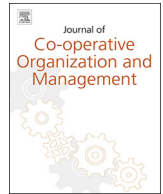




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## Mental models of customer ownership in the executive board: A case study in the pension insurance sector

Antti Talonen<sup>a,\*</sup>, Maria Holmlund-Rytkönen<sup>b</sup>, Tore Strandvik<sup>b</sup><sup>a</sup> School of Management, University of Tampere, FI-33014, Finland<sup>b</sup> Department of Marketing, Hanken School of Economics, Finland

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## ABSTRACT

Mutuals can be seen as expressing the utmost in customer orientation, by merging the roles of customer and owner. Nonetheless, the literature indicates that emphasis on these two roles is not evident among mutual companies in practice. Accordingly, there is a gap in knowledge pertaining to how the idea of customer ownership is understood and present in mutuals. To increase understanding of this gap, a study explored the mental models of customer ownership held by executive-board-level managers. This entailed collecting and analysing empirical interview data from executive-board-level managers of a large Finnish mutual pension insurance company. These mental models are distinguished along two dimensions: the role of a customer-owner, which may be passive or active, and managerial scope, which can be operative or strategic. A matrix constructed from these dimensions shows how customer ownership can have a limited, applied, strategic, or extensive function in the mental models of the executives. The findings should aid managers in evaluating their views of customer ownership, thereby facilitating diagnosis of the approach being applied. Furthermore, they may assist legislators, public authorities, and reporters in understanding the nature of a customer-owned insurance company and how the associated ideas may have been implemented in practice.

## 1. Introduction

Customer-owned mutual insurance companies continue to constitute a substantial proportion of the global insurance industry, generating approximately \$1200 billion in annual premium income (ICA, 2016; ICMIF, 2016). The merging of customer and owner roles makes the mutual a suitable tool for customer-owners' arrangement of their reciprocal risk-sharing (e.g., Aase, 2007) and for seeing to their interests in the market (e.g., Cabrales, Calvó-Armengol, & Jackson, 2003). As customers are also the owners of the company, the mutual company form can be seen as, in principle, representing the epitome of customer orientation. This notwithstanding, earlier research indicates that emphasising the dual role of consumers as customers and owners is not always that evident in mutual companies in practice. Some scholars have stated that alienation from mutuals' principles may be an evolutionary process in parallel with growth of a company (e.g., Keneley, 2012). Another factor may lie in the understanding and mental models of successful business, which often remain tied to theories based on stock companies (cf. Kalmi, 2007). With regard to managers in mutual companies, earlier research has shown that attitudes differ as to the advantages and disadvantages of mutuality (e.g., Butler, Cui, &

Whitman, 2000; Erhemjams & Phillips, 2012; Raczy, 1998). This is an important notion since managers of a company have a great influence on decisions about how that company is organised and how it performs (cf. Jaworski, 2011).

While prior research gives some indication that mental models associated with customer ownership may vary, the purpose of the study conducted for this paper went further, for examining *how* managers of mutual insurance companies understand and conceive of customer ownership. To this end, our study was aimed at exploring and identifying distinct mental models of customer ownership among executive board -level managers. A case-study approach was used in which insights were derived from empirical data from interviews of executive board members of a large mutual pension insurance company in Finland.

We begin with a review of the concept of mutual insurance and use earlier research to identify gaps between the theoretical and practical worlds. This provides more deeply rooted argumentation behind the starting point for our work. Secondly, we consider our study's perspective, focused on mental models. Then, we present a summary of the methods and research data, which sets the stage for the following section's detailed analysis of the interviews and reflection with the earlier

\* Corresponding author.

E-mail addresses: [antti.talonen@staff.uta.fi](mailto:antti.talonen@staff.uta.fi) (A. Talonen), [maria.holmlund-rytkonen@hanken.fi](mailto:maria.holmlund-rytkonen@hanken.fi) (M. Holmlund-Rytkönen), [tore.strandvik@hanken.fi](mailto:tore.strandvik@hanken.fi) (T. Strandvik).<https://doi.org/10.1016/j.jcom.2018.02.001>Received 26 May 2017; Received in revised form 28 November 2017; Accepted 10 February 2018  
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research. The paper ends with a conclusion section, which includes musings on implications for future research and management use.

## 2. Mutual insurance companies in theory and practice

Mutual insurance companies are owned by their customers – either organisations or individuals who buy policies or are policyholders (e.g., Cummins, Weiss, & Zi, 1999). In the case of pensions, insurance cover is usually purchased at company level for all the relevant company's employees. Consequently, decisions on which insurance provider to use are ultimately made by top-level executives of the customer company. This leads to a situation wherein mutual pension insurance companies have several customer-owner groups: insured employees, insured entrepreneurs, and company representatives who buy policies (cf. *ilmari.fi(a)*, *varma.fi(a)*). In contrast to other consumer co-operatives, mutuals lack 'walk-in' customers, since ownership goes hand in hand with holding an insurance policy (e.g., Viswanathan & Cummins, 2003). Hence, understanding of customer ownership may vary between mutuals and different co-operative contexts. This heightens the relevance of the mental model perspective.

As owners, customers are the decision-makers (e.g., Mason, 1967) and residual claimants of the company (e.g., Lamm-Tennant & Starks, 1993). The very nature of the mutual form leads to fundamental differences from IOFs in purpose and operation philosophy. The aim for a mutual should be to maximise and optimise benefits and value for the customer-owners as consumers rather than maximise return (profit) on invested capital (e.g., Borgen, 2004; Cabrales et al., 2003). Hence, the mutual can be regarded as a tool that allows customer-owners to organise their reciprocal risk-sharing (Aase, 2007) and safeguard their interests in the markets (Byrne, Heinonen, & Jussila, 2015). Accordingly, customer-owners should be able to take an active role – in both theory and practice – in envisioning and developing their company's future.

Apart from considering these 'ideal-level' conceptions, recent research on co-operatives has shown growing interest in the relationship between co-operatives' purpose and managerial behaviour. It has been suggested that co-operatives may ultimately fail to express their very nature as democratic member-based organisations (e.g., Bakaikoa, Errasti, & Begiristain, 2004). This is a degeneration thesis characterised by the work of Cornforth, Thomas, Lewis, and Spear (1988), who describe degeneration as occurring thus: when a co-operative reverts to capitalist form, it begins to implement IOF-type objectives and goals such as profit, or the control of the co-operative moves towards a management elite. In these circumstances, as Puusa, Mönkkönen, and Varis (2013) emphasise, the essence of the co-operative may be left behind as the conventional capitalist idea of how businesses and companies should be understood enters ascendancy. Considering mutuals specifically, Keneley (2012) states that an impending decision to demutualise her article's case company became obvious when the organisational culture began to shift away from co-operative ways of arranging the business. This pattern exists within a larger context, though: trends toward demutualisation or mutualisation have varied over history, so we may conclude that attitudes related to the advantages and disadvantages of various company forms have differed with the era (e.g., Butler et al., 2000; Erhemjamts & Phillips, 2012; Racz, 1998). A final factor is mentioned by several authors who suggest that decentralised and non-public ownership renders it challenging for customer-owners to monitor a mutual's managers. This, in turn, leads to opportunistic management actions and inefficiency (e.g., Biener & Eling, 2012; Mayers & Smith, 1981; Pottier & Sommer, 1997). These authors' models based on agency theory generally suggest that a mutual identity may vanish on account of individual managers' tendency to maximise utility for themselves whenever possible.

## 3. The perspective of mental models

'Mental model' describes a cognitive framework or mindset by which one construes and makes sense of the world (e.g., Gentner & Stevens, 1983; Goffman, 1974; Senge, 1990). Accordingly, the concept refers to a belief structure that determines how one approaches issues (cf. Mohammed, Klimoski, & Rentsch, 2000). Mental models develop and change over time. For instance, Ringberg and Reihlen (2008) talk about socio-cognitive knowledge transfer wherein individuals' sense-making is influenced by external social inputs that are filtered through the perceiving mind and existing mental models. In these circumstances, an individual's strong existing mental models can disrupt adaptation of that person's thinking in new situations, when the existing mindset may not be suited to approaching the new (e.g., Barr, Stimpert, & Huff, 1992; Das & Teng, 1999; Day & Nedungadi, 1994; Van Maanen, 1984; Weick, 1979). This is referred to as categorical thinking (e.g., Ringberg & Reihlen, 2008). At the same time, perceptions may change as the outside environment puts pressure on managers to adjust their thinking (Jaworski, 2011). Consequently, when practising reflective thinking (Ringberg & Reihlen, 2008), one improves, expands, or even replaces the existing mental framework and manners of thinking so as to make sense of new situations (e.g., Bodenhausen & Garst, 1998; Wegner & Pennebaker, 1993).

Studies have concluded that the relevance of individual ideas and concepts is perceived manager-specifically, not at the level of the organisation in general. Since managers' actions and decisions have a direct impact on the performance of the organisation (Jaworski, 2011), it becomes all the more important to examine managers' ways of thinking and mental models as we strive to increase understanding of why companies operate as they do. As Rydén, Ringberg, and Wilke (2015, p.3) recognise, the theory of mental models has been applied in organisation and business studies from many angles, among them management cognition (e.g., Mintzberg, Ahlstrand, & Lampel, 2009), knowledge transfer (e.g., Ringberg & Reihlen, 2008), human-technology interaction (e.g., Gentner & Stevens, 1983), decision-making (e.g., Carley & Palmquist, 1992), and choice of technology (Tripsas & Gavetti, 2000). In addition, increasing interest has been shown in business model development (e.g., Teece, 2010) and in the role of marketing in the decision-making (e.g., Strandvik, Holmlund, & Edvardsson, 2012; Strandvik, Holmlund, & Grönroos, 2014; Tollin, 2008; Tollin & Jones, 2009). For example, customer ownership need not be understood in the same way by everyone or be significant in all decision-making. It can be illuminating to investigate how and in what ways customer ownership, which is a central business principle in co-operative companies, is reflected in people's thinking and actions.

Rydén et al. (2015) explored mental models for business-customer interactions by considering how their informants' underlying perspectives on customers differed. Their specific focus was on how social media can be useful for the company. They found perspectives to be rooted in certain fundamental marketing assumptions, which differ profoundly. At the core of the differences among mental models was seeing the customers as i) a target group for social media and marketing efforts (promote and sell, labelled 'business to customers'), ii) a communication audience (listen and learn, or 'business from customers'), iii) mutual-benefit partners (connect and collaborate, in 'business with customers'), or iv) meaning co-creators (empower and engage, with 'business for customers'). These types of mental models with regard to customers could be applied to other settings, such as customer ownership, as well. In a company setting, it is more important to identify what mental models exist and whether and how they diverge than to identify a dominant mental model or reveal how models are shared.

## 4. Methods and data

The Finnish pension insurance sector provides an interesting context for studying mental models of customer ownership. Finland's employee

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