopted by the manufacturers, in order to offer a product with higher added-value as well as solutions able to supplement their traditional product offerings (Wise & Baumgartner, 1999; Oliva & Kallenberg, 2003; Vandermerve & Rada, 1998; Sweet, 2001; Farah, 2000). Oliva and Kallenberg (2003) state that, a move towards servitization creates additional value for the products, as well as expansion of the market share for the companies, as this integration between the product and the service, increases companies’ operation market.

The welfare state is described as a model of political and economic organization in which the state influences and takes action in four core areas of society, by providing social benefits, as cash benefits, health care, education, food, and housing (Barr, 2004). The main objectives of the welfare state were supporting good living standards and reducing the inequality, as well as, avoiding costs explosions (Schools of Thought, 2017). Keynes, an important economist of that time, defended the need of governmental influence and control of the economy. Keynes, a critic of the laissez-faire policy, supported the social investments, influencing the politics and economic policies at that time, in order to promote a growing public expenditure and investments in population’s welfare (Schools of Thought, 2017).

The college boom, in the 1950s, as well as a series of laws, guaranteeing protection and rights to the population and workers, represented some of the policies adopted by the political and economic organizations of that time (Briggs, 1961; Buera & Kaboski, 2011). The welfare state was firstly established after the crises in 1929, with the government being more active in the economic and social policies, as well as providing the population with public education and healthcare (Powell & Hendricks, 2009; Briggs, 1961; Harvey, 1992).

Keynes’s theories regarding the public policies were rejected by many intellectuals, businessmen and politicians at that time. Many neoclassical economists accused those policies of distorting the markets. Besides that, the more radical economists and conservative politicians saw those policies as the first steps to a full-blown Bolshevism model. Important economists at that time, as Michael Polanyi (1945) and John Jewkes (1948), recommend a lower government participation in the economy. (Schools of Thought, 2017)

Keynesian public policies were put in practice in the period between the 1930s and the 1940s. In the early 1940s, the welfare state policies were recognized and applied by the government of the United Kingdom. In 1944, the British government published the White Paper on Employment Policy, in which the government was committed to adequate its policies based on Keynesian concepts. Along with that, in 1946, the United States created the “Employment Act” emphasizing government’s responsibility to seek and maintain “maximum employment.” (Schools of Thought, 2017)

For a long time, the Keynesian model was widely implemented, however, its use declined in the 1960s and the 1970s, when high levels of inflation and unemployment occurred. As a result of those problems, a newly emerged model started being implement. That new model was entitled Neoliberalism, and it was developed, in order to replace the Keynesian model. (Schools of Thought, 2017)
The Chicago School was the pioneer in the implantation of neoliberalism, strongly opposing the Keynesian model. The Chicago School emphasized the importance of no interventions by government in the economy. Besides that, the Monetarism, was the most renowned mark of the Chicago School. Monetarism, firstly introduced “Monetary Approach”, originally suggested by Frank Hahn (1958) and Robert Mundell (1968). Its principal rule was aiming for changes in the money supply, rather than changes of the effective demand, which were the primary determinants of fluctuations of the economic activity. (Schools of Thought, 2017)

Based on these ideologies and theories, the Neoliberalism grew and was widely developed and implemented. The consolidation of neoliberalism in the ‘80s and ‘90s, propitiated less state regulations on the economy, and higher emphasis on stability in the economy, based on a self-regulating market (Evans, 2013). Therefore, acts of intervention in the economy by the government were considered undesirable. Besides that, that period was marked by economic liberalization and international trade (Schools of Thought, 2017).

According to Evans (2013), the Neoliberalism was a response to the economic and cultural problems of that time, which led to increase of the privatization of the formerly public companies and sectors. Besides that, the phenomena of liberalization and privatization of economies were also adopted and widely implemented during that time (Layton, 2014).

Along with the emergence of Neoliberalism, the economies became more integrated with the international trade and economic liberalization. Once again the new technologies helped to promote that process. This phenomenon enabled the world to be more integrated, and provided the service sector with important tools for its development, as well as it opened new markets (Bueru & Kaboski, 2011; Powell & Hendricks, 2009; Terborgh, 2003). As a consequence of the expansion of the international trade, many companies transferred some of their key functions to other countries by outsourcing and offshoring. Therefore, service-related functions ended up being performed by specialized companies as outsourcing, allowing the expansion of the service sector (Berlingieri, 2014). In the early 1980s, Margaret Thatcher and Ronald Reagan were symbols of the new Neoliberal era, adopting Neoliberal actions, as well as more authoritarian politics regarding the military and the law (Evans, 2013). Due to crisis, in the early 1980s, caused by the high public spending on the public services, the welfare state was gradually replaced by the Neoliberalism. As a consequence, once again, the service sector gains incentive to grow. At that moment, the services expanded in order to cover the gap left by governments’ decisions, especially in the areas of health and education (Ianni, 1997).

Conclusion

The social, economic and technological changes brought by the Third Industrial Revolution were essential for the dissemination and development of the service sector. The trend of a growing service sector started after the Second World War, and nowadays, the service sector makes up the bulk of the economies of many countries around the world. The emergence of the new and innovative technologies, have changed the production mode, and the society has been adapting to the new changes. Moreover, economic policies were created to foster and make those changes viable, with large investments in education, especially in universities in the post-war period. Those investments were beneficial, since they produced more qualified workforce, which is able to use, manage and develop new technologies. (Taylor, 1999; OECD, 2000; CIA, 2017; Briggs, 1961; Bueru & Kaboski, 2011; Powell & Hendricks, 2009; Terborgh, 2003; Harvey, 1992; Rezende, 1997)

Social and economic systems were created in order to fit, and adapt to the society’s needs at each
time. As an example, the Keynesian model with the welfare state, was adopted, and it promoted high improvements in the society, after the Great Depression and the Second World War. However, it was replaced by neoliberalism due to the high inflation and indebtedness of the governments, which was caused by providing services and assistance to the population. (Ianni, 1997; Barr, 2004; Schools of Thought, 2017)

A good understanding of the new technologies, as well as of the political and economic situations is not enough to understand how all the new services and the growth of the service sector happened. There is a lack of research on how the companies, entrepreneurs, and the population itself, have contributed for the development of wider range of services, and the growth of the service sector.

Based on the findings, it has been perceived that in order to deliver good services, companies should invest in high technologies. Also, some of the core strategies of the service companies should be continuous innovation and continuous market research, in order to be able to understand and fulfill customers’ needs and desires. Moreover, there should be even a higher inter-relationship between the manufacturing and the service sector, since the decline in the manufacturing sector may be harmful for the economies in the long run (Søilen, 2012).

References


