

The Influence Of Company Reputation And Business Strategy To Company Performance On General Insurance Company In Indonesia

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Abstract

The position of Indonesia in the general insurance experienced negative growth in real terms, in which the value of premiumums nominally decreased from 2010. That is means that the growth of the value of premiumums of general insurance in Indonesia is negative and certainly lower than the rate of inflation. It is pointed out that the general insurance performance is not optimum. The condition presumably caused by weaknesses in competitive strategy and company reputation. The research objective is to examine the company reputation and competitive strategy and their influence on the performance of the general insurance company in Indonesia. This research are descriptive and verification. The unit of analysis in this study is the general insurance companies in Indonesia with a sample of 50 respondents. Time horizon is cross section / one shot, in which the information or data obtained from the results of research conducted at one particular time. Data collected from a questionnaire to the company. Data were analyzed descriptively and verification. The hypothesis is tested through PLS (Partial Least Square) models. The findings showed that the company reputation and competitive strategy in an effort to improve the performance of general insurance company in Indonesia has not been quite good. The conclusion are company reputation and competitive strategy simultaneously and partially affect company performance, competitive strategy has a greater influence to company performance rather than company reputation.

Keywords: Company Reputation, Competitive Strategy, Company Performance

INTRODUCTION

The development of insurance business in Indonesia for the last periods, particularly from 2008 – 2012 was pretty much satisfying, where the average of growth was significant enough, 19.3 %. Although, we also could see that the premium contribution average level to the GDP within five years period is still low, only 1.8%. It is mean that even though the average premium growth is pretty much significant, but it still can not serves maximum contribution for economic development (Hendrisman Rahim:2013:8). It is also show that insurance industry still have great opportunity to growth as projected in 2013 -2020.

Table 1.
The Average of Premium Growth and Projection

Countries	Average (2008-2012)		Average Estimation (2013-2020)	
	Premium Growth (%)	% Premium To GDP	Premium Growth (%)	% Premium to GDP
World	9.1	7.52	10.4	9.34
Asia	7.6	6.63	8.1	7.52
ASEAN	3.1	2.98	4.7	3.71
Japan	1.2	10.5	1.8	14.7
China	19.4	2.7	21.4	5.3
Singapore	2.2	6.5	2.9	7.1
Malaysia	1.8	4.6	2.5	6.2
Thailand	2.5	2.4	3.4	3.5
Indonesia	19.3	1.8	23.2	2.1

Source: World Insurance Outlook (2012) dalam Hendrisman Rahim, Optimisme Pertumbuhan Asuransi Indonesia; Proyeksi Perkembangan Lima Tahun (2014-2018), (2013:8)

Data in the table above indeed show a significant premium growth from 2008 – 2012, although the contribution of premium is dominated by life insurance. Based on first half semester report of Finance Service Authority, 2014, reported 141 insurance company in Indonesia; 83 life insurance company, 4 reinsurance, 2 Employee and Social Security Insurance, and 3 Insurance company that serve government employees, Military and Police. The development of insurance company above, generally show positive performance that reflected by their total assets growth from 6.7% of former half semester to Rp 684,14 trillions. Insurance gross premium until the end of first hal semester of 2014 increase to 6.1% compared to former half semester, or Rp 54,86 trillion.

But, the reverse thing will be found when we analyze general insurance (non-life) in Indonesia. From Table 1.2 Indonesia's position has experienced real negative growth, its premium value is keep decrease since 2010. It is mean that the growth of general insurance premium in Indonesia is negative and lower than inflation level.

Table 2. The Comparison of Premium Performance of Insurance Company in Indonesia (US Million Dollar)

	2010	2011	2012	2013
World	1.514 .094	1. 442. 258	1 .437. 266	1 .439. 252
Asia	198.553	186.644	184.560	179.674
ASEAN	12. 678	11.601	10.961	10.896
Japan	97.495	99.481	99.879	989.534
China	25.713	20.540	19.764	18.986
Singapore	3.695	3.486	3.398	3.473
Thailand	3.241	2.860	2.783	2.754
Malaysia	2.656	2.490	2.488	2.485
Indonesia	2.027	1.904	1.879	1.796

Source : General Insurance Association (2014)

From the data above we could see that one of business performance indicator is *sales* (Wheelen & Hunger, 2012:332). It is proven from the decrease of premium from 2010 – 2013, thus we can say that in the last five years the performance of general insurance is yet optimum.

Refer to the situation, I feel there is need to examine about how to make general insurance could give significant contribution to increase the growth of insurance industry in Indonesia, together with the contribution increase to PDB in Indonesia.

The weak of business performance of general insurance in Indonesia assumed caused the weak of competitive strategy in their stakeholder poin of view. In other side, company ability to balance the rapid change and environment movement also still low. According to Wheelen & Hunger (2012:183), the indicator of competitive strategy is when the company able to create better product compared to it competitors.

Less optimum of insurance business performance also possibly caused by the company is to weak to develop its own reputation. According to Fombrun, (2001:16), to help a company to built its strong and profitable reputation, there are several factors need to be focused : credibility, reliability, trustworthiness and responsibility. The weak reputation of insurance company indicated by company inability to create a high credible product or brand, their product is yet tested, customer trustworthiness to the brand also relatively low, and the company also hard to make a guarantee for its product quality. We surely can be seen this condition when people react to the insurance product offered. Mostly, people still blind about how they can claim their money, where the system seems to be complicated and hard to access. People also wondering about how the insurance company invest their money, and in the end people dont trust the company will exist forever.

Meanwhile, Iwu-Egwuonwu (2011:197) make a *review* to empirical study about company reputation with focus to how the reputation could hel the organization to gain its strong competitive advantage, increase stock market performance and other measurable performance. The conclusion is the best policy for corporation and politics these days is policy about how to gain a good reputation, since it is need to have better positive image.

LITERATURE STUDY

Hsu (2012:195) describe reputation as *‘the prestige or status of a product or service, as perceived by the purchaser, based on the image of the supplier’*.

On his paper, Walker (2010: 357) stated some opinions about how important is company reputation:

“a good reputation can lead to numerous strategic benefits such as lowering firm costs (Deephouse, 2000; Fombrun, 1996), enabling firms to charge premium prices (Deephouse, 2000; Fombrun and Shanley, 1990, Fombrun, 1996; Rindova et al, 2005), attracting applicants (Fombrun, 1996; Turban and Greening, 1997), investors (Srivastava et al, 1997) and customers (Fombrun, 1996), increasing profitability (Roberts and Dowling, 2002) , and creating competitive barriers (Deephouse, 2000; Fombrun, 1996; Milgrom and Roberts, 1982)

To help company to built strong reputation so it could give positive and profitable impact, we must focus to several factors : credibility, reliability, *trustworthiness*, and *responsibility* (Fombrun (2001:16). Jin dan Yeo (2011:129) stated :

“Keller defines corporate credibility as the extent to which consumers believe that a firm can design and deliver products and services that satisfy customer needs and wants. This is due to the consumer’s judgment of advertisements and brands based on whether the message is deemed to be trustworthy”.

Wenbing et al (2013:12) in his study : *“Product reliability is an indicator to describe product failure. If the product reliability is too bad, product failure decreases customer satisfaction and destroys customer loyalty”*.

Kanto et al (2013:733) described six factors *Reputation Quatient (RQ)* that adapted from Fombrun et al. (2000) which are: emotional attractiveness, product and services, vision and leadership, financial performance, social responsibility and environment, and work environment; and others factors.

According to Wheelen and Hunger (2012:183) “*competitive strategy for outperforming other corporations in a particular industry; lower cost strategy and differentiation strategy*”. Wheelen & Hunger (2012:186), “*Cost leadership is a lower-cost competitive strategy that aims at the broad mass market and requires “aggressive construction of efficient –scale facilities, vigorous pursuit of cost reductions from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimalization in areas like R&D, service, sales force, advertising, and so on”*. Sedangkan diferensiasi adalah “*Differentiation is aimed at the broad mass market and involves the creation of a product or service that is perceived throughout its industry as unique*” (Wheelen & Hunger (2012:186).

Parnell (2011:130) assessed the influence of strategic ability to strategy-business performance relation in retail business in Argentina, Peru, and USA. Parnell study the competitive strategy with *Cost leadership, Differentiation, and Focus* as dimensions

Matic (2012:281) measure performance based on financial and non financial. Different with Avinandan, Prithwiraj and Manabendra (2002:122) where performance is a reflection of company ability to use the resources efficiently. Efficiency measured through the comparison between output and input. High efficiency ratio show better performance.

David (2013:324) gives performance measure that involves: : *Return on Investment (ROI), Return on Equity (ROE), Profit Margin, Market Share, Debt to Equity, Earnings per share, Sales growth, and Assets growth*. Aras et al (2010:243) measure financial performance through ROE and ROA. Huang (2010:68) measured it with ROA.

OBJECTIVES RESEARCH

The objective of this study is to examine about company reputation and competitive strategy and its impact to the performance of General Insurance company performance in Indonesia.

METHODOLOGY

This is descriptive and verivicative research with causality type of observation, which is examine a relationship and influence between exogen and endogen variables. According to Aaker (2013: 66) *causalitas research* used to show if one variable will caused or affect others.

The observation using time horizon with *cross section/one shot*, which mean, information or data gained is a research result done in a single one period, 2015.

Analysis unit of the research is general insurance companies in indonesia, thus the observation unit is management of the company. Population is a group of element that has similar characteristic. This research using 50 respondent of general insurance company in indonesia. Sampling taken with cencus. Analysis structure used is *Partial Least Square (PLS)*, which is an aternative method of *Structural Equation Modelling (SEM)* with *variance* base.

RESEARCH RESULT AND DISCUSSION

In this section will describe the model examination and hypothesis test result.

Model Evaluation

PLS model evaluation done in two ways:

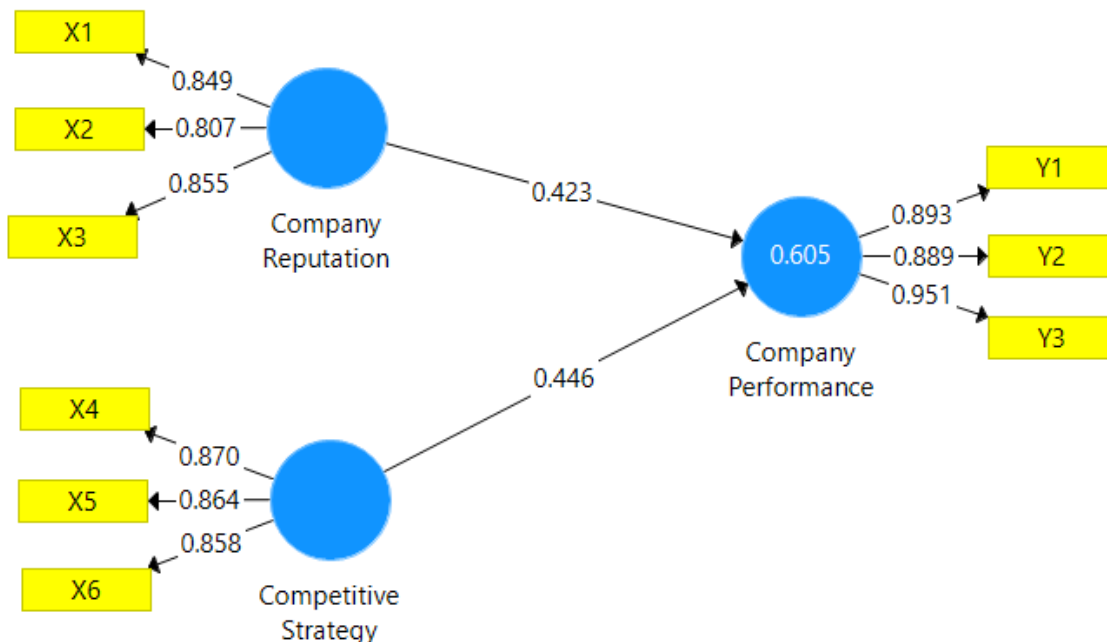
- outer model** by looking outer loading (outer loading $>0,5$) Average Variance Extracted (AVE $>0,5$) and Composite Reliability (CR $>0,5$) and *Cronbachs Alpha* value (CA >0.70) (Nunnaly,1994) (Chin (2000)),
- inner model** includes path coefficient and R-square and *Prediction relevance value* (Q square). According to Chin (1998), R square value 0.67 (strong), 0.33 (moderate) dan 0.19 (weak). *Prediction relevance* (Q square) or known as Stone-Geisser's. If the value is 0.02 (small), 0.15 (moderate) and 0.35 (big). Only could use for endogen construct with reflective indicator.

Table 3. Model Evaluation

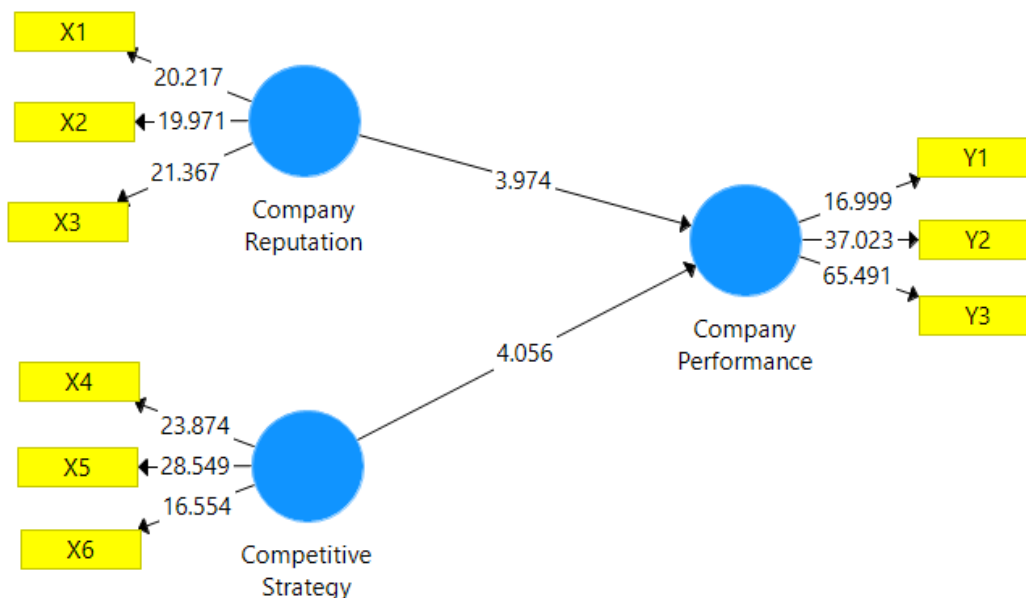
Variabel	Dimensi-Indikator	Λ	t hitung	P Values	AVE	CA	CR	R Square	Q square
<i>Company Reputation</i>	<i>X1 <- Company Reputation</i>	0.849	20.217	0.000	0.701	0.788	0.876	0.605	0.481
	<i>X2 <- Company Reputation</i>	0.807	19.971	0.000					
	<i>X3 <- Company Reputation</i>	0.855	21.367	0.000					
<i>Competitive Strategy</i>	<i>X4 <- Competitive Strategy</i>	0.870	23.874	0.000	0.746	0.831	0.898		
	<i>X5 <- Competitive Strategy</i>	0.864	28.549	0.000					
	<i>X6 <- Competitive Strategy</i>	0.858	16.554	0.000					
<i>Company performance</i>	<i>Y1 <- Company Performance</i>	0.893	16.999	0.000	0.831	0.898	0.936		
	<i>Y2 <- Company Performance</i>	0.889	37.023	0.000					
	<i>Y3 <- Company Performance</i>	0.951	65.491	0.000					

Above table gives R^2 value on pretty strong criteria and big Q square, thus concluded if the research model is fit. Analysis result of measurement model by its indicator show that all those indicators are valid, where most of loading factors value is bigger than 0.70 with p value $< 0,05$. Value of $AVE > 0,5$, CR and CA of each variables $> 0,70$, thus concluded that variables have valid and reliable indicators.

Below picture is the result of model test using Smart PLS 3.0.



Picture 1
Coefficient of Research Model Influence



Picture 2
t statistic of Research Model

Hypothesis Test

Below will described hypotesis test result both simultaneously and partially.

Table 4.
Hyphotesis Test Simultaneously and Partially

Hyphotesis	F count	γ	P value	R ²	Description
<i>Company Reputation and Competitive Strategy → Company Performance</i>	35.99*			0,605	Signifikan
<i>Company Reputation -> Company Performance</i>		0.423	0.000	0.293	Signifikan
<i>Competitive Strategy -> Company Performance</i>		0.446	0.000	0.312	Signifikan

Based on the test know that there is significant influence simultaneously and partially from *Company Reputation and Competitive Strategy terhadap Company Performance* where the influence of *Competitive Strategy* more dominant compared to *Company Reputation* to *Company performance* with total influence is 60.5 % and other factors are 39.5%.

The test show that competitive strategy and company reputation have significant influence to company performance, where competitive strategy heva dominant influence compared to company reputation.

Competitive strategy formed by three dimensions (in a row) that show the level of influence in reflecting competitive strategy on this research *Cost Leadership Strategy, Differentiation Strategy, and Speed based Strategy*.

Company reputation formed by three dimensions, which is company credibility, company image and company capability. The test show that the level of influence in reflecting competitive strategy are : company capability, company credibility and company image.

Company performance formed by three dimensions which are sales volume, market share, and profitability. The test show the level of dimension influence in reflecting company performance on this research are : profitability, sales volume, and market share. In general insurance, profitability show better implementation compared to others performance measurement, such as sales volume and market share. It is possible since the level of general insurance polis sales is relative low than life insurance. Public is more take priority to join life insurance rather than general insurance.

Based on the test revealed that to increase company performance on general insurance business, the first priority is to improvement competitive strategy, and then supported by the improvement of company reputation. To improve competitive strategy, operational strategy could take are:

- The development of cost leadership strategy, through the creation of efficient operational cost, and competitive polis price.
- Differentiation strategy, through the creation of unique product compared to the competitor, and add product variation compared to the competitor. Thus the consumer could have better offer.
- More speed strategy, through the effort to improve company ability to anticipating market movement and consumer behavior, competitor movement and fasten the polis claim process by the consumers.

Related to the result of the hyphotesis test, it is show that company reputation also have significant impact to company performance. Thus we need management effort to improve company reputation, through :

- Company ability, through the development of company culture, perfection in business process and professional sales coaching, and selling process.
- Company credibility, through improvement of: reputation of trustwothy company, company values, company responsibility, and company prospect.
- The power of company image, through the improvement of reputation power, brand association advantage, and brand uniqueness.

CONCLUSION AND SUGGESTION

6.1. Conclusion

Reputation of a company and competitive strategy simultaneously and partially influences company performance, competitive strategy have greater influence rather than company reputation to the company performance. *Cost Leadership Strategy has highest influence level for competitive strategy, followed by Differentiation Strategy, Speed based Strategy.*

6.2 Suggestion

To improve company performance, company of general insurance suggested to improve their competitive strategy implementaton through the development of *Cost Leadership Strategy* followed by *Differentiation Strategy, and Speed based Strategy*; supported by the improvement of company reputation development through company reputation built, company ability improvement, company credibility and strengthen company image. The next research cold study about another aspects that dont discussed within this research, such as business partnership.

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