Review the Operational Excellence Factors of Service Firms: A Literature Review

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ABSTRACT
Operational excellence is considered as a competitive weapon for firms, both in service and manufacturing. Firms should therefore carefully study their operation strategy choices due to the high impact that results from applying operation strategy decisions on operational excellence. There are many factors that can lead to operational excellence, including leadership, human resource management practices, operations strategy, and involvement culture, and these will be the focus of this work.

This research reviews the literature related to operations and excellence in service firms. Moreover, it investigates the factors that affect the operational excellence of service sector. In the literature, operational excellence for the service sector is still ambiguous. This research is an attempt to take advantage of the developments made in the industrial field, while at the same time drawing together different factors that have been studied separately in the past. We propose a theoretical framework that investigates some factors that affect operational excellence. Therefore, we propose implementing our theoretical model in the service sector, amongst others. Moreover, we suggest a further investigation on the obstacles may face the firms to reach operational excellence.

1. Introduction
The current business environment puts lots of pressures on managers to effectively respond to rapidly changing economic, social and ideological conditions in order to generate value for stakeholders and customers (Bolboli and Reiche, 2013). There is no doubt that globalization has created a formidable pressure on firms to survive and compete especially in developing countries. As a result of this pressure, firms are forced to reinvent themselves towards excellence through creativity and innovation (Job and Sanghamitra, 2010).

While reviewing the literature, we noted a lack of research papers that attempted to investigate operational excellence. Most published empirical studies focused on different types of performance such as organizational performance, operational performance, and market performance (e.g. Al-Zu’bi et al., 2015; Abdallah et al., 2014; Phan et al., 2011). Additionally, research studies on operational excellence were mainly conducted in the manufacturing sector (e.g. Al-Abdallah et al., 2014). Moreover, most of those studies were conducted in developed countries. This study attempts to address the gaps in the literature by reviewing the literature concerning the factors that affect operational excellence in service firms. Our purpose is to develop a model that can be empirically tested in Jordanian service firms as well as in service firms in other countries.

1.1 Operations Management
Operations management plays as a key role in the modern firms, and is an important area for academic research, due to its centrality in a firm’s success (Niall, 2012). Some researchers emphasized that operations management has a different nature compared with other areas in management research, as it addresses both physical and human elements of the firm (Jiménez. And Lorente, 2001). In practice, operations management is active and challenging, with immediate actions
required to ensure that the day-to-day production of goods or delivery of services can occur in a timely manner and rapidly adapt to changed conditions (Slack et al., 2004).

In large firms, operations management occupies the largest portion of employees and assets, reflecting the significant impact that operations has on quality of product or services, customer service, product delivery and customer interaction effectiveness. Most firms believe that if they want to compete, they must continuously improve their operations efficiency in line with enhancing their goods or services quality, thereby mandating effective operation management approaches (Raouf, 1998).

Operations management history, in both theory and practice, has been rooted in the manufacturing field, being primarily concerned with the act of production. The paradigm can be traced from the pre-factory era (concerned with planning and control of operations, the scheduling of resources and the control of quality) through factory operations management until the mid-1970s (Allio, 1994; Slack et al., 2004). The early 1980s saw a renaissance of operations management, and by the mid-1990s this discipline was firmly cemented in academia and practice (Slack et al., 2004).

The first published paper in operations management for the service sector appeared in the Harvard Business Review in 1972, when Levitt explored how old operations management concepts applied to McDonalds, but his study focused on back office activities, high volume, standardized operation and an assembly line operation approach (Rana et al., 20016; Allio, 1994).

The role of operations in service companies is still dispersed, and difficult to understand due to the fact that service operations is influenced by a degree variety of offering and variability of delivery; unlike the manufacturing sector, there is no clear production line. Belvedere (2014) found that operations management scope in service firms is mainly affected by three factors; the firm culture, the existence of industry-specific regulations and the availability of facilities.

Operations management plays an important role in the development of entrepreneurship theory, focusing on how operations management deals with management under uncertainty. There is a particular focus on the efficiency and effectiveness of operations, which has a great impact on how operations can support the firm’s strategic goals. It is also important to mention that operations managers currently face the challenge of improving quality while lowering costs, and yet maintaining social responsibility, in the current climate of high global competition (Niall, 2012; Phan, 2013).

### 1.2 Excellence

The concept of business excellence was first introduced by Japanese scientists and engineers following the practices and techniques they learned from Deming after the Second World War. The Deming prize, introduced in 1951, was the first global prize based on a business excellence model (Balvir, 2010).

In 1984 the CAE Quality award appeared in Canada, with 300 public and private firms were recognized with this award. This was followed by the introduction of the Malcolm Baldrige National Quality Award (MBNQA) in the USA in 1987. The introduction of this award had great effect, “MBNQA helped US industry in revitalizing its competitiveness and slowly gained recognition as a de facto global standard on customer oriented management systems and practices” (Balvir, 2010).

By year 1988, had Australia followed the USA by introducing its MBNQA award, many national and international firms adopted the MBNQA concepts. These movements were followed by a large scale quality model from the European Foundation for Quality Management (EFQM). The EFQM Excellence Model set the benchmark for the European Quality Award in 1991, which was renamed the European Excellence Award in 2004 (Balvir, 2010).

The EFQM Model was largely based on the concepts of the Total Quality management, which considers that all stakeholders share the benefits and applies different weightings applied to each of
the stakeholder groups (Dotun, 2001; Oakland and Tanner, 2008). The EFQM Model allows people to understand the cause and effect relationships between what their firms do and the results it achieves, consisting of 8 fundamental rules (EFQM, 2012):

1- Adding value to the customers
2- Creating sustainable future
3- Developing organizational capacity
4- Harnessing creativity and innovation
5- Leading with vision, inspiration and integrity
6- Managing with agility
7- Succeeding through talented people
8- Sustained outstanding results.

Oakland and Tanner (2008) discussed the business excellence concept based on the resource-based view (RBV) theory, arguing that business excellence can contribute to the improvement of a firm’s specific assets, enabling the development of complex social relationships (Oakland and Tanner, 2008). Dotun (2012) identified that major benefit of adapting excellence model in firms as the opportunity for self-evaluation and benchmarking toward best practices in different areas. “If used properly, these tools will help organizations evaluate their current level of performance, identify and prioritize areas for improvement, integrate improvement actions in their business plan and identify best practice. The opportunity to carry out future assessments against the Model also mean that progress towards excellence can be measured and promotes continuous improvement” (Dotun, 2012)

In Jordan, the Excellence Award was founded in January 2006 according to Bylaw Number (6) of that year, to manage the “King Abdullah II Award for Excellence”. This is considered the most prestigious award for excellence on the national level. The award for the private sector was developed according to eight fundamental concepts of excellence from the EFQM Excellence Model (2010), with weightings given accordingly (Figure 1).

The model shows the Award criteria, where the first five criteria (leadership, strategy, people, partnerships & resources, processes, products and services) form the enablers’ dimension, and the other four criteria (customer results, people results, society results and key results) form the results dimension (KAAPS, 2014). These working criteria provide a good overview of the working understanding of excellence. The aim in the following literature review, is to explore the theoretical understanding of how operational excellence can be achieved, particularly with respect to the service industry.
Figure 1: Judging criteria for the King Abdullah II Award for Excellence: Private Sector Assessment Model (Adapted from KaapsJo, 2014)

2. Literature Review

According to Dawei (2011) the operational excellence is an element of business excellence, which includes other elements such as capability to adapt, unique voice, and strategic fit. According to Van (2011), the application of operational excellence in service environment is not clear. Therefore, so this study serves the purpose of achieving clarifying this relationship, by investigating the dimensions of excellence in manufacturing firms that are logically common with service, and considering how these dimensions might be reflected into the service environment.

2.1 Leadership

Leadership is held to be the largest single factor responsible for achieving operational excellence, with leaders held accountable for the effective and efficient achievement of results (Masa'deh et al., 2014; Ozumba, 2010). The importance of leadership is common across different industries (Oakland and Tanner, 2008), and is essential in order to balancing different individual’s autonomy and responsibility (Van, 2011). According to (Allio, 2013) managers must focus on a short view using their authority and/or power. On the other hand, Leaders must be able to develop strategies, plans and vision through motivating, stimulating, and encouraging others.

OonFok-Yew (2013) found that inclination towards the transformational leadership style leads to operational excellence in industrial firms (OonFok-Yew et al., 2013). In services firms, they acknowledged the importance of leadership in building an environment for excellence by removing any market pressure, operational complexities or any other quality issues.
Leadership has been shown to be associated with service performance in a number of previous studies (Church, 1995; Armistead and Kiely, 2003; Sureshchandar et al., 2001; Asree et al., 2010). In service industry, a clear vision toward the rapid technological advancement in services delivery system along with changing customer’s demographics and life styles show the leadership importance (Armistead and Kiely, 2003).

2.2 HRM Practices

Generally speaking, human resource management (HRM) refers to the activities conducted that attract and coordinate human resources, amongst the most important activities in any firm (Zangoueinezhad and Moshabaki, 2011). The scope of HRM varies from one firm to another (Khan et al., 2010), but includes various activities including recruitment, whether external or internal (Melnic and Putu, 2011), selection, essential for ensuring that candidates best fit the job criteria (Khan et al., 2010), training to improve employee’s skills (Marescaux et al., 2013), and appraisal, which enables tracking of employee performance, progress and rewards (Dessler, 2013; Baptiste, 2008). All these HRM practices are key to achieving operational effectiveness and customer satisfaction (Burke and Cooper, 2005).

2.3 Operations Strategy

Service strategy is specific to service firms, describing the processes by which post-sales services are optimized, and is therefore key to operational excellence (Van, 2011). Importantly, service strategy involves synchronizing the various processes involved in service (Figure 2). Service strategy "is about ensuring that organizations are in a position to handle the costs and risks associated with their Service Portfolios, and are setup not just for operational effectiveness but also for distinctive performance. Decisions made with respect to Service Strategy have far-reaching consequences, including those with delayed effect" (Service Strategy, 2014).

![Figure 2: The Service Strategy Triad (Adapted from Aleda V. et al., 2003)](image-url)
The triad of service strategy (Figure 2) has been defined by a number of scholars (Susan et al., 2002; Clark et al., 2000; Clark, 2001), based on the definitions of service operation as the way in which the service is delivered; service experience as the customer’s direct experience of the service; service outcome as the benefits and results of the service for the customer; and the value of the service as the benefits the customer perceives as inherent in the service weighed against the cost of the service (Susan M. et al., 2002).

Arias-Aranda (2003) studied the service operation strategy and its effect on the performance, in an attempt to operationalize the service operation strategy, and identified a number of parameters that could be used to define service operational strategy, including the layout of the service delivery process; the push (meeting demand) or pull (achieving customer satisfaction) orientation; standardization of tasks; diversification of offered services; use of information technology (IT); relationship between front and back offices; specialization of HR; customer involvement; and new services development.

Of these, OonFok-Yew et al. (2013) identified the involvement trait as the best dimension to push the excellence within the organization. This is consistent with other reports that the relationship between employee participation and empowerment, and perceived operational performance were positively correlated (Sofijanova and Zabijakin-Chatleska, 2013; Shingoprize, 2014).

2.4 Organizational Commitment

Organization commitment may be defined in a number of different ways, including effective emotional bonding between individuals and the firm (Ashman, 2007; Buchanan, 1974); an individual’s belief in the firm’s values and willingness to be part of the firm’s “family” (Porter et al., 1974; 1979), an employee’s commitment to a firm as the “right thing to do” (Wiener, 1982).

The organizational commitment concept is complex and multidimensional (Allen and Meyer, 1990; Angle and Lawson, 1993; Hackett et al., 1994; Meyer et al., 1990; Somers, 1993), and may simultaneously arise from a number of factors such as an emotional attachment, a responsibility to repay a debt, or a view that the cost of leaving is too high (Meyer et al., 1990).

2.5 Operational Excellence

The excellence developed according to modern sustainability movements, and refers to a significant increase in performance across various aspects including operations (Edgeman and Eskildsen, 2014). Today, the term describes approaches that are designed to achieve outstanding production and delivery systems with excellent technical and social aspects are (Van, 2011).

Sutton defined operational excellence as “focusing strategically on maximizing the value that operations deliver to customers, through strong leadership, the power of people, the use of industry best practice and the application of value-add technologies. Operations Excellence enables sustained delivery of high-quality, cost-effective services and capabilities that provide exceptional customer value. Companies that leverage Operations Excellence as a strategic competitive advantage recognize that the effectiveness of their operation plays a central role in creating and sustaining customer satisfaction and loyalty” (Sutton, 2012).

1- OonFok-Yew et al. (2013) studied operational excellence in the Malaysian electrical and electronics (E&E) industry, finding that: Managers can adopt management change to achieve operational excellence in manufacturing environment.

2- Managers will provided by actionable guidelines by flexibility, cost, Quality, delivery, and sustainability.

3- Infrastructural decision areas of manufacturing strategy will be improved by adoption of change management practices.

4- This paper provides an integrated view for the effect of some organizational factors that examined individually before and help to improve operational excellence.
The industrial field concerned mainly in the previous studies the enhancement of operations by maximizing efficiency. The current research founds that this approach may affect quality as well as leading to dissatisfied or even lost customers (Invensys, 2011; Van, 2011).

The service industry occupies the majority of employment in many countries and conceders as an important industry, as well as the bulk of national output (Johnstone et al., 2008). While many of recent service quality literatures are deeply influenced by developments of manufacturing domain, it is important that all concepts developed in manufacturing are not rashly applied to the service industry, due to key differences between the two sectors (Silvestro, 2001; Van, 2011).

Service is defined as combination of outcomes and experiences delivered and received by the customer (Johnston and Clark, 2008). In contrast to manufacturing, customer involvement is the main hallmark which differentiate service, other differences include intangible output, short response time, non-inventoried product and labor intensive (Kiriaki, 2009; Lee et al., 2014).

Many researchers tried to conceptualize the service operations performance according to two dimensions, first relating to financial/monetary gain such as profit and market share enhancement and/or cost reduction while the second relating to non-financial value gain like product/service quality enhancement, delivery performance, customer and employee satisfaction, and community impact.

Service quality defined by Edvardsson as “the firm’s effort that is given in order to meet and satisfy the expectations and requirements which customers anticipate” (Pandelis et al., 2009; Tsaur et al., 2004). Improving on quality provides firms with the opportunity to bridge the gap between what they are capable of offering and what customers demand. This could be achieved by improving the process and outcome at the same time as researchers advised (Tsaur et al., 2004).

Service quality has been defined as the effort exerted by a firm to satisfy customers’ expectations (Pandelis et al., 2009; Tsaur et al., 2004). Quality improvement provides firms with the opportunity to bridge the gap between what they are capable of offering and what customers demand (Lytle and Timmerman, 2006). This could be achieved by improving the process and outcome at the same time as researchers advised (Tsaur et al., 2004). Superior operations capabilities increase the efficiency in the delivery system as well as reducing the operations cost to achieve competitive advantage (Day, 1994; Prithwiraj et al., 2008).

The variability in service firms degrades the performance of service delivery systems, and also results in operational inefficiencies (Van, 2011; Kim and Oh, 2008). Variability can arise from a number of sources, including times for delivery; different transactions demanded by customers; variation in skills of consumers, who will need different levels of guidance; effort exerted by customers in interacting with the firm; and differing customer opinion on what constitutes fair and reasonable treatment (Frei, 2006).

3. Discussion and Conclusions

Operational excellence is a competitive weapon that different service firms should seek if they target a world class operational performance. In previous research, it has been acknowledged that leadership is the largest single factor responsible for operational excellence. In the service industry, there is always a rapid technological change in the services delivery systems, which puts additional responsibility on this sector’s leaders to draw a clear vision in order to respond to those changes while considering customers demographic and life style variations. Moreover, leadership is a critical factor to drive the operational excellence, but leadership can work in a better way if this is aligned with effective organizational commitment.

According to the literature, there is no doubt that HRM is a source of competitive advantage. A focus on HRM has proven to have a positive impact on many areas such as organizational performance, service quality and operational excellence.

Operations strategy is a relatively poorly understood entity, which emanates from the service strategy and implicitly impacts the operational excellence. Some researchers reported a significant relationship between operations strategy and operational performance, they highlighted that high-performing firms had somewhat a different alignment between strategic priorities and operations activities than did low-performing firms. Firms should carefully study their operation strategy choices due to the high impact that results from applying operation strategy decisions on the operational excellence.
Culture is the invisible bond which ties community members together. When it comes to improvements, firms should transform to a cultural settings where every single person is involved. The involvement culture trait consists of three main indices which differentiate this trait from other cultural traits; those indices include empowerment, teams’ orientation, and capability development.

Effective commitment, which measures the attachment of employees to a firm, is a key player in this process, as it moderates many other factors. This commitment type is based on the emotional ties that employee develops with the organization primarily via positive work experiences. Effective commitment is the responsibility of everybody in the firm, from top management to individual employees across all units. Firms who professionally apply human resources management best practices can gain the fruits of operational excellence, but only if they also achieve effective commitment, since even high skilled but uncommitted employees may cause operational difficulties.

In this research, were viewed the literature related to operations and excellence in service firms. Moreover, we investigated the factors that affect the operational excellence of service sector. Operational excellence for the service sector is still ambiguous in the literature. This research is an attempt to take advantage of the development done in the industrial field and at the same time draw a more comprehensive view for different factors together that were studied separately before.

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