

Chapter 1

Service Design and Enterprise Risk Management for Knowledge-Based Services: A Practical Approach for Auditors and Consultants

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ABSTRACT

Services make most of the value in developed economies. In knowledge-based (credence) services, during each transaction, clients look for transmission of value through advice, information, knowledge, or counselling. Providers and clients interact during the service profusion; the human nature of these transactions makes errors inevitable. This chapter intends to guide managers step-by-step in providing better services and managing risks effectively. Each phase includes the presentation of a hands-on managerial tool. To design or improve a service, blueprint can help to visualize and fine-tuning its value chain. Riskoprint allows capturing the complexity of service risks, their sources, and severity. Finally, feed-forward controls contribute to preventing and recovering from service failures.

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INTRODUCTION

This chapter builds on the authors' research and experience in services and risk management. We show both theory and practice elements to successfully manage services and, more specifically, knowledge-based (credence or professional) services. The chapter consists of four main parts: Next to the current introduction (section one), section two elaborates on the nature of service provision. Section three provides guidelines for effective service design. Then, the concept of risk management for services is explained in section four. In section five, we show an approach to handle (knowledge-based) service risks. Finally, takeaways, directions for future research, conclusions, references, and recommended readings complete the current reasoning in sections six to ten. #servicesandriskmanagement

Understanding the Particular Nature of Services

Banking, insurances, private and governmental agencies, education, transportation, and other industries generate economic value without producing physical output. After each purchase, a service client is left with an experience. Purchasing these intangible goods (services) makes most of the spending today. Surprisingly, although modern economies rely heavily on the production and consumption of services, several providers do not master their specificities. This lack of knowledge and expertise makes it challenging for firms to deliver high-quality services and handle their risks – this is even more striking in industries where competition is fierce. For instance, although the demand has been ever increasing in aviation¹, making flyers happy was a goal far from being attained. The University of Michigan's American Customer Service Index has ranked airlines "in the bottom 20% of U.S. companies" according to their customers' satisfaction. Airlines have not changed their position significantly in this ranking since 1994 (Reed, 2018). Extensive literature points out four fundamental differences between products and services: Services are intangible, instantaneous, heterogeneous, and perishable goods². Manufacturers' output is instead tangible, with different production and consumption places, standardized and non-perishable. Next to intangibility, we already suggested, a service experience's heterogeneity lies in the variable interaction between a provider and client. Instantaneity stands for the impossibility of producing and consuming services at two different points in time. A consumer's experience, i.e., consumption, is live, as it coincides with its production. Perishability represents the impossibility of inventory a service - an empty hotel room is lost production capacity, which cannot be employed ever again.

Besides this set of specific features, the nature of services spans from a decreasing degree of tangibility to an increasing abstraction (Shostack, 1977). In this chapter, we focus more closely on knowledge-based or credence services. These services stand on the highest degree of intangibility, where the physical dimension is somehow negligible. Debély, Dubosson, and Fragnière (2008) call knowledge-based "services provided face-to-face, i.e., 'brick and mortar' [...] based on knowledge". These authors define "knowledge-based services as services that are delivered by highly educated and informed employees, responding to specific diagnosed customer demands by offering and delivering customized value-added solutions and relations" (p. 167). These are pervasive and ever-growing in our economies. Clients look for transmission of value through advice, information, knowledge, or counseling; the production process relies heavily on individuals. With these services, humans only can make a difference throughout the production process. Automation can hardly replace the human touch to come up with perfect execution. Humans can merge expertise that required ages to build and specialized knowledge. How does a physician,

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