

STRATEGIC PERFORMANCE MEASUREMENT SYSTEM (SPMS) FOR THE UNDERWRITING CYCLE IN PT ASURANSI CAKRAWALA PROTEKSI INDONESIA

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ABSTRACT

The purpose of this study is to find out the implementation of SPMS in relation to Business Strategy, Competitive Advantage and the underwriting cycle that occurs in the General Insurance Industry where companies carry out their business activities. This research method uses the interview method to employees at the managerial level of PT Asuransi Cakrawala Proteksi Indonesia. Other information data used is taken from company activity records, company websites, print media such as *Insurance Media*, regulators (Financial Services Authority / OJK), Indonesian General Insurance Association (AAUI), journals published both nationally and internationally, articles in newspapers, libraries, other books that support this research.

The General Insurance Industry experiences cycles in setting underwriting policies so that general insurance companies make the underwriting cycle a determining factor in determining company strategy. Insurance companies must be able to read the underwriting cycle that occurs in order to determine the right company strategy to gain competitive advantage in maintaining business resilience and growth. This paper reviews the implementation of the Strategic Performance Measurement System (SPMS) in a general insurance company which is expected to provide input for the company to be better prepared in carrying out business activities in a dynamic industry.

Keywords : Performance Measurement, Business Strategy, Underwriting Cycle, Competitive Advantage

INTRODUCTION

The intense competition in the general insurance industry demands innovation and evaluation of the company's business strategy to increase competitiveness by using a strategic performance measurement system. Collaboration between companies and employees is needed in order to synergize to act effectively and competitively in facing global competition. Business competition in the insurance industry has an impact on policy cycles / business strategies, especially those related to underwriting. The underwriting cycle is characterized by hard market conditions and soft market conditions, where the performance of insurance companies tends to vary (Cummins and Outreville, 1987; Harrington and Danzon, 1994; Lamm-Tenant and Weiss, 1997; Niehaus and Terry, 1993; Venezian and Leng, 2006, B. Elango, 2009). During soft market conditions, insurance companies compete fiercely for market share, premium rates usually stabilize or fall, and insurance companies are less profitable. After a soft market comes a downward cycle or a hard market. In hard markets, competition is less intense, rates tend to rise, and insurance benefits tend to increase (Niehaus and Terry, 1993, B. Elango, 2009).

Although the Underwriting Cycle is an international phenomenon, it is highly dependent on specific conditions in a region or country, such as the economic and regulatory environment (Chao-Chun Leng & Ursina B. Meier, 2006). The right business strategy

innovation with the support of the right strategic performance measurement system is expected to support the achievement of goals and the achievement of the company's competitive advantage. To achieve this, companies must design and develop business strategies that are continuously monitored to ensure their achievement, through formal systems - strategic performance measurement systems (*Atkinson et al., 1997; Van der Stede et al., 2006; Wouters and Sportel, 2005; Cadez and Guilding, 2008*). Companies adopt a Strategic Performance Measurement System (SPMS) to evaluate and improve performance because the relationship between SPMS and business strategy is very important where SPMS provides information to achieve organizational goals and objectives (*Franco-Santos et al., 2007; Li et al., 2009; Merchant, 2006; Olsen et al., 2007; Wouters and Sportel, 2005; Kaplan and Norton, 2008; Hall, 2008; Chenhall, 2005*). A strategic performance management system (SPMS) is a system that has a series of performance measures or KPIs to measure efficiency, productivity, quality and effectiveness of actions taken by a company so that it can monitor, control, manage and carry out activities. The information generated by the system must be accurate, relevant, timely, and easily accessible to those who need it (*Neely et al., 1995; Bourne et al., 2002, 2003*). *Webb (2004)* argues that SPMS provides a clearer understanding of the actions needed to meet company demands, and that at the same time SPMS strengthens self-efficacy (one's belief in one's ability to master a situation and produce something profitable) and the attractiveness of managers' goals.

Companies implement SPMS to communicate their strategy to various stakeholders through the use of financial and nonfinancial measures (*Ittner et al., 2003*). SPMS provides managers and employees with useful information to help them choose actions that are beneficial to the company (*Otley, 1999*). *Waterhouse and Svendsen (1998)* argue that an effective performance measurement system must be designed to take human learning into account. Managers and employees must be able to learn from the performance measurement system about the connections between their actions and results enabling them to challenge underlying assumptions about the connections and make the necessary changes to improve firm performance (*Argyris, 1994*).

The journal "Strategic performance measurement systems, enterprise capabilities and customer focus strategies" by *Yuliansyah et al., 2019* provides interesting insights into the potential impact of SPMS on financial companies in Indonesia, and by expanding similar service companies in the Asia-Pacific region. The journal makes observations on how SPMS, market orientation, innovation, customer focus, and organizational learning interact, showing how important SPMS management is and how it needs to be closely coordinated with other strategic factors in an organization. Previous research confirms that in an era of rapidly changing business environment and intense competition, strategic performance measurement systems (SPMS) should help business organizations achieve competitive advantage (*Cadez and Guilding, 2008; Chenhall, 2003; Chenhall et al., 2011; Langfield-Smith, 1997; Simon, 1990, 2000*). In addition, the literature also supports the importance of an effective and well-integrated SPMS, as the final step in the strategic management process, in the organizational strategy implementation system (*Henri, 2006*). Given the important role of SPSM in helping organizations achieve organizational strategy, *Henri (2006, p. 531)* argues that an organization's SPMS must be aligned with internal and external capabilities to be effective and consistent with the company's strategic choices.

In an industry, companies appear that have better profitability compared to similar companies. This is because of the company it has superior performance and specificity that is difficult to imitate by its competitors. These unique capabilities and resources in the strategic literature are referred to as competitive advantage resources. Research was conducted within

the scope of PT Asuransi Cakrawala Proteksi Indonesia to find out the implementation of SPMS in relation to Business Strategy, Competitive Advantage and the underwriting cycle that occurs in the General Insurance Industry where the company carries out its business activities.

THEORETICAL FRAMEWORK

A. A strategic performance management system (SPMS)

SPMS is a system that has a series of performance measures or *Key Performance Indicators (KPI)* to measure efficiency, productivity, quality and effectiveness of actions taken by the company so that it can monitor, control, manage and carry out activities. The information generated by the system must be accurate, relevant, timely, and easily accessible to those who need it (Neely et al., 1995; Bourne et al., 2002, 2003).

B. Business strategy

Business strategy is an effort made to achieve company goals. In general, business strategy is the company's plan for the next 3 years or more. Briefly, *Porter (1980)* defines strategy as a company's efforts to carry out an activity in a way that is different from competitors in the same industry.

Strategic alignment and organizational competitive advantage are considered as mediators of the relationship between SPMS and strategic outcomes ; Both are major factors in achieving organizational goals . Supporting his argument, *Porter (1996, p. 73)* argues that strategic alignment is "not only for creating competitive advantage but also for sustaining that advantage". Organizations can maintain a sustainable competitive advantage because alignment creates focus and coordination across the most complex organizations, making it easier to identify and realize synergies (*Kaplan and Norton, 2005*).

C. Underwriting cycle

Underwriting cycle is characterized by hard market conditions and soft market conditions, where the performance of insurance companies tends to vary (Cummins and **Outreville** , 1987; *Harrington and Danzon, 1994; Lamm-Tenant and Weiss, 1997; Niehaus and Terry, 1993; Venezian and Leng, 2006, B. Elango, 2009*). During soft market conditions, insurance companies compete hard for market share, premium rates are usually stable or fall, and insurance company operations are less profitable, whereas in hard market situations , competition is not too tight but premium rates tend to rise, and insurance profits tend to increase . (*Niehaus and Terry, 1993, B. Elango, 2009*). Although the Underwriting Cycle is an international phenomenon, it is highly dependent on specific conditions in a region or country, such as the economic and regulatory environment (*Chao-Chun Leng & Ursina B. Meier, 2006*).

Human resource capabilities and insurance company innovation in the underwriting cycle in the general insurance industry , is the key to the company's success in carrying out its business activities . Service sector "products" are types of action, experience, performance or promise that are provided by equipment or people rather than being objects that can be taken (*Cloninger and Oviatt, 2007; Parasuraman et al., 1985; Patterson and Cicic, 1995; Spohrer et al., 2007*). Organizational learning is considered as a fundamental organizational element for achieving long-term competitive advantage (*Ireland et al., 2003; Lopez et al., 2005; Sinkula, 1994; Slater and Narver, 1995*) in terms of providing excellent service to customers . *Chenhall (2005)* states that SPMS has a positive effect on improving strategic results which

impact on organizational competitive advantage in the long term through human resource capabilities and innovation .

Service companies often fail to achieve their goals because of their inability to align their strategy with the company's internal resources (*Dyer, Kale, and Singh, 2001*). Researchers (*Hesket et al., 1994; Meuter et al., 2000; Roth and Van Der Velde, 1991; Thomas, 1978*) argue that improvements in information technology (IT) and human capital are considered as two main factors that need to be aligned with corporate strategy to achieve their goal.

The general insurance industry is characterized by a high frequency of contact with customers , human resource management is very important in strategic alignment. The management includes effective recruitment of new members of the organization to be placed in the right positions based on organizational goals (*Iglesias, 2009; Schneider et al., 2003*), active encouragement of employees to increase knowledge and skills that are consistent with organizational goals by learning and training (*Canel et al. ., 2000*), the ability of senior managers to coordinate with lower level employees about product, market acumen and service process interactions and the management of these interactions across functions (*Chenhall, 2005; Kathuria et al., 2007*), as well as how organizations can create internal service quality which affects the improvement of working atmosphere for customers (*Brady and Cronin Jr., 2001; Hesket et al., 1994*).

Furthermore, to ensure the effectiveness of top-down alignment, SPMS can be used to monitor, detect and drive continuous improvement of existing problems during implementation of organizational strategy (*Cadez and Guilding, 2008; de Haas and Kleingeld, 1999; Lohman et al., 2004; Van der Stede et al., 2006*). The relationship between SPMS and strategic alignment of services can be seen from the characteristics of SPMS that enable organizations to provide better communication of corporate decisions both vertically and horizontally (*Chenhall, 2005*).

METHOD

Research was conducted to determine the implementation of SPMS in relation to Business Strategy, Competitive Advantage and the underwriting cycle that occurs in the General Insurance Industry where companies carry out their business activities. Research is conducted through interviews to employees at the managerial level at PT Asuransi Cakrawala Proteksi Indonesia. Managers were chosen as respondents because they are a team involved in proposing, determining and implementing company strategic policies so that the respondents' answers are expected to provide information regarding the implementation of the SPMS in relation to Business Strategy, Competitive Advantage and the underwriting cycle that occurs in the General Insurance Industry where companies carry out activities his efforts

Other information used in this research is records of company activities for the past several years, company websites, print media such as *Insurance Media* , regulators (Financial Services Authority / OJK), Indonesian General Insurance Association (AAUI), good journals that are published widely national and international, articles in newspapers, libraries, other books that support this research. The author is part of the managerial team at PT Asuransi Cakrawala Proteksi Indonesia who will be the respondent for this study, but the author is not in a position to influence respondents in giving their responses.

DISCUSSION

A. SPMS and Business Strategy

Strategic Performance Measurement Systems offer an advantage to an organization in creating strategic priorities to help it achieve a sustainable competitive advantage (Chenhall, 2005). Performance measurement systems can assist in achieving strategic advantage, through their crucial role in strategy formulation and implementation, by adapting an organization's value chain functions according to strategy. Based on the advantages of a strong Strategic Performance Measurement System in achieving strategic priorities, in an effective and consistent manner, the system can be linked to the company's capabilities. (Henry, 2006). Hunt and Morgan (1995) state that the company's ability to drive the company's performance is because of their superior role in equipping companies with different comparative advantages compared to their competitors. Henri (2006) emphasized that for an organization's SPMS to be effective and consistent with strategic choices, it must be aligned with organizational capabilities.

According to informants or respondents in this study, SPMS is a system that has so far entered into determining interest mitigation and then writing it as a priority scale, as said by the informant below:

"In my view, when a corporation has determined an instrument to measure a performance precisely, then it is not a speculation...the policy makers have thought carefully and ahead about how the company's strategic problems can be overcome...I think with him it will be relatively easy to identify the priority scale... including which business strategy will be launched according to priority..." (informant 1)

The same thing was expressed by the next informant, who saw it from a point of view based on the company's logo. The hummingbird, which is blue in color and named Hummi, is a philosophical representation of the corporation, as it is said:

".. hummi bird gives a message that is congruent with the implementation of SPMS, how the spirit of serving is very important... so in short, serving is also a strategic priority scale..." (informant 2).

An effective performance measurement system is very important for organizational success and must be integrated with the strategy set by the company (Poskela and Martinsuo, 2009). The purpose of SPMS is to control and evaluate the business strategy set by management to guide company operations (Chenhall, 2005; Naranjo-Gil and Hartmann, 2007). To achieve a sustainable competitive advantage, organizations must choose one of two generic strategies - a low-cost strategy or a differentiation strategy (Porter, 1980). The choice of strategy is based on the company's existing capabilities and resources and the extent to which the company is able to always be market oriented. Once management is clear on the desired business strategy, the organization needs something that can help management to formulate, evaluate and control plans and detect if there are problems with achieving the desired level of market orientation.

B. Business Strategy in the Underwriting Cycle

Underwriting cycle is characterized by hard market conditions and soft market conditions, where the performance of insurance companies tends to vary (Cummins and Outreville, 1987;

Harrington and Danzon, 1994; Lamm-Tenant and Weiss, 1997; Niehaus and Terry, 1993; Venezian and Leng, 2006, B. Elango, 2009). The underwriting cycle demands different concepts of business strategy development and innovation in different parts of the period during the cycle. The development of a generic strategy according to Porter (1985) focuses on competitive advantage consisting of cost advantages, differentiation and focus on customers.

An effective strategy will provide a sustainable competitive advantage for the organization resulting in superior performance (Oosthuizen, 1997). But this can be achieved only if the strategy matches the external environment and internal conditions of the organization (Thompson and Strickland, 1996). Strategy is formulated at the top, but must be executed at the bottom: if employees don't understand the strategy or don't work to achieve it, the company's strategy is bound to fail (Kaplan and Norton, 2006, p. 261). Instead, "employees become truly empowered by understanding what the organization wants to achieve and how they can contribute" (Kaplan and Norton, 2006, p. 265).

This is a connection with the understanding of an informant in this study who sees that an underwriter does not just carry out tasks flatly. That there must be an SOP is a certainty, it's just that empirical reality is dynamic. The informant wisely said:

"I think one of the professions is understood as an art, where there is a sense of working in the process of carrying out work.... I think alignment and participation orientation is an important key to achieving company targets..." (informant 1).

Innovativeness is an interest in adopting new knowledge, skills and technology compared to other competitors in entering the competition. Hurley and Hult (1998) define innovation as a mechanism for companies to adapt in a dynamic environment, therefore companies are required to be able to create new ideas and offer innovative products and improve services that satisfy customers. Continuous innovation is a fundamental requirement of a company to create a competitive advantage.

With regard to the innovative ability of human resources, an informant said how the innovative ability of human resources is a priceless wealth. The rest he said:

"... the ability of individual employees in innovation, is actually a blessing for the company, so that in this context, it also needs to get its own appreciation. Employees of this type can easily move to other corporations, when good skills do not get good care in their own work environment...although on the other hand they often make other resources jealous.." (informant 2).

Furthermore, Hurley and Hult (1998) proposed two conceptions of innovation, namely innovativeness and capacity to innovate. The capacity for innovation is related to the capacity for absorption. Companies that have a greater capacity to innovate are able to create competitive advantage and achieve greater levels of performance (Hurley and Hult, 1998). Innovation capacity includes technical innovation and administrative innovation. Technical innovation is related to products, services and production process technology (Daanpour, 1991). Technical innovations must be followed by administrative innovations in a balanced and parallel manner. According to Damanpour (1991) administrative innovation is related to the organizational structure and administrative processes of an organization.

C. Underwriting Cycle on Business Strategy and Competitive Advantage

Competitive advantage can result from implementing a value creation strategy that competitors cannot (*Barney, Mc William, and Turk, 1989; Barney, 1991*). Competitive strategy has the objective of obtaining a sustainable competitive advantage and maximizing company performance. *Barney (1991)* suggests that sustainable competitive advantage *comes* from resources that are valuable, rare, difficult to imitate, and *substitutability*. The company's capabilities and resources are said to be valuable when they can assist the company in developing strategies. Capabilities and resources are said to be substitutable in two senses, firstly they cannot be imitated or can instead replace similar resources owned by competitors (*Barney, 1991*).

When a business organization encourages its members to contribute and help implement new ideas, products and processes, it creates an internal culture of innovation in the company (*Hult and Ketchen, 2001, p. 902*). Management's ability to influence the choice of strategy for the organization is an important first step in the innovation process (*Poskela and Martinsuo, 2009*) which leads to the end result of innovation in the form of new product or service development that occurs according to the strategy made by management from time to time. (*Gatignon and Xuereb, 1995*). Every competing company has a desire to be superior to its competitors. Therefore they apply a competitive strategy that is usually done through the activities of various company functions. One way to achieve competitive advantage is through innovation.

During soft market conditions, insurance companies compete hard for market share, premium rates are usually stable or fall, and insurance company operations are less profitable, whereas in hard markets, competition is not too tight, rates tend to rise, and insurance profits tend to increase (*Niehaus and Terry, 1993, B. Elango, 2009*).

CONCLUSION

The General Insurance Industry experiences cycles in setting underwriting policies so that general insurance companies make the underwriting cycle a determining factor in determining corporate strategy. Insurance companies must be able to read the underwriting cycle that occurs in order to determine the right company strategy to gain competitive advantage in maintaining business resilience and growth. This paper reviews the implementation of the Strategic Performance Measurement System (SPMS) in a general insurance company which is expected to provide input for the company to be better prepared in carrying out business activities in a dynamic industry.

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