Managing service quality for competitive advantage in small engineering firms

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Abstract: Examines how small firms can maximise service quality to determine a competitive marketing advantage for their enterprise. Demonstrates how there is little in the conventional service quality literature to guide the small firm and that current models of service quality are most relevant to larger organisations. From the results of a two-stage empirical study which focused on small engineering firms, a model of service quality is put forward which more truly reflects the circumstances of the smaller enterprise. Finally, the paper outlines the main considerations for the enterprise owner in developing a competitive advantage through service quality management.

Introduction

It is acknowledged that small firms cannot compete with larger organisations in terms of economies of scale, investment in R&D, or major promotional expenditure. Small firms are, therefore, particularly vulnerable to larger competitors unless they are able to exploit their inherent strengths such as flexibility and speed of response to customer requirements. Various authors, such as Kuhn (1982) and Sandberg (1986), have shown that differentiation strategies are the key to success for the small firm. One way of achieving differentiation, which is also consistent with a small firm's major strengths, is through a quality service.

Service quality is generally considered in the literature in terms of its relevance for larger organisations with more bureaucratic structures which often lead to poor customer communication and a lack of response to customer needs (Zeithaml et al., 1988; Smith, 1990). Formal customer care policies are introduced to redress this imbalance and ensure a quality of service which will maintain good customer relationships. Small firms, however, tend to be regarded as implicitly in close contact with their customers and therefore issues surrounding customer care and service quality in the context of the small firm are overlooked.

This paper seeks to develop a model of service quality which will guide the developing enterprise in achieving success in an increasingly competitive marketplace. Initially dimensions of service quality in the context of a small firm's marketing practice are defined and examined together with the results of
an empirical study, which investigated how enterprise owners perceive and use service quality. Arising from these findings a model of service quality is then proposed which the authors believe is more appropriately tailored to the needs of the small firm. Finally, the practical implications for managing service quality in the developing enterprise are discussed.

Dimensions of service quality
Since the 1980s service quality has been identified with increased profitability and it is seen as giving an important competitive edge by generating repeat sales, positive word-of-mouth feedback, customer loyalty and competitive product differentiation (Zeithaml et al., 1988; Devlin and Dong, 1994; Wong and Tjosvold, 1995). Service quality has been most emphasised for service companies, particularly in sectors such as financial services (Meister, 1990; Jones, 1991) and health (Mangold and Babakus, 1991), as a way of controlling performance and overcoming the intangible aspects of service. Consequently it has tended to focus on the unique characteristics of services and especially on the role of an organisation’s employees in the production and delivery of its services (Berry et al., 1991; Teal, 1991; Wasmer and Bruner, 1991).

It is now generally acknowledged, however, that service quality is also of prime concern in the manufacturing sector (Keiser and Smith, 1994) and that for companies to be successful, whether in service or manufacturing industries, they must keep in touch with their customers and provide a high-quality service or risk losing them to the competition (Gronroos, 1990). This emphasis has meant that a growing importance has been placed on customer care, and its related elements, to overall marketing performance (Christopher 1986; Clutterbuck, 1988; Carson and Gilmore, 1989/1990).

At this point it is worth noting that, although often used as synonymous with the term customer care, service quality is in fact a distinguishable aspect of this more encompassing term. Christopher (1986) defines service quality as referring to the company/customer interface and relationships and focussing on the customer’s experience during the process of the transaction. Lewis (1993) emphasises that it is not only the focus on meeting customers’ needs and requirements but how well the service matches customers’ expectations. Satisfaction results from comparisons by consumers of expectations of service with their perceptions of actual service performance (Berry et al., 1988; Parasuraman et al., 1985). Service quality is therefore an important focus for marketing strategy. It is determined by the interaction of all those factors that affect the process of making products and services available to the buyer. If there is a shortfall then a service gap exists, which needs rectifying in order to ensure customer loyalty and develop an enterprise successfully.

Much of the literature on service quality is devoted to establishing ways to measure service quality and identify the shortfalls. Zeithaml et al. (1988) developed SERVQUAL, a concise multiple-item scale that can be used to better understand service expectations and consumer perceptions. This instrument is
based on five principal dimensions that customers use to judge a company's service:

1. tangibles;
2. reliability;
3. responsiveness;
4. assurance; and
5. empathy.

Although the SERVQUAL model has received criticism (Teas, 1994; Lewis and Mitchell, 1990; Lewis, 1993), it continues to be the most widely used measurement of service quality and is adopted for many different industry sectors. For example, Headley and Miller (1993) and Mangold and Babakus (1991) apply it to medical care services; Young et al. (1994) use it to test perceived quality of passenger airlines.

The main problem with the SERVQUAL model, as regards the developing enterprise, is that it is invariably set in the context of large organisations. Goodyear Tyre and Rubber, Dupont, Disney World, Federal Express and the National Westminster Bank are but a few of the examples used by Zeithaml et al. (1990). These illustrations contain little with which the smaller enterprise can empathise. Neither does the SERVQUAL instrument itself, with its implications in time and resources for its administration and analysis, and its emphasis on the streamlining of management systems, provide a realistic assessment of service quality for the small business owner.

The small firm context

Storey (1994) has emphasised that too often large-firm models, such as those described above, are taken as given and the small firm is assumed to be a “scaled-down” version of a large firm. In the context of studying the small firm, however, it is important to realise that small firms are not just “little big businesses” and that each small firm is unique and very much reflects the personal characteristics of the enterprise owner.

Correspondingly, marketing practice in small firms is different and, as Carson (1985) indicates, it is not appropriate to apply the marketing concepts and practices developed in large firm scenarios to the small firm situation. This difference arises because of the limited expertise among owner managers of marketing techniques and methods and because of their inherent limitations in terms of resources. Frequently their marketing activities emphasise the enterprise’s tangible product and place an over-reliance on low pricing structures (Carson, 1985). Intangible product issues, such as those that deal with service and add value, are largely ignored. It is, of course, much more difficult for the enterprise owner to see immediate returns in these more intangible aspects which have much longer-term implications for contributing to a firm’s position in the marketplace. A greater understanding is therefore required of how service can be integrated into the marketing which is actually
practised by small firms and in what ways they can utilise their strengths in this area which has often been pinpointed as critical to growth and development (Watson, 1992; Teal, 1991; Carson, 1990; Jackson, 1985).

It has already been established that marketing goes through evolutionary stages and that in the initial stages of an enterprise development it is reactive and instinctive rather than proactive or planned (Carson, 1985). Service, in particular where we are dealing with manufacturing companies producing tangible goods, is part of the augmented product and, as such, is an important part of marketing, with implications for all elements of the marketing mix. For example, as part of the augmented product it can be a strong contributor to price/value perceptions with efficient distribution and good communications playing crucial roles in the overall servicing of the customer. Therefore, given what we know about marketing in small firms, with the emphasis on price and the tangible aspects of the product, we might presume that service quality is under-utilised or minimalised by enterprise owners.

From a research point of view, a review of the current literature reveals few articles which deal directly with how service quality relates to the small firm. One exception, by Reeves and Hoy (1993), draws attention to the fact that the importance from a marketing perspective is to examine how a small firm can gain a quality advantage in order to pursue a policy of differentiation in the marketplace. This advantage can only realistically be achieved by maximising existing strengths in relation to service quality. This paper aims to develop a framework to enable service quality to be assessed in the small firm context.

**Empirical research programme**

The research approach adopted was qualitative, reflecting current thinking (Muzyha and Hills, 1993; Stewart, 1991; Davis et al., 1985; Bygrave and Hofer, 1992) that the holistic and dynamic nature of entrepreneurial activities favours the collection of data that is rich in descriptive characteristics. This meant that an inductive research programme was developed. We wanted to establish all the issues surrounding service quality from the perspective of the enterprise owners themselves rather than prejudging these in the light of conventional models of service quality. Research methods consistent with this approach, such as group discussions and in-depth interviews were used (Gummesson, 1991).

The research was conducted in two stages. Initially the participants on four small business development programmes were engaged in discussion groups to determine the level of marketing in which they engaged, to assess their marketing strengths vis-à-vis competitors and to pinpoint the areas where they faced challenges in developing their marketing activities. In this way the issues of service quality and its potential for defining a competitive advantage were allowed to emerge naturally from the discussions.

The research began with initial discussions around general marketing activities and then focussed on the topic of “being a customer” and participants were asked to adopt this role. With the insights they had gained from this
exercise they were then asked to extend their thinking and consider how their customers were likely to view the service provided by their company. Asked to consider their marketing strengths in relation to service, participants identified areas such as “personal touch”, specialist offerings, employee loyalty, speedier delivery, greater flexibility, quicker decision making, direct access to that decision maker, local image, commanding local customer loyalty, and greater innovativeness. Characteristic of most small firms there was a general agreement that the key marketing challenges to be confronted were: their limited appreciation of marketing competencies, their general lack of resources, particularly with respect to acquiring and processing information on their customers, actual and potential, and their very small size which limited their company’s impact on their respective markets.

In order to balance these disadvantages participants quickly realised that their marketing strengths could offer considerable potential for defining a competitive advantage and supporting continuous enterprise development through an emphasis on service quality. In particular there was also a realisation that this was an area ideally suited to the small firm, an area which had limited resource implications and which maximised existing strengths.

The research programme, however, needed a tighter focus on some of the areas pinpointed by the initial collection of data, in particular to see how those areas identified as service strengths were utilised in the day-to-day working environments of the small firm. It was decided to concentrate on one sector to enable more relevant comparisons to be made between companies. The engineering sector was chosen, as one whose growth is considered very important to the macro economy; a sector which is made up of a few large players and a majority of small companies which have emerged as providers of specialist goods on a subcontracting basis to the larger enterprises. The criteria for involving companies in the research were that they should have been in business for at least five years, be employing at least five people and be turning over a minimum of £250,000 per annum. In adhering to these criteria we were clearly dealing with company owners who had experienced some measure of success in developing their enterprises.

The aim of the research was to investigate in more detail those issues which had been distilled inductively through discussions with company owners on the development programmes. These were considered the most advantageous for the small firm in relation to the provision of quality services as a part of their augmented product. The issues were “personal touch”, specialist offerings, greater innovativeness, employee loyalty, quicker decision making, greater flexibility, and speedier delivery.

A series of ten in-depth interviews were conducted using a loosely structured topic list which allowed interviewers to adapt the topics and conversation to suit each particular respondent. The topics reflected the issues regarding the provision of quality services as listed above. Time was also taken at each respondent's business to make observations prior to the actual interview. This not only yielded richer data by way of more meaningful insights, but meant
Small firm perceptions of service quality issues

From initial observations made at all the interviewees’ premises it would have been easy to dismiss the issue of service quality as having bypassed the small firms in this sector. By their nature, engineering firms tend to have very basic and utilitarian surroundings. Small firms, particularly in this sector, cannot necessarily afford the investment of their larger competitors in new plant and equipment and give the immediate impression that they are somehow second rate. With premises often in large converted sheds, oil, grease and fumes were frequently pervasive during the interviews. Many of the companies had old pieces of machinery and other miscellaneous and rusting materials lying around their yards, giving a careless and haphazard impression. As one respondent, however, explained:

we can’t afford to throw anything out – you never know when it may come in useful. I’ve known things lie here for three years and suddenly we’re able to see a use for them.

Neither was there much reassurance from initial questioning on service quality policies with only two companies indicating any type of more formalised quality structures and these were on account of BS5750. Indeed the word “policy” in itself tended to elicit such dismissive comments as “no time for any of that” and “only relevant for larger companies”.

In the more detailed discussions following these initial observations, however, service quality did indeed become evident as we talked around the issues pinpointed earlier. Some of these categories have now been subsumed into others as we discuss the broad findings from these discussions.

The personal touch

All the respondents cited their ability to provide a personalised service as a major competitive advantage and emphasised the importance of being available to their customer. They acknowledged that their customers preferred to deal with “the boss” and all these owner/managers maximised this whenever possible. A lot of time was therefore devoted to developing and maintaining long-term relationships with customers. As one respondent pointed out, this meant a constant awareness of “what’s happening with them”. Others mentioned that it was important to have a relationship that was on first name terms, where they could build up a rapport and “know about their lives”.

In this sector relationships tend to be longer than in many others because often the cost involved for both parties in setting up an initial contract, i.e. the development of special jigs, etc., mitigates against a short-term outlook from either party. One company had known all its customers for between eight to ten years. Rather than formal customer information systems they relied on this
constant contact to monitor their customers with most of the information being in the head of the enterprise owner.

Specialist offerings
The fact that most knew all their customers personally ensured that they were continually in touch with changing requirements. This meant that new ideas were automatically grounded in customer needs and a majority of respondents demonstrated a willingness to adapt and innovate in keeping with customer requirements. There was one exception, a company that had changed from customisation to mass production because one-offs had proved to be unprofitable. This however had been an innovative approach in the particular niche in which this company found itself and so still reflected the needs of the customers.

Employee loyalty
Most respondents realised their own ability to inspire employee loyalty, acknowledging that this loyalty in turn produced a more competent and productive work force. Ways to obtain this loyalty were various but the common denominator was the owner/manager's ability to place an importance on the motivation of his work force. Often this was through a hands-on approach and some enterprise owners frequently worked alongside their employees to inspire a team spirit. Almost always they ensured that they were accessible to employees and could be communicated with easily. Training was an important part of this motivation and, in particular, training which kept the work force flexible in terms of the tasks they could perform. Even the company which had mass production was trying to create an atmosphere where employees would not be carrying out the same tasks all the time because "if they get bored they get careless". It was well recognised that service also depended on the work force and that highly motivated employees would instill confidence in the customers.

Quicker decision making
Apart from contributing to overall flexibility the major advantage of quicker decision making was seen as enhancing problem-solving abilities, both as regards product development and also in the response to actual problems which could occur in day-to-day business transactions.

In the majority of cases it was the owner who would respond to problems and this response tended to be immediate. Talking of a large customer 100 miles away, one respondent commented:

If there is a problem, you just have to be available or have some of your men available to go down and sort the problem out.

The emphasis was very much on the speed of response that these companies could offer when required, together with the personalised attention of that response. One respondent even cited going out on Christmas Eve to a
breakdown and pointed out that he was always accessible to his customers because his home was beside “the shed” and so somebody was always around to respond to a customer’s request for a part or to solve a problem. (In itself this example is a good illustration of how different the circumstances of a small firm environment are to that of larger organisations and of how service takes on different aspects.) All these companies made sure they were never too busy to fix a problem fast, a crucial factor in an industry where a part or machine malfunction may lead to plant closure.

Speedier delivery
The delivery system holds several opportunities for service quality and Berry et al. (1990) believe that the firm should be accessible from the point of view of the customer in both the placing of orders and progress updates. It was generally acknowledged that delivery needs to be prompt and reliable. This was facilitated by the owner/managers keeping their fingers on the pulse, making quicker decisions and responding quickly to problems. It was seen as essential to have some sort of order system in place although facilities for checking an order once it was being processed varied considerably. In one company someone had to physically go to the workshop to check where a product was at any time in the production process, whereas another firm had a very systematic approach where all production units regularly submitted progress reports centrally to give enquirers immediate feedback.

It depended on the nature of the work undertaken but the crucial factor was to be able to give a reasonably instantaneous response to schedule queries. Even the company that had to go to the workshop for confirmation boasted that they could respond within five minutes. All respondents placed emphasis on giving realistic time frames in advance and establishing which products customers were prepared to wait longer for. However, they were all prepared to use their inherent flexibility to offer an immediate and quality service to their customers whenever urgent items were required.

Local image
Where a potential or existing customer was in the same locality, all the enterprise owners indicated that they maximised the importance of their local origins and knowledge in developing their relationships with these customers. However, where the customer was from outside the locality owners tended to use their local image to reinforce the positive aspects of the firm’s “smallness” in terms of staff quality and supplier reliability.

Key issues emerging from the research
If we refer back to our initial definitions of service quality, as a focus on the customer’s experience during the process of transaction, then the small engineering firms in our sample were conforming to such requirements. To achieve this focus, their primary concern was on the development of long-term relationships between the enterprise and its customers. Most commonly the
owner was the focal point for these relationships. Attention was also paid to the nature of employee/customer interface with time spent on the motivation and training of employees. In addition these companies demonstrated a strong customer orientation as supported by previous research (McGowan and Rocks, 1995); all new ideas for products were grounded in customer needs and wants; customers who experienced problems with the company’s products were responded to sensitively and knowledgeably; and overall every attempt was made to ensure that customers perceived that they were obtaining value for money.

Although few formal customer records were kept, frequent contact with customers ensured good informal feedback systems enabling problems to be rapidly identified and solved. Ultimately a company’s reputation for a quality service depended on the enterprise owner simply being as good as his/her word. The pivotal position was occupied by the building of long-term relationships and all other aspects of their service revolved around these relationships, as illustrated in Figure 1.

In the light of these findings, the principal dimensions of service quality as identified by Zeithaml et al. (1988):

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**Figure 1.** The role of long-term relationships in small firms’ service quality
can now be related to the small firm context.

A model has been developed which shows how a small firm's advantages in respect of service quality (as identified at stage 1 of the research) interact with these principal dimensions to produce key indicators of service quality for the small firm (as identified by stage 2 of the research) which are shown in Figure 2.

Reliability is demonstrated by efficient but flexible delivery systems and maintained through a fast response to problems, facilitated by the quicker decision-making possible in the small firm environment; responsiveness is indicated by the small firm's willingness to adapt its product and service to meet customer requirements, particularly in terms of the development of a customised product; assurance is given through frequent and personalised communication, both by the owner and by the enterprise's employees; and empathy is shown through overall knowledge of the customer and their needs and the owner's ability to generate new ideas for products or services in response to those needs. Long-term relationships contribute to all four dimensions by ensuring that bonds are established which accommodate the interaction between each of these dimensions. The emphasis of this model is therefore on the intangible aspects of service because there were no tangible advantages for the small firm in respect of service quality to emerge from this research. Indeed in the environment characteristic of the small engineering firm the tangible image is unlikely to be anything other than one of confusion and

<table>
<thead>
<tr>
<th>A Small Firm's Advantages In Respect of Service Quality</th>
<th>Principle Dimensions</th>
<th>Key Indicators of Small Firm Service Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speedier Decision Making Quicker Decision Making</td>
<td>RELIABILITY</td>
<td>Efficient delivery systems Responsive delivery systems</td>
</tr>
<tr>
<td>Greater Flexibility Specialist Offerings</td>
<td>RESPONSIVENESS</td>
<td>Willingness to adapt to customer needs Customised product</td>
</tr>
<tr>
<td>Personal Touch Employee Loyalty</td>
<td>ASSURANCE</td>
<td>Customer communication Employee motivation</td>
</tr>
<tr>
<td>Greater Innovativeness Local Image</td>
<td>EMPATHY</td>
<td>New Idea generation Knowledge of customers</td>
</tr>
</tbody>
</table>

**Figure 2.** Key indicators of small firm service quality
even chaos. It must therefore compensate for the signals that this type of environment gives to the customer through a stronger emphasis on the principle dimensions, as outlined in Figure 2. This model offers a conceptual framework arising from the empirical research which is intended to guide an enterprise owner from the engineering sector when assessing service quality in his/her business. More generally, it also demonstrates that it is in the augmented product area that any enterprise will have the best opportunity to differentiate its product offering from that of its competitors, as demonstrated in Figure 3.

Basically any product has two levels: the “core” product which focuses on core benefits and services and addresses issues such as brand name, product features and quality, design, styling and packaging; and the “augmented” product which focuses on customer service, warranties, delivery, installation and post-purchase service. Figure 3 seeks to reflect the relationship between the small firm as characterised in the literature and the emphasis or potential for such an enterprise to get the most from developments in the area of the augmented product.

Conclusion
This paper has demonstrated how small firm considerations are largely overlooked in the service quality literature and, in particular, it has questioned the relevance of the SERVQUAL model for the small firm environment. From an empirical study it has then suggested an alternative model for understanding how service quality is managed by the small firm in order to maintain a competitive advantage. The key emergent issue emphasised the importance of managing long-term relationships between an enterprise and its customers. There is a growing body of literature on relationship marketing which was outside the scope of this present study but this is clearly an area for future research into small firms’ service quality together with an examination of this model in relation to other industry sectors.

![Figure 3. Emphasis for service quality in the small firm](image-url)
References


