The value of strategic positioning and differentiation in the non-life reinsurance industry: a resource-based perspective

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30 November 2005
Declaration

I, Hardman Ncube, declare that this research report is my own work, except as indicated in the acknowledgements, the text and the references. It is being submitted in partial fulfilment of the requirements for the degree of Master of Business Leadership at the Graduate School of Business, University of South Africa. It has not been submitted before, in whole or part, for any degree or examination at any University.

Hardman Ncube

Signed on ........ day of .................................. 2005
Abstract

Notable in strategic management research is a paradigm shift from industry/market factors as determinants of competitive strategy to a resource-based view. This study focuses on the extent to which firms in the reinsurance industry use resources for strategic positioning and differentiation. A qualitative case study approach has been adopted for this study. On the basis of open-ended questions, interviews were conducted with 6 executives of the 6 chosen non-life reinsurance companies. In addition to interviews, company annual reports were used. Results obtained point to similarities in broader categorisation of resources, namely human capital, financial resources, information systems and organisational culture. Despite similarities in the broader grouping of resources, uniqueness in resources and competitive advantage derived therefrom is in the attributes of each of the resources that a reinsurance firm own. The main driver for basing positioning and differentiation strategies is that resources are controllable and manipulative compared to industry factors. Though the results support the underlying principles of the resource-based view, it is notable that its prescriptive nature with regard to resource characteristics, does not hold for some of the resources such as human resources, which are not perfectly immobile.
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## Contents

1  Chapter 1: Orientation                          1  
   1.1.  Introduction                               1  
   1.2  Research objectives                        2  
   1.3  Statement of the main research problem and sub problem 2  
   1.4  Definitions                                 3  
   1.5  Delimitation of the study                   10  
   1.6  Assumptions                                 10  
   1.7  Contribution or importance of the study     11  
   1.8  Outline of the research report              12  
2  Chapter 2: Foundations of the study             13  
3  Chapter 3: Literature review                    17  
   3.1  Conceptual studies                          17  
   3.2  Empirical studies                           37  
   3.3  Conceptual model for strategic positioning and differentiation 39  
   3.4  Research propositions                       40  
4  Chapter 4: Research methodology                 43  
   4.1  Methodological paradigm                     43  
   4.2  Research design                             44  
   4.3  Population and sample                       45  
   4.4  Data Collection and measurement instrument  47  
   4.5  Data analysis                               51
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5    Research findings/results</td>
<td>53</td>
</tr>
<tr>
<td>5.1  Introduction</td>
<td>53</td>
</tr>
<tr>
<td>5.2  Resource types and influence on strategy</td>
<td>59</td>
</tr>
<tr>
<td>5.3  Resource heterogeneity</td>
<td>63</td>
</tr>
<tr>
<td>6    Discussion, conclusion and recommendation</td>
<td>66</td>
</tr>
<tr>
<td>6.1  Introduction</td>
<td>66</td>
</tr>
<tr>
<td>6.2  Discussion of results</td>
<td>66</td>
</tr>
<tr>
<td>6.3  Summary of research findings</td>
<td>72</td>
</tr>
<tr>
<td>6.4  Recommendations for further research</td>
<td>78</td>
</tr>
<tr>
<td>References</td>
<td>79</td>
</tr>
<tr>
<td>Appendix A: Consistency matrix</td>
<td>90</td>
</tr>
<tr>
<td>Appendix B: Interview schedule</td>
<td>91</td>
</tr>
</tbody>
</table>
List of Tables

Table 1.1 Classification of resources 6
Table 1.2 Alternative categorisation of resources 7
Table 1.3 Resource requirements for sustainable competitive advantage 8
Table 3.1 Barriers to resource duplication 28
Table 5.1 Summary of results (interviews & documentation) 55
Table 6.1 Reinsurers’ critical resource bundle 68

List of figures

Figure 2.1 Insurance value chain 14
Figure 3.1 Resource based model for strategic positioning and differentiation 40
Figure 4.1 Convergence of multiple sources of evidence 48
CHAPTER 1: Orientation

1.1 Introduction

The purpose of this research is to investigate the extent to which a firm’s resources as a source of competitive advantage are the basis for strategic positioning in the reinsurance industry (i.e. the what, how and why of resources in strategy formulation and implementation). The research is conducted in the reinsurance industry because of the dynamics of the industry.

The dynamics of the reinsurance business takes many forms namely the changing nature of risks (e.g. effects of global warming, weather changes and terrorism) which calls for scientific analysis and actuarial evaluation of risks, the emerging competition from capital markets for catastrophe bonds, the quest for value creation and return on invested capital, capital allocation constraints and international financial reporting requirements, the impact of rating agencies such as Standard and Poor’s, and Moody’s, the clients’ quest for minimum security (as per Standard & Poor’s or Moody’s rating) and local statutory solvency limitations. These dynamics point to a need for strategic position and differentiation by reinsurance firms to be able to deliver on client and shareholder expectations. Also notable in the choice of the reinsurance industry is the fact that the researcher has had some experience in the non-life industry as an underwriter and strategic planner and hence has an understanding of the dynamics of that market.
As noted by Mauri & Michaells (1998), the resource-based view inherently offers an explanation for the effects of resources on strategies and performance outcomes within the same industry. Therefore undertaking the study in the reinsurance industry offers the opportunity to explore the value of strategic positioning and differentiation from a resource perspective.

1.2 Research objectives

The main objectives of this research are:

• To identify the type of resources and capabilities that form the basis of reinsurance companies’ positioning and differentiation strategies.

• To determine whether there is heterogeneity in the resources and capabilities which underlie reinsurance firms’ positioning and differentiation strategies.

• To establish how the resources are configured to create a source of competitive advantage for positioning and differentiation strategies.

• To establish why reliance is given to resources and capabilities as a foundation for strategic positioning and differentiation strategies.

1.3 Statement of the main research problem and sub-problems

1.3.1 Main Problem

The purpose of this research is to investigate the extent to which the resources of a firm as a source of competitive advantage are the basis for strategic positioning in the reinsurance industry (i.e. the what, how and why of resources in strategy
formulation and implementation in as far as strategic positioning and differentiation is concerned) as detailed in the Consistency Matrix (Appendix A).

1.3.2 Sub problems

- The first sub-problem: To identify the nature of resources reinsurance firms use in creating sustainable competitive advantage and how these resources are used as the foundation of strategy.
- The second sub-problem: To establish how and why reinsurance firms differ in resources.
- The third sub-problem: Establish how resource configuration enables firms to strategically position and differentiate themselves in the reinsurance industry.

1.4 Definitions

1.4.1 Resources and capabilities

Resources can be defined as stocks of available factors that a firm owns or controls and are a source of sustainable competitive advantage and superior performance (Amit & Schoemaker, 1993; Galbreath, 2005). Resources can also be defined as strengths that firms can use to conceive of and implement their strategies (Barney, 1991). Resources are tangible and intangible assets which are tied semi-permanently to the firm e.g. brand names, in-house knowledge of technology, employment of skilled personnel, trade contacts, machinery, efficient procedures and capital (Wernerfelt, 1984; Mahoney & Pandian, 1992). Barney (1991) categorizes resources as:
• Physical capital resources: physical technology used in a firm, plant and equipment, geographic location, access to raw materials.

• Human capital resources: includes training, experience, judgment, intelligence, relationships, insight of individual managers and workers.

• Organisational capital resources: firm’s formal reporting structure, its formal and informal planning, controlling and coordinating systems, informal relations among groups within and without the firm’s environment.

Amit & Shoemaker (1993) make a distinction between resources and capabilities. Capabilities are a firm’s capacity to deploy resources using organisational processes to effect a desired end and generate a competitive advantage (Amit & Shoemaker, 1993; Barney, 2001). Examples are information-based, tangible and intangible processes that are firm specific and are developed over time through complex interactions among the firm’s resources (Amit & Schoemaker 1993).

Day (1994) views capabilities as complex bundles of skills and collective learning, exercised through organisational processes that ensure superior coordination of functional activities. In similar vein, Teece, Pisano & Shuen (1997) note that the capability of an organisation is its potential ability to accomplish against the opposition of circumstance or competition, whatever it set out to do. Teece et al (1997) further refer to the ability to achieve new forms of competitive advantage as dynamic capabilities, which is defined as the firm’s ability to integrate, build and reconfigure internal and external competencies to address the changing
environment. Collis (1994:145), noting the impossibility of developing an exhaustive and mutually exclusive typology of organisational capabilities because of their infinite variety, defines organisational capabilities as “the socially complex routines that determine the efficiency with which firms physically transform inputs into outputs”. Prahalad & Hamel (1990: 82) note core competencies as “the collective learning in the organisation, especially how to coordinate diverse production skills and integrate multiple streams of technologies. Unlike physical assets, competencies do not deteriorate as they are applied and shared, they grow”. Helfat (2003) defines organisational capability as an organisational ability to perform a coordinated task, utilizing organisational resources, for the purpose of achieving a particular end result.

Grant (1991) posit that resources are the foundations of strategy based on two premises: internal resources and capabilities provide the basis of direction for a firm’s strategy and; that resources and capabilities are the primary source of profit for the firm. Various scholars have classified firm resources as ranging from tangible assets to capabilities as shown in Table 1.1 below, with the alternative categorisation of resources giving a wider berth ranging from physical capital to system resources as shown in Table 1.2.
<table>
<thead>
<tr>
<th>Author</th>
<th>Tangible Assets</th>
<th>Intangible Assets</th>
<th>Capabilities</th>
</tr>
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<tbody>
<tr>
<td>Wenerfelt (1989)</td>
<td>Fixed Assets</td>
<td>Blueprints</td>
<td>Cultures</td>
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<tr>
<td>Hall (1992)</td>
<td></td>
<td>Intangible Assets</td>
<td>Intangible Capabilities</td>
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<tr>
<td>Hall (1993)</td>
<td></td>
<td>Assets</td>
<td>Competencies</td>
</tr>
<tr>
<td>Prahalad &amp; Hamel (1990)</td>
<td></td>
<td>Core Competencies</td>
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<tr>
<td>Itami (1987)</td>
<td></td>
<td></td>
<td>Invisible assets</td>
</tr>
<tr>
<td>Selznick (1957); Hitt &amp; Ireland (1985); Hofer and Schendel (1978)</td>
<td></td>
<td></td>
<td>Distinctive Competencies</td>
</tr>
<tr>
<td>Irvin and Michaels (1989)</td>
<td></td>
<td></td>
<td>Core skills</td>
</tr>
</tbody>
</table>

Source: Fahy & Smithee, 1999
<table>
<thead>
<tr>
<th>Article</th>
<th>Resources</th>
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<tbody>
<tr>
<td>Barney (1991)</td>
<td>1. Physical capital</td>
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<td></td>
<td>2. Human capital</td>
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<tr>
<td></td>
<td>3. Organisational capital</td>
</tr>
<tr>
<td>Grant (1991)</td>
<td>1. Financial resources</td>
</tr>
<tr>
<td></td>
<td>2. Physical resources</td>
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<td></td>
<td>3. Human resources</td>
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<td></td>
<td>4. Technological resources</td>
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<td></td>
<td>5. Reputation</td>
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<td></td>
<td>6. Organisational resources</td>
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<tr>
<td>Black and Boal (1994)</td>
<td>1. Contained resources (comprised of an identified simple network of resource factors)</td>
</tr>
<tr>
<td></td>
<td>2. System resources (created by a complex network of resource factors)</td>
</tr>
</tbody>
</table>


For resources to provide a sustainable competitive advantage, various scholars provide such criteria e.g. value, rareness, inimitability, durability, complementarity, non-substitutability. As noted in Table 1.3, various scholars’ resources requirements for sustainable competitive advantage are summarised.
<table>
<thead>
<tr>
<th>Article</th>
<th>Requirements</th>
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<tbody>
<tr>
<td>Barney (1991)</td>
<td>1. Value</td>
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<td></td>
<td>2. Rariteness</td>
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<td></td>
<td>3. Inimitability</td>
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<tr>
<td></td>
<td>4. Non-substitutability</td>
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<tr>
<td>Grant (1991)</td>
<td>1. Durability</td>
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<td></td>
<td>2. Transparency</td>
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<td></td>
<td>3. Transferability</td>
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<td></td>
<td>4. Replicability</td>
</tr>
<tr>
<td>Amit and Schoemaker (1993)</td>
<td>1. Complementarity</td>
</tr>
<tr>
<td></td>
<td>2. Scarcity</td>
</tr>
<tr>
<td></td>
<td>3. Low tradability</td>
</tr>
<tr>
<td></td>
<td>4. Inimitability</td>
</tr>
<tr>
<td></td>
<td>5. Limited substitutability</td>
</tr>
<tr>
<td></td>
<td>6. Appropriability</td>
</tr>
<tr>
<td></td>
<td>7. Durability</td>
</tr>
<tr>
<td></td>
<td>8. Overlap with Strategic Industry factors</td>
</tr>
<tr>
<td>Collis and Montgomery (1995)</td>
<td>1. Inimitability</td>
</tr>
<tr>
<td></td>
<td>2. Durability</td>
</tr>
<tr>
<td></td>
<td>3. Appropriability</td>
</tr>
<tr>
<td></td>
<td>4. Substitutability</td>
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<tr>
<td></td>
<td>5. Competitive superiority</td>
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</table>

Therefore, in the context of this research, resources shall be assets (intangible and tangible) and capabilities which are valuable, rare, inimitable, non-substitutable, durable, scarce, complementary, non-transferable and overlap with strategic industry factors (Barney, 1991; Grant, 1991), Amit & Shoemaker, 1993; Collis & Montgomery, 1995).

1.4.2 Strategic positioning
Aaker (2001) posits that strategic positioning is the face of business strategy in which a firm specifies how it aspires to be perceived by its customers, employees and partners relative to its competitors and the market. In similar vein, Kotler (1994) notes that a firm can position itself through designing the company offer and image in a way that occupies a distinct and valued place in the customer’s minds. For the purpose of the research, strategic positioning shall mean achieving a uniquely valued and distinct position that a firm has assumed and is being seen in such light by its customers and competitors (Kotler, 1994; Aaker 2001).

1.4.3 Differentiation
Kotler (1994) and Porter (1996; 2003) note that a firm can design a set of meaningful differences to distinguish its offer from competitors’ offers. In similar vein, Aaker (2001) sees strategic thrust as an umbrella concept that clarifies business approaches toward obtaining a sustained competitive advantage into groups with a common theme. One theme, differentiation, means that there is an element of uniqueness about a strategy that provides value to the customer, e.g. firms
differentiate their offerings by enhancing performance, quality, reliability, prestige, or convenience. In the context of this research, differentiation shall mean uniqueness in strategy that delivers value to customers in terms of efficient and quality service delivery (Aaker, 2001).

1.5 Delimitation of the study

This research will be confined to the professional reinsurers in the non-life business. Due to the fact that reinsurance is a global business, the researcher will exclude the impact of global competition. However, the influence that the global parent companies may have on their subsidiary companies in South Africa will also be examined. The limitation to the non-life business is premised on the need to define a narrow scope for the research. Including life reinsurers would bring a dimension that may render the study difficult, as there are variable dynamics for each business. The researcher will not attempt to identify all resources but will restrict analysis to those resources that are critical in building a sustainable competitive advantage for strategic positioning and differentiation.

1.6 Assumptions

The first assumption is that each reinsurance firm has a unique strategic position in the reinsurance industry.

The second assumption is that each reinsurance firm has a way of differentiating itself from its competitors in the industry.
The third assumption is that each reinsurance firm has a competitive advantage deriving from its resources pool and such competitive advantage is the driver for its strategic positioning and differentiation.

1.7 Contribution or importance of the study

Organisational success and attainment of a leadership position in an industry has been ascribed to a firm’s strategic positioning and differentiation based on its resources (Wernerfelt, 1984; Barney, 1991; Grant 1991; Markides, 1996; Fahy & Smithee, 1999; Spanos & Lioukas, 2001; O'Regan & Ghobadian, 2004). It is notable in the literature review that follows in Chapter 3, that the research on the resource-based view dimensions has mainly been conceptual in nature. Fahy & Smithee (1999) point to the fact that the critical issue facing the resource based view is the lack of empirical validation of its core propositions. Further, Fahy & Smithee (1999) and O'Regan & Ghobadian (2004) point to the fact that the research on the resource based view of strategy has mainly been conceptual in nature and focused on conceptual issues with little empirical validation on application of the model.

Various empirical studies undertaken as briefly pointed out below in the literature review have not adequately addressed the extent to which resources can be used as a launch pad for competitive or corporate strategy. Fahy & Smithee (1999) argue that the increased interest in resource-based view stemmed from the fact that empirical research based on industry factors, examining performance, found differences even in the same narrower confines of industry resulting in increased
interest in firm-specific variables. This study focuses on a single industry (i.e. reinsurance) in an emerging market (South Africa) and addresses the question of validity and applicability of the resource-based model in strategic positioning and differentiation. The contribution of the study is to address the extent to which firms in a similar industry successfully position and differentiate themselves on resources and capabilities i.e. the what, how and why of resources and capabilities in strategy formulation and implementation.

1.8 Outline of the research report

The research is divided into chapters, each addressing a particular focus as follows:

- Chapter 2: Foundations of the study. This section covers the reinsurance industry background.

- Chapter 3: Literature review: In this chapter various dimensions of research on the resource-based view are discussed.

- Chapter 4: Research methodology: In this chapter the methodological paradigm and population sample are defined and the research design, data collection and analysis are discussed.

- Chapter 5: Research findings: This chapter summarizes the research results.

- Chapter 6: Discussions, conclusions and recommendations: In this chapter, results are discussed and conclusions are drawn. Then appropriate recommendations are given.
Chapter 2: Foundations for the study

The reinsurance industry provides insurance protection for insurance companies. Insurance companies are limited in their ability to underwrite large risks as they do not have unlimited capital. For example, an insurance company would not want to commit a large amount of capital on a single risk that is valued at R1 billion Rands. As a result of capital constraints, insurance companies consider what they can retain for each and every risk and buy reinsurance protection from reinsurers. Not only is the insurance company concerned about large risks but also an accumulation of what it retains in the event of a catastrophe. This calls for catastrophe reinsurance protection. On the basis of the determination of its probability of ruin, an insurance company would seek out reinsurance protection.

The reinsurance contract is legally construed as a separate contractual arrangement from the insurance policy that an insurance company issues to its policyholder. This is mainly driven by the fact that terms and conditions upon which the reinsurance contract is based may not necessarily be the same as the primary policy conditions. The relationship between the reinsurer and its client (i.e. an insurance company) is thus different from the business-to-individual relationship and each insurance company many have more than one reinsurer sharing its risk or reinsurance program. Figure 2.1 below shows the position of reinsurance in the insurance value chain.
The reinsurance business has not evolved very much over the last century and the non-life industry has been overly stagnant in terms of product innovation. The core principles, concepts and products (in the form of reinsurance forms or types) have remained unchanged. Alternative forms of reinsurance have not made any significant mark on the conventional reinsurance products. This is a reflection of an industry that offers pretty much the same products, a 'stalemated' industry in Kotler’s (1994) terminology, meaning that there are few potential advantages. This would therefore point towards non-product positioning and differentiation strategies for reinsurance companies. Resource exploitation would, thus, provide a competitive thrust for positioning and differentiation.
Of critical importance is the fact that the research is undertaken in an environment where the firm and client relationship is a business-to-business relationship (i.e. the reinsurers and their clients who are insurance companies), which calls for unique approaches to strategic positioning and differentiation. The customer expectations from a business-to-business relationship, and in this case a reinsurance relationship, is far greater than a firm-to-customer relationship due to the buyer’s increased knowledge of market dynamics, product knowledge and service delivery expectations. The driver for purchasing reinsurance from a particular reinsurance company is the reinsurer’s security rating as provided by the rating agencies such as Standard & Poor’s and Moody’s. The rating accorded a reinsurer is a measure of the reinsurer’s financial strength (i.e. its ability to meet its short term obligations). The buyers of reinsurance (i.e. insurance companies) have a preference towards quality security e.g. the minimum security requirements may be Standard & Poor’s BBB rating for reinsurance companies.

Whilst the driver for buying patterns is the quest for quality security, reinsurance companies on the other side are driven by the quest for value creation and return on invested capital. Though reinsurers are constrained in capital availability, the majority (4 of 6) South African reinsurance companies are subsidiaries of global parents who provide the financial backing. In most cases, the rating provided by the rating agencies is not on the local subsidiaries but the global parent. Though the financial backing by the financially sound global parent may constitute a competitive
advantage for some local players, the effect of capital rationing by the global parent based on profitability may further limit such an advantage.

The reinsurance business by its very nature is a global business based on the concept of spreading the risks. Thus the local industry is impacted by global events. For example the effect of the 2001 September 11 terrorist attacks in the United States was felt in the local market through increased prices for catastrophe covers and the non-availability of terrorist-related covers in the local market. The changing business environment (e.g. through legislative and solvency requirements and international financial reporting) and the effect of changing nature of risks (e.g. effects of global warming, climate changes, terrorism and increased natural events) has resulted in focused underwriting through scientific analysis and actuarial evaluation of risks.

This study takes the view that resources form the foundation a firm’s strategy, and the focus would therefore be on the application of the resource-based view strategy in the reinsurance industry in South Africa.
Chapter 3: Literature review

The first part of the review discusses various dimensions of research on the resource-based view with in order to develop an understanding of resource and capability dimensions and characteristics that are perceived to be a source of sustainable competitive advantage, and thus form a foundation for a competitive or corporate strategy. This part of the literature review presents the conceptual nature of studies on the resource-based view. Also the criticisms of some dimensions of the resource-based view are addressed.

The second part of this chapter covers the empirical studies undertaken from a resource-based perspective, in order to identify research gaps in these empirical studies and thus paving way for the positioning of this study. Taking into consideration dimensions of the resource-based view, a conceptual model for strategic positioning and differentiation is developed in the third part of this chapter. Finally, the chapter concludes with a discussion on the research propositions that are laid down for this study.

3.1 Conceptual studies

While the industry framework views sources of profitability to be the characteristics of the industry as well as the firm’s position within the industry, the resource-based view holds that the type, magnitude and nature of resources and capabilities are important determinants of a firm’s profitability (Amit & Schoemaker, 1993; Collis &
Montgomery, 1995). The resource-based perspective sees a firm as a collection of resources and capabilities required for product/market competition and it focuses on factor markets imperfections and highlights the heterogeneity of firms, their varying degrees of specialisation, and the limited transferability of corporate resources (Amit & Schoemaker, 1993). Wernerfelt (1984) notes that firms may be seen as a broader set of resources and that the resource perspective provides a basis for addressing some key issues in the formulation of strategy.

It is notable within the volumes of strategic management research, that there has been a paradigm shift in the focus of the research from industry/market factors as determinants of competitive strategy to a resource-based view which highlights how the deployment of unique organisational resources and capabilities can result in sustained superior performance (Rouse & Daellenbach, 1999).

accumulation (Dierickx & Cool, 1989), resources as drivers of firm performance and sustainable competitive advantage (Conner, 1991; Lado, Boyd & Wright, 1992; Peteraf, 1993; Collis 1994; Robins & Wiersema, 1995); resources as foundation of strategy execution and implementation (Grant 1991; Hall, 1993; Fahy & Smithee, 1999); core competencies (Prahalad & Hamel, 1990); competitive organisational behaviour (Barney & Zajac, 1994; Henderson & Cockburn, 1994; Levinthal & Myatt, 1994), and knowledge base and business processes as resources (Adner & Helfat, 2003; Coff, 2003; Makadok, 2003; Day, Barney & Muhanna, 2004).

The resource-based perspective emphasizes firm-specific capabilities and assets and the existence of isolating mechanisms as the fundamental determinants of firm performance (Teece et al, 1997). On attractiveness of resources, Wernerfelt (1984) notes that what a firm wants is to create a situation where its own resource position directly or indirectly makes it more difficult for others to catch up. In similar view, Conner (1991) notes that the resource-based approach to strategic management focuses on costly-to-copy attributes of the firm as sources of economic rents and, therefore, as the fundamental drivers of performance and competitive advantage. Economic rents are profits which are a result of the presence of superior productive factors which are limited in supply. The resource-based theory holds that performance differentials between firms depend to a significant measure on possession of unique inputs and capabilities (Conner, 1991)
The core notions of strategy as a fit between the internal competencies of the firm and external opportunities incorporate a resource-based perspective. The central elements of the resource-based theory are that the ultimate objective of the above normal returns and obtaining such returns requires that:

- the firm's product to be distinctive in the eyes of the buyers (offer dissimilar and attractive attributes or price relationship in comparison to substitutes);
- the firm selling an identical product in comparison to the competitor must have a low cost position. Distinctness in product offering or low costs is tied directly to distinctiveness in the resources used to produce the product/service (Conner, 1991).

Conner (1991) notes that the resource-based theory recognises the power of the revolutionary innovation to shift market positions. In addition, the resource-based theory sees returns as resulting primarily from the acumen or luck of the firm in acquiring, combining and deploying resources, rather than the structure of the industry in which the firm finds itself. The primary attention within the resource-based framework has been given to the identification of:

- inputs able to generate economic rents: external constraints (conditions of demand relevant to product; public policy; and competitor action) and internal constraints (past linked resource endowments) affect the ability of inputs when employed to generate rent.
• input characteristics associated with long-lived rents such as time compression diseconomies, asset mass efficiencies and interconnectedness of asset stock barrier to imitation.

The conceptual nature of the research points to the conclusion that the resource-based view is very much concerned with firm’s internal resources and how it can leverage these resources to outperform competitors. It is built upon the theory that a firm’s success is largely determined by the resources it owns and controls (Grant, 1991; Day, 1994; Barney, 1995; Collis & Montgomery, 1995; Chaharbaghi & Lynch, 1999; Fahy & Smithee, 1999; Spanos & Lioukas, 2001; Fahy, 2002; Galbreath, 2005). Spanos and Lioukas (2001) note that the resource-based view is based on two assumptions:

• that resources on which firms base their strategies are heterogeneous and;
• that resources and capabilities are perfectly immobile between firms.

3.1.1 Resource characteristics and competitive advantage

It is notable that resources should possess certain special characteristics in order to create a sustainable competitive advantage upon which superior firm performance can be based (Grant, 1991; Collis & Montgomery, 1995; Fahy & Smithee, 1999; Galbreath, 2005). Grant (1991) notes that, the absence of competitive advantage is a consequence of the resources required to compete. Resource-based approaches to the theory of competitive advantage point towards four characteristics of resources and capabilities which are likely to be important determinants of
sustainable competitive advantage: durability, transparency, transferability, and replicability (Grant, 1991).

The prescriptive nature of the resource-based view holds only when resources are rare, valuable, inimitable, non-substitutable, immobile, non-tradable, functionally dissimilar, and are capable of generating and sustaining competitive advantage which affords accrual of superior performance (Dierickx & Cool, 1989; Barney, 1991; Amit & Schoemaker, 1993; Peteraf 1993; Collis, 1994; Collis & Montgomery, 1995; Fahy & Smithee, 1999; Barney, Wright & Ketchen, 2001; Peteraf & Bergen, 2003; Galbreath, 2005). A resource is valuable when it enables a firm to improve its market position relative to competitors e.g. resources acquired at below their net present value can generate profits that do not attract entry (Peteraf, 1993). A resource is rare if it is in short supply relative to demand. A resource is isolated from imitation or substitution if it is immobile and costly to imitate (Hoopes, Madsen & Walker, 2003). Hoopes et al, (2003) note that only value and inimitability are ultimately important. The three general isolating mechanisms that prevent imitation of resources and capabilities are: property rights, learning and development costs and causal ambiguity. Resource complementarities allow firms to learn new and valuable capabilities (Barney, Wright & Ketchen Jr., 2001).

Competitive advantage from a resource-based model is viewed from the perspective of the distinctive competencies that give a firm an edge over its rivals (Lado, Boyd & Wright, 1992; Amit & Shoemaker, 1993). Sustained competitive advantage is based
on the premise that firm-specific competencies are potential rent-yielding strategic assets and such competencies are consciously and systematically developed by wilful choices and actions of the firm’s strategic leaders (Lado et al 1992; Teece et al 1997).

Lado et al’s (1992) competency-based model for sustainable competitive advantage links four sources of competencies: managerial competencies and strategic focus, resource-based, transformation based and output-based competencies. The model is premised on the fact that managerial competencies and strategic focus are largely responsible for attracting specialized resources that are synergistically combined, transformed, and channelled to select clients in such ways as to generate a sustainable competitive advantage to the firm (Lado et al, 1992).

Peteraf’s (1993) model of competitive advantage is based on four underlying conditions that must be met. These are resource heterogeneity (from which come Ricardian or monopoly rents), ex post limits to competition (necessary to sustain the rents), imperfect resource mobility (to ensure that rents are bound to the firm and shared by it) and ex ante limits to competition (to prevent costs from offsetting the rents). For competitive advantage to be achieved, heterogeneity must be relatively durable to add value and ex post limits to competition must be in place through imperfect imitability and imperfect substitutability (Barney, 1986; Dierickx & Cool, 1989; Barney, 1991; Grant 1991; Peteraf, 1993). Imperfect immobility renders resources non-tradable through being specialized, firm-specific and idiosyncratic to
the extent that they have no use outside the firm and, exceedingly high transaction costs associated with their transfer (Dierickx & Cool, 1989). Dierickx and Cool (1989) note that sustainability for a firm’s asset position hinges on how easily assets can be imitated or substituted. Imitation barriers are noted in the form of the characteristics of the asset accumulation process namely: time compression diseconomies (decreasing returns to the fixed factor time), asset mass efficiencies (historical success translating into favourable stock positions which in turn facilitate further stock accumulation), interconnectedness of asset stocks (accumulating increments in an existing stock on the basis of the level of other stocks), asset erosion (decay of stocks due to lack of maintenance expenditures) and casual ambiguity (process of stock accumulation is not necessarily deterministic and continuous but rather stochastic and discontinuous).

Critical to competitive advantage and sustainability of the advantage is the characteristics of firm resources and capabilities (i.e. strategic assets) upon which competitive advantage is built such as: complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors Amit & Schoemaker, (1993). Barney (1989, 1991, 1995) notes the essential characteristics as: value, rareness, imitability and organisation.

Sources of competitive advantage can be viewed as four types of capability differentials namely (Hall, 1992):
• functional differential (knowledge, skill and experience of employees; value chain relationships)
• positional differential (a consequence of past actions which has produced some benefits e.g. reputation with customers; advantageous location of facilities)
• cultural differential (habits, attitude, beliefs and values which permeates the individuals and groups which comprise the organisation)
• regulatory differential (results from the possession of legal entities such as property rights, contracts, trade secrets)

Functional and cultural differentials are based on competencies whilst positional and regulatory differential are based on assets which the business owns.

Environmental changes in the form of consumer tastes, industry structure, and technology changes can render a firm’s resources and capabilities less valuable in future and only few of a firm’s resources remain valuable in any environmental context (Barney, 1995). Notable is Barney’s (1995) view that creating a sustainable competitive advantage depends on the unique resources and capabilities that a firm brings to competition in its environment rather than simply focusing on business in a high –opportunity, low-threat environments. In Peteraf & Bergen’s (2003) market-based and resource-based framework for broad competitor identification it notable that environmental changes set in motion a requirement for different sets of strategic assets to be developed. Managerial decision about investment in strategic assets faces the daunting tasks of:
• uncertainty about the economic, industry, regulatory, social & technological environments; competitor behaviour; customer preferences

• complexity concerning the interrelated causes that shape the firm’s environments; the competitive interactions ensuing from differing perceptions about these environments

• intra-organisational conflicts among those who make managerial decisions and those affected by them (Amit & Schoemaker, 1993)

Peteraf & Bergen (2003) take the resource-based view to another level by advancing the resource-based theory as a theory of competitive advantage. Peteraf & Bergen’s (2003) argument is based on the fact that resource substitution is not only about the sustainability of competitive advantage but also on the attainment of competitive advantage as well. Resource scarcity should be assessed in terms of resource functionality rather than resource type. When perfect substitutes are available, neither rareness nor uniqueness of resource type is a limiting factor. The value of a resource derives from its application in products markets. It traces back from the ultimate satisfaction of customer needs. Resource substitution has a more fundamental effect, attacking resource value as well as scarcity. The limiting factor is not resource scarcity but scarcity in terms of resource function or use.

Peteraf & Bergen (2003) address a common criticism of the resource-based view that it is insufficiently connected to the market by drawing out a connection between the resource-side analysis to its market side counterpart. They note that capabilities
should not be defined in terms of resource types but in terms of the functions they serve.

3.1.2 Resource configuration

Differences in the attainment of success levels between firms are cumulatively attributed to the height of resource position barriers or barriers to duplication (Fahy, 2002; Galbreath, 2005). Various scholars agree that organisational resources can be protected from competitor duplication via legal property rights (Dierickx & Cool, 1989; Hall, 1992, 1993; Galbreath, 2005). Organisational assets, which may also be intangible assets, can resist the duplication efforts by competitors, for example, through contracts, franchise and licensing agreements. As can be noted in Table 3.1 below, various scholars make note of several barriers to resource duplication.
<table>
<thead>
<tr>
<th>Author</th>
<th>Barriers to resource duplication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lippman and Rumelt (1982)</td>
<td>Uncertain inimitability</td>
</tr>
<tr>
<td>Reed and DeFillippi (1990)</td>
<td>Complexity, tacitness and specificity</td>
</tr>
<tr>
<td>Rumelt (1984; 1987)</td>
<td>Communication, good effects, economies of scale, information impactedness, producer learning, reputation, response lags</td>
</tr>
<tr>
<td>Coyne (1986)</td>
<td>Business system gaps, managerial gaps, position gaps, regulatory gaps</td>
</tr>
<tr>
<td>Hall (1992; 1993)</td>
<td>Cultural differentials, functional differentials, positional differentials, regulatory differentials</td>
</tr>
<tr>
<td>Dierickx and Cool (1989)</td>
<td>Asset erosion, asset mass efficiencies, causal ambiguity, interconnectedness of asset stocks, time compression diseconomies</td>
</tr>
</tbody>
</table>

Source: Fahy & Smithee (1999)

O’Regan & Ghobadian (2004) note that degree of complexity of the current changing environment is driving firms to seek new ways of conducting business to create wealth. They further note that studies focusing on the resource-based view of strategy contend that competitive advantage arises from organisational capabilities. They contend that generic capabilities are present in most firms and have positive association with both strategy and overall organisation performance. It is the way resources are configured and not capabilities that is a source of competitive advantage, argues O’Regan & Ghobadian (2004). Configuration is specific to each organisation and will relate to their corporate strategic thinking. The source of
competitive advantage within a firm is often multifactorial in that it usually cannot be attributed to only one type of resource but many (O'Regan & Ghobadian, 2004).

3.1.3 Resources and distinctive competencies

Teece et al (1997) organise determinants of a firm’s distinctive competence and dynamic capabilities into three categories namely: processes (organisational and managerial processes, coordination/integration, learning, reconfiguration and transformation); positions (technological assets, complementary assets, financial assets, reputational assets, structural assets, institutional assets, market (structure) assets and organisational boundaries) and paths (path dependencies, technological opportunities, and assessment). Organisational processes are shaped by the firm’s asset positions and moulded by its evolutionary and co-evolutionary paths it has adopted/inherited (Teece et al, 1997).

Economic prosperity rests upon knowledge and its useful application. The increase in the stock of useful knowledge and the extension of its application are the essence of modern economic growth. While knowledge assets are grounded in the experience and expertise of individuals, firms provide the physical, social and resource allocation structure so that knowledge can be shaped into competencies (Teece 1998). Competitive advantage of firms in today’s economy stems not from the market position, but from difficult to replicate knowledge assets and the manner in which they are deployed (Teece 1998).
3.1.4 Resources and strategy

The determinants of firm-level profitability include characteristics of the industry within which the firm competes; the firm’s position relative to its competitors and the quality or quantity of the firm’s resources (Hansen & Wernerfelt, 1989). Firms would therefore build their strategies on path-dependent, causally ambiguous, socially complex and intangible assets (Hansen & Wernerfelt, 1989; Barney 2001). Similarly, Collis & Montgomery (1995) are of the view that for a resource to qualify as the basis for an effective strategy, it must pass a number of external tests for its value, namely: test of inimitability (physical uniqueness, path dependent, causally ambiguous, economic deterrence), test of durability, test of appropriability, test of substitutability, and test of competitive superiority.

Existence and maintenance of rents depend upon lack of competition in either acquiring or developing complementary resources. As strategy formulation begins with an appraisal of organisational competencies and resources, a firm selects its strategy to generate rents based on its resources and capabilities which are distinctive or superior relative to those of rivals (Mahoney & Pandian, 1992; Peteraf, 1993). A firm’s unique capabilities in terms of technical know-how and managerial ability are important sources of heterogeneity that may result in sustained competitive advantage (Mahoney & Pandian, 1992). For example, Mahoney & Pandian (1992) argue that the resource-based view approach to diversification is essential in that it considers: limits to growth (e.g. resource constraints such as shortage of labour or physical inputs, shortage of finance, lack of suitable investment
opportunities, and lack of managerial capacity); motivation for growth (e.g. unused human expertise, excess physical capacity); the theoretical perspective for predicting direction from diversification (e.g. nature of available resources and market opportunities in the environment); and also provides a theoretical rationale for predicting superior performance for certain categories of related diversification (e.g. focus firm effects, firm-specificity of resources). Mahoney & Pandian (1992) further argues that sustainability of rents is a function of barriers to imitation.

Resources cannot be evaluated in isolation as their value is determined by the interplay with market forces (Collis & Montgomery, 1995). Thus, the resource-based view links a firm’s internal capabilities and its external industry. Investment in core competencies whilst disregarding the competitive dynamics that determine industry attractiveness is dangerous. Therefore there is a need to upgrade resources beyond what the company is good at and also develop alternative resources that are threatening the firm’s current capabilities (Collis & Montgomery, 1995). Collis & Montgomery (1995) further note that good corporate strategy calls for continual assessment of the company scope i.e. how far can the firm’s valuable resource be extended across markets.

Lado et al (1992) use the term strategic selection to emphasize the fact that it is the pattern of strategic decisions and actions that determines organisational survival and renewal. They argue that what constitute good fortune or luck may be alternatively conceived as the point at which stochastic opportunity and acquired/cultivated firm-
specific resources meet. Strategic selection focuses attention on organisational variables that are important for creating and sustaining competitive advantage and this approach recognizes managerial proactiveness in influencing business performance (Lado et al., 1992). Similarly, Teece et al (1997), note that the choices about domains of competence are influenced by past choices as firms must follow a certain trajectory or path of competence development.

Chaharbaghi & Lynch (1999) introduce the term strategic advantage to describe an organisation’s dynamic and unique resources that determine its competitive renewal. They argue that since competitive advantage is limiting, as it is a static concept based on post rationalisation, strategic advantage on the other hand encompasses a broader perspective whereby it:

- provides the organisation with the unique ability to develop strategic direction that create new opportunities and shapes the future of its competitive environment
- represents the source of resource leadership in one or more product markets

Chaharbaghi & Lynch (1999) classify resources as strategic, competitive, base and peripheral. Strategy is thus considered not only in terms of efficient and effective application of competitive resources but also the exploitation of potential capabilities provided by strategic resources.

It is argued that for most strategies, management skill will be a resource required for successful implementation (Barney, 1986). Apparent sources of advantage in
strategy implementation are in fact a manifestation of special insights into the future value of strategies or a manifestation of a firm’s fortune and luck. Adner & Helfat (2001) note that through the concept of dynamic managerial capabilities, managers build, integrate and reconfigure organisational resources and competencies and that leadership by an individual may be a central element in the more general dynamic capability of an organisation on corporate influence on profitability.

3.1.5 Conclusion

It is notable that the conceptual nature of the studies establishes the critical dimensions/premises of the resource-based theory namely:

- That the resource paradigm is concerned with resources as the basis of competitive strategy.
- That not all resources and capabilities are a source of competitive advantage but those that meet certain characteristics or tests such as: rareness, value, inimitability, non-substitutability, durability, transparent, low tradability, appropriability and complementarity
- That resource heterogeneity and configuration will determine inter-firm differences in profitability

3.1.6 Criticism of resource-based view

Some criticism has been levelled against the resource-based view paradigm. Hoopes et al (2003) note that the research on resource-based view strengthens its position as the dominant explanation for interfirm differences but empirical research
has not evolved in an accretive way. Hoopes et al (2003) argue that the resource-based view is one of the many explanations of intra-industry differences and that resource-based view’s accomplishments are clearer when viewed as part of a larger theory of competitive heterogeneity (i.e. the enduring and systematic differences among relatively close rivals). Resources and capabilities as one potential source of competitive heterogeneity play a key role but do not explain all persistent performance differences. Variation in the incumbent firm’s growth cycle rates (driven by rates of innovation, imitation and expansion) coupled with variation in the entrants’ growth cycle rates determine the heterogeneity in market positions during an industry’s growth stage (Hoopes et al, 2003).

Despite providing a compelling argument on resource functionality, Peteraf & Bergen (2003) advance a weakness of the resource-based view in competitor analysis. A misapplication can lead managers to attend only to rivals with resources similar to their own if managers disregard the fact that competition can be viewed from different frontiers such as input markets, output market and the value chain. Through capability equivalence (i.e. extent to which a given firm has resource bundles comparable to those of the focal firm, in terms of their ability to satisfy customer needs), firms can elicit a comparison of capabilities in terms of satisfaction levels it requires one to assess how well a rival can meet a given set of customer needs relative to the focal firm rather that focusing on resource types (Peteraf & Bergen, 2003).
Despite organisational capabilities being a source of competitive advantage, they are vulnerable to threats of erosion, substitution, and can be superseded by a higher-order capability Collis (1994). The problem with organisational capabilities as sources of competitive advantage is with prediction and explanation. Collis (1994) notes three reasons why a position of competitive advantage that an organisational capability can generate today will not be sustained even if it the capability is itself inimitable. These are: erosion of the capability as the firm adapts to external or competitive changes; replacement by a different capability; and being surpassed by a better capability. One barrier to imitation of socially complex capabilities that are accumulated over time in networks of tacit knowledge and interpersonal relationships is their causal ambiguity (Barney, 1991; Lado et al, 1992; Amit & Shoemaker, 1993). Collis (1994) argues that causal ambiguity cannot be a source of sustainable advantage as it requires no one to understand the causes of its ambiguity. Thus, sustainability of a capability that is causally ambiguous is therefore likely to be of limited duration and adaptation, and is likely to be competence-destroying rather than competence enhancing. Collis (1994) further adds that organisational capabilities are peculiarly vulnerable to the threat of substitution because their variety is almost infinite.

Levinthal & Myatt (1994) observe that the characterisation of what constitutes a valuable resource or capability tend to be ex post and that the literature on resource-based view has far less to say about the emergence of the distinctive competencies. Also notable is their observation that strategy research has excessively tended to be
firm-centred analyses at the expense of industry dynamics and their impact on resources.

Chaharbaghi & Lynch (1999) mention that the concept of sustainable competitive advantage and the resource-based view limits the organisation in understanding the full nature and dynamics of strategy for the following reasons:

- Sustainable competitive advantage is a journey and not a destination
- Resource-based view strives to identify and nurture resources that enable organisations to develop competitive advantage, the primary analysis being on the existing resources, which are treated, as static and unchanging, but dynamic environments ceaselessly call for a new generation of resources as the context shifts.

Chaharbaghi & Lynch (1999) emphasizes the need for an organisation to focus on its existing resources in exploiting current business opportunities and at the same time develop a new generation of resources in order to sustain its competitiveness. The speed at which the uniqueness of the resources of an organisation becomes accessible dictates the speed at which the competitive advantage of an organisation diminishes. They consider sustainability as a dynamic process rather than a static concept.

Cockburn, Henderson & Stern (2000) argue that origin of sources of competitive advantage lie in the unusual foresight or ability of the firm’s managers. They further
argue that resource-based view and the environmental perspective are complementary rather than alternative to each other. While the environmental perspective focuses attention on external industry structure, the resource-based view is based on the fact that internal capabilities and investments provide instruments and tools to shape the environment.

In conclusion, the foregoing criticism of the resource-based view introduces a compelling dimension in which resources and capabilities have to be viewed in light of ability to create and sustain competitive advantage in a ceaselessly changing internal and external environment.

This study shall seek to identify the extent to which such dynamics impact on how firm’s strategically position and differentiate themselves on the basis of resources.

3.2 Empirical studies
Most research on the resource-based view has tended to focus on the conceptual aspect of the resource-based, with fewer publications using an empirical approach. These cases deal with various dimensions of the resource-based view of the firm. Notable dimensions within the literature are: testing of an integrative framework for resources on 60 Fortune 1000 companies (Hansen & Wernerfelt, 1989); case examples in developing a resource-based approach in strategy formulation and implementation (Grant, 1991); survey of CEOs to determine the relative contribution which each intangible resource makes to the success of business (Hall, 1992);
developing and testing a framework based on positive feedback effects of market activity applied to the emergence of competitive positions in the Mutual fund processing environment (Levinthal & Myatt, 1994); corporate strategy (Robins & Wiersema, 1995); measuring the importance of organisational competence in the pharmaceutical industry (Henderson & Cockburn, 1994) diversification (Markides & Williams, 1996); complementarities between resources (Mauri & Michaels, 1998); capabilities with Small-Medium Enterprise (Rangone, 1999); reconciling the origins of competitive advantage in the pharmaceutical industry (Cockburn, Hendersen & Stern, 2000); relative extent of change (Karim & Eisenhardt, 2000); emerging markets (Gullen, 2000); capabilities and Multinational corporations (Hult & Ketchen Jr, 2001); globalisation (Fahy, 2002); managerial capabilities in the US petroleum industry (Adner & Helfat, 2003); organisational capabilities in the achievement of overall firm performance and competitive advantage (O’Regan & Ghobadian, 2004); business processes (Day, Barney & Muhanna, 2004); and new research approach on resource-based view (Galbreath, 2005). Notable with the above cases is that specific issues such as the type of resources that underpin the firm strategies; how the resources are used staking out a market position and resource heterogeneity in a specific industry are not adequately dealt with.

In light of the above it is necessary to focus this study on the application of the resource-based approach to strategic positioning and differentiation. Though the emerging market study (Gullen, 2000) is illustrative, the South African reinsurance
industry, by the very nature of its uniqueness as detailed in the introduction and foundations for the study, has the making for an informative study.

3.3 Conceptual model of the resource-based view for strategic positioning and differentiation.

The concepts of the resource-based view covered above as researched by various scholars are the basis of the following conceptual model developed (Figure 3.1). The model is based on the fact that the firm’s key resources, namely tangible assets, intangible assets and capabilities, will underpin any choice of strategic option. Strategy selection is based on careful evaluation of available resources (Spanos & Lioukas, 2001). As has been noted by Fahy & Smithee (1999), the resource based view has been adopted as a framework for describing dimensions of positioning strategy and it focuses attention on the ability of the firm to deliver on its desired positioning strategy. Thus, resource based view, enables a firm to understand the resources that underpin its desired alternative positioning strategies. The deployment of the resources will create a source of competitive advantage. The sustainability of the competitive advantage will be determined by the resource configuration (i.e. mainly the extent to which barriers to resource duplication are configured, to maintain the value, rareness, inimitability and non-substitutability of the resources). The sustainable competitive advantage created should be focused towards creating customer value, upon which firms can strategically position and differentiate themselves. The resultant strategic position should mean increased market share, superior returns and profitability. It is therefore the researcher's
intention to test this model in the reinsurance industry on the backdrop of the propositions develop below.

**Figure 3.1 Resource based model for strategic positioning and differentiation**

<table>
<thead>
<tr>
<th>Strategic Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cost leadership</td>
</tr>
<tr>
<td>• Differentiation</td>
</tr>
<tr>
<td>• Focus</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tangible assets</td>
</tr>
<tr>
<td>• Intangible assets</td>
</tr>
<tr>
<td>• Capabilities</td>
</tr>
</tbody>
</table>

Resource deployment

<table>
<thead>
<tr>
<th>Sustainable Competitive Advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Value Creation</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strategic Position/ Differentiation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Superior Performance</td>
</tr>
<tr>
<td>• Market share</td>
</tr>
<tr>
<td>• Profitability</td>
</tr>
</tbody>
</table>

Source: Adapted from Fahy and Smithee (1999)

### 3.4 Research propositions

The resource-based view of competitive advantage, which examines the link between a firm’s internal characteristics and performance, is based on the following assumptions (Barney, 1991):
• that firms within an industry may be heterogeneous with respect to strategic resources they control.
• that these resources may not be perfectly mobile across firms and thus heterogeneity can be long lasting.

Grant (1991) notes that the case for making resources and capabilities the foundation of a firm’s long-term strategy is based on the fact that internal resources and capabilities provide the basic direction for a firm’s strategy and; that resources and capabilities are the primary source of profit for the firm. In this light the following proposition is developed:

**Proposition 1**

Availability and type of resources determines a firm’s choice of strategic direction and will significantly impacts on its ability to strategically position and differentiate itself.

Unique resources and idiosyncratic processes derive heterogeneity among firms (Mauri & Michaels, 1998). In developing their strategies, firms will consider their resources and capabilities and chart out a strategy based on the availability and uniqueness of such resources. Fundamental to the choice of strategic positioning based on either cost or differentiation advantage is the resource position of the firm (Grant 1991). Thus the following proposition is developed
**Proposition 2**

Uniqueness in a firm’s resources is a source of competitive advantage, which drives the firm’s strategy.

Through path-dependencies, firms accumulate resources (Dierickx & Cool, 1989) and also choose specific actions to develop core competencies (Prahalad & Hamel, 1990). To avoid competency traps (where routines or actions that led to good performance in the past are used repeated) (Karim & Mitchell, 2000), firms should focus on creating dynamic capabilities (Eisenhardt & Martin, 2000) which form the basis of evolving resources for sustainable competitive advantage and successful strategy. As further noted by Collis & Montgomery (1995), sustainable competitive advantage can be gained only by leveraging and combining competitively distinctive resources. O’Regan & Ghobadian (2004) comment that it is the way that resources are configured and not capabilities that is the source of competitive advantage. Configuration is specific to each organisation and will relate to their corporate strategic thinking. They further note that temporary advantage can be achieved by constant resource reconfiguration to meet changing market demands. In this light the following proposition is developed:

**Proposition 3:**

Sustainable competitive advantage deriving from constant resource configuration to meet changing market demands determines a firm’s ability to strategically position and differentiate itself.
Chapter 4: Research methodology

4.1 Methodological paradigm

Neuman (1997) notes that a paradigm can be seen as a basic orientation to theory and research of which two exist, namely qualitative and quantitative. The qualitative approach is used for this study. Leedy (1997: 105) defines qualitative study as “inquiry process of understanding a social or human problem, based on building a complex, holistic picture formed with words, reporting detailed views of informants, and conducted in a natural setting”

Leedy (1997) notes the characteristics of qualitative approach as follows:

- The purpose of research is to describe and explain, explore and interpret, build theory and is process oriented.
- The nature of the research process is holistic with unknown variable, flexible guidelines and is context-bound.
- The methods of data collection are informative, small sample observations and interviews.
- The form of reasoning used in analysis is inductive analysis.
- The findings are communicated in words, narratives, individual quotes personal voice and uses literary style.

It is notable that the strength of qualitative research is its inductive approach, focus on specific situations and emphasis on words rather than numbers (Maxwell 1996).
Maxwell (1996) is of the view that the strength of qualitative research lies in the research purposes for which it is especially suited. He notes five particular research purposes for which qualitative studies are especially suited: understanding the meaning of events, situations and actions for which participants are involved with; understanding the particular context within which participants act and the influence that the context has on their actions; identifying unanticipated phenomena and influences, and generating grounded theories about the latter; understanding the process by which events and activities take place and; developing causal explanations.

4.2 Research design

According to Cooper & Schindler (2003), the essential elements of research design are:

- Activity and time-based plan
- Always based on the research question
- Guiding the selection of sources and types of information
- A framework for specifying the relationships among the study’s variables
- An outline of procedures for every research activity.

The design provides answers to questions of what techniques will be used in gathering data; what kind of sampling would be used; how issues of time and cost constraints will be dealt with and how the results will be analysed (Yin, 1994; Cooper & Schindler, 2003). The research design of this descriptive study is in the form of a
case study as this is ideal for focusing on issues within the non-life reinsurance industry. As noted by Yin (1994), case studies are the preferred strategy when the “how” and “why” questions are posed. The strengths of the case study research lie in its “high construct validity; in-depth insights and establishing rapport with research subject” (Mouton, 2005: 150). Despite its strengths, notable with case-study research are limitations such as “lack of generalisabilty of results; non-standardisation of measurement; data collection and analysis can be very time-consuming” (Mouton, 2005: 150). In addition to these limitations is its main source of error namely: potential bias of researcher and lack of rigour in analysis (Mouton, 2005).

4.3 Population and sample

De Ruyter & Scholl (1998: 8) comment that “qualitative research can first of all be characterised by the use of small samples” and that the “representativeness of results in accordance with the subject of investigation, not the research population, is what counts”. Though the reinsurance industry in South Africa is made up of a few companies, it is the researcher’s choice to select the ones that he believes will make a substantial value to the study. The population, i.e. the reinsurance industry in South Africa, consists of 7 reinsurance companies namely:

- Munich Reinsurance Company of Africa Limited.
- Swiss Reinsurance Southern Africa Limited.
- Hanover Reinsurance Company Limited.
- General and Cologne Reinsurance Company Limited.
• Africa Reinsurance Corporation.
• Southern Reinsurance Company Limited (formerly Zimbabwe Reinsurance Corporation).
• SaXum Reinsurance Company (formerly Gerling Global)

A purposive non-probability sampling frame is used for the study in selecting six companies, which make up the sample. One company, namely Southern Reinsurance Company Limited (formerly Zimbabwe Reinsurance Corporation), which is under insolvency and run-off, is not included. The sample therefore is made up of the following:
• Munich Reinsurance Company of Africa Limited.
• Swiss Reinsurance Southern Africa Limited.
• Hanover Reinsurance Company Limited.
• General and Cologne Reinsurance Company Limited.
• Africa Reinsurance Corporation.
• Saxum Reinsurance Company (formerly Gerling Global).

With each selected company, the executive head of non-life business was interviewed for an hour. The choice of the senior executive was based on the fact that he/she is familiar with the dynamics of the business and more specific issues on resources and resource configuration attributable to each firm’s positioning and differentiation strategies.
4.4 Data collection and measurement instrument

Within the design of a case study, various measuring instruments may be used to gather data required for analysis such as self-administered questionnaire, personal interview and phone interview (Cooper & Schindler, 2003). As noted by Yin (1994), evidence for case studies may come from six sources namely: documents; archival records; interviews; direct observation; participant-observation and physical artefacts. Yin (1994), further comments that most often neglected principles in data collection are using multiple sources of evidence, creation of a case study database and maintaining a chain of evidence. These principles are essential for high-quality case studies. This study is based on interviews, documents and archival records. Yin (1994) notes that the use of multiple source of evidence (i.e. triangulation) provides the development of converging lines of enquiry and addresses potential problems of construct validity. Figure 4.1 shows how the triangulation approach used in this study.
Cooper & Schindler (2003: 323) define a personal interview (i.e. face-to-face communication) as “a two-way conversation initiated by an interviewer to obtain information from a participant, with pronounced differences in roles between interviewer and participant where interviewer, gains and generally controls the topics and patterns of discussion”. The personal interviews were based on semi-structured open-ended question and were scheduled for one hour with each interviewee. Prior to the interview, participants were sent the questions at least five days in advance to help them prepare for the interview. Attached to the questions was a simplified view
of what the study entails. The choice of personal interviews is based on the advantages such as (Yin, 1994; Cooper & Schindler, 2003):

- Good cooperation from respondents can result in depth of information and detail being secured.
- Interviewer can clarify questions and use follow up questions and gather information by observation.
- Interviewer can pre-screen respondents to ensure they fit the population profile.
- Special audio and visual aids and scoring devices can be used.
- Interviews are targeted- they focus directly on the case study topic.
- Interviews are insightful- they provide perceived causal inferences.

Despite these advantages, it is appropriate to acknowledge that personal interviews have disadvantages/weaknesses too. As noted by Yin (1994) and Cooper & Schindler (2003), these are:

- Time constraints for both interviewer and interviewee
- High costs
- Follow-ups may not be possible
- Questions may be altered or respondents coached by interviewers
- Requires highly trained interviewers
- Bias due to poorly constructed questions
- Response bias
- Reflexivity- interviewee gives what interviewer wants to hear
- Inaccuracies due to poor recall
The objectives of the interview process based on Appendix B was to:

- Identify dependency on resource by firms in strategically positioning and differentiating themselves;
- Determine whether there is heterogeneity in resources in the reinsurance industry;
- Determine which resources form the foundation of their strategies;
- Determine how critical resource configuration is to successful strategy formulation and implementation;
- Determine how resources are configured to create competitive advantage and the impact of path-dependent processes on resource development.

Yin (1994) notes that documentary information may take many forms and should be the object of explicit data collection plans. Its important use is to corroborate and augment evidence from other sources. The strengths of using documentary evidence, as noted by Yin (1994) are that it is stable (can be reviewed repeatedly), unobtrusive (not created as a result of case study) and affords broad coverage (long span of time, many events and many settings). Its weakness is irretrievability, biased selectivity, reporting bias (author’s view) and access may be blocked. The objective of using documentary evidence was to understand the dynamics of the strategies of each company and how resources and capabilities have impacted on the formulation or implementation of their strategies.
Archival records can take many forms such as service records, organisational records, and survey data. As noted by Yin (1994), it is essential to be cognisant of the fact that most archival records were produced for a specific purpose and target audience. The archival records enjoy the same strengths and suffer from similar weaknesses as the documentary evidence discussed above. The focus on archival records was to understand historical imperatives on company resources (i.e. resource development and impact on performance).

4.5 Data analysis

The data analysis is qualitative as its purpose is to describe, decode, explain and interpret information as well as build on theory. As noted by Mouton (2005), case study research analysis lends itself to analytical induction or grounded theory approach. It is noted by Leedy (1997) that the analysis of data gathered through case study research lends itself to following three approaches:

- Interpretational analysis, which is examining the data for, constructs, themes and patterns that can be used to describe and explain the phenomenon that is being studied.
- Structural analysis, which refers to searching for patterns inherent in discourse, text, events, or other phenomena, with little or no inference, made as to the meaning of patterns.
- Reflexive analysis, which refers to using primarily intuition and judgment to portray or evaluate the phenomenon.
Cooper & Schindler (2003) posit that data emerging from the personal interviews can be analysed at three levels namely: descriptive, exploratory and explanatory. The analysis of data for this study is primarily inductive (interpretational, descriptive and explanatory).
5 Chapter 5 Research findings/results

5.1 Introduction

As noted in Chapter 1, the purpose of this research is to investigate the extent to which the resources of a firm as a source of competitive advantage are the basis for strategic positioning in the reinsurance industry (i.e. the what, how and why of resources in strategy formulation and implementation in as far as strategic positioning and differentiation is concerned). The sub problems of this main problem have been identified as:

- First sub-problem: To identify the nature of resources reinsurance firms use in creating sustainable competitive advantage and how these resources are used as the foundation of strategy.

- Second sub-problem: To establish how and why reinsurance firms differ in resources.

- Third sub-problem: Establish how resource configuration enables firms to strategically position and differentiate themselves in the reinsurance industry.

Allied to the above main problem and sub-problems are the research propositions for this study, which are:

- Proposition 1: Availability and type of resources determines a firm’s choice of strategic direction and will significantly impacts on its ability to strategically position and differentiate itself.
• Proposition 2: Uniqueness in a firm’s resources is a source of competitive advantage, which drives the firm’s strategy.

• Proposition 3: Sustainable competitive advantage deriving from constant resource configuration to meet changing market demands determines a firm’s ability to strategically position and differentiate itself.

In light of the above, this chapter, therefore, presents the findings of the research. As has been noted in Chapter 4, a triangulation approach was used to improve the validity (i.e. through the use of multiple sources of evidence). Primary data has been obtained through open-ended personal interviews with 3 CEOs and 3 Executive heads of non-life divisions. In addition to personal interviews, 10 company annual reports (Gen Re: 2000, 2002, 2004; Munich Re: 2002, 2003, 2004; Hannover Re: 2002, 2003, 2004; Swiss Re, 2004) were readily available and used. Archival records were not available. On the basis of the interviews undertaken as discussed in the research design and documents used (Annual Reports), the results are summarised in Table 5.1 below. Part 1 of Table 5.1 (Resource types and strategy) addresses sub-problem 1 and proposition 1 as it relates to resource types and availability, and their effect on company strategy. Part 2 addresses sub-problem 2 and proposition 2 as it relates homogeneity in resources. Part 3 addresses sub-problem 3 and proposition 3 as it relates to resource configuration.
## Table 5.1 Summary of results (6 interviews & 10 Annual reports)

<table>
<thead>
<tr>
<th>Questions</th>
<th>Interview Responses</th>
<th>Documents (Annual Reports)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part 1: Resource types and Strategy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>All interviewees pointed to people; capital; information systems; organisational culture as their critical resources. In addition to these, access to global networks by those who are subsidiaries of global companies was mentioned as a resource.</td>
<td>Annual reports reviewed make mention of how critical human resources and information systems are in achieving the desired financial results.</td>
</tr>
<tr>
<td>2 &amp; 3</td>
<td>The competitive advantage in human resources is in the expertise, knowledge, experience and relationships built with clients over time. From a systems point of view, internally developed risk modelling and pricing tools enables informed decisions to be taken on pricing in a relatively short space of time. The ability to price and justify the price provides a cutting edge for some reinsurers. The competitive advantage is protected through protecting the resources from which it derives e.g. human resources (continuous training &amp; competitive remuneration), information systems (through copyright &amp; continual upgrade), capital (through prudent underwriting &amp; investment)</td>
<td>Emphasis on adequately pricing a risk underlies the necessity of having risk modelling tools and technically qualified staff in risk assessment. Emphasis on prudent underwriting and achieving desired return is reflective of the extent to which capital as a resource can be protected from depletion or erosion. Shareholders as providers of capital have to earn a respectable return or else they withdraw their capital.</td>
</tr>
<tr>
<td>4 &amp; 5</td>
<td>All interviewees noted that resources (human, financial and information systems) define the strategic option each reinsurer chooses. Not only do these resources form the foundation of strategy but also define the implementation capability. “People deliver on the strategy and to do so, they need enabling systems and financial resources,” noted one interviewee. As also noted by one interviewee, “resource availability is a limiting factor on strategy formulation and implementation”.</td>
<td>The driver for strategy is noted in the emphasis of people as the most valued critical resources. Notable is such emphasis “Without our people we would not have achieved any of the successes mentioned above (Munich Re, 2005)</td>
</tr>
</tbody>
</table>
Table 5.1  Summary of results (6 interviews & 10 Annual reports)

<table>
<thead>
<tr>
<th>Questions</th>
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<tr>
<td>6 &amp; 8</td>
<td>Strategic positions given are based on: a particular business focus (non-proportional direct business; non-proportional for general business and proportional for speciality business; run-off business &amp; asset-liability matching); partnerships (partner in risk); leadership (leading reinsurer in Africa) and follower of lead reinsurers. Each reinsurer’s strategic position is driven by the reinsurers current resources (financial, human, systems, organisational culture)</td>
<td>Each reinsurer’s strategic position can be inferred from reference to partnerships and opinion leadership, emphasis on realignment of strategy to focus on particular businesses.</td>
</tr>
<tr>
<td>7 &amp; 9</td>
<td>Differentiation is mainly in terms of service delivery; relationships; flexibility and approachability; technical expertise and claims management. Each reinsurer’s differentiation basis is driven by the reinsurers current resources (financial, human, systems, organisational culture)</td>
<td>Emphasis on client eccentricity, service delivery and opinion leadership is indicative of a differentiation basis</td>
</tr>
</tbody>
</table>

**Part 2: Resource heterogeneity**

| 10        | Interviewees noted that competitor analysis with specific focus on resource endowments is essential since it:  
|           | • influences the level of resources for those in direct competition.  
|           | • influences the followers’ attitude to lead reinsurer when it comes to taking a line on a specialised program such as engineering, agriculture and contingency business.  
<p>|           | • defines the strategy on particular resources e.g. if it is costly to be develop similar resources (i.e. human) to competitors, the preference is to be led and guided by those who have resources. |</p>
<table>
<thead>
<tr>
<th>Questions</th>
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<tbody>
<tr>
<td>11 &amp; 12</td>
<td>On uniqueness of resources, views from interviewees ranged from stability of workforce, technical expertise attained through staff exchanges within the global networks; a thorough selection and recruitment process, recruiting from the home offices for subsidiaries of global parents; doing things in the old fashioned way, to highly developed skills based on a unique focus. Two interviewees were of the view that resources are similar and there is no uniqueness of resources.</td>
<td>Organisational culture drives the commitment to the strategic direction of the reinsurers.</td>
</tr>
<tr>
<td>13</td>
<td>Protection of the resources is through remuneration and providing richness in experience (for human resources), copyrights &amp; upgrades (for systems), proper balance sheet protection measures, and investment and capital management (for capital)</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Reinsurance requires specialised risk assessment, negotiation, technical, capital &amp; investment management skills, efficient and effective IT systems underpinned by sound financial resources (especially Standard &amp; Poor’s AAA rated capital)</td>
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</tr>
<tr>
<td>15 &amp; 16</td>
<td>Interviewees point to a convergence of resource similarities such as in the upping of technical skills, the proliferation of risk modelling and pricing tools; focus on capital management and rated capital. The trigger for such similarity would be legislative reporting requirements, changing buying patterns by buyers of reinsurance, return on investment pressures from shareholders, Rating agencies’ (Standard &amp; Poor, Moody, GCR) grading of reinsurer strength, and client requirements for minimum security.</td>
<td></td>
</tr>
<tr>
<td>Questions</td>
<td>Interview Responses</td>
<td>Documents (Annual Reports)</td>
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<tr>
<td>Part 3: Resource &amp; capability development</td>
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<tr>
<td>17, 18 &amp; 22</td>
<td>Five of the reinsurers have defined programs of enhancing their human resource capability through graduate trainee programs, INSETA learnerships, staff exchanges within the global parent’s networks; internal systems development, continual drive to improve organisational culture; strategies that are focused on bottom line underwriting so as to improve on quality of capital. Financial resources are committed towards improving the current resources through staff training budget, IT budget and long term incentive bonus scheme.</td>
<td>The mention of investment in human resources so as to differentiate one reinsurer from its competitors is indicative of the commitment to upgrade its human resource. Annual reports reflect budgets for learnerships and skills development. Engagement in staff exchanges is pointed as a way of human resource development.</td>
</tr>
<tr>
<td>19 &amp; 20</td>
<td>In some respects, past strategies have defined the current state of resources e.g. those who pioneered in acquiring actuarial skills have more actuaries than others. Historical experience influences current strategy on resources. For example, one reinsurer’s recruitment past policy has given rise to a new recruitment strategy which now focuses on minimum entry qualification of a Business Bachelor’s degree.</td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>Performance appraisals such as 360-degree feedback enable weaknesses to be identified and addressed for the appropriateness of a changing environment. Continual staff exchanges within the companies’ global networks help staff to learn and adapt to changes. The appointment of international directors on the board of local reinsurers helps to influence strategy developments in line with changing local and global business environment.</td>
<td></td>
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</tbody>
</table>
Table 5.1 Summary of results (6 interviews & 10 Annual reports)

<table>
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<th>Documents (Annual Reports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>Training with local and international exposure, guided by company specific philosophies are essential in human capital development. Regulatory influence on the supervisory model point to a need to focus on mathematical and actuarial skills. The investment is thus on university graduates through graduate trainee programs.</td>
<td></td>
</tr>
</tbody>
</table>

5.2 Resource types and influence on strategy (i.e. positioning and differentiation)

All respondents mentioned human resources (intellectual capital) and financial resources (quality of capital) as the critical resources. The reinsurance business by its nature requires substantial amount of capital and relatively sophisticated mathematical and actuarial skills in risk modelling and underwriting of catastrophe and non-catastrophe property business. In addition to human and financial resources, information technology (systems and internally developed actuarial pricing models) was also pointed out as other enabling factors in strategic formulation and implementation. Thus critical resources identified are:

- Human resources: The expertise, specialist skill, knowledge and experience of underwriting staff and management have been mentioned as critical for strategy formulation and implementation. The human resources in addition to the other resources such as information technology, financial resources and organisational culture drive each reinsurer’s strategy. Hannover notes in its 2004 report that its employees are very committed to the strategic direction and work tirelessly
towards its goals every day. As also pointed out in Munich Re's 2004 Annual Report, business objectives are achievable with correct processes and more importantly the right people in the right places. Notably, most of the reinsurers have employees who have substantial industry experience and the skills and competencies are entrenched by loyalty and retention incentive schemes.

- Information technology (systems): Interviewees emphasised the need to have an efficient and effective IT system, which is an enabler of effective delivery on the strategy. Processes, procedures, workflow issues, monitoring and measuring of performance (financial and human), and strategy reviews are believed to be underpinned by effective IT systems.

- Financial resources including access to global parent backing (quality capital underpinned by Standard & Poor’s and Moody’s ratings): The financial resources as reflected in the amount of available capital underpin the ability to transact reinsurance business. Since 4 of the 6 local reinsurers are subsidiaries of global parents, they enjoy the financial backing by their financially sound parents. In terms of the quality of security provided by the local reinsurers, 4 of the 6 transact business on the back of their parent’s Standard & Poor’s or Moody’s credit rating (e.g. AAA or BBB+). With knowledgeable clientele (insurance companies and reinsurance brokers) whose view of minimum security is non-negotiable, reinsurers are under pressure to avail rated reinsurance capacity.
The demand for quality capital (Standard & Poor’s and Moody’s rated) is seen as the main driver for achieving minimum security ratings through focusing on strategic positions, which will ensure profitability. The constant mention of quality capital as strategic resource is a reflection of the extent to which such a resource form the foundation of strategy. Besides quality of capital in terms of rating, notable is also the extent of availability of capital. The newer players who do not have global parentage (2 of them) seem limited in their ability to deliver in some of aspects of their strategic positioning and differentiation. Capital rationing drives the allocation for capital to lines of business that are the strategic driver of the company’s face of its strategy from a strategic positioning and differentiation point of view. As noted by Hannover Re (2004: 3), “acknowledging that the most important assets, being financial and human resources are scarce, we carefully allocate these to those areas that we have identified as those with the highest risk reward expectation”.

- Organisational culture: The driver of individual and organisational performance and the quest to be seen to be doing things differently is in each organisation's culture as alluded by the interviewees. Notable differentiation basis is service delivery, relationships, flexibility and approachability. These are nurtured by cultures pertinent to each organisation. Each organisation has its defined values, which are part of defining what the organisation stands for.
• Access to global parent network’s skills and expertise: Partnerships with the global parent networks leading to access to a global pool of technical expertise and knowledge is mentioned as an enabling factor and competitive basis for strategic positioning and differentiation. In cases where the South African operation does not have the expertise to deal with particular requests, these requests are forwarded to expertise within the group for expert opinion.

Each reinsurer formulates its strategy on the basis of the above grouping of resources. While the industry framework views sources of profitability to be the characteristics of the industry as well as the firm’s position within the industry, the focus on resources is premised on the fact that most of the resources are internally developed and configurable, making them a controllable factor in strategy formulation. The extent and availability of the resources is seen as the main driver behind a particular strategic position through enabling or restricting a strategic option. Notable in this regard is the adoption of particular business focus such as: opinion leadership (which is underpinned by technical expertise); partnership is risk (which is driven by relationships and partnerships); non-proportional business (which is driven by pricing and risk modelling capability), follower position (which is driven by lack of highly developed technical underwriting skills supported by risk modelling tools).
5.3 Resource heterogeneity (& isolating mechanisms) and influence on strategic positioning and differentiation

Uniqueness of resources is in the attributes or characteristics of the type of resources reinsurers deploy in strategically positioning and differentiating themselves. As noted by the interviewees, there is similarity of resources e.g. human resources, systems and capital. In terms of human resources, company specific training does not necessarily restrict individuals to a particular reinsurer. Though risk modelling and pricing tools are internally developed, knowledge of use of such tools can be used elsewhere. The quest to retain the skills and competitive advantage derived from such skills is through providing competitive remuneration and retention bonuses. In addition to remuneration, each organisation seeks to achieve an affirming and empowering work environment where quality of work life is superior. These isolating mechanisms are not foolproof as human resources are not perfectly immobile amongst reinsurers.

Internally developed IT systems are company specific and may not be duplicated elsewhere. Though the reinsurance systems may be different, the end purpose they serve is similar. The distinguishing factor is the ability of the system to deliver on each reinsurer’s differentiation basis. Risk modelling and pricing tools are internally developed and copyrighted. Though these may differ in make-up and parameters, the desired outcome is a technically justifiable price, which other reinsurers can comfortably support. The driver of these tools is actuarially determined parameters.
based on business experience over a period of time for a particular region. The uniqueness in the application of these tools may be seen as negligible.

The measure of uniqueness of the financial resources is in the quality of the capital as reflected in the Standard & Poor’s rating for a reinsurance company. For example, a Standard & Poor’s rating of AAA for a company is indicative of superior security for buyers of reinsurance protection. Differences in ratings are underpinned by profitability of a company which is driven by prudent underwriting, investment and cash flow management.

Resource and capability development is given a high priority in the organisations’ strategy, as it is believed that deployment of resources is not only critical for strategy formulation but also for strategy implementation. It is noted that most reinsurers have defined programs for skill and expertise enhancement including staff exchanges and training in global parents networks. One of the reinsurer’s emphases is on developing skills for its global network. Though there is a dearth of underwriting skill within the South African context, the focus is on developing university graduates by most reinsurers.

Internally developed risk modelling and pricing tools are continuously improved to take into account developments in the business environment such as new trends in loss experience and new exposures. Those who currently do not possess such tools are looking at developing them.
The impact of historical strategies with some reinsurers on resources is evident in the current nature of their resources and the current strategy on resources e.g. the non-employment of actuaries in the non-life environment in the past is now driving the need for such a skill and upping of minimum educational requirements for entry positions.

The quest for value creation and minimum return on invested capital drives the strategy to maintain quality capital through prudent underwriting and capital management. Financial resources, it would seem, can only be protected from depletion by proper focus on bottom line underwriting.

Various resource protection measures were identified as: remuneration and incentive bonuses, creation of an affirming and empowering work environment, and cultural differentials (for human resources); copyrights for pricing models, continual updates and internal developments, customisation of systems (for information technology); superior capital management (for financial resources, especially for good security ratings); and company specific values (organisational culture)

In light of the results of this research, it is notable that the findings in large measure support the sub-problems and the propositions of this research. The extent to which the findings support the main research problems and conclusions as to whether the research objectives have been achieved are addressed is further discussed in the Chapter 6.
6 Chapter 6 Discussions, conclusions and recommendations

6.1 Introduction

This chapter focuses on the discussion of the results and conclusions that can be drawn from the research results in line with the research questions raised and the validation of the propositions pointed out earlier. In addition, appropriate recommendations are given.

6.2 Discussion of results

The interview results point to resources as the driver of the competitive strategy for reinsurers. On a broader perspective, reinsurers use similar resources to strategically position and differentiate themselves. Each reinsurer needs capital, people, systems and an appropriate organisational culture to drive the deployment of these resources. The distinction in the resources is in their attributes and usage to drive a particular strategic position or in the reinsurer’s quest to differentiate itself.

The similarity of resources is grounded in the fact that the underlying dynamics of the reinsurance industry require particular metrics for a minimum level of competence below which survival is not guaranteed. For example, lack of risk modelling and pricing tools imply an inability to lead reinsurance programs, meaning that as a follower, a reinsurer can only contend with the morsels that fall from the lead reinsurer’s table. The quest for value creation and pressure for return on invested capital, calls for competent human resources, efficient systems and quality
capital. Quality capital is sustainable through underwriting profitability and investment return. Thus an array of skills from financial to actuarial becomes a necessity for the reinsurance industry. In view of the resource-based theory that the type, magnitude and nature of resources and capabilities are important determinants of profitability (Amit & Shoemaker, 1993; Collis & Montgomery, 1995), it is notable that each reinsurer’s type and magnitude of resources enables or constrains its ability to strategically position itself and achieve a certain level of profitability.

As summarised in Table 6.1 below, the reinsurer’s resources are identified and classified accordingly (Fahy & Smithee, 1999). Besides the classification, resource characteristic as has been identified by Lindstrom (2004) is discussed. It is notable from the resource characteristics perspective, that even though the identified resources seem similar across the reinsurance industry, each reinsurer’s bundle of resources has particular attributes that make them unique in some way. For example, human resources would define an organisation’s functional capability differential e.g. knowledge, expertise, and experiences of employees and value chain relationships (Hall, 1992). An organisation’s culture would define its cultural capability differential e.g. habits, attitude, believes and values which permeates the individuals and groups which comprise the organisation (Hall, 1992).
Table 6.1 The reinsurers’ critical resource bundle

<table>
<thead>
<tr>
<th>Tangible Assets</th>
<th>Intangible Assets</th>
<th>Capabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Human resources</td>
<td>• Financial resources (rated capital)</td>
<td>• Organisational culture</td>
</tr>
<tr>
<td>• Information technology (hardware)</td>
<td>• Expertise, skill, experience (underwriting, actuarial, legal &amp; engineering)</td>
<td>• relationships</td>
</tr>
<tr>
<td></td>
<td>• Internally developed actuarial models</td>
<td>• access to global networks (knowledge &amp; expertise)</td>
</tr>
<tr>
<td></td>
<td>• Information technology (software)</td>
<td>• access to global capital (financial backing)</td>
</tr>
</tbody>
</table>

6.2.1 Resource characteristics and strategic positioning

On resource characteristics such as value, rarity, inimitability, non-substitutability, replicability, durability, low tradability, competitive superiority, scarcity and complementarity (Barney, 1991; Grant, 1991; Collis & Montgomery, 1995) the resources shown in table 6.1 do not strictly conform to such characteristics. Information systems may be replicated and human resources are highly tradable and thus can move from one reinsurance firm to another despite all efforts such as remuneration to protect it. Financial resources may be scarce (especially rated capital) and can be rendered durable through prudent underwriting and astute investment management over a period of time. Competitive advantage thus can be derived not from the unique characteristics of a resource but from the extent to which the resource is deployed by reinsurers in strategically positioning and differentiating themselves. This therefore helps define the distinction in the resources as argued by Peteraf & Bergen (2003) who are of the view that resources...
and capabilities should not be defined by the types but in terms of the functions they serve.

Resources (financial, human & information systems) underpin each reinsurer’s perceived strategic position. The reinsurers’ strategic positions are based on a particular focus of business (direct non-proportional business & leading change; non-proportional for general business and proportional for niche business; run-off business and asset-liability matching), partnerships (partner in risk), leadership (leading reinsurer in Africa) and approach to competition (follower). Inherent in each strategic position is a particular pool of resources which drive that position. This is in line with Conner (1991)’s view that distinctness in product/service offering is tied directly to distinctiveness in resources used to produce the product/service. Despite Conner’s (1991) view, it can be pointed out from the research results that different strategic positions can be underpinned by similar resources. Also Conner’s (1991) view of the resource-based theory that performance differentials between firms depend on the possession of unique inputs and capabilities may not be true for the reinsurance industry as research results reflect a commonality in resources but difference in financial performance.

Products (in terms of client needs to be satisfied from a reinsurance perspective) are similar. Thus product differentiation is not a distinguishing factor. Differentiation is based on service delivery; relationships; flexibility and approachability; technical expertise and claims management. Similarly, each differentiation basis is
underpinned by financial resources (capital), human resources (technical expertise, knowledge, experience & relationships) and systems (pricing models, knowledge management, risk modelling). The argument put forward by interviewees for basing strategy on resources is that resources are controllable, configurable and manipulative to the choice of each reinsurer. Similarly, Lado et al (1992) and Teece et al (1997) note that firm-specific competencies are consciously and systematically developed by willful choices and actions of the firm’s strategic leaders.

6.2.2 Resource heterogeneity

Despite the similarities in the broader categorisation of resources as reflected in Table 6.1 above, the distinction in each reinsurer resources is in the unique attributes of each resource. For example, the human resources attributes that are unique to each reinsurer is the capability of each individual from an experience, expertise and knowledge aspect. The cumulative team ability and management experience is also different with each reinsurer. Reinsurers do not enjoy the same security rating status, which is an indication of the variation in the quality of financial resources each reinsurer has.

The uniqueness of resources is also in the application of resources by each reinsurer in line with its strategic focus e.g. a non-proportional underwriter does not require the same amount of capital as a both proportional and non-proportional underwriter. A follower does not need to build a strong actuarial and engineering
base as the competitor but focuses on strengthening of relationships with its clientele.

6.2.3 Resource and capability development

As pointed out earlier, the reinsurers’ argument for basing their strategies on resources is the configurability and controllability of resources. As noted in Grant (1991), resources are the foundations of strategy since they provide the basis of direction for a firm’s strategy. Research results show that five reinsurers have defined programs for skill and expertise enhancement including staff exchanges and training in global parents networks.

On isolating mechanisms, internally developed actuarial/mathematical pricing models are copyrighted (regulatory differential: Hall, 1992) and continually developed. Human resources are subjected to competitive remuneration and long-term incentive bonus schemes and the creation of an affirming, empowering work environment and cultural differentials. Information systems are customised, and superior capital management is the driver for financial heterogeneity, especially for good security ratings. Cultural differentials define each organisational culture. Hall (1992) notes that cultural differential capability (such as habits, attitude, beliefs and values which permeates the individuals and groups which comprise the organisation) is a source of competitive advantage.
The impact of historical strategies on resources is evident in the current nature of resource and the current strategy on resources e.g. the non-employment of actuaries in the non-life reinsurance environment in the past is now driving the need for such skills. Positional differentials (Hall, 1992) define a competitive advantage for those who have been first in the past to focus on developing a particular skill e.g. engineering and agriculture. Teece et al (1997) mention that choices about domains of competence are influenced by past choices by past choices as firms must follow a certain trajectory or path of competence development.

Resource and capability development is given a high priority in the organisations’ strategy, as it is believed that deployment of resources is not only critical for strategy formulation but also for strategy implementation. For example, significant investment is being committed towards recruitment and training of staff.

### 6.3 Summary of research findings

The purpose of this research is to investigate the extent to which the resources of a firm as a source of competitive advantage are the basis for strategic positioning in the reinsurance industry (i.e. the what, how and why of resources in strategy formulation and implementation in as far as strategic positioning and differentiation is concerned). Its sub problems are:

- To identify the nature of resources reinsurance firms use in creating sustainable competitive advantage and how these resources are used as the foundation of strategy.
- To establish how and why reinsurance firms differ in resources.
• To establish how resource configuration enables firms to strategically position and differentiate themselves in the reinsurance industry.

In line with the above purpose of this research, the objectives of this research are:

• To identify the type of resources and capabilities that forms the basis of reinsurance companies’ positioning and differentiation strategies.
• To determine whether there is heterogeneity in the resources and capabilities which underlie reinsurance firms’ positioning and differentiation strategies.
• To establish how the resources are configured to create a source of competitive advantage for positioning and differentiation strategies.
• To establish why reliance is given to resources and capabilities as a foundation for strategic positioning and differentiation strategies

Underpinning the research problem and objectives are the research propositions which are:

• Proposition 1: Availability and type of resources determines a firm’s choice of strategic direction and will significantly impacts on its ability to strategically position and differentiate itself.
• Proposition 2: Uniqueness in a firm’s resources is a source of competitive advantage, which drives the firm’s strategy.
• Proposition 3: Sustainable competitive advantage deriving from constant resource configuration to meet changing market demands determines a firm’s ability to strategically position and differentiate itself.
In light on the above research problems, objectives and propositions, the extent to which the findings support these are discussed below.

6.3.1 Research objectives, research problem and sub problems

The deployment of unique organisational resources and capabilities can result in sustained superior performance (Rouse & Daellenbach, 1999). It has been found through the analysis in this research that each reinsurer performance is underpinned by a set of resources namely financial, human, information systems and organisational culture. The competitive advantage deriving from the above resources is the prime driver for strategic positioning and differentiation. The resources types, their magnitude, availability, application and extent of development within each organisation are determinants of each firm’s performance.

One of Spanos and Lioukas’ (2001) assumptions on the resource-based view is that resources on which firms base their strategies are heterogeneous. Similarly, Teece et al (1997) note that the resource-based perspective emphasises firm specific capabilities and assets and the existence of isolating mechanisms as fundamental determinants of firm performance. It is therefore arguable in this study that though the broader grouping of resources for reinsurance firms is similar, the attributes of each firm’s resources are heterogeneous. Heterogeneity is mostly enforced through configuration of resources to create a source of competitive advantage. Isolating mechanisms such as copyrights and continual updating of information systems; staff training, career planning and retention policies for human resources; causal
ambiguity related to organisational culture; astute capital and investment management for financial resources drive heterogeneity in resources and subsequent competitive advantage.

Wernerfelt’s (1984) view that a firm may want to create a situation where its own resource position directly or indirectly makes it difficult for others to catch up holds true for some aspects of resources such as quality capital (financial resources) and information systems and organisational culture but may not hold true for human resources as these are mobile within the industry if the other firm can offer competitive remuneration.

Strategy formulation begins with appraisal of resources (Spanos & Lioukas, 2001). The use of resources as a foundation of strategy is mainly driven by the fact that resources are controllable and manipulative. Reinsurance firms have the ability to acquire, internally develop and configure their resources in a way that may ensure sustainable competitive advantage. The resulting competitive advantage becomes the driver for a particular strategic positioning and differentiation basis.

Firms build their strategies on path-dependent, causally ambiguous, socially complex and intangible assets (Hansen & Wernerfelt, 1989; Barney 2001). As was observed in this research, financial resources, human resources, information systems and organisational culture drive reinsurance firms’ strategies. As Fahy & Smithee (1999) argue, the resource-based view has been adopted as a framework
for describing dimensions of positioning strategy. The firm’s ability to deliver on its
desired positioning strategy is dependent on availability of resources. Thus, resources are either a limiting or an enabling factor in strategy formulation and implementation.

6.3.2 Propositions

6.3.2.1 Proposition 1: Availability and type of resources determines a firm’s choice of strategic direction and will significantly impacts on its ability to strategically position and differentiate itself.

The type, magnitude and nature (quality or quantity) of resources and capabilities are important determinants of a firm’s profitability (Amit & Schoemaker, 1993; Collis & Montgomery, 1995; Hansen & Wernerfelt, 1989). It is evident from the results of this research that resource types and availability is a basis of competitive strategy. Resources as either an enabler or limiting factor significantly impacts on a firm’s ability to strategically position and differentiate itself. Distinctiveness in a product/service offering or low costs is tied directly to the distinctiveness in the resources used to produce the product/service (Conner, 1991).
6.3.2.2 Proposition 2: Uniqueness in a firm’s resources is a source of competitive advantage, which drives the firm’s strategy.

The resource-based theory holds that performance differentials between firms depend largely on possession of unique inputs and capabilities (Conner, 1991). In light of the research results obtained, it is arguable whether it’s the uniqueness of firm’s resources that drive performance or the unique application of generic resources. From a theoretical perspective, it is true that uniqueness in a firm’s resources is a source of competitive advantage. It is also conclusive from the research results that competitive advantage can be derived from the use and application of similar resources. The uniqueness of a resource can be inferred from its attributes and functionality. Though all reinsurance firms have experienced underwriters, the depth of underwriting knowledge and skills is highly influenced by the organisational culture. The argument underlying possession of unique resources as one of the main pillars of resource-based theory holds true for the reinsurance but only to the extent to which resources may be functionally different.

6.3.2.3 Proposition 3: Sustainable competitive advantage deriving from constant resource configuration to meet changing market demands determines a firm’s ability to strategically position and differentiate itself.

The changing nature of the business environment emphasises the versatility of resources. Sustainability of competitive advantage deriving from resource
configuration is critical to the sustenance of a strategic and differentiated position. It is evident in the research results that reinsurance firms have to maintain versatile resources that are relevant to changing business environments. As the business environment changes, so does their strategic positioning and differentiation basis. Thus reinsurance firms must enhance their resources to be relevant to a new environment. Competitive advantage from the resources can then be sustainable through appropriate resource configuration. As noted by Mahoney & Pandian (1992), a firm’s unique capabilities in terms of technical know-how and managerial ability are important sources of heterogeneity that may result in sustained competitive advantage. Sustained competitive advantage is based on the premise that firm-specific competencies are consciously and systematically developed by wilful choices and actions of the firm’s strategic leaders (Lado et al, 1992). Differences in attainment of success levels between firms are cumulatively attributed to the height of resource position barriers or barriers to duplication (Fahy & Smithee, 2002).

6.4 Recommendations for further research

Despite the unique characteristics of reinsurance business and the narrowness of the industry, which affords an in-depth collection of evidence from a qualitative aspect, it is notable that a different and wider industry might have the making for an informative study. It is therefore recommended that a similar study be done on a wider industry that will afford the quantitative analysis and evaluation of the phenomenon covered in this study.
References


## Research Problem:
The purpose of this research is to investigate the extent to which the resources of a firm as a source of competitive advantage are the basis for strategic positioning in the reinsurance industry.

### Subproblem
1. To identify the nature of resources reinsurance firms use in creating sustainable competitive advantage and how these resources are used as the foundation of strategy.
2. To establish how and why reinsurance firms differ in resources.
3. Establish how resource configuration enables firms strategically position and differentiate themselves in the reinsurance industry.

<table>
<thead>
<tr>
<th>Subproblem</th>
<th>Proposition</th>
<th>Source of Proposition</th>
<th>Source of data</th>
<th>Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To identify the nature of resources reinsurance firms use in creating sustainable competitive advantage and how these resources are used as the foundation of strategy.</td>
<td>1. Availability and type of resources determine a firm’s choice of strategic direction and will significantly impacts on its ability to strategically position and differentiate itself.</td>
<td>Grant (1991); Day (1994); Barney (1995); Collis &amp; Montgomery (1995); Chaharbargi &amp; Lynch (1998); Fahy &amp; Smithee (1999); Spanos &amp; Lioukas (2001); Fahy (2002); O’Regan &amp; Ghobadian (2004); Galbreath (2005)</td>
<td>A triangulation approach is used. This will cover: - Open-ended interviews as per Appendix B (Q1-9) - Documents - Archival records - Secondary data (as per Literature review)</td>
<td>Qualitative analysis of indicated sources of data</td>
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<td>2. To establish how and why reinsurance firms differ in resources.</td>
<td>2. Uniqueness in a firm’s resources is a source of competitive advantage, which drives the firm’s strategy position.</td>
<td>Grant (1991); Day (1994); Barney (1995); Collis &amp; Montgomery (1995); Chaharbargi &amp; Lynch (1998); Fahy &amp; Smithee (1999); Spanos &amp; Lioukas (2001); Fahy (2002); O’Regan &amp; Ghobadian (2004); Galbreath (2005)</td>
<td>A triangulation approach is used. This covers: - Open-ended interviews as per Appendix B (Q10-15) - Documents - Archival records - Secondary data (as per Literature review)</td>
<td>Qualitative analysis of indicated sources of data</td>
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<td>3. Establish how resource configuration enables firms strategically position and differentiate themselves in the reinsurance industry.</td>
<td>3. Sustainable competitive advantage deriving from constant resource configuration to meet changing market demands determines a firm’s ability to strategically position and differentiate itself.</td>
<td>Grant (1991); Day (1994); Barney (1995); Collis &amp; Montgomery (1995); Chaharbargi &amp; Lynch (1998); Fahy &amp; Smithee (1999); Spanos &amp; Lioukas (2001); Fahy (2002); O’Regan &amp; Ghobadian (2004); Galbreath (2005)</td>
<td>A triangulation approach is used. This covers: - Open-ended interviews as per Appendix B (Q17-20) - Documents - Archival records - Secondary data (as per Literature review)</td>
<td>Qualitative analysis of indicated sources of data</td>
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APPENDIX B: Interview Schedule

Dear Participant,

Thank you for affording me the opportunity to interview you. The purpose of my research is to investigate the extent to which your firm's resources as a source of competitive advantage are the basis for your strategic positioning and differentiation (i.e. what, how and why do you use resources for in strategy formulation and implementation?)

The discussion on the following questions will take at most one hour of your time. Your due consideration of theses questions prior to our interview will be very much appreciated.

Thank you

The interview will focus on the following questions:

**Part 1: Resource types and strategy**

1. What would you consider to be your company’s key critical resources and capabilities?

2. To what extent are your resources and capabilities a source of competitive advantage?

3. How do you ensure that the competitive advantage derived from your resources and capabilities is sustained?

4. To what extent do your resources and capabilities form the foundation of your strategy?

5. How essential are your resources in strategy formulation and implementation?

6. What is your strategic position?
7. How do you differentiate yourself?

8. How is your current strategic position linked to your current resources and capabilities?

9. How is your current differentiated position linked to your current resources and capabilities?

**Part 2: Resource heterogeneity**

10. In your competitor analysis, how much weight would you give to resources and capabilities?

11. What makes your resources and capabilities unique?

12. How do you create the uniqueness in your resources and capabilities?

13. How do you protect the uniqueness of your resources?

14. How does the nature of your business lend itself to uniqueness in resources?

15. Do you foresee any similarity in resources requirements for reinsurers in future?

16. What do you think would be the trigger for such similarity of resources?

**Part 3: Resource and Capability development**

17. Does your organisation have any defined programs or structures for enhancing your capabilities and how you go about it implementing those programs?

18. What priority is resource and capability development accorded in your organisational strategy (i.e. competitive or corporate strategy)?

19. What historical strategies on resources impact on your current resources and capabilities?

20. How do these historical strategies impact/influence the status of your current resources and capabilities?

21. How do you ensure that your resources adapt to a changing business environment?
22. How much investment do you commit towards upgrading and acquisition of resources?

23. What is your future strategy on resource and capability development?