



## Service risk perceptions and risk management strategies in business-to-business tourism partnerships



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### ABSTRACT

While risk management, distribution channel behavior, and tourist risks research agendas have gained considerable attention in tourism management over the past years, there is a lack of research on how tour organizers perceive risk related to service collaboration in the value chain and what strategies they apply to handle these risks. This study explores the ways in which incoming tour operators (ITOs) in Madagascar perceive the tourism value chain in terms of risk upstream (towards local service providers) and downstream (towards outbound agencies) and what strategies they apply to cope with these risks. The findings suggest that uncalibrated service quality among local service providers represents a major risk factor for ITOs. Additional risk categories upstream the service value chain include product and infrastructure constraints and competence lack. Downstream the value chain, market expectation and information about the destination are perceived as risk factors. To absorb these risks, ITOs commonly apply market analysis and communication followed by control and enhancement of value co-creation, competence development, and diversification. This study emphasizes the gap between what is perceived as the dominating risk category (uncalibrated service quality upstream) and the strategy that is applied to minimize service risks (market communication downstream) in the tourism value chain. Based on the findings, the authors propose a conceptual model for predicting risk-coping behaviors in business-to-business tourism partnerships and discuss the ways in which tour organizers can deliver added value in business-to-business partnerships both upstream and downstream the tourism value chain.

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### 1. Introduction

The tourism and hospitality industries have witnessed increasing competition among tour organizers, particularly with the growth of global reservation systems and the opening of many new destinations to tourism as part of economic development and globalization processes (Hyde & Decrop, 2011). Due to this intensified competition, the quality of tourism destination products has emerged among the factors that have vital importance for tourists' destination choice beyond the cost and convenience of travel (e.g., Crick & Spencer, 2011; Dunne, Flanagan, & Buckley, 2011). Since most destination products are the result of network-based collaborations among independent service providers, service cooperation between suppliers and intermediary tourism organizers is paramount for ensuring the consistency of product quality in the value chain.

Recent research on business-to-business partnerships in tourism pointed out that tour organizers' perceptions of risk in relation to

service collaboration may influence the final tourism product, and even have consequences for the long-term development of tourism in the region (Jensen, 2009). Our knowledge of how intermediaries in tourism value chain perceive and conceptualize risk in relation to service collaboration is, however, still very limited. Risk is commonly understood as the probability of certain adverse events multiplied by the magnitude of their consequences, whereas subjective or perceived risk is the intuitive, individual perceptions of these factors (Brun, 1994; Reichel, Fuchs, & Uriely, 2007). Previous research on distribution channels and supply chains in tourism has focused mainly on cooperative behavior among travel operators in the value chain (e.g., Roper, Jensen, & Jegervatn, 2005). This can be explained by the fact that packaged tourism requires strategic and operational cooperation of the participating suppliers, including tour operators, airlines, hotels, and local service providers, for each tour package. In Leiper's (2008) view, modern tourism industry that operates across long haul itineraries and connects sellers of services in generating countries with providers of services in transit routes and distant destinations demands cooperation among tour organizers. In tourism marketing, most research focuses on consumer-company exchange relationships, including the relationship among consumers, travel agents, and other tourism service producers rather than on business-to-business

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exchange relationships (Jensen, 2009). On the other hand, researchers in other fields emphasize managing business-to-business services as well as enhancing and managing the service value chain as promising research topics (Gebauer & Reynoso, 2013).

Until we understand how business-to-business tourism partners and intermediaries perceive the risk of downstream (towards outbound agents and customers) and upstream (towards local service suppliers) the tourism value chain and which strategies tour operators apply to cope with these risks, an important aspect of tourism management and value creation in tourism will remain uncovered. The scientific aim of this paper is twofold: to empirically explore, analyze, and interpret perceived service risks and strategies to manage these risks through the views and opinions of incoming tour operators (ITOs) and to develop a conceptual framework for predicting risk-coping behaviors in business-to-business tourism partnerships.

The structure of the paper is as follows. First, we demonstrate how this research is relevant to the current tourism management literature and explain the theoretical foundation for the research questions. Second, we explain the methodological choices and procedures and then we present and discuss the findings. Finally, we propose a framework for approaching service quality risks and predicting risk-coping behaviors in business-to-business tourism partnerships.

## 2. Theoretical background

Current research on risk management in relation to tourism management can be seen as consisting of different layers, each of them contributing to our understanding of service quality risks in a certain way. The outer layer consists of research on generic risk management and studies of absolute risks (Slywotsky & Drzik, 2005; Zsidisin, 2003). The next layer is generic research on risk perceptions in various value chains (Hallikas, Virolainen, & Tuominen, 2002; Hooper & Stobart, 2003; Spekman & Davis, 2004). Third layer represents research on risk management in various service fields, including research on tourism supply chains (Fang, Palmatier, & Steenkamp, 2008; Giarini & Stahel, 1993; Hollman & Forrest, 1991; Nordin, Kindström, Kowalkowski, & Rehme, 2011; Penttinen & Palmer, 2007). The inner layer involves research on perceived risks in tourism. In addition, the literature on risk management can be placed along an axis where the end points represent risk studied either from the point of view of the supplier or from the point of view of the customer. Researchers operating in the outer, generic layers of risk management field are mostly concerned with

understanding the risks from the suppliers' point of view. On the contrary, in tourism management literature, the research has mostly focused on assessing tourists' perceived risks, concentrating on the downstream part of the value chain. In this chapter, we review relevant research to integrate and capitalize on previous studies of risk management and develop a conceptual framework for understanding service quality risks in business-to-business tourism partnerships. In Fig. 1, we summarize different categories of risk previously described in the literature by referring to position in the value chain.

Generic risk management literature explains that companies can be exposed to three or four main types of risks (Harland, Brenchley, & Walker, 2003). First, there is operational risk, which is described as a company's reduced ability to produce services or products because of a breakdown in a core operating process (Sadgrove, 2005). This also includes personnel issues, infrastructure or capacity constraints, and leadership issues (Harland et al., 2003). Strategic risk is the second type of risk represented by threats to a company's business strategy (Slywotsky & Drzik, 2005). Simons (1999) further specified that strategic risks could be related to either competitors (difficulties in differentiating the company's offers from competitors' offers) or customers (failing customer interest in company's services). Third, a financial risk is any risk that influences cash flow (Nordin et al., 2011). Schwartz and Gibb (1999) expanded on the three risk types by adding "reputation risk," which can damage business due to loss of confidence. Jacoby and Kaplan (1972) developed a five-factor risk model consisting of financial risk, performance risk, physical risk, social risk, and psychological risk. Schiffman and Kanuk (2006) expanded this model to a six-factor model, including functional risk (the product will not perform as expected), physical risk (the product may inflict on self or others), financial risk (the product's price will be too high measured against quality), social risk (the product will result in social embarrassment), psychological risk (the product may damage self-image), and time risk (the product will not perform on time). Nordin et al. (2011) studied the relationships between the generic types of risks (operational, strategic, and financial) and different strategies for the provision of value added service among manufacturers (customization, bundling, and range). Research on generic risk types in business describes absolute risks, that is, risks that are assessed objectively by commercial providers. Among other types of risks identified in this layer of research are such factors as political instability, terrorism, health, and crime (see also Wang, Jao, Chan, & Chung, 2010).

Risk types / Value chain position	Upstream (Suppliers/ Intermediaries)	Downstream (Agents /Clients)
Absolute	Financial, functional, operational, performance, physical, psychological, reputation, social, strategic, time.  Political instability, terrorism and war, health, crime.	Equipment risk, financial, physical, psychological, satisfaction, social, time.  Political instability, terrorism and war, health, crime, cultural difficulties.
Subjective	Intended contribution of this study	For tour leaders (guides): Exogenous, tourist-induced, tour-leader self-induced.  For tourists: Perceived food risks, risk-taking behavior of tourists, perceived tourists' risks in adventure tourism

Fig. 1. Types of risk conceptualized in the literature on tourism value chain.

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