



---

**EXECUTIVE FORUM ON  
NATIONAL EXPORT STRATEGIES**

**EXPORT OF SERVICES: HYPE OF HIGH POTENTIAL?  
IMPLICATIONS FOR STRATEGY- MAKERS**

**5-8 October 2005  
Montreux, Switzerland**

**Quality Management in the Services Sector**

**A paper contributed by  
Martin Kellermann  
International Consultant  
Standards, Technical Regulations and Conformity Assessment  
South Africa**

## QUALITY MANAGEMENT IN THE SERVICES SECTOR

### A. Policy and Trade environment

#### 1. What is Trade in Services?

Definitions for services abound, but the following by one of the fathers of Quality Management, is a good starting point:

*“Service is work performed for somebody else, outperforming the client in meeting his/her own needs.”*  
JM Juran

Services can therefore be considered to be intangible in nature. This has consequences for the trade in services (especially across borders), namely that;

- Services cannot be readily subjected to the traditional border controls;
- The mode of supply of the service largely determines where it can be provided; and
- The domestic regulations are all important for foreign companies to set up shop.

Four modes of supply of services are defined in the General Agreement on Trade in Services (GATS). In terms of the understanding of GATS, any of these four modes constitute trade as long as the local firm is being paid by a foreign firm no matter where the service is provided.

Mode 1	Cross border trade	Trade takes place from one country into the other, only the service crosses the border
Mode 2	Consumption abroad	The customer travels to the country where the service is supplied
Mode 3	Commercial presence	The supplier establishes a commercial presence abroad
Mode 4	Movement of natural person	The provider of the service crosses the border

#### **Emerging issue**

It has become clear during recent trade negotiations that the developed economies favour mode 3, they wish to see the domestic regulations relaxed in order to establish a commercial presence of their service delivery companies. Developing economies are not overly keen on this approach, and are pushing for a relaxation of regulations that limit the free movement of experts from developing countries into developed countries (mode 4), an approach that developed economies are uncomfortable with. Can international standards and certification/registration for both the individuals and the organizations give support to ease this situation?

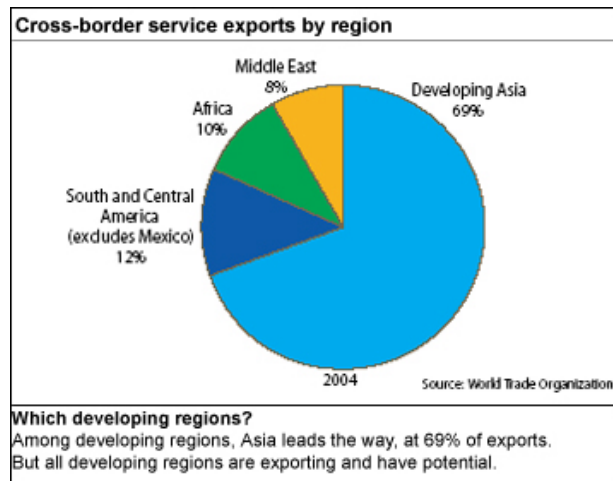
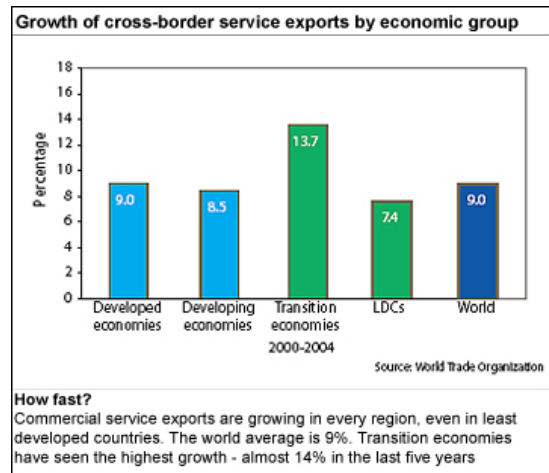
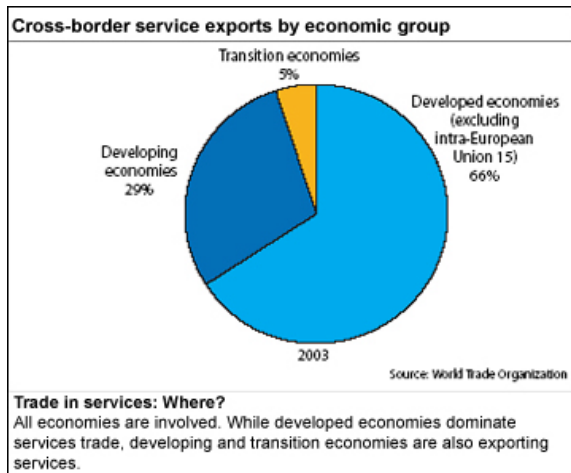
#### 2. Trade in Services in the World Economy

As the world moves more and more into an information technology age, trade in services are likewise on the increase. Services are currently:

- The largest and fastest growing sector of the world economy;
- Providing more than 60% of global GDP output; and
- Providing more than 60% of total employment in many countries.

In the Asian, Caribbean and Pacific Rim (ACP) countries, the average share of services in the GDP is approximately 50% (as against 60% world average). The spread however, varies tremendously from less than 5% to as high as 75%. For the ACP countries, the largest export

sectors are travel/tourism, transport, business services and government services with travel/tourism the major sector by far. Services account for approximately 33% of the exports from ACP countries to the European Union.



**Emerging issue**  
Services are very important and growing elements of the developing economies, even economies in transition, but they do not always figure prominently enough in export strategies of the same. The ISO 9000 phenomenon pushed authorities into considering standards and certification in terms of trade policies and strategies; will certification of service providers do the same?

### 3. WTO General Agreement in Trade of Services (GATS)

During the Uruguay Round of talks of the WTO, negotiations to establish a General Agreement on Trade in Services (GATS) were initiated. These negotiations were complex, protracted and very difficult and many countries were involved. They were concluded in 1995.

The objectives for the WTO GATS are basically to:

- Expand the trade in services;
- Establish a common framework for basic trading rules;
- Liberalise the trading in services that is hampered by a multiplicity of complex national rules and regulations;

- Increase the transparency in rules and regulations; and
- Increase the participation of developing countries in the supply of services in the global market.

The current status of the WTO GATS is to a large extent still “work in progress”. This has come about because GATS requires a tremendous amount of interpretation (which has not happened), and consequently GATS is not well understood at all. In addition for GATS to be implemented fully, every WTO Member State has to prepare and lodge a Schedule of Specific Commitments.

This Schedule has to provide details regarding the access foreign service providers will be given in specified service sectors and sub-sectors including the conditions under which this access will be granted. The GATS lists 12 sectors with a total of 155 sub-sectors that have to be addressed. The sectors include the following services:

- Business
- Construction
- Education
- Health
- Recreation, culture and sport
- Transport
- Communications
- Distribution
- Environmental
- Financial
- Tourism
- Others

**Emerging Issue**

It is quite understandable that the establishment of the Member State GATS Schedule is not an easy task. The consequences are wide ranging. If it becomes a free for all immediately, local service providers may suffer unnecessarily. On the other hand, if restrictions are too onerous, the country will be locked out of the world trade in services and suffer as well. Can international standards and certification/registration bring about a more level playing field for service providers in developing economies?

## **B. Quality Management in the Services Sector**

### **4. Critical Service Sectors**

Three service sectors have been shown to have a marked result on the effectiveness and efficiency of services in all economies, and determine to a large extent the growth potential and patterns.

Telecommunication services serve as the highway on which a majority of service transactions occur. For the service sector, telecommunications is a basic utility at all levels of economic development.

Specialized business and professional services provide businesses the opportunity to contract out for particular expertise, thus increasing their competitiveness at minimal cost. The United Nations Conference on Trade and Development (UNCTAD) has found the presence or absence of sophisticated business and professional services to be a key differentiator between developed and developing countries.

Education and training services are critical for ensuring an appropriately skilled labour force. As international competition shifts from price to quality and flexibility, low-cost labour is not necessarily an advantage, particularly if that low cost is due to low levels of education and training. Service workers need not only technical skills (including competence with information technology) but also the interpersonal communications and problem-solving skills that allow staff to interact effectively with customers to provide a quality service.

#### **Emerging issue**

Developing economies are generally weak in providing the most important services, such as telecommunications and effective business services. This is further compounded by:

- An education and training system that cannot instil the required skills to enhance the other two; and
- The fact that skilled workers often leave the economy to pursue more promising opportunities in the developed economies.

Can support by the authorities change this situation for the better and how will the quality of these services be monitored over longer periods of time to determine the efficacy of the interventions by the authorities? Is an international standard for quality management for the services sector the answer?

### **5. Regulating Service Providers**

In some small developing economies the contribution to the GDP by services is quite large. This in itself is not an issue, but reliance on a single sector such as the travel and tourism industry is disproportionately risky. The customers on the other hand come from abroad, many of them from sophisticated economies, used to high and especially sophisticated levels of service.

Many Small and Medium Enterprises (SME) are involved in the tourism industry, such as taxis, bed and breakfast establishments, tour guides, etc. As the sector is very fragmented, and firms compete for business, cooperation does not come easily to the industry. This fragmentation also has a deleterious effect on service quality, ranging from very good to absolutely atrocious.

It is therefore quite understandable that governments other than providing support, also wish to regulate such industries to ensure that minimum standards are maintained. Some of the challenges in such a scheme are to

- Develop standards and a certification scheme that define and assess the quality of service rather than just listing the services, e.g. is the bed comfortable and the breakfast enjoyable rather than is there a bed and is breakfast served; and
- Develop regulations that do not stifle entrepreneurship, but help develop and support newly established service providers.

#### **Emerging Issue**

Developing economies are over-reliant on a single service industry, e.g. travel and tourism. The authorities are therefore pushed to regulate this service industry in order to protect the “name” of the country. How will the authorities be able to avoid over-regulating and thereby stifle entrepreneurship (that is important to obtain growth in the industry) yet provide an assurance of “goodness” of the services to customers? Is mandatory certification for service providers the answer?

### **6. Certification of service quality**

In manufacturing, traditional quality methods address physical measurements and processes. The language is technology orientated. But in the service sector quality issues are mainly non-physical or intangible. Service quality is about transaction timelines, accuracy and completion, as well as customer satisfaction. Service processes are so individualized that they seem to defy systemization and measurement i.e. standardization. But research has shown that some common service attributes and ideas do make a difference in customer satisfaction, namely:

- Tangibles – physical appearance of service provider;
- Reliability – perform as promised consistently;
- Responsiveness – respond readily;
- Courtesy – including cultural preferences;
- Competence and credibility;
- Security – not compromising personnel safety or data integrity;
- Access – easy to do business with;
- Communication – keep the customer informed continuously; and
- Understanding the customer needs – clearly articulated or perceived.

ISO 9000 is believed to provide a good starting point to develop and implement quality management systems even for service delivery. The question is how would the service level be defined, and how will it be measured? There are currently not many internationally recognised standards (whether ISO, IEC or consortia standards) that seem to provide a reliable norm. Is it realistic to expect that such standards can ever be developed?

In some economies (e.g. USA, South Africa, etc.) there are independent organizations (often underwritten by the authorities) that measure Customer Satisfaction Indices for specific industries (e.g. banking, hotels, health industry, etc.). These are based on thousands of interviews and endeavour to establish customer expectations, perceived quality and perceived value to calculate an indicator of how the service industry satisfies its customers. No absolute standard here either!

#### **Emerging Issue**

The call for quality services will keep on increasing as customers become more sophisticated and the number of service providers increases. A call for independent attestation of the quality of service (certification, national rankings, etc.) is likewise on the increase. Obviously any such certification or ranking needs to have international validity to be fully effective. Can the level of service delivery be independently defined, measured and attested to in such a manner that the customer can make a better decision? Is market driven certified quality management in the service sector the answer?