

Critical Episodes in Corporate Insurance Relationships: The Paperpulp Case

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Abstract

The insurance market is characterised by an increasingly fierce competition, adding importance to the customer relationship management inherently complicated by the complexity and high level of intangibility of insurance services. This paper proposes a theoretical view of corporate insurance relationships, where the customer-perceived relationship quality and satisfaction with the damage adjustment process together mould the overall perceived service quality. This, in turn, provides the basis for the customer's decision to stay with or leave its insurance provider after the most critical event in any insurance relationship: the damage adjustment and claims settlement. As an example, a case is presented, where a corporate insurance relationship and its damage adjustment process is analysed according to the theoretical framework. A conceptualisation of the variables affecting the customer-perceived service quality considering the impact of the critical episodes in a business-to-business insurance relationship provides a key to efficient relationship management.

Introduction

The deregulation of the financial markets and the increasingly competitive business climate have made insurance companies put a stronger focus on customer management. The customer relationship is a key element of successful insurance marketing, and relationship management is an area where profitable competitive advantages can be gained.

Marketing of insurance services requires cautiously elaborated efforts, as the provided services are characterised by high levels of complexity and intangibility. A distinguishing particularity of an insurance service is that the customer regularly pays for a service which, if the customer is free of losses, may remain extremely intangible throughout the relationship. Unless suffering a loss, the customer pays for a spreading of risks, expressed in a "feeling of security". However, the tangible effects of the service is not disguised until at the damage adjustment and claims settlement, which form the actual proof of the promises made, and thus may be seen as the most decisive phase of any insurance relationship.

The insurance relationship is the keystone to the development of customer-perceived trust, the level of which primarily is a result of the way the insurance company's representatives manage the relationship. However, the nature of an insurance relationship is also dependent on other variables, affecting it from before the very initiation of the relationship to the ultimate point where there is the risk of a break-off between the insurance provider and the insurance customer.

With a theoretical background to a great extent based on the thoughts of the Nordic school of service marketing (e.g. Grönroos 1996; 2000, Gummesson, 1997; Edvardsson & Gustafsson, 1999; Holmlund & Törnroos, 1997), the purpose of my research is, via the presenting of a theoretical view of insurance services, to propose an analytical approach illustrating the variables influencing the nature of a corporate insurance relationship, and ultimately affecting the customer’s decision to withhold or to terminate a relationship with an insurance provider after damage adjustment. The empirical material used is case-study based, and the analysis of the qualitative research is made using an empirically elaborated model of a corporate insurance relationship.

The findings from the sample case study presented in this paper illustrates the importance of the damage adjustment process to the insurance relationship, as well as an additional intriguing component. The customer firm in the presented case would most likely had switched to another insurance provider after the damage adjustment process, had it not been for the fact that they were part of the same industrial group as their insurance company. Thus, due to ownership conditions and the forced-on relationship they were not at their own discretion regarding the choice of insurance provider. This situation created a strained relationship, where the customer had do adapt to a “coping-with-it-nevertheless”-attitude.

A theoretical view of a Corporate Insurance Relationship

A corporate insurance relationship is, partly due to its complex nature, often perceived as a long-term investment by the customer, and the insurance contracts often have a duration of at least one year at a time. There have to be quite extensive investments in time, information sharing and personal efforts from both parties in such a relationship, in order to receive as high mutual value as possible. The fact that the customer pays a yearly premium for an intangible service, which does not really prove what it is worth unless the customer suffers a loss, emphasises the importance of adequate relationship management. There is, however, some kind of continuous service delivery even during a relationship free of losses, consisting of a perceived feeling of security.

This indicates that the customer-perceived insurance service actually is two-folded: the intangible feeling of emotional and/or economic security, as managed by the insurance provider during a relationship free of losses, and the damage adjustment/claims settlement process when a loss has occurred, constituting a more tangible proof of the service paid for (see figure 1). To complicate things further, this possible tangible outcome of the insurance service may even continue to be abstract forever if the policy holder is lucky enough to remain free of losses.



Figure 1: Constituents of the customer-perceived insurance service.

My research focuses on the relationship between an insurance provider and a corporate customer. This presupposes that there exists a *business relationship*, defined as an

interdependent process of continuous interaction and exchange between at least two actors in a business context and in a long-term perspective involving a mutually perceived creation of value (cf. Holmlund & Törnroos, 1997). Hence, a business relationship is developed over a more expanded time period than just a single transaction. A state of a *relationship* emerges when an actor perceives that there is a mutual way of thinking between him/her and another actor, thus entailing mutually oriented interaction between two reciprocally committed parties with the purpose to create value (cf. Håkansson & Snehota, 1995; Grönroos, 1996). However, it can be argued that the parties are involved in a business relationship as soon as there exists a business contract, and/or the business agreement involves or triggers repeated transactions over an expanded time period (cf Liljander & Strandvik, 1995; Edvardsson & Gottfridsson, 1999).

The purpose is first and foremost to describe the nature and structure of a corporate insurance relationship, but also to increase the understanding of the variables affecting the insurance relationship in general, and the outcome of a damage adjustment in specific. The research is entirely made from the customers’ point of view, since they are the ones actually defining (and thus evaluating) the service they are buying. The insurance service may be seen as a continuous ‘consumption’ of a feeling of security, but nevertheless only made fully comprehended in the event of a loss. As the loss is followed by a damage adjustment and its tangible outcome, the claims settlement, a description of the variables influencing the insurance relationship, as well as the impact of the relationship to the damage adjustment process, is essential to understand the customer’s perception and consequential assessment of the relationship and of the damage adjustment.

A focus on the variables affecting the insurance relationship from the customer’s point of view requires a close-up on the service delivery in a continuously developing relationship. For this purpose, a cyclic view of a schematic insurance relationship is presented in order to reflect the continuous service process (see figure 2).

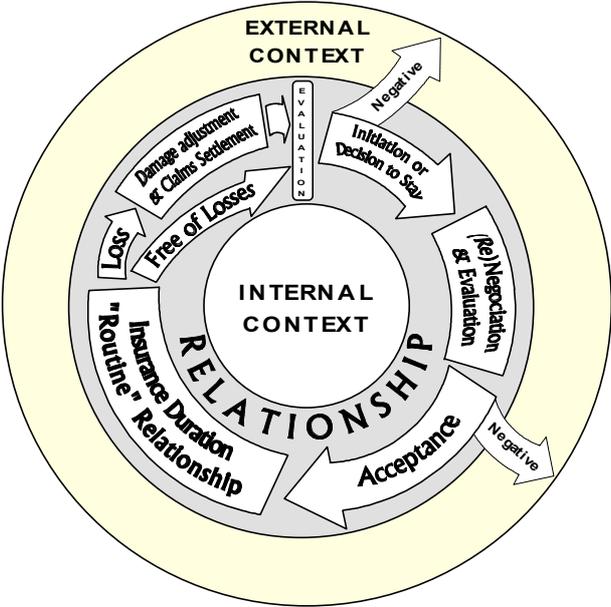


Figure 2: A cyclic model of a schematic corporate insurance relationship, depicting the insurance process and its different phases.

The model in figure 2 provides a very general outline of the stages of an insurance relationship from the customer's point of view. The relationship is initiated, a decision based on variables from the external and internal context, and after the consequent pre-purchase evaluation of the insurance provider, the offering is either accepted or rejected. Assuming a positive customer attitude, the loss-free relationship develops into a "routine" phase.

Providing that the customer remains free from losses, after a certain time period the time is due for a renewal of the insurance contract. At this point, if satisfied with the relationship so far, the customer decides to give the insurance provider another year. A short process of renegotiation follows, including necessary updates and policy adaptations, most likely resulting in another cycle in the routine relationship. On the other hand, should the customer suffer from an insurance loss, this creates a break in the routine relationship. When deciding whether to stay with the supplier or switch to another insurance provider, the perceived quality of the damage adjustment and claims settlement process will be an influential determinant, moderated by the perceived quality of the routine relationship. The impact of the of the damage adjustment/claims settlement process to the stay or switch decision conceives the main focus of the research at hand.

The fact that relationships are influenced by contextual variables is considered in for example the IMP interaction model (cf Håkansson, 1982), which distinguishes between the interaction atmosphere and the interaction environment. However, in the chosen approach of analysing the customer perceptions of the relationship, the variables affecting the routine relationship and the damage adjustment process are classified as either emanating from the situational dimension (external and internal context) or the time dimension (relationship-related variables). Edvardsson and Strandvik (2000) discuss critical incidents occurring within a relationship as affected by variables of the relationship history and it will affect the relationship future (see figure 3). This is referred to as the time dimension. The critical incident may also be affected by the situational dimension, constituted by the internal and external conditions. The external context concerns variables outside the focal relationship which the focal actors are unable to control. Perceptions and variables under the control of the actors, although not directly concerning the relationship but yet important for the relationship nature, represent the internal context.

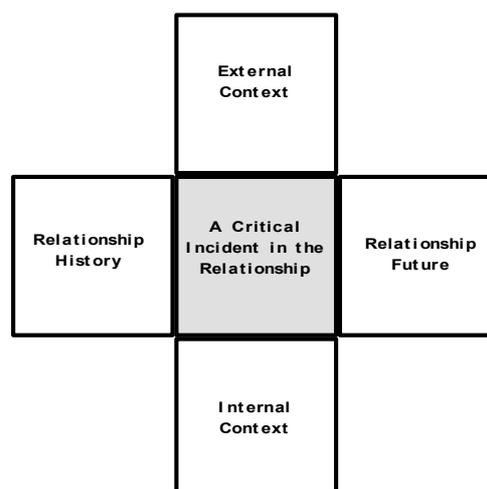


Figure 3: A model of critical incidents in a relational context (CIRC-model).
 Source: Edvardsson & Strandvik, 2000:85.

At any time, an insurance relationship is likely to confront its most important part in the event of a loss, where the customer expectations of the level of service quality is compared to the actual outcome of the service provided. Thus, the damage adjustment and subsequent claims settlement comprise the periods in time when the customer evaluates not only the insurance provider as someone compensating a loss, but also reflecting the overall service relationship. Hence, the effects of the routine relationship, which may have developed during a considerable period of time, and its outcome in the shape of the perceived feeling of security, also have some level of influence on the perceived quality of the damage adjustment process. The overall perceived service quality, incorporating both the outcome of the preceding relationship development (manifested in a certain level of perceived feeling of security) and the customer's experience from and outcome of the damage adjustment process, consequently moulds the foundation of the decision to maintain or to end the relationship with the insurance provider (see figure 4).

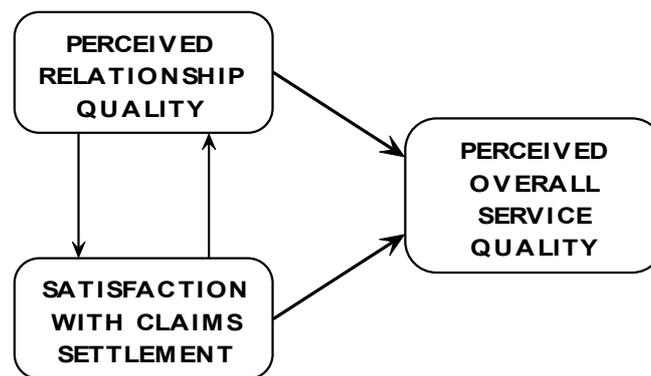


Figure 4: The customer's perception of the two components of the insurance service, each moderating the other, at any time determining the perceived overall quality of the service.

If the customer perceives the level of overall service quality as satisfactory, the relationship is most likely maintained. When the parties enter a new relationship period, hopefully free of losses, the customer does so having achieved an important set of experiences which will affect the expectations of future interaction, as the perceived quality of the damage adjustment process is also influencing the way the future "back-to-routine"-relationship is perceived.

Service quality is basically a cognitive judgment of service performance, created in the interaction between the service provider and the customer, and reflecting the delivered service's compliance with the customer's requirements and expectations (Cronin & Taylor, 1994). The aggregated perceptions of the encounters contribute to the customer-perceived level of relationship quality and hence the propensity to continue doing business with the service provider in the future (Grönroos, 2000). Hence, relationship quality is involving a continuous conscious or unconscious re-evaluation of the relationship based on previous experience (Grönroos, 2000), giving a more dynamic perspective of quality than the rather static notion of service quality (Liljander & Strandvik, 1995).

With a focus the relationship perspective, attributes such as commitment and trust are important factors to a sustaining long-term business relationship (cf Dwyer, Schurr & Oh, 1987; Anderson & Narus, 1990; Moorman, Deshpandé & Zaltman, 1992; Morgan & Hunt, 1994; Wilson, 1995; Bejou, Ennew & Palmer, 1998). If managed properly, a high level of relationship quality strengthens the buyer's trust in the seller and encourages an enhanced level of commitment.

In the eyes of the customer, trust implies reliance on, or confidence in, that the supplier will perform actions resulting in positive outcomes and thus serving the long-term interest of the buying party (cf Anderson & Narus, 1990; Crosby, Evans & Cole, 1990), and it constitutes an important construct in most models of long-term business as well as personal relationships, as it is decisive for relationship continuity (Sharma & Patterson, 1999). Commitment may be explicitly defined as a state where one party involved in a relationship with another is believing that the relationship is so important as it requires maximum efforts at maintaining it (Morgan & Hunt, 1994).

Once a certain level of relationship commitment is established, one way of maintaining relationship trust is through mutual adaptations (Hallén, Johanson & Seyed-Mohamed, 1991; Anderson & Weitz, 1992; Håkansson & Snehota, 1995), by which one party adapts its processes and/or the product exchanged to accommodate the other party (Håkansson, 1982). Moreover, commitment may be seen as two-folded; either it is dedication-based, on the basis of a free will, or constraint-based, where external or internal forces overrule the individual/organisational desires (Bendapudi & Berry, 1997).

Critical Episodes in Insurance Relationships

There are certain contact points in any business relationship which are to a higher degree determining the customers' ultimate satisfaction or dissatisfaction with an organisation. Regarding marketing success, the difference between a high quality service provider and an unsuccessful one lies basically in how customers are treated at these critical points of contact (Chakravarty, Feinberg & Widdows, 1996). Following the above reasoning, it is concluded that the damage adjustment and claims settlement process constitutes an indeed critical episode in an insurance relationship.

The level of offered service quality, always measured in the eye of the beholder, is made evident when what the customer receives is not what he or she expects, needs or is used to in the normal case, and these critical incidents will remain in the long-term memory of the customer (Edvardsson, 1988; Edvardsson & Olsson, 1996). However, positive experiences when the provided service meets and even exceeds the customer's expectations may also be considered critical in this sense, as they are equally likely to affect the perceived service quality, being memorable moments in the service relationship.

Whereas critical incidents are normally referred to with reference to qualitative research methodology (cf Flanagan, 1954; Bitner, Booms & Tetreault, 1990; Olsen, 1992; Stauss, 1993; Keaveney, 1995; Holmlund, 1996; Botschen, Bstieler & Woodside, 1996; Stauss & Weinlich, 1997; Holmlund & Strandvik, 1999; Roos, 1999; Meuter, Ostrom, Roundtree & Bitner, 2000; Edvardsson & Strandvik, 2000; Voima, 2001), the concept is here adapted for theoretical purposes as empirical research findings indicate the criticality of the damage adjustment to the insurance relationship.

Reconsidering the term 'critical' to denote something which may have considerable influence to the overall perceived quality in the service relationship, and hence also to the outcome and future of the relationship, but still being a normal element thereof, makes it indeed interesting in evaluating service quality. Every kind of service relationship has its own specific elements which are more important than others to the customer-perceived service quality. In industrial services even more so, since most business relationships are of a long-term nature, and service episodes critical to the stay-or-switch decision are recurrent elements of which the customer may have previous experience. Borrowing the terminology from the above mentioned CIRC-model (Edvardsson & Strandvik, 2000; see figure 3), the customer's perceptions of these

critical – but yet normal to the relationship – episodes are moderated and/or affected by variables in the relationship’s time and situational dimensions.

Some service relationships are very much characterised by the fact that they feature elements standing out as more critical than others. In industrial relationships, the outcome of certain service episodes are of vital importance not only for the future of the business relationship, but also for the very existence of the focal company.

The Case Study

A primary case study of five insurance relationships (Gidhagen, 1999) resulted in the presentation of a number of variables which all affect the corporate insurance relationship, directly or indirectly. Data was collected through personal interviews with the insurance managers on five different companies which were all of various size and line of business. The focus was to develop a conceptual framework for the study of the customer’s perception of the relationship between the insurance provider and the corporate customer. The variables influencing the corporate insurance relationship, classified into four sets; buyer-related, seller-related, relationship-related (emanating from the relationship development) and environment-related (exogenous variables not directly involving the seller or buyer as such), were adapted to the conceptual framework and developed into a basic model of the time and situational dimensions of the relationship (see figure 5).

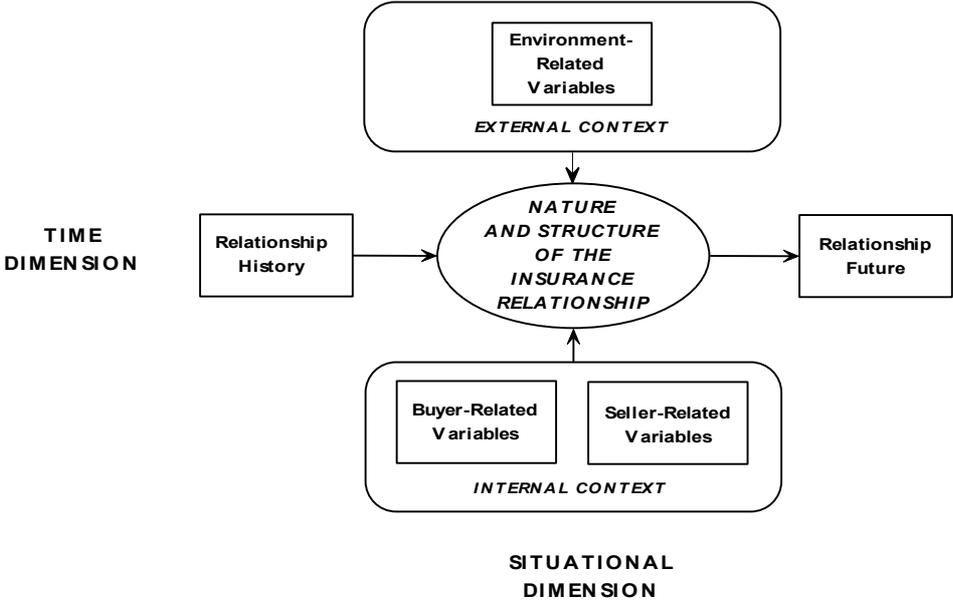


Figure 5: The sets of variables influencing the nature and structure of the corporate insurance relationship.

The buyer- and seller-related variables may furthermore be divided into a company and an individual level, reflecting the fact that some variables are entirely due to the characteristics and organisational setting of a supplying or buying firm as a whole, while others are solely dependent on the respective relationship manager.

Based on the results from this study, a second case study was performed with the objective to examine the variables influencing a corporate insurance customer’s decision to maintain or to dissolve an insurance relationship having experienced a loss. Three additional corporate insurance customers and two of the ‘old’ companies were studied, which all had suffered more or less severe losses in recent time. The chosen insurance cases were deliberately

different in terms of for example the customers' scope of operations, line of business, direct or indirect (e.g. via an independent agent) relationship with the insurance company, and previous experience of insurance damages.

An interview guide was constructed, structured to cover three main subject areas: the damage incident, the structure and nature of the insurance relationship, and the damage adjustment. The respondents (i.e. the people in one way or another managing each company's insurance dealings) were asked to describe their view of the insurance relationship and the damage adjustment, only initially guided by a general outline of open-ended questions. Each interview, made on site in the respondents' own offices, lasted for between one and a half and two hours. Supplementary details were given by means of phone calls and electronic mail. Additional data has been collected through secondary sources such as articles and company reports.

One of the cases concerned the Paperpulp company, which suffered a severe loss just a couple of months after the first interview was made (for the primary study). Two years later, when the damage adjustment process was finally terminated, consecutive interviews were made. A total of four personal interviews were made on three different occasions with the Financial Manager (FM) of Paperpulp, the Administrative Director (AD) and the Chief of the Fire and Rescue Brigade (CFR). FM was interviewed twice, first as a part of the primary study (before the pending loss occurred) and then as part of the secondary, post-damage, study.

The Paperpulp Case

Established in the 1920s, Paperpulp is today one of the largest Swedish forestry companies, employing 3700 people internationally and bearing a yearly business volume of nearly five billion Swedish kronor (sek). Paperpulp pays 25 million sek to their insurance provider in annual insurance premiums. The company, owned by the 'Broadstream' industrial group, is mainly producing paperboard, sack and kraft paper, fluff pulp (used in sanitary products) and sawn timber, but it is also a large forest owner. Moreover, Paperpulp has its own power production and transportation companies in-house. The major production plant, as well as the head office, is located on the mid-eastern coast of Sweden, and the other production units are by the lake Vänern (Sweden), in Denmark, Germany, Great Britain, Italy, Poland, Ukraine, Yugoslavia and in Croatia. There are also Paperpulp sales offices in France, Germany, Italy and in the UK. Since 15 years, Paperpulp is insured by the Swedish insurance company Baltica. During the last five years, the company has experienced nine losses severe enough to claim compensations from the insurance company.

Damage Incident

In the first hours of a Thursday morning in early autumn of 1998, a truck driver at the main production plant stops for a pause in his work in a large storehouse for paper. To be out of the way, he parks the liquefied petroleum gas-driven truck in an aisle between the piles of huge paper reels. Suddenly, the driver hears a hissing sound, turns around and sees flames and smoke emanating from the truck's engine. Unable to put out the burning gas and quickly spreading fire in the paper rolls, he alarms the store manager. Less than five minutes later the Paperpulp fire and rescue brigade arrives, but the way the paper is stored and the lack of sprinkler extinguishers lessen the chances to save the 1000 ton-storage. Had there been a sprinkler system installed, the fire hearth, although worsened by the leaking gas, might had been able to control by the fire brigade upon arrival, but there were no such installations.

The fire not only completely damaged the storehouse, but also a brand new finishing plant just about to be put into production. Two out of four paper machines were situated close by and they were consequently damaged by smoke. They were unproductive for two and six

weeks, respectively, resulting in a production loss of 20 % during that time (which equals approximately 10,000 tons of paper or 1.5 % of the annual production). The new finishing plant (a printing machine) was the key to a market entering project, which had to be postponed for one year, resulting in a loss of prospected revenue.

All in all, the damage consisted of four major elements: the loss of the storehouse including inventories, entailing an entirely new construction to be built; the loss of about 1000 tons of undelivered paper; the business interruption due to the stop in production of the damaged sites, and the unrealised revenues as a result of the postponement of the launch of the new paper refinement plant for one year. The total damage claims amounted to 250 million sek, paid in portioned amounts during two years time, during the whole of the settlement process.

The unrealised revenues-part, due to the postponed launch of the new plant, was difficult to manage satisfactorily for all parties. The related insurance claims were based on the expected revenues from the investment, calculated with regard to the fact that the implemented technology and business idea were top of the line at the time of the fire. The insurance company did not accept this basis for calculations, but wanted to wait one year after launch to see the factual revenues. The problem was that at that moment in time, the market situation was another than one year earlier.

Insurance Relationship Development

The insurance relationship regarding corporate business (as opposed to life and health insurance) is primarily maintained by Paperpulp's financial manager, who possesses an extensive insurance experience. Any information from the insurance company on new solutions is always processed through the financial manager, as Baltica initiates contact and requires a meeting with him, the administrative director and the chief of fire and rescue.

The normal contact pattern of the yearly renegotiations is that Baltica's representative have three consecutive meetings with the financial manager, the administrative director and the chief of the fire and rescue brigade. At the first meeting, the outline for the following insurance year is set, where every singular contract is scrutinised. After this meeting, Baltica prepares an insurance plan which is presented and decided on at the second meeting. Finally there is a review-meeting after a couple of months to check if there is any need for modifications, at which the managers of the different operational units are present to give their points of view. (FM, 1998.) Paperpulp's chief of fire and rescue maintains regular contact with Baltica, primarily in connection with Baltica's visits and inspections, after which the inspection reports are examined and discussed together with Baltica's representative. CFR is directly involved as soon as changes are to be made which could affect safety or insurance policy conditions in any way. (CFR, 2000.)

Baltica is Paperpulp's main non-life insurance provider, with the exception of some travel insurance contracts, and it has been contracted since 1985. The corporate insurance contract covers property, business interruption and liability, with customised additional policies providing insurance covering oil damages, property crimes, legal protection associated with environmental crimes, credit loss, business travelling and goods transportation. The business interruption policy constitutes the by far largest part of the insurance contract. Historically, Paperpulp has suffered a maximum of five losses a year which has been worth reporting to the insurance company, that is where the costs of the loss exceeded the deductible (at present set at 366.000 sek). (FM, 2000.) However, none of these incidents have even been close to the magnitude of the fire, nor ever entailing any standstill in production (AD, 2000).

Since the initiation of the Baltica relationship, Paperpulp has never had any choice in which insurance company to employ, as they are part of the same industrial group. However, this does not prevent Paperpulp from scanning the market and requesting offers from other insurance companies, if so only to put pressure on Baltica. Baltica is perfectly aware of the fact that they may be exposed to competition, should Paperpulp break free from Broadstream. Provided that both parties in an insurance relationship are aware of the level of competition, the longer and more solidified the relationship, the better the expectations of a relationship development where efforts are made to find new and enhanced solutions. Conversely, if competition is non-existent, a stagnation in the relationship is imminent as no new solutions are developed to old problems, which evokes the feeling of always following "the same procedure as last year". However, according to the financial manager, Baltica would have incentive to treat their customer well. Paperpulp is Baltica's only industrial customer; and if Paperpulp will become increasingly independent of Baltica as an insurance provider, Baltica's company strength will probably decline at the same rate as Paperpulp's dependence in the insurance company. (FM, 2000.)

If it had not been for the special kind of forcing relationship which exists between Paperpulp and Baltica, Paperpulp would most likely be in the market for another insurance provider. However, this would not be a result of the fire or Baltica's management of the damage adjustment, but rather due to the possible inconvenience for Paperpulp associated with them belonging to the same industrial group. The fact that Paperpulp is left without any choice makes FM believe that even though the present premium level is not excessively high, another kind of relationship (with another supplier) would definitely generate a lower premium. Actually, Baltica has recently sold out some of their business units, entailing that Paperpulp will have to turn to another insurance supplier for insurance policies worth about ten percent of the total premium level. According to FM, this development is only to the benefit of Paperpulp. (FM, 2000.)

Previously, Baltica had resources enough to provide not only one but three representatives who managed the relationship with Paperpulp; aside from the key account manager, there were also a damage engineer and a fire engineer from their own staff. These representatives were always involved in the renegotiations, inspections and damage adjustments. Even though Baltica's head offices were situated very far from Paperpulp's, there were never any problems as regards communication. However, as Baltica had to make cuts in staff, the result was that only one function towards Paperpulp survived, the key account manager, and the damage adjustment function is nowadays out-sourced to an external specialist company, Crawford THG. (FM, 1998.) Preventive fire protection, a service previously provided by the fire engineers of Baltica, is today managed by the in-house fire and rescue brigade. CFR's (2000) feelings about Baltica's change in contact personnel are simple: "nowadays they only have economists and lawyers who don't know much about effective fire protection".

Relationship Quality Perceptions

In the view of the financial manager, insurance services may, in an objective sense, be regarded as ideas presented on the basic insurance protection needed in different business units, entailing a continuous dialogue on the customer's insurance needs and whether the company is under- or over insured as well as pure consultative services. In short, an insurance policy provides a protection against unexpected incidents in an effort to minimise risk and to keep up a discussion regarding the level of risk which Paperpulp finds acceptable. (FM, 2000.) The administrative director agrees insofar as to him, insurance services signify an economic minimisation of risk. He states a very clear opinion that the insurance relationship is characterised by the fact that the damage adjustment unconditionally constitutes the most critical part in an insurance relationship. However, in the everyday relationship, the insurance

company has a responsibility to create an understanding of the policy conditions and the way they have to act in case of a loss. Efficient management of these variables creates a good and lasting relationship. (AD, 2000.)

In the view of the fire engineer, the individuals representing the insurance company are decisive for relationship development. They have to know what they are supposed to know; you, as the customer, has to feel confident that if you have to call them regarding an insurance matter, they have to be able to carry on a dialogue where you are sure you can trust the other party. (CFR, 2000) The financial manager expresses the same opinions in that the most meritorious characteristic of an insurance representative is his or her expertise and competence regarding above all insurance conditions. This could be expressed as a high level of professionalism, also combined with a good sense of objectivity in the relationship; to find the best solution for both parties not only reflecting profit goals, and also the capability to give good advice. However, an equally important quality of the representative is a thorough knowledge of the customer's business, regarding for instance its organisation and general conditions, as well as its market situation, including risks etc. Combined with the implicit knowledge of relevant insurance issues, this entails an ubiquitous capability of always having a feeling for the essentials. Other important issues are cooperation abilities, an understanding of the customer's situation (to alleviate the most likely case that the insured who has suffered a loss will pose unrealistic claims, only thinking of his/her own situation), and a good knowledge of the customer's business, resulting in sound judgements, in order to be able to keep the time of business interruption as short as possible. The initial decisions made in an adjustment process will consequently affect damage management, and good decisions is naturally in the interest of both parties. (FM, 2000.)

The individuals representing Baltica have altered over the years, and their level of capability have naturally changed. However, the perceived flexibility in Baltica's insurance solutions is satisfactory, although it would be possible to do more. Regarding Baltica's aggregated market knowledge and business competence, they should be able to give hints on new ways to solve insurance problems, and not just traditional solutions. The probable reason for this is, according to FM, that the relatively small size of the insurance company together with its recent cuts in staff are negatively affecting the possibilities of cross-fertilisation between different services – something which is often the result of a broad spectrum of both services and people in the larger insurance companies. The fact that Baltica has such a slimmed workforce, entailing a brain-drain as regards competence, shows in a perceived lack of flexibility and suppleness in the damage adjustment. The adjusters, externally appointed consultants, follow the regulations literally in every detail without any flexibility of adaptations. (FM, 2000.) Not only is the insurance representative's level of competence of utter importance; he or she also serves the part of symbolising the insurance company in being their agent. The representative consequently influences the trust in the insurance company as a whole. (AD, 2000.)

Paperpulp's fire engineer expresses the perhaps most pragmatic view: "The most important characteristic of an insurance representative is that he or she has relevant experience of heavy industry, including fire protection, so that he or she understands that the regulations and policy conditions have to be adapted to real life settings" (CFR, 2000). Should the insurance provider have a bad reputation, it is yet the functional issue, the representative with which the customer deals directly, which matters the most. An insurance company must be able to provide a broad spectrum of expertise, something which only the large companies are capable of today. Knowledge about the industry and its particular business characteristics and a sense for appropriate flexibility is more important than a perfect comprehension of policy conditions, even though the latter naturally also is comprised in the representative's

professionalism. Social competence is material in a relationship, but it is easier to accept a professional who is a bit hard to deal with than someone who is utterly smooth and pleasant but who doesn't show enough expertise in his business. (CFR, 2000.)

Even though the management of the damage adjustment could prove to be crucial to an insurance relationship, the policy conditions, the flexibility in adaptations, the premium level and, above all, the general service level are probably more decisive to the outcome of a relationship. Those are the words of Paperpulp's administrative director, who also claims that the problem with Baltica is that they, albeit their expertise and competence in many aspects, don't have, and have never actually had, a full service support, whereas other (larger) insurance providers are more focused on customer service. Baltica's fire engineers and damage adjusters used to be part of the team which inspected the sites regularly, but after Baltica's cut-downs in personnel and the outsourcing of these functions, Paperpulp has to rely on its own expertise (i.e. the chief of the fire and rescue brigade). The lack of a proficient service organisation is to the detriment of a small insurance company, especially when they no longer carry any damage adjustment competence, and this also makes the insurance relationship less solid. (AD, 2000.)

Damage Adjustment Process

Directly at the outbreak of the fire, personnel from the fire and rescue brigade were by natural causes the first to have any contact with the representatives from the insurance company and the adjustment bureau, together with technical engineers from the factory plant. Four hours after the fire had started, the damage adjuster had arrived and started working. The close cooperation with Paperpulp's fire engineer during the first days worked very smoothly regarding what was to be done, when it was safe to enter the site etc. (CFR, 2000.)

A project team was immediately initiated with the mission of minimising the negative consequences of the fire and to restart production as soon as possible, as well as to organise the reconstruction of the damaged plant. Out of the 10-15 team members (the number varied underway), six of them were permanent: the project manager, the financial manager, the administrative director, a mechanic, an instrument engineer, a construction engineer and the damage adjuster from Crawford. The latter was in that position as an independent consultant to examine and approve the claims from AD. (CFR, 2000.)

The administrative director had the main responsibility for the contacts regarding technical issues with the representative from the adjustment bureau Crawford, and the financial manager managed the economic issues with Baltica regarding the adjustment process and claims settlement. Paperpulp's chief of the fire and rescue brigade was, as a natural consequence, also in frequent contact with the insurance company (FM, 2000). The externally contracted adjuster proved to be very competent and skilful in managing the adjustment situation, and the team-work between the fire engineer and the Crawford adjuster lasted until the building was cleared, emptied of debris and considered to be safe. From that moment on the fire and rescue brigade was off the process until the discussion on the reconstruction started, where CFR contributed with expertise on new fire protection installations and sprinkler systems. The representatives from Baltica and Crawford remained the same throughout the whole adjustment process, although at the time of the reconstruction phase, the British reinsurance company also sent a representative to Paperpulp, an expert in industrial fire protection who presented recommendations on how and where to install the sprinkler systems. (CFR, 2000.)

At an early stage in the damage adjustment process, preliminary calculations were made and arrangements were negotiated between the insured, the insurance company and the adjustment

bureau regarding how much Paperpulp should receive in compensation and how frequent the down payments should be made. The loss caused by the business interruption accounted for the major part of the total claims of 250 million sek. (FM, 2000.) However, the fact that Baltica is part of the same industrial group as Paperpulp made the claims settlement problematic for Paperpulp, as the reinsurer (Lloyds of London) requested seemingly exaggerated demands on evidence regarding the actual costs incurred by the damage. All Baltica did in this situation was to forward the demands to Paperpulp, without any reflection over how they could alleviate the burden for their customer. Paperpulp presented their claims for compensation, Crawford had to evaluate those reflecting the details of the policy contract, and if approved the claims were sent to Baltica, which in turn had to receive acceptance from their reinsurer in London, after which Baltica administrated the disbursement of the compensation. Paperpulp received the major part of the financial compensation on running account. (FM, 2000.)

Crawford's damage adjusters had regular meetings with Paperpulp every other or every third week during a year after the fire, whereas visits from Baltica were far from frequent during the adjustment process. The adjusters from Crawford, however professionally competent, started out at a low level of customer knowledge but raised their "customer competence" successively during the adjustment process. The added instance in Baltica's decision process of the reinsurer was completely new to Paperpulp, although the previous losses all had been relatively small in comparison. A major disturbance regarding this issue was that Paperpulp grew tired of having to wait for such a long time before receiving acceptance for their claims: "It almost seemed to be a systemised behaviour [to apply slow bureaucracy]9..." (AD, 2000).

The stipulations in the insurance policies, that is the promises made by the insurance provider, proved to be mostly consistent with the outcome, and the only retrospective change made after the loss was a necessary prolongation of the period of indemnity. Baltica further required a sprinkler extinguisher system to be installed in order to let Paperpulp keep its previous premium levels. The damage adjustment process did not change Baltica's reputation in FM's eyes: "we live together", because Paperpulp and Baltica are forced to do so. If there was a possibility of scanning the market for alternatives, the major incentive as of present conditions would actually be to negotiate a higher level of flexibility and more competitive premium levels from Baltica. The level of perceived trust in Baltica (as an insurance provider) has remained unaltered, with the damage adjustment in hindsight. The level of trust in Baltica's representative, who had been assigned to Paperpulp only a couple of months before the fire, has however increased during the claims settlement (FM, 2000.)

Paperpulp's financial manager is on the whole pleased with the way Baltica has managed the insurance relationship; the concluding judgement is positive. However, regarding the claims for evidence from Baltica's reinsurer, he has a feeling that Baltica could have shown a more supportive attitude. There were never any problems with the insurance company using external consultants for the damage adjustment, although they lacked prior experience of Paperpulp as a company. As a stabilising factor, Baltica's key account representative remained the same during the damage adjustment process, even though there were many changes in Baltica staff before the incident and during the damage adjustment. This person actually had some previous experience of Paperpulp, however not as the relationship manager for Baltica. Moreover, judging from the compensation Paperpulp benefited from, the premiums paid were proven to have been seemingly appropriate, regarding the prevailing policy conditions. (FM, 2000.)

Discussion

Situational Dimension

This case deals with a very special situation, since Baltica – originally a marine insurance company – only has one large industrial customer: Paperpulp. Although the insurance company in general probably would have managed without Paperpulp as a customer, it can be speculated that the loss of the forestry company would have conveyed not only a major drawback in premium revenues, but also resulted in a loss of valuable customer management knowledge which could be profited from in other insurance relationships. An interesting development is that Baltica's selling of some business units actually opened up for competition, a development which definitely will have effect on the future relationship development. The considerable experience of insurance-related issues personalised in Paperpulp's financial manager provided a considerable advantage, as it gave a more balanced relationship vis-à-vis the insurance provider, and the channelling of all insurance-related issues through the financial manager gave him a very good overall view of how the insurance provider managed the insurance relationship.

Baltica's level of flexibility in insurance solutions may partly have been a result of their customer policies, but most likely also a consequence of relationship longevity and the extent to which they know their customer. Even though Baltica in this case had the incentive to treat their customer well, they failed somewhat in one aspect: the conflict management when they were put as a middleman between their reinsurer and their customer, and when Paperpulp would have needed their support.

The insurance provider's coercive power over their customer, due to Paperpulp's organisational constraints, was the actual core of the nature of the insurance relationship. Although somewhat offset by the constant 'threat' that Paperpulp would find a solution to become separated from Broadstream, which would have put Baltica in the midst of a competitive race for Paperpulp as a prospective customer, this variable has always been permeating the perception of the relationship. Even though Paperpulp hypothetically would not have been better off had they had the chance to try another main provider of insurance, the mere fact that they did not have the possibility to try profoundly influenced their basic attitude towards Baltica.

Time Dimension

The 15-year relationship with Baltica did unquestionably result in mutual learning and adaptations at the company level. During the relationship development, there has been a number of incidents where damages has incurred insurance losses. The outcomes of these damage adjustments have affected both the buyer's perception of relationship quality and expectations for future relationship development, as well as the seller's view of the policy owner in terms of for example risk management and flexibility towards the customer. As Paperpulp have been generally satisfied with the overall perceived quality, this has strengthened the relationship commitment. However, the level of commitment, both organisational and individual, has been negatively influenced by the parties' organisational connectedness, and has as such to be defined as a constraint-based type of commitment, where personality and attitudes can do nothing more than facilitate the forcing relationship.

The commitment in the Paperpulp-Baltica relationship may have been constraint-based, but there were still organisational effects as a consequence of the investments made in not only adaptations and time, but also in efforts to get the insurance representatives to know the company. The longevity of the relationship with Baltica has entailed relational benefits which increase the relationship termination costs.

Critical Episode: The Damage Adjustment Process

In order to have the customer realise what will happen in case of a loss, and also to realise how the insurance provider will act during these circumstances, as well as the reasons for it, the communication effectiveness is a crucial variable affecting the service expectations. As previously stated, the switch from a 'normal' insurance relationship to a damage adjustment process is a very sensitive business, since it most likely involves a new contact person representing the providing firm, in whose hands the fate of the customer literally rests. The general impression is that Baltica and Crawford in alliance managed the damage adjustment process professionally from the very beginning; even the otherwise critical chief of fire and rescue praised the relationship management at the initiation of the adjustment. The financial manager concluded that the policy conditions were consistent with the outcome, and the premium level was perceived as fair, judging from the level of compensation which was paid to Paperpulp as a consequence of the damage adjustment and claims settlement.

Although Baltica's cuts in staff and reorganisation were generally negatively perceived by Paperpulp, especially as their old contact persons were replaced by one who did not have the same level of expertise as his predecessors, one positive outcome of Baltica's use of the external damage adjustment competence was that Paperpulp was assigned a consultant who lived in the same town. He may not have been any expert in forestry, but nevertheless he had some knowledge of it beforehand, living close by. The Baltica staff previously assigned had all been geographically located to a completely different part of Sweden. Additionally, the insurance representative learnt the tools of the trade the hard way, and doing so, he earned a deeper trust from Paperpulp's managers.

Conclusions

There are two interesting external variables which affected the insurance relationship nature in the case at hand: the importance of the fact that Lloyds, the British reinsurance agency, mistrusted the damage claims as a direct result of the organisational ties between Paperpulp and Baltica, and the competitive environment which consistently forced Baltica to act as if there never had existed any constraint and regulated relationship between the two parties. The latter is evidently the normal case in an open market, but in this case, neither the buyer nor the seller had any real opportunity to choose their business partner in this sense. Regardless of Baltica's position, they always had to act as if they were competing with other insurance providers, as they will be as soon as Paperpulp gets the opportunity of choice.

Even though the respondents all claimed that the damage adjustment generally constituted the most critical part of an insurance relationship, the outcome in this case, regarding the decision to maintain or dissolve the relationship, was more likely a result of the constraint-based relationship commitment forced on Paperpulp (as well as on Baltica). And even supposing that the perceived trust in the individual insurance representatives was strengthened by the way they managed the damage adjustment process, the critical attitude towards the insurance company as such remained at a more negative level. The respondents implied that they would prefer trying another insurance provider which would have more sufficient resources regarding different types of expertise, and which would not cause any challenge of the validity of their damage claims due to any forcing organisational bonds. The general conclusion is that the perceived overall service quality was not high enough to prevent the customer to scan the market for other alternatives, and even though the customer was generally satisfied with the outcome of this incident, the perceived relationship quality had a negative impact on the overall evaluation.

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