

What do we really know about services?

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Abstract The inherent characteristics of services are well-known but do we *really* understand what services are, how services form an essential part of most products produced and delivered today, how services can enhance differentiation, competitiveness and help drive innovation and regional economic development? Sadly despite some 30 years of endeavour the answer is no, and so we need to consider how this problem can realistically be addressed by identifying the key services themes which need intensive long-term research.

Keywords Services · Innovation · Economic development

1 Introduction

Over the past 50 years there has been a rapid transformation of most economies in the world, and in many developed economies the proportion of peoples predominantly employed in services of one sort or another is well over 70% of the workforce as measured by conventional means. Various labels have been given to this profound economic development such as “the post-industrial society”, “the knowledge economy”, “deindustrialisation” and “the new information society” but no one label can really capture the essential essence of what is happening and neither can one all-embracing conceptual framework.

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Technological and product changes have however, been a constant feature of human societies since time began and we must not fall into the trap of believing that we are somehow uniquely living through what we think is the most profound period of economic change in recorded history; in fact there have been similar periods of intense innovation and product development over the last 500 years. For example, in the 1800s when the railways were being developed, for the first time products and people could be transported with relative ease, low cost and safety—people were probably astounded as much as we are astounded by the rapid development of the internet over the past 12 years. But what is undeniable is the speed of the current change—for example, it was just 66 years between the first powered air flight by the Wright brothers and the first manned landing on the moon—momentous events which are still within living memory.

Given the undoubted importance of services in our economies today just how much do we really know about them? In truth there is a long way to go and this paper argues that in an increasingly globalised world we need to supplement individual academic curiosity-driven research with systematic internationally-funded large team interdisciplinary research which cuts across continents, and this research needs to be directed towards the fundamentals of improved product, output and labour classifications, productivity measurement and enhancement, service standards, and understanding the drivers of innovation particularly at international, regional and local levels. Added to this there are those who still maintain that the whole services thing is an illusion—a position which is frankly untenable. Just look around you.

Over the past 30 years in order to emphasise the growing importance of services much was made of the inherent characteristics of services (intangibility, heterogeneity, non-storability, simultaneous and inseparable production and consumption and replication difficulties). It was argued that a service can be “defined by reference to these necessary and sufficient characteristics or conditions” (Akehurst 1989, p. 6) although it was not clear how many of these characteristics should be present, whether all or some, and how many of these characteristics should apply to a product in order to be considered to be “a service” (Blois 1983).

We argued that services are different in some way to manufactured products but back in the 1970s and early 1980s this was a radical voice. The early focus was on consumer services, which while important, may have diverted our attention away from the real engine of development—business services in a business-to-business environment. This endeavour had not been helped by long-gone, albeit enormously influential political economists like Adam Smith (1776) who argued that service activities add nothing to the sum of national wealth whereas manufacturing most certainly did. Even as late as 1987 some writers were arguing that service sector expansion was a cause of concern:

The emergence of the “service economy” in the United States has given birth to public policy worries that the country is in the process of being

reduced to a nation of orderlies, fast-food workers, and bus boys.’ McKenzie (1987, p. 73).

This depressing characterisation suggested that we will all be working in low paid jobs in hamburger cafes and this is just not true; “services are as capital intensive and concentrated as manufacturing; one need only consider transportation, financial services and health care for examples.” (Harker 1995, p. 2). But surely McKenzie (1987) was also wrong in saying that “the emergence of the service economy may be as much an artifact of the classification system as it is a real phenomenon. The problem however is the lack of data and consequently there is often a gross and chronic understatement of the importance of services. In Britain for instance, the British Hospitality Association in a recent report (BHA 2006) estimates that the UK hospitality industry has generated a revenue of £102 billion during 2006 (some £20 billion more than last year) and an incredible £27 billion more than the UK government’s current estimate of £75 billion. This increase is due primarily to a re-assessment of out-of-home drinking expenditure which at £34.9 billion is more than twice the 2005 government figure of £15.9 billion. For many a long year many commentators have argued that the UK hospitality industry was grossly and chronically under-estimated in official statistics and this has a knock-on effect on government industrial policies but does it make any difference? The answer is no. We must also recognise that many service activities are taking place within manufacturing organisations, where national statistics often classify them as high paid manufacturing jobs.

Even as late as 1991 writers were arguing that ‘service industries are essentially “parasitic” in that they do not actually add to wealth in the economy, although they can help to realise the value of wealth created elsewhere’ (Peck and Tickell, 1991, p. 36). We have also been repeatedly told that historically services have a much lower growth of productivity than manufacturing (where labour can more easily be substituted by technology) especially in Europe. Baumol’s cost disease hypothesis (although he did not label it thus) maintains that the growth in services is an illusion as we are consuming more services in nominal terms but in real terms we are consuming somewhat fewer services (Baumol et al. 1991) but recent research is questioning this reasoning, because new ways of defining and measuring products with large intangible elements are being developed with a view to improving productivity and generating regional economic growth. Illeris (1996, p. 5) for example, maintains that over time the contribution of services to total GDP has actually increased.

Greenfield (2005, p. 289) sums the matter up brilliantly:

If we disaggregate the service sector into its consumer and producer segments, we find, even here, that producer services have shown a vast improvement in productivity. The information technology revolution is, by and large, a producer services phenomenon. Or, to take an example from the consumer services segment, one might compare a mom and pop

store 300 years ago versus a Wal-Mart or similar large scale firm catering to consumers today to note an enormous productivity increase.

The consequences are, no matter what the national wealth indicators are showing, that we are seeing in Europe at least, a shift in value creation from one based almost entirely on physical production towards one based on exploitation of skills, know-how and other intangible assets with an international outsourcing of services to lower labour cost regions of the world.

The borderline or difference between manufacturing and services has become increasingly blurred and in many ways is out of date and irrelevant but back in the early 1980s it was necessary to draw attention to the appalling lack of knowledge about services and the service sector and that there was a need to almost over-state the case for treating services as different from manufactured products in order to rectify the chronic knowledge and data problem. It would be a mistake now in an increasingly internationalised economy to continue this over-statement. Foxall (1984) was one of the first to point out that we buy products which have greater or lesser intangibles embedded, surrounding and attached, with a view to obtaining the benefits and satisfactions supplied.

Greenfield (2002, pp. 19–20) reminds us:

In my view, an analytical problem lies precisely in the widespread acceptance of the bifurcation of goods and services—so much so as to consider them as discrete entities—the one completely disassociated from the other and being influenced by separate supply and demand forces....The point I wish to stress here is that the definitionally separate streams of goods and services are intimately related—that they are, in fact, interdependent. More emphatically, no services can be produced without a prior investment in capital goods having been made.

Greenfield goes on (and it is worth quoting him in full):

A few illustrations may suffice to clarify the argument:

- The demand for the services of teachers cannot be met without the prior construction of school buildings (allowing for a suitable lag).
- The demand for the services of dentists cannot be met without the prior investment in offices and dental equipment.
- The demand for auto repair services cannot be met without prior investment in buildings, tools, and other equipment.
- The demand for transportation services cannot be met without prior investment in transportation equipment (trains, trucks, planes, cars, etc.)
- The demand for a range of services provided by lawyers, architects, engineers, accountants and other business consultants cannot be met without prior investment in specialised educational facilities and currently in computers and associated technology.”

Greenfield (2002, p. 20).

What Greenfield is telling us (and it is really blindingly obvious when you think about it) is that the increases and decreases in demand for services will, after time lags, result in corresponding changes in capital goods output and associated employment but not all capital goods output results in an output of services.

Berry (1980) reminds us that while the performance of many services is reinforced or supported by tangibles (and vice versa), nevertheless, what is being purchased is a performance. In recent years we have seen all kinds of products where information communications technology (ICT) is increasingly embedded. The new reality is that all products lie on a continuum with complete tangibility on one end (which is actually rare) and complete intangibility at the other, although very few products will exhibit complete and exclusive tangibility or intangibility [a concept first introduced by Shostack (1977) among others]. Recently Lovelock and Gummesson (2004) challenge the validity and continued usefulness of the core paradigm in services management and marketing based on the inherent characteristics of services mentioned earlier. They propose an alternative paradigm based on the premise that marketing exchanges that do not result in a transfer of ownership from seller to buyer are fundamentally different from those that do. Lovelock and Gummesson suggest that services offer benefits through access or temporary possession, instead of ownership, with payments taking the form of rentals or access fees. This rental/access perspective and the notion of services as a means of sharing resources offers a most promising new direction for services research.

2 Stages in services research and conceptual frameworks

Brown et al. (1994) provide a useful analysis of the first years of services research. They outline three phases in the evolution of services management: the crawling-out stage (pre-1980); the scurrying about stage (1980–1985) and the walking erect stage (1986 to the present). In the first stage (pre-1980) the first services management scholars struggled to get their work published and there was a fierce debate about whether services management and marketing are different? Much of the debate at this time was definition-building (such as what a service is, and relationships with manufacturing, and economic importance).

The development of advanced economies into predominantly service economies attracted very little attention until the early 1960s. Bryson and Daniels (1998, pp. xix–xxiii) summarise the different theoretical frameworks, each of which places different emphases upon the evaluation of enterprise and employment data. This is not the place to provide more than a thumbnail description of the six prominent frameworks, the most notable and enduring

of which is the three-sector model of development. In the “crawling-out stage the traditional *three-sector model of development* advocated by Fisher (1935) and Clark (1940) among others, attempted to show how an agriculturally-based economy moves to a manufacturing base (the industrial phase) and finally to a predominantly services-based economy (the post-industrial phase) in a linear fashion. The shift towards service activities is explained by Engel’s Law, in that as consumers become wealthier they spend a smaller proportion of their disposable income on necessities such as food. We now know that this was an over-simplification and some economies have made a double-jump from primarily agriculturally-based to predominantly services-based, without going through the second industrial phase. But at least the economists Fisher (1935), Clark (1940), Fuchs (1968) and Greenfield (1966) were alerting us to fundamental changes occurring in developed economies but even now the discipline of economics (a discipline of supreme sophistication in its use of mathematical techniques and models) struggles to come to terms with the measurement of services output and the pricing of that output (Akehurst and Gadrey 1987; Delaunay and Gadrey 1992). How do we measure the output of law firms and management consultants? It would be almost comical if it was not such an important concern (in how economies are managed, performance is measured and businesses supported).

Greenfield in particular, merits a particular mention, for it was Greenfield who in 1966 made us realise that the input of services occurred at a much earlier stage than distribution and consumption. Using input-output analysis Greenfield analysed the growth of producer services across the USA, estimating the proportion of employees in service industries engaged in activities resulting from intermediate demand. Greenfield (2003) also argues that implicit in most service sector research is the notion that services are only produced in the private sector but to calculate service output for the whole economy the services produced in the public sector by national, regional and local governments must be included. Using this enhanced calculation shows conclusively that service-producing industries are a far greater proportion of total economic activity than had been realised, and in the USA may constitute around 80% of total employment.

It was also Greenfield who recently, and with the wisdom accumulated through a long lifetime of services research who takes issue with the great William Baumol:

Baumol’s view, which has become conventional wisdom regarding the place of services in our economy, highlights the need for a thoroughgoing conceptual and empirical revision of our current treatment of the services (the largest) sector in industrialized economies.

(Greenfield 2005, pp. 289–290).

When the history of services research comes to be finally written, Harry Greenfield will be rightfully identified and honoured as one of the great services pioneers.

The second conceptual framework is *the long wave theory* identifying long waves in capitalist development of boom and bust but which are fundamentally related to technological innovation. (Marshall 1987). The third framework of “*deindustrialisation*” was advocated by Kaldor (1966) who drew attention to the deindustrialisation of the UK economy where he considered manufacturing is the engine of economic growth.

The fourth conceptual framework was particularly useful—*the post-industrial society* (Bell 1967, 1973); this stage in capitalist development was founded on an increased generation and usage of information and knowledge with a polarised society of a well-paid and educated elite surrounded and supported by badly paid and precarious service employment.

The fifth conceptual framework encapsulates the rise of *the self-service economy* (Gershuny 1977, 1978; Gershuny and Miles 1983). This framework focuses on the quality of life and households as both production and consumption units (prosumers); households demand time-saving consumer services but as income rises so there is a tendency to replace this demand by physical goods and the household’s own labour. There is therefore, over time a shift towards informal service provision.

The sixth conceptual framework is known as “*the externalisation debate*”. According to this debate everything which is not agriculture, mining or manufacturing is defined as a service. In national statistics disparate services are often categorised together. Stigler (1951) argued that in new industries vertical integration will be prevalent but as the industry develops and grows there will be disintegration and reintegration during the decline phase. Basically services previously undertaken in-house within organisations are outsourced to specialist firms, a factor considered by some to have really driven the growth of business services (Rajan and Pearson 1986; Martinelli 1991) but not by others (Bryson et al. 1993).

In the second phase (scurrying about) and third phase (walking erect) there was a huge growth in services literature generated in part by the deregulation of many service industries, rising consumer expectations and a growing realisation that services were absolutely essential to economic development and prosperity. In marketing for example, there was a move from denying that services were anything special to a realisation that issues surrounding encounters between product providers and customers involved crucial multi-disciplinary issues of service quality, service recovery, relationship and capacity management.

3 Features of the new international economy

The old economic order which existed from the late 1880s through to the 1970s had a number of basic features (Akehurst 1997, p. 81):

- Standardised output often with factory assembly lines;
- In-house or in-company services with very little outsourcing;

- Very localised markets or at most at national level;
- Large corporations with vertical integration of production;
- Technical progress moving relatively steadily with occasional “quantum leaps” when a new invention emerged;
- Production based primarily on physical (tangible) inputs and outputs;
- Primarily blue-collar factory employment; and
- Government regulated service functions.

By 1996 there was at long last a General Agreement on Trade in Services (GATS) and by 1999 with 134 members the Agreement covered over 90% of the global trade in services (European Commission 1995; Hibbert 2003, p. 77).

The new global industrial order is radically different from the old industrial order:

- Services, especially business services, are present and integrated into every stage of the value chain, with services a crucial necessity for all large and small enterprises (in terms of attracting and retaining customers and sustaining competitive advantage);
- Customised products and services bundled in increasingly different ways based on a strong customer focus and encouragement of long-term relationships;
- Growing internationalisation and competition, with growing interdependence of national economies, with large transnational corporations particularly in banking, finance, insurance, telecommunications, car production and energy;
- Increasing international sourcing of services particularly in banking, telecommunications, finance and travel;
- Increased networking and linkages between businesses, between suppliers and across sectors;
- More effective use in enterprises of intangible assets such as intellectual capital, human, structural and relationship capital;
- More flexible production methods with production changing from dominant physical inputs and product characteristics to know-how and information-based inputs;
- Smaller government sectors with more private services which had previously been provided by the state; and
- A growth of specialised intermediaries providing products of higher quality and making intensive use of ICT.

At the heart of these changes is “know-how”. To survive enterprises need know-how or timely knowledge delivered to the right user and processed in a way which is immediately useful to that end user (Sveiby and Lloyd 1987). But how is this asset to be valued and reported, both to stakeholders and governments? No-one yet has the answer.

One approach is to assess the “organisation”, “sector”, “industry” or “product” by taking the physical environment and infrastructure within which

production (both tangible and intangible) either takes place or is enabled. A second approach is to take the occupations involved in the production and delivery of products although over time occupations come and go as production changes.

The big question is not how and why services are different from physical products (that argument is finished) but how we can capture these new business realities in statistics and relevant studies which can be of real use to national and regional governments, business support agencies and enterprises? And how we can achieve meaningful comparability across nation states and supra-national entities?

So we need to knock on the head here and now the myths which have grown up about services, and state clearly that:

1. services are not an economic residual nor transitory but constitute a vital, integral and growing part of world trade;
2. service productivity is not as low or slow growing as often made out as our gathering of national statistics becomes more sophisticated and we grapple with the problems of isolating and measuring service output;
3. the issue is not services versus manufacturing jobs, the bigger challenge is to promote a growth of skilled versus unskilled jobs and above all a well-trained, educated and flexible workforce;
4. brought on by technological developments services are tradeable, often across national boundaries, and in many instances the customer does not have to be present at the point of production;
5. the reputation of an organisation and other intangible assets such as organisational capabilities are a major source of corporate competitive advantage within a world of new relationships involving strategic alliances, franchising and co-operative joint ventures.

4 European initiatives

At various times there have been concerted attempts to improve the reliability and comparability of service statistics. For example, the Organisation for Economic Cooperation and Development (OECD 1996) undertook a study of national service data collection practices but in April 2004 a promising new direction was taken—the European Forum on Business Related Services (EFBR) was established with the objective of helping the European Union Commission in its preparation of an action plan on the competitiveness of business-related services and their contribution to the performance of European enterprises.

The EU has been concerned about service productivity lagging behind the manufacturing sector and employment prospects threatened by de-localisation (outsourcing) of service jobs. The author was invited in 2004 to join the knowledge and statistics working group of the European Forum. Back in 1989–

1990 the author had been part of a small team brought together by Eurostat, the statistical division of the EU Commission to collect tourism statistics in preparation for the designated European Year of Tourism 1990 (Eurostat 1990). Eurostat had been concerned to find that very little was known about European tourism, although around 10% of EU jobs were (and still are) being generated by tourism. Some 15 years later the author found that despite an increase in EU membership still very little was known about services whether business or consumer services. Progress had unfortunately been somewhat slow with a wide variation in the extent and quality of services data.

Five working groups of the European forum (EFBRS) were set up: (a) human skills, internationalisation (including de-localisation and off-shoring) and mobility of employees; (b) productivity enhancing factors (innovation and R&D in services, standards, quality and reporting on intangibles); (c) knowledge and statistics; (d) regional policy in an enlarged Europe; (e) competition and public private partnerships.

The EU Communication (2003) had identified five key issues:

1. market integration and competition in business-related services markets is not vigorous enough to ensure and strengthen their competitiveness;
2. the inputs necessary for the production (labour qualifications, integration of ICT and capital) are lacking in quality and quantity;
3. the outputs from the business-related services enterprises are not sufficiently transparent (standards), valued (reporting on intangible assets) or documented (quality);
4. the provision and use of business-related services is limited in less developed regions and candidate countries, mainly affecting SMEs and convergence processes;
5. knowledge about the sector and the markets is scarce, hampering the decision making of enterprises and policy makers.

(EFBRS 2005, p. 4).

This is not the place to reiterate in full the findings of the EFBRS, to which interested readers are referred (EFBRS 2005) but certain factors have clearly emerged which help to inform and establish a research agenda for the future, in summary these are:

- *the need to develop an improved industry and product classification system, which recognises the interdependence of all goods and services*; the existing international and European classification schemes [International Standard Industrial Classification (ISIC); Nomenclature des activités dans les Communautés Européennes (NACE-CLIO)] have in essence been production-oriented classifications with the purpose of presenting national accounts data: These classification schemes allow some comparability among industrial countries but for analytical purposes have up to now been of somewhat limited value. The US and French national classification schemes have however, been of more assistance. In 2007 the new NACE-CLIO is being published;

- *to map the growing internationalisation of services* (including the increasing tradability of services and increasing digitisation of services, outsourcing, the liberalisation of services trade and supply chains in services);
- *the need to refine and extend the measurement of services productivity and the complex interaction of the contributing drivers and factors* (including refining our measurement of labour inputs and better measurement of the quantity and quality of services output, the important ICT input, innovation, human capital and skills, organisational changes, customer satisfaction and streamlining of business services);
- *the need to understand how regional economic development can be further enhanced by knowledge-intensive business services* working in conjunction with the retail, banking and insurance services) and the important infrastructure of business support services.

5 Services management

At the micro-level of services management within organisations and between organisations (as opposed to the macro-level of the place of services in economic development) a really quite complex and disparate picture of research over the past 30 years can be seen. We can however, pick up certain trends and future directions of services management.

The literature on services management is firmly anchored in managerial and spatial issues and the pace has quickened over the past 10 years (driven in part by deregulation, globalisation and partly by a growing band of services researchers) as a content analysis of the leading services journals shows [The Service Industries Journal (founded 1981), International Journal of Service Industry Management (1990), Journal of Services Marketing (1987), Journal of Service Research (1998), and now Service Business (2006)]. At first glance the service management literature appears to be strongly inter-disciplinary but a closer examination shows a strong disciplinary base (in economics, marketing, geography, human resources and operations management in particular) and much less cross-fertilisation between the disciplines than imagined. There is even more of a fault line between research published in the USA and that published in Europe, for reasons which are difficult to fathom but suffice it to say here that very little European-based services research gets published in US journals and US researchers are chronically reluctant to publish in European journals. The end result of this fragmentation both by discipline and location is a certain lack of consensus on the main service themes and priorities and a “silo mentality” which is to the detriment of truly understanding what services are about.

The services research in Europe has a long pedigree, particularly that originating in France (service economy, productivity and innovation), Scandinavia (the nature of services management), Germany (productivity, quality

and innovation), Spain (knowledge-intensive business and outsourcing) and the UK (producer and business services and services marketing) while the services research based in the USA also has a long and honourable history and is particularly rooted in marketing and operations management.

As mentioned earlier, the “crawling out” stage (pre-1980) set out to define, assert and categorise and ended with a fierce debate as to whether services management is different from any other kind of management. The early pioneers were developing new knowledge with virtually no research model and as a consequence the early literature in the 1970s and 1980s is particularly conceptual and descriptive. During the “scurrying about” stage (1980–1985) there was high interest and enthusiasm, the first services journal was founded (The Service Industries Journal) and a growing literature base, while the services versus goods debate began to wane. In the marketing of services the debate moved on to the investigation of substantive issues such as service quality, service mapping and service encounters. During the “walking erect” stage (post-1986) services management becomes an established field of enquiry with a focus on specific economic problems (for example, the measurement of service output) and management problems of service businesses (for example, managing quality, designing and controlling service processes and managing supply and demand in capacity constrained services).

In the 1990s and into the 2000s the research has become far more empirically-based and theory-driven with fewer conceptual discussions. The specific themes and topics of research appear at first sight to be quite diverse but in fact they cluster around eight generic areas:

1. Innovation, new product development and productivity;
2. Internationalisation and outsourcing of services;
3. The service economy/knowledge economy, structural changes and regional development;
4. Business-to-business services and e-services;
5. Service quality, customer relationship management and retention, service recovery;
6. Service encounters;
7. Service design and operations management; and
8. Service employment.

It is not possible within the confines of this paper to reference all the major works in these eight main themes but the reader is referred to the following sources for further reading: service innovations and new paradigms (Lovelock and Gummesson 2004); internationalisation and outsourcing of services (Hibbert 2003; Chen 2006; Martinez-Arguelles and Rubiera-Morollon 2006); service economy and regional development (Beyers 2005; Illeris 2005; Leo and Philippe 2005; Ribeiro Soriano 2005); customer satisfaction, service quality, service encounters and recovery (Hogan et al. 2002; DeWitt and Brady 2003; Ramaseshan et al. 2006; Ok et al. 2007); service design and operations management (Berry and Lampo 2000; Thompson 2003); business services and

e-services (Alzola and Robaina 2006; Collier and Bienstock 2006); service employment (Igesias-Fernandez and Llorente-Heras 2007).

Within the pages of *The Service Industries Journal* certain trends become very clear in reviewing the years up to 2006 and accepted papers in the publication pipeline and due to be published up to 2010. Services marketing has been a strong theme while quality issues started strongly but waned between 1999 and 2005 but since when there has been a general increase in tempo (particularly papers on service quality from Taiwan). Papers on the service economy and internationalisation have increased strongly as have those on innovation, new product development and e-services (particularly online banking).

6 Conclusions

Back in 1989 the author concluded a chapter he had written on service industries (which was the first chapter in a book entitled “Management in Service Industries”) by writing:

Service industries are often looked to as one way of reducing unemployment and creating more jobs. At the same time service industries hold out the promise of prosperity and innovation. Certainly there are hopeful signs in the internationalisation and liberalisation of traded services. But there are many problems. Despite a quickening of research on services after years of neglect nobody pretends that we fully understand these really rather complex macro-issues of definition, measurement, productivity growth, the diffusion of new information technologies, or the micro-issues of the management of service businesses, the externalisation of producer services, the quality of services or the quality of training of service personnel. For years to come service industries will be surrounded by controversy:

- Are services the way forward for a prosperous future?
- Is the growing share of services in employment and GDP further evidence of a declining industrial base or the manifestation of a growing interdependence of national economies?
- Will services offer hope to the millions of unemployed in the world?

I wonder what Adam Smith would make of all this? (Akehurst 1989, p. 14).

Although the author was writing at a particular point in time nearly 20 years ago (as was Adam Smith writing in 1776, a world so different and so alien to that we experience now), nevertheless the words are as pertinent now as they were then. It is to be hoped that in 20 years time a very different conclusion can be reached for all our sakes and those of our children.

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