

# Chapter 16

## Perceived Risk Management: Applying the TEID Model to the Traveler Service Chain

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### ABSTRACT

*Purpose* – To contribute to the theoretical work on service-perceived risk management of knowledge-based services (i.e. intangible and heterogeneous) and experience-based services and to suggest a framework that helps to formalize these risks and the value associated with their management, by arguing that this risk management relies on a sequence of risks (Threat, Event, Ignorance and Damage, called the TEID model) and on 3 categories of control measures (preventative, detective and protective). *Design / methodology / approach* – A case study research using the guidelines developed by Eisenhardt (1989) in the context of travel agency industry about how to deliver added value by selling the expertise that helps to reduce customer-perceived risks. Risk management and control process constructs were compared in order to confirm the relevance of this approach. *Findings* – Customers feel that travel services which are bought encompass a lot of uncertainties and annoyances (risks) about what they will be experiencing. At present customers are not willing to pay for advice that they regard as free. In order to charge and deliver more added-value, knowledge-based service providers have to make their role more tangible, aiming at reducing and managing risks. By categorizing customer-perceived risks, and by integrating control measures and assurances into their offer, providers can design new and valuable services. Service value-chains involve various providers (implicitly or otherwise) who may engender annoyance and damages as risks are a sequence of events. For their effective management risks have to be considered from the customer's point of view as this is the only way to apply an integrated approach. *Originality / value* – This chapter holds the potential to contribute to extending an understanding and management capacity of customer-perceived risks of knowledge-based services. It brings into play a new framework and new risk management process. It also helps with formalizing and making tangible customer added-value.

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## INTRODUCTION

Knowledge-based services can be defined as services delivered by highly educated and informed employees responding to specific diagnosed customer demands by offering and delivering customized value-added solutions and relations (Debely *et al.*, 2007). Travel agents deliver this kind of expertise, and our findings can be extended to all kinds of knowledge-based services. This expertise is also a way of reducing risk along the service supply-chain.

In our attempt to develop a framework and building theory from case study research we used the guidelines developed by Eisenhardt (1989) in the context of the travel agency industry. This industry was chosen because it has to change its way of selling its expertise in order to survive. In the past most of its revenues were generated by commissions rewarding airline ticket-selling activity. These commissions were withdrawn in 2004. To compensate for the loss travel agencies, and their associations, decided to charge an overt fixed price. But customers have not been willing to pay this new fee, which represents a perceived extra cost that did not exist before. Moreover, customers see no link between this fee and a particular expertise provided by the travel agent. At the same time, travel agencies have to face a new, fierce competition as Internet players are perceived by more and more customers as an attractive alternative.

The travel industry was also chosen because it can be generalized to fit all experience-based services and “taken-on-trust” services (i.e. credence services), since customers choose their provider before experiencing and evaluating what they have actually bought. Travel is also a complex example of a service value-chain involving different providers and suppliers in various locations (airports, parking areas, shops, hotels).

From a series of 30 case studies in the travel industry context of the French-speaking part of Switzerland, we identified risks as they are

perceived by customers and as they are, or are not, managed by travel agencies once they have closed the deal with their customers (Debely *et al.*, 2006). From the customers’ point of view, these risks have to be handled and solutions have to be offered to them. Beforehand, these risks have to be identified and categorized according to the way that they are to be managed.

We suggest hereafter a new type of control whose design makes a distinction among the following states of “risk attributes”: the threat, the event(s), the ignorance and the damage (Dubosson *et al.*, 2006). In classical approaches to control the focus is solely on the expected damage. Our control design involves 3 types of tests: whether the threat is associated with a protective system, whether the event is associated with a detection system and, finally, whether the ignorance of the problem is associated with a protection system.

Moreover, our approach focuses on the risks as they are perceived by the customers. We suggest emphasizing an *ex ante* treatment of risk as opposed to an *ex post* methodology.

The paper is organized as follows. In Section 2, we present travel services specificities as typical knowledge-based “risky” services. In Section 3, we present a brief overview of the literature on “perceived risk” in the context of services and in Section 4 the context of the Swiss travel agency industry. In Section 5, we model the “traveler service-chain” and explain its particular links with risk events. In Section 6, we present a qualitative control system that takes into account the intangible and heterogeneous nature of knowledge-based services. This control approach represents a way to improve the perception of risks in the general context of services. In section 7, we illustrate this framework of control and design by applying it to the case of the travel services industry. In conclusion, we indicate further research directions.

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