A Stitch in Time Saves Nine: Building an Ambidextrous Organization in Financial Services

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Challenging Times for the Insurance Industry

The insurance industry can be characterized as traditional, conservative, and slow. Otherwise, it has been doing great in recent years, without lifting a finger. In the past, insurance managers neither felt the need to adjust their organizations’ business models nor the necessity to adapt their organizations to changing environments. However, times are changing. Insurance companies are now facing more and more internal and external challenges, with boundary conditions becoming increasingly more complex.

Consumer needs are changing. In the past, insurance customers did not matter. Their only purpose was to pay premiums. Still today, the insurance industry is rather a push than a pull industry (i.e., “You still need somebody to sell a product nobody wants”). However, consumers develop individual preferences and needs and want to be involved in the process of value creation. They are used to products and services from other industries that are tailored to their needs—and expect the same degree of individualism from insurance companies.

Ecosystems and platforms. While ecosystems and platforms are far developed in other industries, the insurance industry still adheres to its traditional business model. Some of the well-established companies attempt to build business ecosystems in which they aim to serve as the central player. However, as of today, there is no proven success story of an insurance ecosystem.

The pressure to be innovative. Throughout the industry, managers feel the pressure to become innovative. Many incumbent companies heavily invest money to start “something” innovative, oftentimes without actually knowing what they are doing. Ambiguity is exceptionally high, and the ROI of most of these projects is zero or even negative.

Mounting costs. Insurance companies feel the pressure of mounting costs. Stricter regulatory requirements and low interest rates are just two of the various causes that lead to cost pressure. Many of the established players cannot move because of their massive cost structures; further, they still focus more on cutting costs than on dealing with their futures.

Unwillingness to change. Inertia and resistance to change are among the most prevalent internal challenges. People are stuck in their comfort zones and unwilling to change. Excellent leadership is necessary to enable change and overcome inertia.

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The war for talents. Many industry experts perceive the war for talents as the biggest challenge for insurance companies in the years ahead. Insurance companies compete with companies from other industries, i.e., no longer do insurance companies only compete with companies from the financial sector.

Competition and industry convergence. There is increasing competition from startups (e.g., FinTechs and InsurTechs) and players from other industries (e.g., Tencent and Amazon). Hence, disintermediation is soaring, and the future role of insurance companies remains unclear. Some industry experts even claim that insurance agents and brokers are a dying species.

Insurance becomes a commodity. All of the above-mentioned reasons make differentiation increasingly challenging. As insurance providers offer almost identical products and services, insurance increasingly becomes a commodity. Therefore, insurance companies need to fundamentally challenge the way they do business. Sooner rather than later, they will be forced to transform their organizations to adapt to changing environments.

One Way Out: Becoming Innovative

The financial services industry is among the few industries that lack research and development departments in large parts. This is among the reasons why insurance companies have had and still have a difficult time being innovative. Historically, the industry is struggling with change and innovations. What had been called “innovation” in the past usually had been an actuary’s idea of a new product that was built and pushed into the market. Today, innovations can be created inside and outside the focal organization. Both options come with advantages and disadvantages. Unfortunately, there is no “one size fits all” approach to building exploratory activities. Therefore, each organization has to identify and implement individual solutions. While it is common to create innovations inside an organization in other industries, it is rather unusual in the insurance industry. Being innovative in an insurance environment is challenging, especially if one is surrounded by “business as usual” activities and duties. Therefore, many insurance companies set up greenfield projects and innovation labs apart from their core business. Currently, there is downright hype around establishing “internal” startups. These internal startups usually consist of interdisciplinary team members who are provided with resources, infrastructure, and time to focus on developing new ideas and innovative solutions. While many of the established players believe that their internal startups are going to bring the necessary and desired change, industry experts are more skeptical. They caution that there is too much liquidity in the market, that funding is cheap, and that many of the greenfield approaches are therefore expected to fail. Moreover, many of the brightest minds in insurance leave traditional players to found their own ventures. Overall, creating innovation is never a single event; rather, it is a sequential trial-and-error process.

Organizational Ambidexterity

How to manage “business as usual” while, at the same time, creating innovations is one of the main challenges insurance companies currently face. Exploiting and
exploring at the same time is referred to as “organizational ambidexterity,” which is
defined as “the capacity to simultaneously achieve alignment and adaptability at a busi-
ness-unit level” (Gibson & Birkinshaw, 2004). This can be done by balancing exploita-
tion (alignment) and exploration (adaptability) to excel at today’s core business while
also focusing on tomorrow’s upcoming challenges (Duncan, 1976). Organizational am-
bidexterity is achieved by developing a set of processes or systems that foster and
encourage individuals to assess themselves in how to allocate their time between ex-
ploration or exploitation (McDonough & Leifer, 1983; Tushman & O’Reilly, 1996). While
traditional management literature advocated a clear focus on either exploitation or ex-
ploration, March (1991) stated that focusing on only one dimension at the expense of
the other will lead to problems and tensions. Thus, an organization’s ability to build a
competitive business model may be rooted in the ability to jointly pursue exploitation
and exploration. As Floyd and Lane (2000) propose, organizations have to “exploit
existing competencies and explore new ones—and, more importantly, that these two
facets of organizational learning are inseparable.” Thus, organizational ambidexterity
demonstrates that the conundrum of simultaneous exploitation and exploration can be
solved, thus enhancing organizations’ long-term competitiveness and performance.

Building an Ambidextrous Organization: A Unique Case

In a recent study (Schumacher & Maas, 2019), we investigated a multinational financial
services provider with legal entities in Central and Eastern Europe. The organization
specializes in various areas—here, we illustrate two of them. First, the runoff business
is located in Central Europe and ensures (cost-)efficient management of life insurance
portfolios. The runoff unit is characterized by a high degree of exploitation and a low
degree of exploration. As runoff is finite by nature, and, with portfolios decreasing, the
financial services player had to act. A thorough analysis led to the conclusion to com-
plement the exploitation business with exploratory activities to sustain in the long-run
and improve business performance. Second, with a new venture, the financial services
provider plans to create new business through a network business model in Eastern
Europe. The concept aligns different external companies to form a network of partners
with complementary skills. The guiding idea is that partners can benefit from each
other. The ultimate goal is to create value for both customers and partners. This unit is
characterized by a low degree of exploitation and a high degree of exploration. Con-
sequently, the financial services provider manages one entity specialized in exploita-
tion (runoff) and one entity specialized in exploration (new venture). Organizational
ambidexterity seems to be a promising approach to master the balancing act between
maintaining traditional business and exploring new opportunities.

What to Focus on When Building an Ambidextrous Organization

Insurance companies need to identify how creating an ambidextrous organization can
help create customer value. In our study, in which we conducted 35 in-depth semi-
structured interviews with internal and external stakeholders of the multinational finan-
cial services provider, we identified leadership, culture, and dynamic capabilities as the
main drivers to create an ambidextrous organization. Leadership is tightly linked to top
management, which needs to be open for innovation and willing to transform an or-
ganization. It has to foster change and needs to be involved in the process of building
an ambidextrous organization. Creating an ambidextrous organization requires
creating a new mindset. No longer should insurance companies focus on exploitation ("business as usual") only; they should also start focusing on adaptation (exploration). Creating this new mindset might be challenging, especially when managers and employees are unwilling to change. Leadership then has to help overcome resistance to change and inertia. For this purpose, the multinational financial services provider hired new people to lead the distinct entities and to drive the change.

Culture plays an essential role in managing organizations and running a business. Although exploitation and exploration units differ, insurance companies should create a culture based on sharing the same values and having the same vision. Top management needs to create a customer-centric culture and organization. Insurance companies should ask customers about their needs and preferences before developing new products and services. At the same time, insurance companies could increase the number of customer interactions and customer interaction channels to learn from customers. It might also be helpful to create a culture that is open for new ways of working. For instance, insurance companies could adapt (agile) methods and concepts from other industries, i.e., implement, measure, and iterate to create quick wins and learn from mistakes. Employees will find out that they can benefit from working differently, e.g., reducing complexity and saving time. Insurance companies may implement a feedback culture that encourages communication and collaboration across units. Hence, combining exploitation and exploration offers opportunities to create know-how synergies.

Dynamic capabilities are defined as an organization’s ability to integrate, build, and reconfigure internal and external competencies (Teece, Pisano, & Shuen, 1997). Dynamic capabilities can help to deal with rapidly changing environments. The financial services provider combines capability-shifting and capability-building processes to balance exploitation and exploration (Luger, Raisch, & Schimmer, 2018). As the exploitation unit specializes in the efficient management of life insurance contracts, employees need to possess traditional expertise in insurance and deep technical understanding. Contrarily, the exploration unit focuses more on creating innovative solutions for customers and partners where new capabilities become necessary. Employees no longer need traditional insurance expertise, as they can adapt it from their partners. What the multinational financial services providers is doing is to shift capabilities from one part of the organization to another (i.e., where it is most beneficial). While regulation and low interest rates have been the top issues in the past, the search for talents will become the biggest challenge for insurance companies in the years ahead, according to industry experts. In recruiting, insurance companies should therefore focus on employees and managers that possess both exploitation and exploration skills.

To conclude, boundary conditions force insurance companies to renew themselves. As the industry is mostly exploitation-driven, it is critical to build exploratory activities. However, fostering exploration to build an ambidextrous organization is a challenging task that requires time, effort, and the willingness to take risks. Aligning exploitation and exploration is an enduring challenge, but evidence shows that becoming ambidextrous pays off.

References

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