Some Considerations regarding Strategy and Strategic Management in Romanian Insurance Sector

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Abstract

Over the last decade, the external environment of insurance sector had significantly changed, becoming very instable and complex. In these circumstances, we believe that the proper managerial approach, not only for anticipating the future problems, opportunities and threats but also to improve profitability, is the strategic management. In this paper we present the concept of strategy and the differences between strategy and strategic management. We also present a strategic management model for insurance companies, based on a few important stages: substantion of the strategic management model, development and implementation of the strategic management model and evaluation and control of the performances of the strategic management model. Based on „Strategic management” book, written by Ion Popa, this model is adapted for the insurance companies operating on our local insurance market.

Key words: strategy, strategic management, insurance company, performance

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Due to the unstable and complex environment in which insurance companies activate, dealing with a large number of risks related to their main activities and other economic agents risks, it is obvious that we need to identify and also take into consideration the external influences, to value opportunities and to avoid possible threats. This is possible by promoting and using the strategic management approach.

The concept of strategy had been used for the first time in the management theory and practice in the sixth decade of the 20th century. Little by little, a new approach appeared, called „Strategic Management”, which imposed the concept of strategy as its key element.

In the economic literature there are a lot of definitions and approaches for strategy and strategic management. Ovidiu Nicolescu and Ion Verboncu define strategy as „the ensemble of an organization’s major long term goals, the main approaches for achieving them, together with the resources allocated in order to obtain the competitive advantage according to the mission of the organization”.

The major components of a strategy are: mission, fundamental objectives, strategic options, resources, deadlines and competitive advantage.
In the process of establishing its strategy, an insurance company must take into consideration a series of factors such as company’s resources and capabilities, the internal and external environment in order to obtain positive results and to minimize the negative consequences of them. The Romanian insurance market has a very high potential for growing and development but this potential is influenced by the economic evolution of our country and by the level of public awareness for insurance need. Also, when we talk about the insurance market, we must talk about the intense regulation and supervision.

Nowadays, one important trend in management is to overcome the stage of elaborating and implementing a simple strategy and move towards a more complex process called strategic management. In fact, what is strategic management and which are the differences between strategy and strategic management? Is it possible to be only a more sophisticated name for strategy?

In economic literature, there are a lot of approaches for strategic management, different points of view, but many authors consider that strategic management implies a series of actions, starting with the analysis of company’s competitive environment and with the establishing of its strategic mission and ending with the appraisal of the performance achieved by applying the strategy and, if necessary, with a reconsideration and changing the respective strategy.

Ion Popa considers that strategic management is a new management approach based on strategy, used by managers to insure the long term evolution and performance of the organization, with a proper strategy development, a systemic and effective implementation, as well as an on-going assessment of it.

Strategic management represents more than organizational strategy, is a process that implies a permanent reconsideration and adjustment of those management decisions which influence the company’s future.

Hereinafter we present a strategic management model for insurance companies based on the „Strategic management” book, written by Ion Popa.

The strategic management model represents a complex process of forecasting a company’s future, long-term evolution, in which development of the strategy, its implementation, assessment and on-going control blend together and complete each other in a continuous, dynamic and iterative flow. This model requires not only the determination of the market position of the insurance company, but also of the future position of the company pursues, meaning to go beyond the plain analysis and forecast the evolution of all factors that could impact on the insurance company.

The strategic management model requires going through a series of stages:

1. Substantiation of the strategic management model. The management practice and theory reveal that in order to „produce” rational strategies and politics with significant economic effects, it is necessary to know and take into consideration a set of essential elements called assumptions of the strategic management model. For the insurance companies, these assumptions are:

   - Taking into consideration of the life-circle of the insurance company. Each stage of this life-circle implies different problems and challenges and thus, different decisions and actions.

   - Selection of the model according to type of insurance policies: life insurance and non-life insurance. The insurance companies offering long-tail policies are confronting with significant different problems than those companies offering short-tail products. The short, medium and long-term operational and decisional solutions are completely different for each type of insurance products.
- Consideration of the stakeholders of insurance company: shareholders, policyholders, employees, managers, reinsurers, banks, insurance supervisory commission.
- Differentiation of the model according to the specific features of the insurance industry and to the development of the insurance market.
- Continuity of development and application of the strategic management model
- Systemic approach of the development and implementation of the model
- Flexibility of the strategic management model
- Internationalization and globalization of economic activities
- International transfer of managerial know-how
- The substantiation of the strategic management model requires information from diagnosis research studies, competitive environment analyses, forecasting studies, market research studies and environmental research studies.

2. Development of the strategic management model. In this stage managers must establish the insurance company’s mission, determine the strategic objectives together with the strategic options, determine the resources employed in attaining the objectives, setting the intermediate and final time limits for achieving objectives and also establish the sources for competitive advantage. At this level it is also required to put together all the aforementioned elements in order to design the company’s global strategy. Then managers must establish the partial strategies and the global politics for the insurance companies.

3. Implementation of the strategic management model. As part of the strategic management process, the implementation of the strategy follows the stages of substantiation and development of the strategy. Moving from one stage to the other implies deep changes in the nature and content of the strategic approach: its specific intellectual, informational, decision-making, reflective and analytical character, the strategic vision and entrepreneurial thinking that feature the stage of developing the strategic model are replaced by actions and experimenting in the real context of company’s business that, most of the times, is defined by conflicts, adverse reactions, rejections of the change the strategic model introduces, struggle of interests, failure to understand the meaning of change, accidental or deliberate errors.

In order to assure the success of strategic model implementation it is necessary first to prepare the internal climate of the insurance company, to provide the technical, material, human, financial and information resources

4. Evaluation and control of the performances of the strategic management model.

The strategic management model brings a lot of advantages which enhance the quality of the management process, the insurance companies’ competitiveness and their abilities to adapt to new demands and challenges. The most visible advantage of the strategic management model is, when is exercised in the right manner, a significant improvement of the economic and financial results of the company, a rapid growth and consolidation of the market position, as well as a noticeable enhancement of its competitiveness.

Corneliu Russu in his „Management strategic” identified some specific features of highly competitive companies. These features show that most of them could be included in the scope of philosophy, key coordinates and priority action lines specific to strategic management:
Clear top management vision regarding the directions to follow and the objectives of the future activity, constant perspective thinking, and focus on future concerns rather than on day-to-day activities.

Advanced customer-relations management skills, anticipation of the market trends, aggressive search for new opportunities.

The company’s management gives priority to obtaining the competitive advantage, seen as the key element underlying profitability and the achievement of a stable long-term position for the company. Availability of a strategic action plan aimed at obtaining superior economic and financial performances and a sound competitive position.

Management by results, based on a close relation between individual performances and individual rewards. Direct and deep involvement of the company’s management in creating the internal conditions for successful application of the establish strategy, in its implementation and on-going control of the results generated by the relevant strategy.

Managers display strong entrepreneurial spirit, they are genuine „strategic thinkers”, focused on satisfying customers’ requirements, benefiting from any new opportunity, strengthening the competitive advantage. They have the ability to develop a coherent strategic plan to solve such issues.

Sometimes, despite all its advantages, the strategic management model has certain limitation, such as: the activities related to developing the model are time-consuming; when the degree of participation is low, the subordinates may feel disappointed by the strategic alternatives.

In conclusion, strategic management can be an important approach for insurance companies facing a complex and unstable environment to obtain higher performance and competitiveness.

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