Stakeholder management as a driver of corporate performance in the insurance industry

Lecture at Beijing University,
China Centre for Insurance and Social Security Research

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Agenda

- Defining stakeholder management
- Stakeholder management in insurance
- Stakeholder management as a driver of corporate performance
- Conclusions from a practitioner’s point of view

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Defining stakeholder management

- Managing the relationships of a corporation with relevant constituencies in industry, political, social, economic and legal environment
- Roots of the concept go back to the 1950s:

“Customers, employees, the community, and stockholders are the four parties to any business. (…) If the other three parties are properly taken ca of, the stockholder will benefit in the long pull”

General Robert E. Wood, 1950, then CEO of Sears

- Stakeholders contribute to the wealth-creating capacity of a corporation an are, therefore, its potential beneficiaries and/or risk bearers

Defining stakeholder management (cont'd)

- Stakeholder identification criteria:
  - They supply resources that are vital to corporate success
  - They place something of value “at risk”
  - They wield sufficient power to influence corporate performance

- Primary stakeholders:
  - Shareholders, employees, clients and suppliers
- Secondary shareholders:
  - Consumer organizations, government entities, the media etc.

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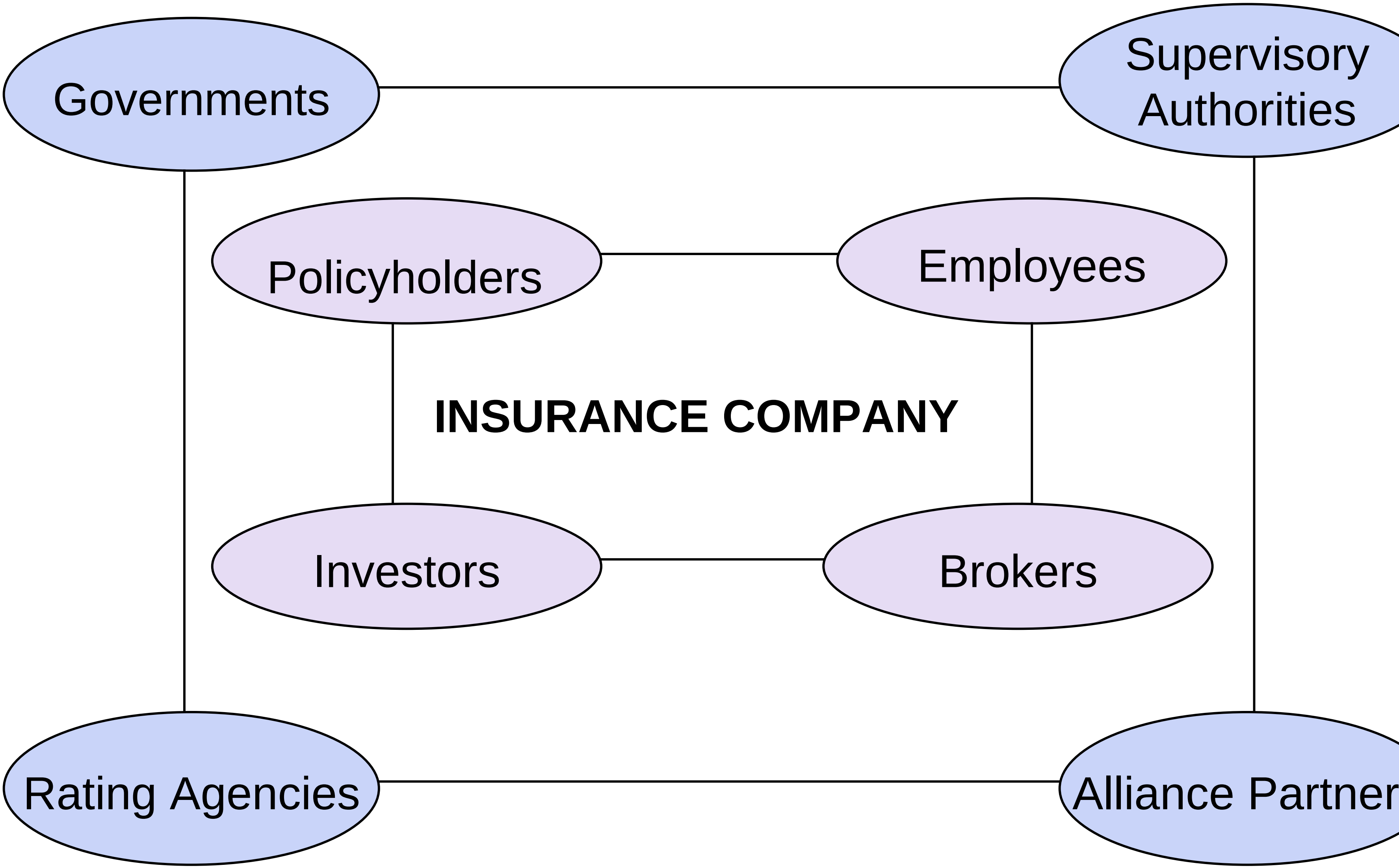
Stakeholder management in insurance

As from the 1990s: Increasing relevance of the concept in insurance:

- Deregulation of terms and conditions
- Liberalization of market access
- Privatization of state-owned insurers

The Insurance Industry‘s Key Stakeholders



Stakeholder management in insurance (cont'd)

More recent drivers of stakeholder management in insurance:

- More volatile financial markets
- Surging insured catastrophe losses
- Liability claims inflation
- Regulatory reforms and investigative pressures

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Our main proposition:

The ability of a corporation to establish favourable interactions with a multitude of stakeholders is a necessary condition for the maximization of shareholder value.

Main Corporate Value Drivers

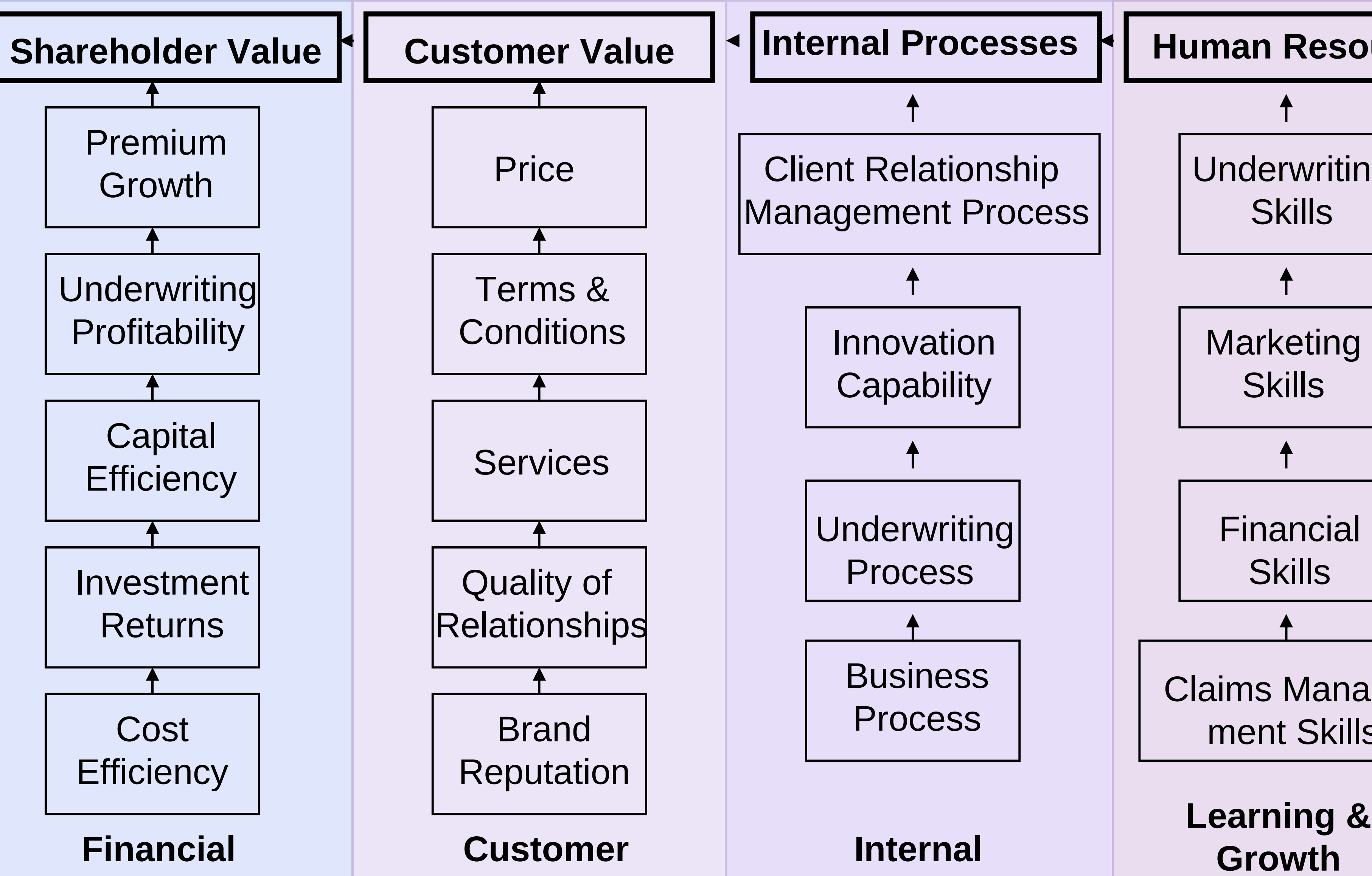
- Strategic positioning of the firm
- Long-term fundamentals of the business environment
- Corporate reputation

The “Balanced Scorecard”

The first comprehensive corporate performance measurement approach:

- Financial performance
- Customer’s perspective
- Internal perspective
- Learning perspective

A Typical Insurer's Balanced Scorecard
Strategy Map



Effective stakeholder management can help insurers „endogenize“ factors which used to be regarded as exogeneous.

Stakeholder management as a source of organizational wealth …

Proposition:

The quality and effectiveness of stakeholder relations management determines an organization's capability to generate sustainable organizational wealth.

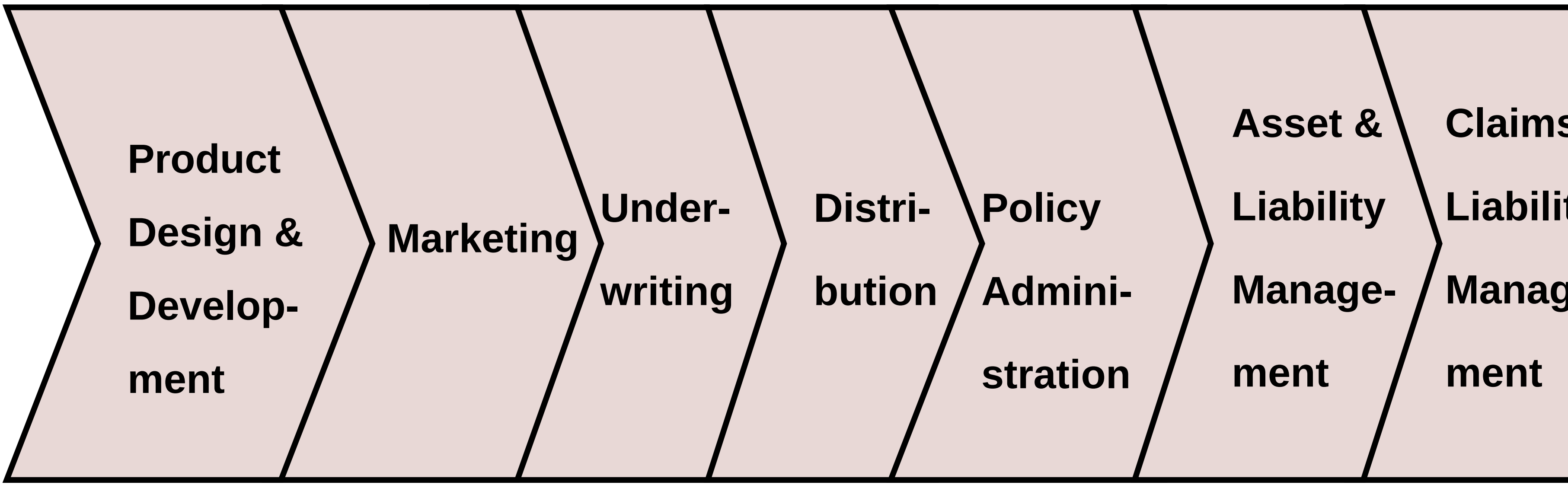
We define "organizational wealth" as

- The market value of physical and financial assets plus
- The value of individually separable intangible assets plus
- The value of "relational" assets

.. based on its ability to create competitive advantage

- The capability of a firm to create and sustain organizational wealth depend on the competitive effectiveness of its value chain which, in turn, is determined by the firm's relationships with clients, shareholders, employee and other stakeholders
- This can be conceptualized by Michael Porter's concept of competitive advantage:
  - Cost leadership or
  - Differentiation

Competitive advantage is determined by the corporate value chain



Source: Schanz

Stakeholder management as a source of competitive advantage (cont'd)

Stakeholder management can support both competitive strategies (differentiation and cost leadership) by "lubricating" the value chain!

Two fundamental strategies for competitive advantage

Cost leadership

- Controlling cost drivers
- Reconfiguring the value chain

Differentiation

- Supplier linkages
- Channel linkages
- Institutional factors

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Conclusions: Need for integrated messaging

- In order to maximize the benefits from stakeholder management an integrated stakeholder communication approach should be adopted by the insurance industry

- A balanced messaging is needed which reflects the complexity and dynamics of the insurance industry’s business environment as well as the expectations of its stakeholders

ntegrated Messaging for an Insurance Company

INDUSTRY CONTEXT

- Competition
- Regulation
- Legislation
- Economic Development
- Social Trends
- Technological Trends

CORPORATE STRATEGY

- Vision
- Mission
- Strategic Objectives

FINANCIAL PERFORMANCE

- Operating/Net income
- Premium growth
- Combined ratio/operating margin
- Investment income yield
- Shareholder’s equity
- Return on equity
- Cash flows

Conclusions: Strategy meets Communication

Benefits from aligning strategy development and stakeholder management

- Influencing key parameters of corporate strategizing
  - Resource base
  - Industry structure
  - Socio-political environment
- Enhancing strategy development by an “outside-in perspective”

Summary

- Stakeholder management in insurance has rapidly gained in importance du to fundamental changes to the sector's business environment
- Effective stakeholder management can enhance corporate value drivers
- There is a strong case for integrated messaging and a close alignment between stakeholder management and strategic planning

Recommended reading

- **Kaplan/Norton (2001)**: The Strategy-Focused Organization – How Balanc Scorecard Companies Thrive in the New Business Environment, Harvard Business School Press.
- **Porter (1985)**: Competitive Advantage – Creating and Sustaining Superior Performance, Free Press.
- **Post/Preston/Sachs (2002)**: Redefining the Corporation – Stakeholder Management and Organizational Wealth, Stanford University Press.

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Thank you for your attention!