Editorial Column

Managing the Risks of the “Invisible”

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As we know, the wealth of Western economies has come primarily from the production and the sales of services, or in other words, goods that are intangible or “invisible.” But the “invisible” nature of these services mean they come with specific risks, and it is important for providers to understand how best to manage them. In this article, we provide some guidance for risk managers confronted with this complex problem.

Toward the “Servicization” of the Economy

Every day, people deal with a multitude of public and private establishments that provide services that are largely “invisible.” Banks, insurance companies, travel agencies, schools, and stockbrokers are just some of the service providers in our economic lives. Delivery of what we call the “invisible” is characterized by the transmission of a good (e.g., advice, information, knowledge, counsel) that is, by definition, intangible. There are numerous other important factors in this delivery, because services are goods that are heterogeneous, can be instantaneous, and are subjective in nature.

Note that when services do not have a physical dimension, they can usually be modified at any time. For example, consider a pizzeria customer who has an allergy to dairy products: The waiter could accommodate this customer by having his pizzas custom-made without any mozzarella or other cheeses. Furthermore, he could also ask his coworkers to refrain from putting any type of cheese on pizzas ordered by the “Customer at Table #13.” In this way, we see that the service of providing pizza, for example, does not always have to be performed in exactly the same manner.

When we discuss delivering a particular service, the contractor (or, in our example above, the waiter) should first determine the needs and expectations of the customer, and then try to respond quickly and in an optimum manner. The experience of a particular service is individual and unique, and is based largely on the interaction between the contractor and the customer. Since services cannot be “stored,” and by nature must be provided fresh each time, to obtain repeat business, providers should ensure client satisfaction at every step. Particularly when delivery needs to be accomplished within a certain time frame, it is important that every detail of the experience is perceived positively by the client so that the end result is as successful as possible.

Service = Selling “Perceived” Advantages

As we have noted, each service experience is unique, and individual satisfaction is solely a function of the client’s perception. There is no magic formula that can assure success, nor is there a list of tasks to be followed to be 100% sure that clients’ expectations will be met and exceeded.

Furthermore, in this domain, the risk of dissatisfaction, or of a poor-quality delivery, is obviously omnipresent. It is important to recognize that if an experience is disappointing, it can permanently tarnish an establishment or service provider’s reputation.
In the context of “invisible” production, sociological and psychological factors play a very important role. Because it is almost impossible to standardize the delivery of such services, it becomes necessary to notice important details. For example, consider whether a pizzeria customer, seated alone at a table, appears harried and exhausted after a long day at work. He may be more irritable if the waiter does not come immediately to take his order. If the same customer is accompanied by someone and appears to be in a more leisurely mood, he might be more attentive to his companion and less likely to be irritated with the waiters.

**The Difficulties of “Extreme” Customization**

We have been recommending that when a waiter takes an order, he should size up the customer and try to anticipate his expectations. However, it can be very difficult for service providers to identify the wants and expectations of the many strangers they will encounter each day. Unforeseen problems in providing an outstanding service experience can occur at any time. But an immediate and proactive response can help control the situation and reassure the customer that his ultimate experience will be of the highest quality.

**Perceived Risks are Greater for Services Than for Goods**

We can now better comprehend the unique difficulties of managing the risks associated with service production. We can break service production down into three main steps:

1. Conceiving and designing the service.
2. Performing the service.
3. The aftermath of the service.

**Conceiving and Designing the Service**

Despite the invisible nature of a service, design is still a fundamental step. For the highest-quality execution, it is necessary for providers to conceive how to deliver a service, and then to plan it out well in advance. For example, consider musicians. Before playing in a concert (the production or delivery of their service), musicians must first study their pieces, and then practice for many hours (the conception and planning of their service). As we have noted, the employees of service companies are, thanks to their knowledge and experience, in the best position to make sure customers perceive the value of their expertise. They are responsible for contributing a great deal to the success of the service.

Conception and planning are also fundamental to properly identifying any potential risks. Within the context of a service enterprise, we define two major risk categories: 1) those related to the physical plants or factories, and 2) those related to the actual production of the service.

Because we are not concerned here with physical plants or factories, discussion of that risk is beyond the scope of this article. We believe that the laws in place are sufficient to ensure the safety of public places and effectively manage that type of risk (e.g., fires, building collapses, electric problems). Furthermore, insurance should cover most of those economic losses.

In certain businesses, however, such as restaurants and hotels, things such as cleanliness, sanitation, and hygiene are most critical. These service producers need to be especially rigorous about enforcing existing codes. Ideally, they may want to go further and obtain the appropriate certifications so that they can guarantee the quality of all aspects of their services.

Service providers should also realize the importance of interacting positively with clients in order to
reduce the risk of dissatisfaction. Studies have shown that dissatisfied customers are more likely than satisfied ones to communicate their opinions to others. In fact, people seem to expect that services and goods will be of high quality. We do not accept otherwise very easily.

It is also true that negative word of mouth can be more devastating for services than for physical products. A bad reputation can devastate an enterprise because it is more difficult to defend yourself objectively when the quality of your products is so intangible. We believe knowledge-sharing between more experienced and less experienced colleagues can be an effective way to develop and improve service quality.

In fact, many Swiss service enterprises are developing these types of programs today to promote more efficient sharing of knowledge. The Haute École de Gestion de Genève conducted a study on the importance of expertise and experience in service production during the summer of 2007 involving 678 individual respondents from the Geneva region. Preliminary results found that 65% of respondents believe knowledge transmission within an enterprise is fairly easy to accomplish. Respondents also said that their colleagues are regularly transmitting all (29%) or part (64%) of their knowledge, and that knowledge sharing occurs on the job (50%), in meetings (42%), at in-house training sessions (32%), through employee trainers (24%), and during internships (23%).

**Identifying the Pertinent Risks and Finding Solutions**

During the conception phase, it is necessary to start identifying any potential risks and to find potential solutions. For example, consider the management of cashiers at a supermarket. One risk in their provision of services is the dissatisfaction of customers with long lines. A solution would be for the store manager to open more registers during peak hours and then to grant more breaks to cashiers during off-peak hours. Workers who have taken breaks recently may be more relaxed and conceivably more capable of providing superior service to customers.

Another smart strategy would be for the store manager to try to use the same temporary employees during times of increased staffing, such as during the summer or the holidays. Indeed, this concept of “on-demand” employees who have some prior experience is one way to ensure a sufficiently high level of service. A positive interaction between cashiers and customers can thus be almost guaranteed.

**Performing the Service: The Importance of the Client-Provider Relationship**

When the production of the actual service commences, the provider and the client will typically meet to further map out expectations. The producer of the service should listen to the client, and respond in a thorough and professional manner to convey that he understands the client’s needs. However, clients do not necessarily communicate all of their wishes effectively. This may be due to a lack of assertiveness, or it may be that the clients themselves are not fully aware of what they need. Service providers should become proficient at “reading between the lines” to anticipate how best to fulfill the client’s wishes.

Obviously, the production phase is the most delicate to manage, as for most service experiences, outcomes are not completely predictable. Remember, clients are not left with anything physical after the delivery of a service, just the impression of the service quality. It is solely that impression that will influence their level of satisfaction throughout the experience. Therefore, every single detail contributes to the experience. The more fully conceived it is, the more likely it is to be successfully executed, and the more likely it is that clients will perceive the provider’s value. Conversely, if even one detail is ignored, it can potentially put the entire experience in jeopardy.
Thus, the main question that risk managers should ask themselves is:

“How can I ensure the satisfaction of my clients at every point during the delivery?”

And the answer comes from the clients themselves: Ideally, they should be active participants during the production of the service (acting almost as co-providers), and be as communicative as possible about their expectations and their ongoing level of satisfaction with the provider.

Indeed, within the client-provider relationship, the service providers should become adept at using their experience to continuously detect the level of client satisfaction. Ultimately, they can adjust their performance along the way, and offer efficient solutions to any unexpected problems.

This concept is referred to as “taking the temperature” of a client, and is a long-time hallmark of businesses such as gourmet cuisine. The chef who walks around between tables, asking customers whether everything is satisfactory, is a perfect example. His expertise permits him to diagnose in real time any slippage in quality, and to constantly make adjustments. Moreover, in this context, this “control” only enhances the perception of delivery, because customers tend to be flattered that they can interact so closely with the “mastermind.”

The Aftermath of the Service

The final steps in the service experience represent an enormous opportunity to gain information. First, it is again necessary to plan the final steps of the relationship very carefully. If the client does not feel just as important at the conclusion of the service as he did at the beginning, his perception of the service may be affected. For example, consider a customer checking out of a hotel who does not hear “Goodbye! ” “We hope you had a nice visit, ” “We hope to see you again soon, ” and is never asked whether his stay was up to his standards. He may leave feeling abandoned, as if he is of no import now that his stay is over. This can certainly color his perception of the entire visit, even if he was satisfied until that moment.

So it is critical to continue to maintain a strong client-provider relationship throughout the final phase of the service. Face-to-face communication, after all, meets a basic human need. It also permits one to take stock of all facets of the experience: the strong points, the difficulties, as well as the primary reasons for the client’s satisfaction or lack thereof.

Some businesses, such as hotels and banks, regularly ask their customers to fill out “satisfaction surveys.” These can be important sources of information about how to improve quality. However, because these tools tend to be standardized, they are somewhat insufficient as a way to judge quality. They address in a uniform way perceptions that are actually quite individual and heterogeneous. So satisfaction surveys are a useful tool, but they can only address some of the most codifiable elements that make up a successful service experience.

Finally, the last phase of service production and of managing delivery can be used strategically to provide information for designing future services. We can also use this time to further cement the ties between the client and the provider.

Summary and Conclusions

To conclude, successfully managing the risks involved in service provision mean always “keeping your eye on the ball” during the process (e.g., during the conception, during the production, and during the conclusion). Just like an artisan, the delivery of a service uses equal parts expertise and experience to assure real-time perfect execution. Knowledge acquired over time will permit increased value-added in
the eyes of the clients, and can reduce the inherent risks of dissatisfaction and a bad reputation that are related to the delivery of an “invisible” good.

Further readings