PERFORMANCE RISK PERCEPTION IN SERVICE PROJECTS

Zoltán VERES
Budapest Business School, Budapest, Hungary

ABSTRACT

This research investigates the role of intangible resources that aim at reducing the buyer’s perceived risk, enhancing his value and satisfaction, and thus lead to the acceptance of the provider’s offer and the success of the project. The focus is on how intangible assets create customer value in service projects by decreasing perceived risk. This research is the second wave of a research programme being launched in 2008. A review of the area of perceived risk and value reveals an absence of sources that explicitly study and integrate the concept of risk-value interrelationship. By our definition, performance risk derives from goals. With particular projects, the goal is so complex that performance-related risks are very high. Risk-reducing communication has to be based upon a continuous, phase-specific and clear message on problem solving competence of both sides. Qualitative minifocus group discussions have been conducted at actors of project market. The industry profile of the 180 respondents included ad hoc market research, construction industry, IT systems, marketing-communication projects, consulting, business tourism, web design, business trainings etc. Respondents’ task was to discuss six thesis-like statements based on their project-experience. The verbatim transcripts of the discussions have been evaluated by content analysis. The findings affirmed that especially large projects are unique therefore the ad hoc task has to be divided into routine-like phases in order to be able to cover the risk. Even if offers are highly standardized in numerous industries client’s problem is always unique. There are new services that even the supplier lacks knowledge about, consequently this is a learning process for the supplier as well. At numerous firms risk reducing is systematic and standardized. Clients seek the extension of immaterial competence: expect certificates and/or charge third (neutral) parties. Client’s competence is a leverage, but if it fails a communication-facilitator has to be involved in the process. Frequency of communication is risk reducer in itself.

Keywords: service projects; competences; performance; risk perception

INTRODUCTION

There are several reasons why companies of the project industry succeed (Cova and Holstius 1993), such as financial arrangements, entrepreneurial culture and reputation (Cova and Salle 2007). It is not clear why some suppliers are better at closing a deal and successfully finishing a project with a buyer, than others. According to our hypothesis the answer can be found in the presumed competence of the actors. The core problem is originated in the interrelated risk and value perception (Ruofan 2009).

Srivastava et al. (1998) coined the term market-based assets in response to the need for facilitating the application of the resource-based view (Barney 1991). Market-based assets represent intangible assets, such as relational assets and intellectual assets that are rare, hard for competitors to imitate.

This research investigates the role of intangible resources that aim at reducing the buyer’s perceived risk, enhancing his value and satisfaction, and thus lead to the acceptance of the provider’s offer and the success of the project. The focus is on how intangible assets create customer value in service projects by decreasing perceived risk. Projects are usually characterised as being complex, unique, interactive and discontinuous (Mandjak and Veres 1998). Therefore, the research aims to primarily investigate the impact of knowledge (functional competence) and relationships (relational competence) on the buyer’s perceived risk and further, explore how risk can be effectively managed in order to enhance the buyer’s value perception. This research is the second wave of a research programme being launched in 2008 and since this year it is supported by the National Found for Scientific Research (No. 81565 K).
The remainder of the paper is structured as follows. The next section reviews the literature to develop the conceptual background to our three core concepts, competencies, risk and value. The subsequent section outlines the research methodology, present the findings and discuss their implications.

LITERATURE REVIEW

The concept of perceived risk has been around since the 1960s and and the domain of consumer behaviour has conceptualised perceived risk as corresponding to situations when there are potentially negative outcomes (Bettmann 1973, Dhalakia 2001). Therefore, perceived risk is considered as an inhibitor to purchase. Several studies do not distinguish between risk and uncertainty (see Taylor 1974). Later studies (e.g. Dowling and Staelin 1994) distinguished between uncertainty before the outcome and the outcome itself, which points to the timing of the perceived risk. Risk from the customer’s point of view can be described as the comparison of alternatives (Aqueveque 2006). Jacoby and Kaplan (1972) developed a classification of perceived risk, which includes the following dimensions, such as 1) heterogeneity of offer (Veres 2009; Guseman 1981; Murray és Schlacter 1990), 2) buyer-supplier interaction, 3) price, 4) company image, 5) personality of decision makers, 6) history of seller-buyer relationship (Ganesan 1994; Sheth és Parvatiyar 1995) and heterogeneity factor. Research on these dimensions shows that transactions that are services at a high price from a company with a poor image (e.g. Havlena és DeSarbo 1991), with a low level of interaction and/or lack of history between the partners result in higher perceived risk., and where the offered at a higher price are associated. Based on the dimensions of perceived risk developed by Jacoby and Kaplan (1972), this paper focuses on the performance risk in relation to the supplier’s expected performance.

Perceived value is usually considered before the transaction, however, its role is more apparent through the entire transaction. Besides the “is worth what paid for” approach (e.g. Newman 1988), Zeithaml (1988) proposed the trade-off of benefits and sacrifices approach. Similarly to studies in the area of perceived risk, research on perceived value was primarily undertaken in the end-consumer setting, however, there are a few examples in the business-to-business context (e.g. Lapiere 2000; Menon, Homburg and Beutin 2005). Research has identified various dimensions of value, such as cognitive and affective components (e.g. Anderson and Narus 1990; Sweeney and Soutar 2001), and goal performance and financial performance value, and in case of services, the process performance value.

Although both perceived value and risk has been investigated by researchers, no research has focussed on their relationship. Therefore, this study focuses on the interaction of the two concepts and specifically, how perceived risk impacts perceived value, and further, how risk communication can neutralise the unfavourable impact of perceived risk on value (Van der Valk and Johnston 2006). The role of risk communication is extremely important due to the unique nature and high value of projects, however, its role has not been explored in projects.

Perceived Risk in Project Settings

As mentioned in the introduction this study focuses on projects that are usually associated with industrial transactions. These transactions are complex and have a physical (hardware, building) and an intangible component (software, engineering consulting, financial products, production know-how, etc.). In general, projects have the following characteristics: 1) time-bound (it has a start and a finish), 2) undertaken by a team and 3) for a specific purpose. Therefore, this definition allows the inclusion of services, such as engineering consulting, planning, production know-how transfer, ad-hoc market research, management of advertising campaigns, event management, etc).

Projects have several unique characteristics (Cova and Salle 1999; Cova, Ghauri and Salle 2002; Veres and Buzás 2006). 1) The most crucial risk element is the supplier’s performance commitment, which is the responsibility to complete the project successfully in every respect. This risk applies until the project has been completed. 2) The project is a unique transaction even for the buyer. 3) The solution to the problem requires system thinking. Hence, project transactions are also referred to as system selling. 4) In the buyer-seller relationship, so-called cooperative risks emerge due to the conflicting interests of the parties. These risks allow each party to leverage the knowledge gaps of the other party (Schmidt–Wagner 1985). 5) Projects have a series of interactions between the parties that can be
grouped into phases, such as feasibility study, briefing, supplier selection, project implementation, debriefing, etc. 6) The supplier-buyer relationship is periodic.

Although some projects have a substantial product content, it is unclear which component (product or service) dominates the transaction from the buyer’s point of view. From a buyer’s perspective the only relevant aspect is the successful outcome of the project as the buyer lacks the required knowledge to complete the project himself. (Schmidt and Wagner 1985). In essence, the buyer acquires competence-based expectations of benefits (Page and Siemplenski 1983), where the knowledge is the major contributor of competitive advantage (Vargo and Lusch 2004). Summarising, projects are discontinuous, unique, complex and phase-specific transactions, where the acronym of the first three characteristics created the DUC model (Mandják and Veres 1998). Although the history of the buyer-seller relationship is an important moderator of risk perception, due to the discontinuity and the presence of inactive phases projects can last for years (Mandják and Veres 1998; Cova, Ghauri and Salle 2002). Cova, Ghauri and Salle (2002) developed a model that describes the process of a project from the planning to the contract from the supplier’s perspective. In this process, the specification of priorities is followed by a project-neutral phase, in which, the supplier prepares for leveraging his functional (core) competences as well as he manages his relational milieu by potentially involving external suppliers. The next phase of the process is the pre-tender phase, in which the supplier considers the potential demand, and selects the potential buyers in the market. Buyers are selected based on a set of criteria (project screening), whose problems are worth the investment from the supplier’s perspective. The proposal phase includes the delivery of the proposal, the negotiation and the contract.

The uniqueness and performance risk of the project necessitate a very interactive, and problem-oriented partnership from buyer and seller from the beginning to the end of the project (in strong partnerships even beyond). Due to the unique nature of projects there are some strategic considerations to need to be emphasized (Cova and Salle 1996; Engelhardt 1993; Veres 2009). 1) The uniqueness of projects does not enable standard solutions, and hence, the project details need to be specified through the interaction of buyer and seller. 2) The process of quality management places a large emphasis on promised competences that can demand a price premium to be paid by the buyer. 3) Due to the lengthy process both parties bear a bilateral risk of the project implementation. As the project comes to an end the functional risk decreases for the supplier as he was able to finish the project, but the risk of non-payment (by the buyer) still exists and increases. The buyer’s risk perception, however, only starts to increase once the project finishes. Although for the buyer non-delivery risk exists during the process, which might stay constant or it might even increase during the project. This risk perception flow is depicted by risk perception funnel (see Figure 1).

Figure 1. The risk perception funnel for services

Source: Veres 2009
The risk perception funnel describes:

a/ the process of risk flows in a project environment (horizontal dimension), which means that risk and risk perception are not independent from the transaction episodes of the project implementation. These episodes might also include access to new market information.

b/ the variability of risk (vertical dimension), which means that as the project progresses the parties reach the ‘point of no return’ and hence, are less likely to abandon the project and seek alternative suppliers. In our view, risk can be managed through effective/targeted risk communication, which can be considered as a marketing competence that is able to increase the buyer’s satisfaction (see Golfetto and Gibbert 2006).

**Competences in Projects**

Resources can be tangible (e.g. hardware) and intangible (e.g. technology, reputation, alliance, know-how, relationship). The authors hypothesize that the intangible resources (or competences) can be one of the key determinants of the buyer’s risk perception. For instance, a construction company’s most important competence lies in the execution of complex tasks, whereas a consulting company’s main competency revolves around its employees and their relationships with their clients (Sveiby 1997). Competences are classified as epistemic and heuristic competences, where the former represents evidences of previous project successes of the supplier (e.g. references), whereas the latter represents a promise for a reliable and successful delivery (c.f. Grant 1995; Möller 2006).

The Service Dominant (SD) Logic (Vargo and Lusch 2004) provides a useful framework for explaining how competences are used in achieving competitive advantage for the company. According to the SD logic the basic unit of exchange is the competence in use. Value creating problem solving is the key part of any projects, and hence, in order for the firm to create competitive advantage they have to leverage their intangible assets of the company. These intangible assets can manifest themselves in products, technology or management, which develop under competitive pressures. Therefore, competences can be interpreted as the organisation’s learning capability. Competences provide significant advantages in three main areas; in project development, network management and customer service management. The SD logic further states that the supplier only makes a value offer, whereas value creation is the buyer’s task. This interactive process between buyer and supplier results in value creation, where the exploration of the customer’s value preferences is a key aspect an active client management. Therefore, the pre- and post-transaction phases are sometimes play a more vital role than the transaction itself.

A systematic evaluation of competence-based value creation was undertaken by Möller (2006), who concluded that the supplier’s (value) offer can be communicated in three ways. These three aspects are the exchange, relational and proprietary, where the latter two extends the boundaries of the exchange (technological problem solving) competence.

The parties usually take a position in the transactional-relational continuum, hence, these two orientations present a rather mixed orientation than a pure transactional or relational approach.

Project buyers are, in general, competent and involved actors in the transactions (Cova and Salle 1999; Bettencourt et al. 2002; Axelsson and Wynstra 2002). The uniqueness of projects contributes to higher uncertainty, which in turn, leads to a higher level of perceived competencies. The authors hypothesize that the supplier’s reputation is the major driver of his perceived competence. Hence, this paper focuses on whether the buyer actually investigates the supplier’s competencies or he might basis his judgment on the supplier’s competence communication. At the start of the project, the buyer’s risk evaluation is most likely to be based on the supplier’s communication, whereas during the project the communication’s role decreases. Receiving information about the supplier’s competence profile reduces the buyer’s market uncertainty (especially in the pre-transaction phase) (Golpetto és Gibbert 2006) and its transaction uncertainty in the implementation phase (Ford 2002). This phenomenon is referred to as the marketing of competencies (Golpetto és Gibbert 2006).
METHODOLOGY

Data was collected in 2009 by using in-site expert mini-focus group interviews in the contexts displayed in Table 1. Equal number of focus groups was conducted with buyers and suppliers in each context, hence 90 buyer and 90 supplier-side interviews were undertaken. Every mini focus group included 2-3 decision makers, such as project experts, business marketers. During the interview a standard qualitative interview guide was used that consists of 6 main topics, which are as follows: 1) project uniqueness, 2) problem solving as the supplier’s main competitive advantage, 3) interdependency in projects and its relation to performance risk, 4) the role of competences in decreasing risk perception, 5) the role of risk communication in reducing uncertainty and 6) the role of supplier-buyer relationship in influencing perceived risk. These topics aimed to explore the decision makers’ view on the competence-based risk perception. The decision makers who participated in the interviews were asked to discuss their views on these topics based on their own experiences.

<table>
<thead>
<tr>
<th>Project activity</th>
<th>Number of mini focus groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad hoc market research</td>
<td>20</td>
</tr>
<tr>
<td>Construction</td>
<td>12</td>
</tr>
<tr>
<td>IT consulting</td>
<td>20</td>
</tr>
<tr>
<td>Marketing communication/PR</td>
<td>20</td>
</tr>
<tr>
<td>Media agency</td>
<td>12</td>
</tr>
<tr>
<td>Finance (eg loan, insurances)</td>
<td>16</td>
</tr>
<tr>
<td>Consulting</td>
<td>16</td>
</tr>
<tr>
<td>Event management</td>
<td>32</td>
</tr>
<tr>
<td>Business tourism</td>
<td>8</td>
</tr>
<tr>
<td>Business education</td>
<td>4</td>
</tr>
<tr>
<td>Other industrial services</td>
<td>8</td>
</tr>
<tr>
<td>Web development</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180</strong></td>
</tr>
</tbody>
</table>

Qualitative mini-focus group discussions have been conducted at actors of project market. The industry profile of the 180 respondents included ad hoc market research, construction industry, IT systems, marketing-communication projects, consulting, business tourism, web design, business training etc. In the organisation of focus groups the following criteria have been followed:

- Equal proportion of participants from supplier and buyer side
- 2-3 decision makers in each focus groups
- In-site focus group discussions to avoid distortion from place of discussion
- Professional discussion moderators

The phenomena under consideration are explored using the following scenario. Respondents’ task was to discuss six statements based on their project-experience:

Statement 1: A project is always unique and system-like.
Statement 2: The major benefit of the “product” for a client is the supplier’s ability to solve problems.

Statement 3: The success of performance can only be identified after the project process has closed (hence the dominance of performance risk).

Statement 4: Perceived risk is reduced by competence. This competence is asymmetric.

Statement 5: Communication of risk may moderate the uncertainties felt by the customer.

Statement 6: As confidence strengthens, supplier-buyer relationship reduces the risks perceived.

The verbatim transcripts of the discussions have been evaluated by content analysis.

FINDINGS

This section will provide a summary of the findings gained from the interviews according to the six main topics mentioned above.

1. Project uniqueness

The respondents agreed that projects are unique, especially due to the rapid technological and environmental changes. Therefore, in order to reduce the buyer’s risk perception complex problems need to be divided into smaller, routine (modularised) tasks, whereas suppliers often make the mistake of developing highly standardised offers.

“...buyers do not want standardised answers... but they expect us to find a solution for them.”

This challenge requires sophisticated service adaptation. In services standard solutions emerge due to the buyer’s attitude and his time constraints. Uniqueness makes sales more difficult. Projects are unique systems that coupled with new products represents a knowledge gaps on the supplier side that he needs to fill.

“When we talk about project selling, we do not mean the sale of a physical thing, but rather that of a future intangible, and hence you have to provide some evidence to the client that we are able to implement the project, and hence he becomes more efficient and will also save some money.”

Projects usually have a professional side and a methodological side. The methodology has always the same components, such as survey, needs assessment, planning and testing. Needs assessment is vital as sometimes by the time the project finished there was no need for the solution anymore. These tasks are repeated over and over again.

“When the client has a need...the best situation is, when we find out together what this needs it exactly, whereas some clients try to fix every problem in the same way every time irrelevant of the nature of the problem.”

2. Problem solving as the supplier’s main competitive advantage

The interviews revealed that the client side has several talented managers, who can find solutions for managing their own business processes, however, they do not take responsibility as they cannot influence other members of their organization. In this respect the governmental and non-profit clients are very different.

“Clients who have a set budget have a weak position in negotiations.”

High-tech industries (e.g. telecommunication) take a proactive approach in problem solving, and they might also demand the imitation of a competitor’s innovative system in a short period of time. Nowadays, cost efficiency is part of problem solving. In classical project markets, such as the construction industry, the effective recovery is a key factor. All in all, in some industries the involvement of the client is vital, whereas in some other industries the involvement is not required at all:

“The supplier is there so the client can get comfortable.”
3. Interdependency in projects and its relation to performance risk

It should be noted that this topic was the hardest to interpret for most participants. Interdependency in projects means that if a project is abandoned then the outcome of it is destroyed.

“…we try to emphasize this. At every milestone our ties become stronger and hence it becomes clearer what we aim to achieve…Provided it is a long project, then we will have a situation analysis, a needs assessment, a concept plan, a concept and all of them should be approved by both, the client and the supplier, which becomes a joint knowledge that takes us further.”

Many companies aim to consciously reduce risk and their processes seems very much standard: continuous project monitoring or setting up milestones (status meetings) and iterations. Nevertheless, it is impossible to create a project briefing with flawless specifications as the outcome of the project provides new challenges in terms of its use. Hence, this post-delivery refinement creates a new learning curve for the supplier, which takes a year at least.

4) The role of competences in decreasing risk perception

It can happen that behind the communication/image of a particular competence there is no real content. Therefore, clients, in order to avoid this pitfall, usually look for tangible evidences of competences, such as accreditations (eg. ISO). The higher the competence level of the client the better they understand the problem, however, if it is missing a third (neutral) party might need to be involved. This phenomenon is commonly referred to as competence-asymmetry, which is high in some sectors (eg. finance), whereas low in others (eg. training), and again in others (eg. business tourism) the client tends to overestimate his competencies. Asymmetric competencies represent the biggest challenge in the pre-transaction phase due to client’s need uncertainty, whereas the extent of asymmetry decreases over the course of the project. In the area of consulting, the client’s professional competencies might outweigh that of the supplier, however, the consultant has higher levels of system and experience competencies. These asymmetries start to disappear as the client gets to know the system and the consultant gets familiar with the company’s business processes. Finally it is to underline that the impact of knowledge (functional competence) and relationships (relational competence) on the buyer’s perceived risk can be extremely different as it has been explored by Awuah (2001).

5) The role of risk communication in reducing uncertainty

Our findings in this issue confirmed the research results of, among others, Garner (1986) and Brashers (2001). The respondents agreed that the client’s risk is larger than the cost of the project as the client’s business is at stake.

“…it seems like a public relations exercise that at the start of every project we inform the clients about certain risk factors for self-defense.”

Solely communicating the risk factors will certainly increase the level of perceived risk, and thus, risks always have to presented with the solution in order to decrease the risk perception. Due to the risk communication of the supplier the client’s risk perception changes during the sales process. At the start the client is usually open to various options, but subsequently – as his knowledge and involvement increases its risk perception also increases. Frequent communication between supplier and buyer can, however, lead to a decrease of perceived risk. Clients should be convinced about not to follow unrealistic objectives.

6) The role of supplier-buyer relationship in influencing perceived risk. The confidence-dimension.

Respondents thought that emphasizing trust in the buyer-supplier relationship is commonplace, however, eventually participants agreed that long-term relationships are disadvantageous and do not serve the client’s needs. In several industries supplier changes are carefully planned.

If retention is the goal, then investment into the relationship is vital in order to increase the client’s trust. Suppliers have to visit the client regularly in order to achieve a certain level of trust, which can also be institutionalised by introducing support contracts, which can lead to new projects.
“…If there is no contract like this, then maintaining the relationship is costly, but its return is uncertain.”

The value of the relationship is relative, therefore, both orientations (transaction, relationship) are present in the marketplace. Due to high level of trust in the consulting domain, everyone is perceived to be relationship-oriented. Although there are no calculations on the return on relationship (ROR) rather they intuitively manage their relationships with their clients.

On the international dimension

Taking into consideration that numerous project transactions are realized in an international environment, an additional dimension, namely the international one, has to be added to the analysis. In this dimension the uniqueness and the communication can be considered as of special concern. From the uniqueness point of view problems appear in a more intensified manner. International context of the project is a unique attribute in itself and its correct management needs special business competences. The difficulties of (risk) communication are similar to that of intercultural communication in the international business practice.

CONCLUSIONS

Finally, the following conclusions can be drawn from this research.

From the data collection it became clear that the size of the company has a significant impact on reducing the client’s risk. This can be explained by the principle of substitution, which means smaller companies have 1 or 2 key people, whom the client interacts with. If they leave the company, this jeopardizes the success of the project. This principle is in contrast with the principle of flexibility, where smaller companies are more flexible in project implementation than bigger ones. Subsidiaries of multinational companies can tap into each others’ organizational knowledge and hence experiences through accessing their global databases. However, ample differences (economic, legal, cultural, language, etc.) between contexts can make this knowledge look rather difficult to transfer.

The interviews further revealed that both parties’ competencies contribute to value creation in projects, however, the competence-asymmetry should also be acknowledged. Most project actors feel that the other side lacks relevant competences, however, they also assume this asymmetry is of a small extent. The research revealed this asymmetry is mutual and hence these should be referred to as discrepancies. Clients usually do not learn much from projects and even if they do they do not internalize this knowledge, but rather they rely on creativity and routine at the start of the next project. The project team composition, selection and the human resource management process are of ad-hoc nature rather than systematic on both sides, which is a large risk factor in itself.

Quality assurance and control systems and references clearly communicate competence, and hence reduce the client’s perceived risk, however, these do not work in every context. (eg. event management) Clients work with the same event management companies because in case of a failure the stakes are high, which will result in poor image and thus financial loss. Furthermore, mutual communication and interactivity can decrease risk perception and thus, represent enhanced problem solving capability. Nevertheless, risk communication has to focus on both, the risk factors as well as the solution.

Finally, this research confirmed that there are more common characteristics across project activities than differences between them. This research aimed to explore some of these characteristics, which can be a significant contribution towards the interrelationship between competences, risk perception and value creation. Further research will be aimed to undertake a quantitative survey to generalise our qualitative findings and to understand – as a conceptual framework of our study – in what way competence, confidence and communication affect minimization of risk attached to project performance.
REFERENCES


Cova, B. and Salle, R. (1999), Le marketing d’affaires, Dunod, Paris


Sveiby, K.E. (1997), The New Organizational Wealth, Berrett-Koehler, San Francisco (CA)


Sveiby, K.E. (1997), The New Organizational Wealth, Berrett-Koecher, San Francisco (CA)


