DOES STRATEGY MATTER IN THE BELGIAN INSURANCE INDUSTRY?

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ABSTRACT

Many previous strategy models have proven too vague to help in the day-to-day operations of a firm. Here, we propose and develop four basic dimensions of strategy: whom do we serve, what do we provide, what is our value proposition, and how do we realize all this - that is, what is our business model? We use these dimensions to test whether strategy matters relative to several performance outcomes across fifty one firms in the Belgian insurance industry. We find mixed results, and suggest future research look at the importance of each dimensions firm by firm.

INTRODUCTION

Do you really have a well-specified and clear competitive strategy? And what are the key ingredients of your competitive strategy? This probably is the strategic question that has received most attention in the academic and consulting world. In the end, this question is at the very core of what strategy is all about – specifically how to outperform your competitors. Past strategy models generally have been non-specific at the operational level, which diminishes their value added ability. We look at a more specific approach to dimensions of an applicable strategy.

LITERATURE

Michael Porters books *Competitive Strategy* [1] and *Competitive Advantage,*[2] written more than 20 years ago, still form the general basis for addressing the above referenced questions. Porter argued that successful companies either choose to be a low-cost provider or a differentiator. Companies that fail to choose are stuck-in-the-middle, as they fail to differentiate themselves from their competitors. These views are still widely held, although they have been somewhat modified and updated over the years. Other academic researchers have tried to look for alternate explanations for success. An increasing number of academicians argue that the key to success lies in innovation, changing the rules of the game and thinking out-of-the-box For several years, academicians and consultants have shown that the most successful companies were the ones that broke free from the pack by creating products or services for which there are no competitors (*e.g.* Ryanair, Ikea). While innovation is a viable - and sometimes necessary - option for some companies, we believe that there are more profitable strategic options for Belgian insurers than challenging the current business model. Outside-the-box strategy is terrific when it works. But, some organizations are performing badly on the basics. Thus, start inside the box, to ensure that the key operational processes are under control and that they reliably meet customers' reasonable expectations on the product or service itself [3]. Competitive strategy is also - to a degree - about being different, thus avoiding a crowded competitive field that may limit firm success. In general, we expect focus and uniqueness to be important strategic characteristics.

We believe that competitive strategy is still 'in.' However, we acknowledge that the current strategic frameworks are often just too vague and not specific enough to be helpful for running the day-to-day business. In order to remedy some limitations of past strategic models, we developed four basic underlying dimensions of strategy, including whom do we serve, what do we provide, what is our value proposition, and how do we realize all this - that is, what is our business model? We tested the relationship between these four identified strategic dimensions and performance, specifically ROE and net technical financial results (NTFR.) Due to space limitations, we present only the business model dimension here. Specific information and results on this and other dimensions are available from the authors.

METHOD AND RESULTS

To test our ideas about competitive strategy in the Belgian insurance industry, we developed a questionnaire that was sent to the CEOs of all insurance companies present in the Belgian market. Fifty-one (51) companies completed the survey, representing 83% of the Belgian insurance market in terms of premium income. Among other items, respondent scored 50 different operational activities, from which we extracted nine business model dimensions, including cost control, straight through processing, transaction efficiency, CRM, distribution management, service delivery, training, product development and management. We find evidence that there are companies which focus on infrastructure management, customer relationship management, and product innovation. We call these companies the *process oriented insurers*, the *service-oriented insurers*, and the *product-oriented insurers.* Thesecompanies do focus and consider some business model activities more crucial than others. We identified three other companies that have a less focused approach. The *dominators* score significantly higher on every business model dimension than the industry average. They are not focused at all, since they invest time and resources in many different areas. The *strugglers* score systematically lower for each and every business model dimension. They invest less in infrastructure management, customer relationship management, and product innovation. The *undecided* have no focused approach at all: their score follows the industry average. We compared the performance of firms with these different strategic business models, with preliminary results below.

Performance of different types of insurance companies classified according to their business model

	Average ROE (2002-04)	**NTFR Non-life (2002-04)**	**NTFR Life (2002-04)**	**Average premium growth (2002-04)**
Dominators (n = 8)	13.99%	6.62%	0.4%	15.23%
Process-oriented (n = 13)	5.91%	2.27%	2.48%	18.00%
Service-oriented (n = 9)	-1.56%	2.85%	0.76%	12.54%
Product-oriented (n = 4)	-10.20%	9.33%	-2.31%	17.96%
Undecided (n = 6)	-4.69%	2.57%	-4.21%	-4.52%
Strugglers (n = 6)	5.33%	-0.98%	-2.01%	4.83%

The dominators and the process-oriented insurers are the most successful business models in the Belgian insurance industry. Both categories of insurers give a lot of attention to the streamlining of their back-office. And this seems to pay off, not only in terms of profitability, but also in terms of premium growth. The higher profitability of these two types of players is mainly caused by their better performance in the Life insurance business, although dominators' do have a relatively high net-technical financial result (NTFR) in the Non-Life business as well. What is surprising is that the *strugglers* do not have the lowest profitability, which is only slightly below the profitability of the *process-oriented* organizations. Nevertheless, the operational performance of those companies is negative, both in the Life and Non-Life business. The three other business model categories have a negative overall profitability and except for the product-oriented insurers, have a lower average premium growth. These initial findings are not very straightforward, which indicates that the choice for a particular business model in itself does not imply better performance. What is more, the fact that the dominators with their unfocused approach dominate in terms of profitability and have high premium growth, challenges our notion that focus matters.

We believe that traditional approaches towards competitive strategy do not capture the multidimensional nature of strategy. This briefly looks at only one dimension of strategy, the business model, as we explore to what extent different dimensions of competitive strategy help explain performance differences in the Belgian insurance. In general, preliminary results indicate that focus and uniqueness do not necessarily lead to higher profits. Overall, some aspects of the product and value proposition dimensions appear to be positively related to focus and uniqueness, while the business model and customer dimensions are not. Thus, we find mixed results, and suggest future research look at the importance of each dimensions firm by firm.

REFERENCES

[1] Porter, M. *Competitive Strategy*. New York: Free Press, 1980.
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[3] Treacy, M. & Wiersema, F. The Discipline of Market Leaders. Reading, MA: Perseus Books, 1995.