Reputation as a sustainable competitive advantage

Economics, Insurance

Present a well-researched essay focusing on discussing reputation as a source of sustainable competitive advantage in the insurance industry. (25)Reputation Olins (1990) refers to reputation as an organizational identity, which includes everything that the organization does and concerns itself with in four major areas of its activity: first, products/services – what it makes or sells; second, environments – where (the physical place) it makes or sells; third, information – how it describes and publicizes its activities; and fourth, behavior – how the organization members behave to each other and to non-members. A similar view is suggested by Vergin and Qoronfleh (1998), namely reputation reflects behavior exhibited every day through numerous small decisions. Teece, Pisano, and Shuen (1997) refer to reputation as an intangible asset, representing a kind of summary statistic about the firm’s current assets and position, and its likely future behavior.

Fombrun and Shanley (1990) argue that the construct of reputation concerns the multiple constituents that assess it; hence, the issue is not just economic effectiveness but also non-economic, that is, sociological significance. Thus, the definitional difficulty is understood in the argument raised by Clark and Montgomery (1998) that reputation is determined through the observer’s perceptions and interpretations. For instance, Yoon, Guffey, and Kijewski (1993) found that a purchaser’s response to a service is consistent with his or her notion of the vendor’s reputation. Sustainable competitive advantageIt is the ability consistently to adapt to environmental changes, accomplished only through identification, development, and preservation of strategic capabilities (Bartmess and Cerny, 1993). Acquiring and preserving sustainable competitive advantage and superior performance are a function of the resources and capabilities brought to the competition (Aaker, 1989; Barney, 1995; Conner, 1991; Grant, 1991).

In this paper the Harris-Fombrun model, a framework for measuring corporate reputation using a reputation quotient with six categories and 20 individual factors is used to discuss the importance of reputation as a sustainable competitive advantage. Emotional appeal

- Good feeling about the company
- Admire and respect the company
- Trust the company

Public perception, good corporate picture and reputation establishes trust, confidence, and loyalty and creates outstanding client relationships. In insurance industry the companies should make sure that the customers have a positive emotional appeal so that they skew towards buying insurance products and hence go along with the adage “ insurance is sold and not bought”. When the customers have got good feelings about the insurer, admire and respect the company it becomes easy to convince them to buy the products. However, many people do not understand the idea of insurance and how it works. In some cases, the views of deprived people about insurance are bad. They see it as the reserve for the opulent; something that is unrelated, too expensive or even biased.

In Zimbabwe it is evidenced by the number of people who are not insured be it short term or long term. AKI (2010) established that Kenyan insurance industry is twinge from continuous poor public perception, which has led to low dissemination levels. People don’t have adequate trust in the insurance venture generally due to the number of unpaid claims that remain in the shop. Many claims have not been compensated due to prolong studies to the point that, rather than other insured’s recommending cover to their friends, they end up discouraging them. People think that insurance firms make a lot of cash and marvel why they cannot pay their entitlements, whether genuine or not. This means that people insurance industry in Kenya have got a bad reputaiton. Whereas, Jargema (2010) says for any financial institution reputation is the single most important resource. Customers feel safe trusting the financial institution with their most important asset, their money. Therefore, it is essential for insurance institutions to have a reputation of being reliable, sound and well managed. Product and service Stands behind products/services Offer high quality products/services Offer products/services that are good value

A favorable quality-based reputation of a product was shown to act as a strategic resource, since it made possible a premium expressed in flow of profits, which in turn facilitated investment for building this kind of reputation (Shapiro, 1983). Other similar evidence, as presented by Yoon et al. (1993), showed that the intention to buy an insurance program depends on the company’s reputation. Dollinger, Golden, and Saxton (1997) found that a firm’s reputation was an important resource in terms of being targeted for joint venture. For instance, with the growth of bancassurance many insurance companies are entering into strategic alliances like distribution alliance for example the agreement between Steward bank and Nyaradzo funerals through diaspora policies, mergers, and joint ventures between

Sanlam South Africa and Zimnart Lion. Vision and leadership§ Has excellent leadership

Has a clear vision for the future Recognizes or takes advantage of market opportunitiesReputation takes time to develop. This is due to many steps necessary to build trust and history necessary to sustain a positive reputation. These steps are specific and path dependent, making it difficult for competitors to imitate (Jagerson, 2010, Porter 1996, 1998). Consequently, it is expected that companies that benefit from brand and corporate reputation as competitive advantage would be firms that have been inexistence for an extended period, and have a demonstrable history in meeting customer needs for example Old Mutual. On the other hand, the condition of path dependent is degraded by failure of some insurers in the recent past who failed to survive the economic hardships locally thus failed to deliver the promise to its clients for example Doves Morgan or some closed shops even though they had been established for quite a number of years. Also in Kenya examples like National Assurance owned by administration in the 80's, United Insurance, Standard Assurance, Stallion Insurance and Lakestar insurance firms with the most recent being Blue Shield Insurance Firm which was put under insolvency. This has led to clients losing their money in the process thus making the public fail belief in the business (Staikouras, 2006)

Workplace environment It is well managed Looks like a good place to work for Strong prospects for future growth Tends to outperform its competitorsInsurance products are services with an intangible characteristic therefore the service provider has to manage well the workplace environment. For instance, the ambiance created by Old Mutual, when customers first enter into the company, they develop a premium service impression about the look and feel of the company, its layout and condition of cleanliness of the company. The workplace environment then creates a lasting impression on the insured that builds a long term relationship. In terms of the relationship among resources and capabilities, sustainable competitive advantage, and superior performance, it has been suggested that the best way to win in a competitive world is to build core competencies, which will create sustainable competitive advantage and lead to superior performance (Prahalad and Hamel, 1990). Capabilities gap underlying the differentiation between an organizations and its competitors, and becomes the real source for sustainable competitive advantage (Coyne, 1986).

Social responsibility Supports good cause Environmentally responsible Treats people wellPhilanthropy gestures from a company also results in the general public having a soft sport and falling in love with the company. For example, what Econet has done recently in the fight against cholera outbreak donating a huge amount of money. It also went ahead and launched a Kanzatu nzatu platform for crowd funding dollar for dollar campaign. Therefore, the ecoSure and ecoMoovah insurance schemes benefit under the gesture of supporting good cause being done by the parent company. However, a credible reputation was found to deter only those who considered the defender a minor competitor, not a major competitor. Conversely, the mediocre social status (conservative, unattractive, and unchallenging) of the National

Aeronautics and Space Administration (NASA) in 1980s made it almost impossible for this body to meet its goals (McCurdy, 1991).

Conclusion

Organizational reputation is a resource that rivals find it hard to imitate because of its social complexity, hence it plays a significant role in sustainable competitive advantage. This insight is fortified by the efforts which organizations invest in order to build a solid favorable reputation. Theoretical as well as empirical arguments support the concept of organizational reputation acting as a core resource that creates sustainable competitive advantage and leads to above-normal performance.

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