STRATEGIC PLANNING

THE CASE OF

AMERICAN LIFE INSURANCE COMPANY (ALICO)

LEBANON

A Research Topic

Presented to Business Division

Beirut University College

In Partial Fulfillment

of the Requirements for the Degree

Master of Science in Business

Management

By

Ramzi Damiani

June, 1991

BEIRUT UNIVERSITY COLLEGE

P.O. BOX 98 13-5053

BEIRUT, LEBANON

APPROVAL OF RESEARCH TOPIC

CANDIDATE: Ramzi Damiani DATE: June, 1991

DEGREE: M.S. ADVISOR: DR. KHALIL NAKIB

TITLE OF RESEARCH TOPIC: STRATEGIC PLANNING - THE CASE OF AMERICAN LIFE INSURANCE COMPANY (ALICO) LEBANON.

The following professor nominated to serve as the advisor of the above candidate has approved this research topic.

ADVISOR: DR. KHALIL NAKIB
Name

Khalil Nakib
Signature

DR. TAREK MIKDASHI

Tarek Mikdashi
Signature

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Chapter I

INTRODUCTION

A- Statement of the Problem

American Life Insurance Company (ALICO) Lebanon has been operating successfully in the Lebanese market since 1953. It has shown constant growth in its operations, coupled with an important share of the market. ALICO had been a leader and a pioneer in the true sense of the word, in that it had always proacted rather than reacted. It has always outperformed the market and has shaken competition. It has always been aggressive in the design of its products and its distribution outlets. ALICO has an image of financial strength and stability that the best run companies would envy. Even during the outbreak of the civil war that has torn Lebanon apart, ALICO had retained its leadership position and kept people's beliefs intact.

Since 1982, however, the image started to change. The company which once had the biggest piece of the pie was being bothered and threatened by small companies which in the past were practically nonexistant to ALICO. The market share started to drop at a fast rate and is condemned to go down further if ALICO allows other companies to make their way while it remains silent. Needless to mention, the problem is not in the decreasing share, because decreasing share is only the result. The causes behind this deterioration are numerous, and will be covered in detail in a later section. Besides, they all exist because of another major problem: weak strategic planning .

If a good long term plan was spelled out and a realistic action plan was made to achieve what ALICO people aspired to, then there would have been no problem. As will be seen and described later, the strategic plan prepared by ALICO is one which does not truly interact with its environment, and more importantly, is not totally based on scientific means and measures. It is done because it has to be done!

B- Statement of the Purpose

The project will try to uncover the weaknesses in ALICO's strategic planning, and try to find remedies to them. A study of this sort could seldom be the healing remedy if it remains on paper. It should stimulate action. This study might be able to give the management of ALICO some insights into the weaknesses of the company. An analysis of these weaknesses, what corrective measures to take, and how to improve planning for a brighter future should be the leading focus during the entire research.

C- Methodology

The research will attempt to give a brief review of some literature on the importance of strategic planning. Following will be a brief review on the background of ALICO and an identification of ALICO's three year strategic plan to give the reader a true picture of what the story is all about. Then, the research will move into the statistical work and the identification of a scientific approach to proper planning and forecasting, coupled with an analysis of findings. Then the actual planning process at ALICO will be described with emphasis on present weaknesses at ALICO and strengths will be identified and analysed, and courses of action will be given in an attempt to remedy the weaknesses and reinforce strengths. A conclusion on what has been said and what is to be expected would be the logical ending part of the research.

In whole, the research will contain a mixture of literature, statistical analysis and objective views and thoughts, and will try to give some insights into ways of improving the process of strategic planning.

Chapter II

REVIEW OF LITERATURE

A- Introduction

The purpose of this chapter is to present an overview to strategic planning - Its origins, the different definitions proposed, the basic elements involved, and the process of strategic planning; that is the steps involved in strategic planning.

The first part of the chapter is a brief history of the origin of strategic planning; what the term implied initially, and how and when it developed to include a broader range of activities, until it became a major and crucial aspect of any organization. In the second part of the chapter, the different definitions proposed concerning strategic planning are presented (and evaluated subjectively) and the most meaningful and complete definition is identified. The third part of the chapter describes the characteristics or dimensions of strategic issues. The fourth part describes the steps involved in the strategic planning process. In the fifth and final section of this chapter, an evaluation of strategic planning is presented stating the strengths and weaknesses of the process.

B- Historical Background on Strategic Planning

Originally, strategy was a military term; it was defined as the art of planning and directing military movements and operations of war.[1] Later on, the term strategy referred to management's actions in counteracting a competitor's success. Today's meaning is much broader; "strategy refers to the formulation of basic organizational missions, purposes and objectives; policies and program strategies to achieve them; and the methods needed to assure that strategies are implemented to achieve organizational ends".[2]

Strategic business management flourished in the fifties and sixties when markets were expanding and the size and number of competing firms was increasing; when companies expanded from narrow product lines to become large, diversified multiproduct companies. Since the 1960's, the use of company planning staffs has grown considerably and strategic planning has become a major and crucial activity in any organization.[3]

----

1 Arthur Young, The Manager's Handbook. The Practical Guide to Successful Management, (New York: Marshall Editions, Ltd., 1986), p. 46.

2 Edgar F. Huse, Management, 2nd. ed., (St. Paul, Minn.: West Publishing Co., 1982), p. 166.

3 Derek F. Abell and John S. Hammond, Strategic Market Planning: Problems and Analytical Approaches, (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1979), p. 6

C- Definitions of Strategic Planning

According to John A. Pearce II and Richard B. Robinson, Jr., "Strategic management is defined as the set of decisions and actions resulting in the formulation and implementation of strategies designed to achieve the objectives of the organization".[4]

It involves attention to nine critical areas, namely:

1. Determination of the mission of the company, including broad statements about its purpose, philosophy and goals.
2. Development of a company profile which reflects its internal condition and capability.
3. Assessment of the company's external environment: competitive, social, political and techological.
4. Opportunity analysis of possible options.
5. Identification of the desired options.
6. Choice of a particular set of long-term objectives and grand strategies needed to achieve the desired options.
7. Development of annual objectives and short-term strategies which are compatible with the long-term objectives and grand strategies.

----

4 John A. Pearce II and Richard B. Robinson, Jr. Strategic Management, (Homewood, Illinois: Richard D. Irwin, Inc., 1982), p. 4.

8. Implementation of chosen strategic decisions based on budgeted resource allocations and emphasizing the matching of tasks, people, structures, technologies and reward systems.
9. Review and evaluation of the success of the strategic process to serve as a basic of control and as an input for future decision making.

So, as implied in the above definition, a modern executive's responsibilities go beyond managing the various internal activities of a company; the firm's immediate external environment poses a set of challenging factors which have to be dealt with in order to ensure the survival and success of a business firm. This external environment includes competitors which have to be guarded closely, suppliers which must be bargained with, government agencies that watch for adherence to regulations, and customers whose ever-changing tastes and needs must be anticipated.

There is also an external environment which consists of economic conditions, social change, political priorities and technological developments. An even more important responsibility of an executive includes consideration of the multiple objectives of the stockholders of the business, its owners, top managers, employees, communities, customers and country.

To deal effectively with all of these considerations which affect the ability of a company to grow profitably, executive officers use strategic management processes which facilitate the optimal positioning of the firm within its competitive environment. These processes help in more accurately acting in anticipation of environmental changes and in improving preparedness for reaching to unexpected internal or competitive demands.

There are three levels in the decision making hierarchy of a business firm.[5] At the top is the corporate level which is composed of members of the board of directors and the chief executive and administrative officers. They are responsible for the financial performance and the achievement of the non-financial goals of the firm, like corporate image and social responsibility. Their orientation reflects the concern of stockholders and society at large. They determine in what business the company should be involved. They set objectives and formulate strategies. These types of decisions are value-oriented and conceptually based.

----

5 Ibid, p. 6

The second level of decision-makers in the hierarchy is the business and corporate managers. These are concerned with translating the general statements of direction which were generated at the corporate level into more concrete and operational objectives and strategies for their individual business divisions or strategic business units (SBUs).

The third level of decision makers in the hierachy is the functional level which is composed principally of activity managers of product, geographic and functional areas. These are responsible for developing annual objectives and short-term strategies for such areas as production, operations management, research and development, financial and accounting, marketing, and human relations. Their greatest responsibility is the implementation or execution of the company's strategic plans. These types of decisions, therefore, are action-oriented and operational.

According to Pearce and Robinson, the ideal strategic management process is developed and governed by a strategic management team.[6] The team consists principally of strategic decision makers at all three levels in the corporation, e.g. the chief executive officer (CEO), the product managers, and the heads of functional areas. The team relies on inputs from two types of support personnel:

----

6 Ibid, p. 10.

company planning staff, when they exist, and lower-level managers and supervisors who provide data for strategic decision making and who have responsibilities for implementing strategies.

The strategic management process does not involve a unidirectional flow of objectives, strategies, and decision parameters from corporate to business to functional level managers.[7] In contrast, the process is highly interactive, that is, a company's process is designed to stimulate inputs from creative, skilled, and knowledgeable people throughout the firm. Even though the strategic process is overseen by top managers, because of their broad perspective on the company and its environment, managers at all levels in the organization can participate in various phases of the total process.

----

7 Ibid, p. 13.

Edgar F. Huse also defines a hierarchy of planning, and gives each planning level a name.[8]

1. Strategic planning is the process of determining the major objectives of an organization and the policies and strategies that will govern the acquisition, use and disposition of resources to achieve these objectives. Strategic planning takes place primarily at the top level of management and is directed toward attaining a desired position for the organization in the environment. It determines what should be the overall objectives of the organization. In strategic planning, a greater degree of uncertainty exists than in planning at lower levels, since the probable outcomes of alternate plans are harder to predict.

   Decision making at this stage is mainly subjective because it involves many considerations which are highly turbulent and external to the firm like the political, social, legal variables of the environment, and the availability of resources. In strategic planning, top management relies heavily on qualitative standards for determining the effectiveness of plans.

----

[8] Huse, pp. 143 - 145

2. Coordinative or tactical planning takes place at the middle, or coordinating level of management where planning is directed toward implementing strategic plans by coordinating the work of different organizational units. It involves determining how certain areas of a business will deploy resources to reach objectives by following the policies and strategies that have been established in the strategic planning process. The influencing environment at the middle level is more internal than at the top, and the manager is constrained by top-level decisions about continuing objectives and the implementation of strategy and policy. Quantifiable techniques may be used at this level, like market research and forecasting.

Detailed tactical plans are usually made for such major functional areas as marketing, manufacturing, personnel, research and development, finance and capital expenditures. The major aim of planning at this stage is to reach specific and detailed coordination of the various parts of the organization.

3. Operational Planning takes place at the lowest, or operating level of management, where managers follow the tactical plans established by the middle level of management to achieve the strategic plans formulated for the entire organization.

   Operational planning is short-term, detailed, and concentrated primarily on the functional aspects of the production of goods and services; they are specific and tangible plans.

   Environmental constraints are primarily internal, consisting of policies, budgets, procedures, and rules. Because of the availability of enough information, outcomes of decisions can be closely predicted. In short, plans at this level are more automatic than plans at higher levels and decisions can be quantitative.

   This hierarchical separation of the planning process is only theoretical. Activities at the three managerial levels often overlap in the everyday functioning of an organization, and information is continually flowing both up and down.

Managers do not develop strategies and plans in isolation from each other.[9] There is a constant interaction among managers at all levels in the hierarchy, and a combination of top-down and bottom-up planning occurs. These interactions can be divided into three basic cycles.

In the first cycle, top management and division managers meet together to set tentative agreements on overall strategies and objectives. Each division charter is defined broadly, and some general objectives and strategies are established.

In the second cycle, each division manager sets tentative agreements with the department managers concerning each department's role in meeting divisional objectives. After this step, each department manager establishes tentative, alternative plans for carrying out that role.

In the third cycle, the resources of the organization are tentatively allocated to division programs. Each division and functional department manager then develops specific budgets showing how the department or division intends to carry out its planned programs. After these budgets are discussed and the final budget is approved, funds are made available.

----

9 Ibid, pp. 175 - 177

Most budgets are for a one-year period. A shorter time span might cause erratic behavior, and a longer one might not allow for a timely review of progress.

Budgets are plans, but they also serve as a control process. Many factors influence the development and implementation of a planning system like the type of organization (whether the organization is centralized or decentralized), the types and variety of products and services, and the past history and practice. As a result, the planning system is tailored to the organization and no two systems have identical planning procedures.

According to Edgar Huse, strategy refers to the formulation of basic organizational missions, purpose and objectives, policies and program strategies to achieve them, and the methods needed to assure that strategies are implemented to achieve organizational ends.[10] Essentially, two issues are involved: What the organization is to be and how it is to become what it is to be. In effect, strategy encompasses all the goals and major policies of the organization. It covers the following areas:

----

10 Ibid, pp. 166 - 168

1. Services to be provided: What products or services will the organization sell or provide, and to which customers or clients?
2. Basic ways the services will be produced: What will the organization make, and by what processes will it make them? What will it buy? From which sources?
3. Sequencing and timing of major steps: Which actions should be taken early? Which should be deferred?
4. Targets to be met: What are the criteria for success? What levels of achievement are desired?

There are a number of ways for formulating strategy. Two of them are:

- Outside-Inside Approach to Strategy. In this case managers look first at the environment and then to the organization and try to detect changes in the trends relevant to the organization, and accordingly plan internal changes to meet the anticipated opportunities and problems.
- Inside-Outside Approach to Strategy. Here, managers look first at the organization, noting particular skills or resources that give it advantages over its competitors, and then at the external environment to determine the best use of these skills.

Both of these approaches require coordination among the basic factors involved: the environment , the market and the organizational skills and resources. The firm which can efficiently coordinate between these factors and properly take advantage of the environmental problems given its limited resources and its specific skills, will be able to survive and grow, and increase its profits. Huse states that sometimes a strategy develops gradually over time without being planned as a result of the decisions taken by management. As businesses conduct their day-to-day activities, and management takes day-to-day decisions, a strategy emerges. However, even though many organizations have formed their strategy this way, today's managers feel that it is a poor approach to planning because of the many complexities involved, whether financial, environmental, organizational or otherwise.

Furthermore, in the past, strategic planning was based on one, hypothetical, most probable, future environment. This is not a very accurate or efficient approach because it does not take into account other unforseen or unpredictable events of various kinds like a change in the market, a change in a competitor's strategy or otherwise. Due to this, today, many organizations develop contingency plans for a number of different future environments called scenarios. Each scenario consists of a different set of environmental factors that are likely to occur, and a plan is formulated for each scenario. There is no one particular planning system that is suitable for every type of organization; however, some of the common features among organizations falling under one of the three groups (large, medium-size and small organizations), make certain planning systems more suitable for organizations falling under one group.

La Rue T. Hosmer states that strategic management is concerned with the definition of the major goals and objectives for an organization, and the design of the functional policies and plans and the organizational structure and systems to achieve those goals and objectives, all in response to changing environmental conditions, institutional resources, and individual motives and values.[11]

----

[11] La Rue T. Hosmer, Strategic Management: Text and Cases on Business Policy, (Englewood Cliffs, N.J.: Prentice - Hall, Inc., 1982), p. 1.

There are different definitions for the term strategy, but the most meaningful one is the method of competition to be followed by the business. There are different methods of competition (alternative strategies) that are possible within each industry, and the function of strategic management is to first select the method (strategy formulation) with the greatest probability of success, given the environmental opportunities and risks and the strengths and weaknesses within the corporation, and then to coordinate the efforts and activities of the functional and technical specialists necessary to carry out this method of competition (strategy implementation) through explicit statements of the corporate objectives, policies, programs, and plans, and through consistent design of the organizational structure ans system. The selected strategy is then expressed through explicit statements about the goals, policies, programs and actions for each of the functional areas of marketing management, market research, production management, financial management, product development, information services, and personnel services.

Strategic management consists of the simultaneous and continual formulation and implementation of strategy and this is essential for the success of the company due to the organization which must be reflected in the method of competition for the firm. Strategic management, in short, plans the long-term competitive posture of the firm, and designs the general character of the organization.

Strategic planning is long-range planning that focuses on the organization as a whole, as defined by Samuel C. Certo.[12]

Strategy is defined as a broad and general plan developed to reach long-range organizational objectives. Actually strategy is the end result of strategic planning. Every organization should have a strategy of some sort. In order for a strategy to be worthwhile, however, it must be consistent with organizational objectives, which, in turn, must be consistent with organizational purpose.

Strategy management is defined as the process of ensuring that an organization possesses and benefits from the use of an appropriate organizational strategy. As used within this definition, an appropriate strategy is a strategy best suited to the needs of an organization at a particular time.

----

12 Samuel C. Certo, Management of Organizations and Human Resourses, (Dubuque, Iowa: W. C. Brown Publishers, 1985), p. 82

The process of strategic management is generally thought to consist of four sequential and continuing steps:[13] (a) environment scanning, (b) strategy formulation, (c) strategy implementation, and (d) evaluation and control.

The actual making of a strategy is only one of four important steps in strategy management. In order for an organization to get maximum benefit from a strategy, it must be implemented or put into action, constantly watched to see what effect the strategy is having on the organization, and evaluated or examined to see if it is having the effect desired. If the effect is desirable, perhaps the strategy could remain as it is, with strategy results measurement and strategy evaluation continuing to determine if difference will be necessary in the future. If the effect of a strategy is undesirable, however, management would probably start the entire strategy management process over again by formulating a different strategy.

All these definitions emphasize that strategic planning is long-range planning and that it involves dealing with uncertainty, the changing environment and the availability of organizational resources. However, the most complete and accurate definition is that presented by La Rue. T. Hosmer.

----

13 Thomas L. Wheelen and J. David Hunger, Strategic Management, 3rd ed. (Reading, Massachusetts: Addison-Wesley Publishing Company, 1990), p. 10.

D- Characteristics of Strategic Issues

According to Pearce and Robinson, strategic issues have six identifiable dimensions:[14]

1. Strategic issues require top management decisions. Strategic decisions involve several areas of a firm's operations, and since only top management understands and anticipates broad implications and ramifications, only it has the power to authorize necessary resource allocations needed for implementation.
2. Strategic issues involve the allocation of large amounts of company resources. These resources, whether physical assets, manpower or financial assets, must be obtained from either internal sources or from outside the firm. In either case this is a costly process because internal resources may be used somewhere else in the firm and hence they have an opportunity cost, and external sources have to be financed.
3. Strategic issues are likely to have a significant impact on the long-term prosperity of the firm. Strategic decisions commit the firm for a fixed period of time.

----

14 Pearce and Robinson, p.4

However, their impact extends over the fixed period. Once a firm has committed itself to a particular strategic option, its competitive image and advantages are usually tied to that strategy and so the firm cannot make a radical move and quickly adopt a different strategy.

4. Strategic issues are future oriented. Strategic decisions are based on expected or anticipated forecasts, and in a turbulent and competitive environment, a firm must always be ready to accept changes in its strategic decisions.
5. Strategic issues usually result in major multifunctional or multibusiness consequences. Decisions involving customer mix, competitive emphasis, or organizational structure involves a number of a firm's strategic business units, functions, divisions, or program units. Each of these areas will be affected by the allocation or reallocation of responsibilities and resources related to the decision.
6. Strategic issues necessitate consideration of factors in the firm's external environment. All firms operate within an open system. They influence and are influenced by external factors beyond their control. These external factors which include competitors, customers, suppliers, creditors, government and labor, must be accounted for in making strategic decisions.

E- Steps Involved in the Strategic Planning Process

The major elements of the strategic planning process are:[15]

- The plan for the plan: Management must define specifically what the plan is expected to achieve and how it will be put to use. It should include the method of organization, the people involved guiding the planning effort and a timetable for developing the plans.
- Developing Planning Premises: Assumptions and premises should be developed which include the economic, social, political, and technological consideration and studies of the industry, the market and competitors. It should involve a study of the outside environment not only to anticipate threats and opportunities facing the organization, but also to allow management to examine the strengths and weaknesses of the organization.
- Determining the master strategy: This concerns the basic mission or purpose of the organization and related specific objectives. The purpose gives a broad general direction to the organization and the specific,

----

15 Huse, pp. 170 - 173

long-range objectives are established to harmonize with the basic purpose. Another component of the master strategy is the overall policies which determine what resources will be deployed to achieve the long-range objectives.

- Medium and short-range plans: This step involves the development and implementation of medium and short-range plans.
- Coordinating and controlling planning: This step involves integrating individual operating and staff plans, reviewing and revising them in light of their effect on other plans and on company profits, and summarizing highlights of these plans and their budgets in a single overall organizational plan.
- Review of Plans: This reviewing process gives an organization the flexibility to adjust to changing conditions, particularly if alternative scenarios are used in revising plans and creating new ones for the next year. Each reviewing process should lead to improved planning.

The significance of the strategic planning process is that it clarifies top management's responsibility for developing organizational strategy. It shows that management's primary job is to continuously monitor the outside environment and evaluate how well the organization is meeting its core responsibilities. The strategic planning process provides a unified framework that allows managers to deal with major issues. It helps them recognize threats and opportunities from the external environment while keeping their attention focused on the basic purpose of the organization.

La Rue T. Hosmer presents the steps involved in the strategy formulation process as follows:[16]

1. Organization mission or charter. The first step in strategy formulation is to examine the mission or charter which provides a very general statement of the philosophy of the firm and the direction of its efforts. It serves to establish the basic purpose of the organization and to indicate the general product-market-process position of the firm. It sets the overall purpose of the organization and the direction the company is to follow.

----

16 Hosmer, pp. 3 - 12

2. Managerial values and attitudes. The second step in the strategy formulation process is to consider the values and attitudes of the managerial personnel. This is a very important aspect in the formation of a sound strategy because the success of an organization is based on the efforts of its personnel.

3. Corporate performance and position. This step involves a review of the past performance and the present position of the firm, and the comparison of this performance and position with the mission or charter of the organization and the ambitions and goals of the management. Discrepancies would indicate the need for change. This analysis indicates how well the company is doing relative to the mission and goals established for it, and it should consider all the major functional areas of marketing, operations, development and finance.

4. Environmental characteristics and trends. This step involves a careful examination of the environment because an organization does not operate in a vacuum; it has to adapt to the environment in which it

operates, be it the economic, technological, social, political, or competitive.

Detailed and accurate environmental analysis is important since the strategy of each company must fit the industry in which it operates. This step does not only include examination of the existing environment, but future trends and changes must be anticipated also so that management can change its strategies accordingly.

5. Specific opportunities and risks. The general characteristics and trends of the industry, obtained from the environmental analysis, should be converted to specific opportunities and risks for the firm to help management formulate the appropriate strategy.

6. Organizational resources. An examination of the organizational resources, or assets and skills, is important since every step an organization takes needs resources, whether financial, physical or managerial, and since the strategy or method of competition of each company must fit the capabilities of the organization.

7. Specific strengths and weaknesses. The general assets and skills of the organization obtained from the

organizational resources analysis, should be converted to specific strengths and weaknesses of the firms by evaluating them relative to the characteristics of the environment, the capabilities of the competition and the requirements of the strategy of the company.

8. Range of strategic alternatives. As a result of the analysis conducted, a range of strategic alternatives or different methods of competition will be available to a business.

9. Selection from the strategic alternatives. From the range of strategic alternatives available, the most appropriate course of action should be selected. The proper strategy should be internally consistent with the managerial assets and skills and externally consistent with the environmental characteristics and trends. It should provide a competitive advantage, and promise the maximum probability of achieving the organizational mission or purpose and satisfying the managerial values and attitudes.

After the appropriate strategy is selected, it must be translated into a series of statements on objectives, policies, programs and actions for each functional area and technical department within the organization. These will help direct the activities of the units of the organization and facilitates the evaluation of performance afterwards.

- Functional objectives. After the selection of a strategy, specific and realistic objectives have to be defined for each of the units within the organization. These objectives state where the units are expected to be in the future, and so they give the staff a sense of direction. However, the objectives have to be realistic, attainable and concise so that no frustration or misunderstanding will result. Later on, these objectives serve as standards for control where the targets are compared to the actual achievement.
- Functional policies and procedures. These are designed to serve as guides to be followed to achieve the stated objectives; the objectives specify the targets or results that are expected, and the policies specify the manner by which these results are to be accomplished.
- Functional programs and budgetary plans. Functional programs involve the description of the specific activities proposed by each organizational unit to achieve the stated objectives within the policy guidelines, while the budgetary plans concern the estimated expenditures for these activities, expressed on a monthly or quarterly proforma accounting statement.

- Functional actions. The final step is the decision to take appropriate actions to start the new strategy. Functional actions are the sequence of activities on a plan or program to achieve goals and objectives within given policies and procedures; they are what has to be done next to implement the strategy.

F- Evaluation of Strategic Planning

Just what impact does strategic planning have on an organization? These have been grouped into three characteristics:

1. Financial Benefits

A series of studies have been undertaken involving a variety of business organizations in order to actually measure the impact which strategic management processes have had on the bottom line. One of the first major pieces of research was conducted by Ansoff, Auner, Brandenburg, Porter and Radosevich in 1970.[17] In a study of 93 U.S. manufacturing firms, they found that formal planners who took a strategic management approach outperformed non-planners on almost all of 21 different financial criteria, including sales, assets, sales prices, earnings

----

17 Pearce and Robinson, p. 16.

per share, and earnings growth. The planners were also found to be more accurate in predicting the outcomes of major strategic actions.

A second pioneering research effort was that of Thune and House in 1970,[18] who studied 36 firms in six different industries. They found that formal planners in the petroleum, food, drug, steel, chemical and machinery industries significantly outperformed non-planners in the same fields. Additionally, they found that the planners improved their own performance significantly after their formal planning process had been adopted as compared to their financial performance during their earlier non-planning years.

A study in 1974 of the strategic management practices of 386 companies over a three year period conducted by Fulmer and Rue disclosed that durable goods manufacturing firms which practiced strategic management were more successful than those which did not.[19] Their findings did not hold for nondurable and service companies, probably, they suspect, because strategic planning among these firms

----

[18] Ibid, pp. 16 - 17

[19] Ibid.,p. 17

was a recent phenomenon and its effects were perhaps not fully realized.

In 1974, Schoeffler, Buzzell, and Heany reported a study designed to measure the profit impact of market studies (PIMS).[20] This PIMS project attemped to measure the effects of strategic planning on a firm's return on investment. The researchers concluded that return on investment (ROI) was most significantly affected by market share, investment intensity, and corporate diversity. The overall PIMS model, which incorporates 37 performance variables, disclosed that up to 80% of the improvement that is possible in a firm's profitability is achieved through changes in the company's strategic direction.

An additional study of widespread impact was reported by Karge and Malik in 1975.

In their research involving 90 U.S. companies in five industries, it was found that strategic long-range planners significantly outperformed nonformal planners on generally accepted financial measures.[21]

----

[20] Ibid.

[21] Ibid.

Finally, while most studies have examined strategic management in large firms, a project reported in 1982 found a favorable impact on performance when strategic planning was practiced in small businesses.[22] Studying 101 small retail, service, and manufacturing firms over a three years period, Robinson found a significant improvement in sales, profitability, and productivity among those businesses engaging in strategic planning when compared to firms without systematic planning activities.

The overall pattern of results reported by these seven studies is one that clearly indicates the value of measures. Based on the evidence that is now available, organizations which undertake a strategic management approach do so with the strong and reasonable expectation that the new system will lead to improved financial performance.

2. Behavioral Benefits:

The strategic management approach emphasizes a high degree of interaction by managers at all levels of the organizational hierarchy in the planning and implementation process. As a result, certain behavioral consequences which characteristically accompany participative

----

[22] Ibid.

decision making also result from the strategic management process. Therefore, an accurate assessment of the impact of strategy formulation on organizational performance requires a set of non-financially defined evaluative criteria - measures of behavior - based effects. In fact, it can be argued that the manager who is trained to promote the positive aspects of these behavioral consequences is also well positioned to meet the financial expectations of the firm.[23]

Regardless of the eventual profitability of particular strategic plans, several behavioral effects can be expected which should improve the welfare of the firm:

1. Strategic formulation activities should enhance the problem prevention capabilities of the firm. As a consequence of encouraging and rewarding subordinate attention to planning considerations, managers are aided in their monitoring and forecasting responsibilities by workers who are alerted to needs of strategic planning.
2. Group-based strategic decisions are most likely to reflect the best available alternatives. Better decisions can be argued as probable outcomes for two reasons:

----

[23] Ibid, pp. 18 - 19

First, the generation of alternative strategies is facilitated by group interaction.

Second, the screening of options is improved by contributing members of the strategizing group who can offer forecasts from their specialized perspectives.

3. Employee motivation should increase as a result of a wider and more in-depth appreciation of the productivity-rewards relationships inherent in every strategic plan. Through their own participation in the strategizing process, or that of their representatives, employees come to a better understanding of the priorities and operations of the organization's reward system, thus adding incentives for their goal-directed behavior.
4. Gaps and overlaps in activities among diverse individuals and groups should be reduced as participation in strategy formulation leads to a clarification of role differentiations. The group meeting format which is characteristic of several stages of a strategy formulation process promotes an understanding of the delineations of individual and subgroup responsibilities.

5. Resistance to change should be reduced as a consequence of participating in the strategy formulation process. The required participation inherent in the process helps to eliminate the uncertainty in change which is at the root of most resistance. While paricipants may be no more pleased with their choices than they would be with authoritarian decisions, their acceptance of new plans is more likely when employees are aware of the parameters that limited the available options.

3. Behavioral Costs:

At the same time that involvement in a strategy formulation process creates behavior-based benefits for the participants and their firm, managers must be trained to protect against three types of unintended negative consequences:[24]

First, while it is readily recognized that the strategic management process is costly in terms of hours invested by participants, the negative effect of managers' time away from their work is less often considered. Managers must be trained to schedule their duties in a way which provides the necessary

---

[24] Ibid, p. 16

time for strategic activities but which minimizes any negative impact on operational responsibilities. Second, if the formulators of strategy are not intimately involved in its implementation, individual responsibility for inputs to the decision process and subsequent conclusions can be escaped. Thus it is critical that strategic managers be trained to limit their promises to performance which can be delivered by the decision makers and their subordinates. Third, strategizing managers must be trained to anticipate, minimize, or constructively respond to the disappointments and frustrations of participating subordinates which can arise as a result of unattained expectations.

Frequently, subordinates perceive an implicit guarantee that their involvement in even minor phases of the total strategy formulation process will result both in acceptance of their preferred plan and in an increase in clearly associated rewards. Alternatively, they may erroneously conclude that a strategic manager's solicitation of their input on selected issues will extend to other areas of decision making. Sensitizing managers to these issues and preparing them with effective means of negating or minimizing such negative consequences will greatly enhance the overall potential of any strategic plan.

Chapter III
BACKGROUND OF ALICO

It is useful at this stage to allow a brief review of the Company under study. A historical background will be followed by a brief review of products offered. Finally, the organization chart will be examined, with special emphasis on the role of the agent and the special relationship that links him to the company.

A- Historical Background

American International Group (AIG) is a global insurance organization employing more than 33,000 people. AIG has the largest international network of any American insurer.[25]

AIG companies insure a staggering diversity of risks in over 130 countries; everything from the normal range cover to hydro-electric dams and professional liability for psychoanalysts. AIG has a gross annual premium income of over $11 billion and maintains a solid financial stature with assets in excess of $30 billion. Meanwhile, AIG boasts a total life insurance in force in excess of $108 billion.

Below is a table that includes comparison of some significant income and balance sheet figures between June 30, 1987 and June 30, 1988 (taken from AIG's unaudited consolidated statements):

----

[25] American International Group, Annual Report (New York: 1989), p. 9

Table 1

AIG Comparison of Selected Financial Statement Figures 1987-88

Amounts in US $ 000's

	30 June 88	30 June 87	% Increase*
Total Assets	30,532,960	24,322,125	25.5%
Total Cash & Investments	19,099,457	14,997,493	27.4%
Capital Funds	6,391,688	5,472,128	16.8%
Total Revenue	6,391,761	5,269,534	21.3%
Total Net Investment Income	684,801	545,098	25.6%
Total Operating Income	662,660	485,054	36.6%
Total Net Income	559,385	442,625	26.4%
Life Insurance In Force	108,034,592	94,255,266	14.6%
Per Share Net Income (in US$)	3.40	2.71	25.5%

*Source: Omar Ouayda, Internal Memo dated October 25, 1988 entitled "ALICO and AIG Financial Statements", p. 2.

One of the sister companies evolving in the sphere of AIG is American Life Insurance Company (ALICO).

The sun never sets on the American Life Insurance Company, with headquarters in Wilmington, Delaware, U.S.A. ALICO is one of the largest international life insurance companies in the world, with over $54 billion of insurance in force. For more than 68 years, ALICO has provided individual and group protection for more than a million policyholders in 64 countries and territories.[26]

ALICO markets a broad range of life insurance products around the world through a network of more than 10,000 agents and brokers licensed by ALICO, its branches, affiliates, and subsidiaries. These insurance products include accident, health and hospitalization insurance, group insurance for large and small organizations and businesses, pensions, annuities and ordinary life insurance.

ALICO's principal insurance operations are in the Middle East, the Far East, the Caribbean, Latin America, Africa, North America and Europe. ALICO lists 20 subsidiaries and affiliates, 75 branch offices and seven regional offices. In addition to its agents and brokers, ALICO employs a staff of nearly 4,300 worldwide.

Below is a table that includes comparison of some significant income and balance sheet figures between June 30, 1987 and June 30, 1988 (taken from ALICO's unaudited GAAP basis statements).

----

26 American Life Insurance Company, Year In Review (Wilmington, Delaware: 1989), p. 13.

Table 2

ALICO Comparison of Selected Financial Statement Figures 1987-88

	30 June 88	30 June 87	US $ 000'S % Increase*
Total Assets	3,557,359	2,523,385	41%
Total Cash and Investments	2,376,484	1,788,246	32.9%
Capital Funds	830,817	802,990	3.5%
Life Net Retained Premium	741,769	433,354	71.2%
Life Net Investment Income	69,155	52,284	32.3%
Life Operating Income	69,575	57,436	21.1%
Life Net Income	47,811	37,208	28.5%
Life Insurance In Force	54,116,035	44,553,698	21.5%

*Source: Omar Ouayda, Internal Memo dated October 25, 1988 entitled "ALICO and AIG Financial Statements", p. 2.

The Company was incorporated in Delaware in 1921, as Asia Life Insurance Company, and operating in Shanghai, China. In the fifties the company was reorganized in Bermuda as American Life Insurance Company, and in 1969, headquarters were moved to Wilmington.

September 1953 saw the birth of an administrative and sales office in Lebanon for American Life. From 1954 to 1976, Beirut office became the regional office for the Middle East and Arica. Due to the outbreak of the war in Lebanon, the regional office was moved to Limassol, Cyprus.

ALICO Lebanon has two head offices, one in Ras Beirut and the other in Jal el Deeb. Agency offices are scattered in a number of cities, such as Beirut, Tripoli, Zahleh, Jbeil and Jounieh.

B- Products Offered

ALICO Lebanon offers three main lines of products:

1- Ordinary Life Insurance:

These insurance policies are sold to individuals and are of unrestricted maximum face amounts (coverage amounts). Premiums for such policies may be paid in one lump sum, annually, semiannually, or quarterly.[27] They encountered for almost 72% of the total business generated by ALICO in 1988.[28] This line provides the broadest insurance coverage (i.e. coverage for deaths by sickness, accident or war).

2- Group Insurance:

Provides life insurance, medical insurance or pensions for a group of people under one contract. The group itself must exist for some purpose other than to

----

27 Gene A. Morton, Principles of Life and Health Insurance (Atlanta: Life Office Management Association, 1984), p.39.

28 American Life Insurance Company, Strategic and Business Plan (Beirut: 1989), p. 20

obtain insurance protection.[29]

In contrast to most individual insurance contracts, the group insurance contract provides coverage to a number of persons under a single contract issued to someone other than the persons insured. The contract referred to as a master contract, provides benefits to a group of individuals who have a specific relationship to the policyowner.[30]

3- <u>Personal Accident Insurance:</u>

Insurance contracts sold to individuals and are of restricted face amounts. Premiums are usually paid in one lump sum or annually, and the premium rates are smaller, hence the premiums are cheaper, since these policies provide coverage for death caused by accidents only.

In addition to these plans, ALICO offers optional supplementary contracts which may be attached to the basic policies. The most important form of supplementary contract or rider attached to an individual policy is

----

[29] Morton, p. 39

[30] Burton T. Beam, Jr., <u>Group Benefits: Basic Concepts and Alternatives</u> (Bryn Mawr, PA: The American College, 1987), p.8

the medical assistance rider, which provides living benefits and reimburses all or part of expenses incurred by the insured person as a result of surgical expenses, in-hospital doctor's visits, emergency, X-rays and prescribed drugs, and room and board.

C- Organization Chart

ALICO employs around 4,300 employees and 10,000 agents and brokers worldwide. In Lebanon, ALICO has approximately 55 employees and 230 agents.[31] Below is a simplified organization chart for the home office employees:

Figure 1
ALICO Organization Chart*

```
                   General Manager
                          |
  Agency Director---------|
          |               |
----------------------------------------------------------
|       |       |        |      |        |       |      |
|       |       |        |      |        |       |      |
Conser- Agency  Personal Group Under    P/O    Claims Accts Office
vation Services Accident       writing Services             Servi-
                                                             ces
```

*Source: American Life Insurance Company, Strategic and Business Plan for Lebanon, p. 63

---

31 American Life Insurance Company, Strategic and Business Plan, p. 64.

The General Manager overseas the overall operations of the firm. He is the manager of managers. Accounting, underwriting, policyowner service, claims and conservation are all service departments, thus providing insurance services to all policyowners. The Agency Director is responsible for marketing all product lines (Ordinary Life, Personal Accident and Group) to the public through the Agency system.

A chart relating the Agency Director to the agency system is useful in this respect[32] (See Figure 2).

Figure 2
The Agency System

```
                         Agency Director
                                |
          ------------------------------------
          |                  |                |
Agency Manager     Agency Manager  Agency Manager
          |                  |                |
 --------------    --------------  ----------------
 |     |     |     |     |     |    |     |     |
Agent Agent Agent Agent Agent Agent Agent Agent Agent
```

---

32 Dean Carlson, Life Company Operations, 6th ed. (Atlanta: Life Office Management Association, 1984), p. 249.

The Agency Director is therefore responsible for monitoring the activities of the field force (agents) and other field personnel, implementing company policies and procedures, and facilitating communications between the field offices and the home office.[33]

An agency manager must generate sales and profits through the efforts of the agents in the field office. This responsibility requires that the agency manager works with each agent to establish individual sales and other types of objectives.[34]

An agent is not a salaried personnel. He/she earns commissions on sales. An agent's work schedule is not a definite 9-to-5 or 8-to-2 or any other type of time schedule. The agent should rather schedule his or her workday around the convenience of the sales prospect.[35] Legally, an agent is defined as a person who acts for another person, a principal, in contractual dealings with third parties.[36] An agent is a person who creates, modifies, performs or terminates contracts for another person.

----

33 Dennis w. Goodwin, Life and Health Insurance Marketing (Atlanta: Life Office Management Association, 1989), pp. 265-66

34 Ibid, p. 269

35 Carlson p. 268

36 Janice E. Greider, Murriel L. Crawford and William T. Beadles, Law and the Life Insurance Contract, 5th ed. (Homewood, Illinois: Richard D. Irwin, Inc., 1984), p. 66.

Chapter IV
ALICO's THREE YEAR STRATEGIC PLAN

Below is a description of the three main components of ALICO's three year strategic plan.

A- Mission

In agreement with what Edgar Huse describes as the first step in the strategy formulation process, ALICO sets its mission as the first of the three components of the company's strategic plan. The mission statement for 1989 typically states:

"Ensure continuous profitable growth and maintain ALICO's market share leadership thru aggressive marketing strategy supported by cost effective automated quality services".

It is worthwhile to make a few comments on the mission statement. Details are included in chapter VI entitled "Actual Strategy Formulation at ALICO".

The marketing strategy of ALICO is very conservative and passive. Services are not automated and slow. Growth is not maintained.

B- Strategic Plan

ALICO bases its strategic plan on three assumptions:

1- Instability of exchange rate of Lebanese pound.

2- High inflation rate.

3- Growing competition backed-up by developed automation and liberalized underwriting practices.

Therefore the company plans to:

1- Promote US $ sales to ensure better flow of funds and stable returns.

2- Ensure profitable results of marketing plan.

3- Develop deeper market penetration by identifying market opportunities and allocating appropriate resources.

4- Where possible and feasible, to follow a relatively flexible underwriting policy.

5- Continuously upgrade service quality to policyowners and field force to retain competitive edge.

6- Human resources upgrading through courses, seminars and training.

All these plans are mentioned very briefly, with little or no other explanations. It is useful to note that these plans are carried out from each yearly plan to the next one.

C- <u>Strategic Objectives</u>

How to achieve plans that are compatible with the company's mission is a matter of setting strategic objectives.

The first stated objective is to strengthen ALICO's position in the market by creating second line managers and building a marketing division.

Before moving to the next objective, it is useful to note that improving a position does not, at present, necessitate building second line managers or creating a marketing division. The solution, as will be explained later, is probably to develop a more competitive medical package plan, to improve services basically through automation, and to motivate employees properly through adequate compensation schemes.[37]

The second objective is to improve persistency rates, which indicate the percentage of policies still being paid for out of a block of previously sold policies.

The third objective is to increase profitability by:

- Continuous promotion of dollar sales and maintaining high persistency.
- Improvement of benefits ratio.
- Keeping operating expenses under control.
- Securing best possible interest rates on fixed deposits and policy loans.

These measures are stated very briefly. No further indication is available.

The last objective is to ensure support to marketing strategy through improved administrative services.

----

37 Goodwin, p. 416

What can be seen from the three components of the planning formulation process is that they are brief and vague, and do not contain any figures, charts, graphs or any visual aid. However, this is not the problem. The real problem is that most of the objectives are carried from year to year, and achievement of these objectives is quite a lengthy process.

Chapter V

STRATEGIC PLANNING FOR ALICO
A STATISTICAL APPROACH

A- Introduction

Any analysis would be incomplete without recurrence to some sort of statistical devices which would allow a more scientific approach towards formulating strategic and business plans.

Needless to say, statistics mean figures, and statistical analysis requires the extensive use of such figures. One major limitation to any statistical analysis in Lebanon is the lack of figures in major areas of concern, a handicap which will be magnified when the researcher is bound to consider the external environment, which is shaky and unknown, even during very short intervals of time.

Therefore, the writer will identify areas in which not only figures exist, but also when predictions for future events are less shaky and predictable.

B- Factors influencing life insurance

All over the world, there are factors which universally affect life insurance. These factors have played some role in determining performance, but due to their growing importance, they emerge as the major factors influencing life insurance in the future decades.[38] These factors can be divided into two broad categories; external influences which are outside the scope of any insurance organization and internal influences which are characteristic of any insurance company.

1- <u>External Influences:</u>

The life insurance concept might be remote to some countries because of several reasons. One is where the prevailing political system does not favor free enterprise. Another is where the standard of living is so low that people can hardly provide for their basic needs for survival, or where the country's currency is rapidly devaluating, thus creating gallopant inflation (like the situation in Lebanon nowadays). Still another is the lack of interest in insurance protection, and this is where the government provides the needed security for every family. In addition to these, countries face seven additional threats/ opportunities, which will be examined closely.

a. <u>Population trends</u>

Three characteristics of population have an effect on life insurance. One is the size of the population. The total number of persons in a society determines the market in that same society. The larger it is, the better. The second characteristic is age distribution.

----

38 Carlson, pp. 507 - 28

The importance here is to know how much of the total population lies in the bracket of ages where family formation and development are likely to happen. It is known that these people are those who heavily buy life protection. The third characteristic is the retirement age, because retired persons are interested in pension protection (which is offered by life insurance companies), and because these people are disinterested in purchasing life protection on the assumption that their children have become self-supporting.

b. Women in Employment:

Statistics in Lebanon indicate that women are increasingly participating in the labor force, (See Table 3). One can easily notice the increasing trend by attending conferment exercises in any of the universities and colleges in Lebanon, or visiting banks, trade companies, hospitals or law courts. This increased trend affects life insurance sales in three ways. One is that since two people (instead of one) in the family are earning money, life insurance can be more affordable. Second, women themselves are more apt to buy life insurance. Third, and this is a negative factor affecting sales, with increased income, families may become more reluctant to buy life insurance. This may not be completely true for Lebanon where, in our present economic situation, a working couple can hardly provide for all their needs, and therefore life insurance remains important to them.

Table 3
Female Percentage as to Total Labor Force in Lebanon

Year	Male %	Female %	Total % *
1950	88.9%	11.1%	100%
1955	87.7%	12.3%	100%
1960	86.6%	13.4%	100%
1965	84.6%	15.4%	100%
1970	82.6%	17.4%	100%
1975	81.6%	18.4%	100%

*Source: M. Chamie, "Labour Force Participation of Lebanese Women", in J. Abou Nasr, N. Khoury and H. Azzam eds., Women Employment and Development in the Arab World, (Berlin: Mouton Publishers, 1985), p. 76

c. Mortality Experience:

Studies and statistics on mortality rates in the U.S. have shown that this rate has indicated a decrease since World War I.[39] This means that more people are living longer. In 1925, the average mortality rate was 13 per thousand per year. It fell to 7.1 per thousand by 1973.

----

39 Ibid, p. 512

In general, the downward trend in mortality rates has been due to advancements in medical technology and and new medical discoveries. On the other hand, and with the increase in population, atomic waste and radioactive gazes, motality rates could be affected (i.e. increased). However, the long-run trend is for slowly decreasing rates.

The effect of decreased rates is of course lower premiums and increased coverages. This would undoubtedly improve the competitive and marketing edge of life insurance companies.

d. Economic Conditions:

Some countries in the world, such as the United States and Canada, have experienced stable economic conditions. Thus, inflation in these countries has been rising within acceptable limits. In other countries however, such as Lebanon, the devaluation in the Lebanese currency was inevitably coupled with hyperinflation and a tremendous reduction in purchasing power. Policies which used to provide adequate coverages are no longer means of security. Actuaries all over the world are implementing new policies which provide for variable packages, or what has become commonly called variable life insurance.[40] These variable plans are expected to replace term or level premium life insurance in the future.

e. Income Distribution:

Generally, people throughout the world purchase life insurance only after securing their basic needs such as food, shelter and clothing.
Therefore, it is essential, for life insurance companies, to have the largest percentage of persons possible get a fair share of the total income distribution, so that many have adequate funds to provide for their basic needs in addition to, among other needs, life insurance. If a smaller share of the total population receives the larger part of the economy's income, life insurance sales will be directed only towards this share. In Lebanon, the situation is not very favorable as far as income is distributed. The need for life insurance has decreased tremendously, while the need for medical insurance has increased rapidly, as people are more inclined to worry about the prohibitive costs of hospital bills.

----

40 Mark Greene, Life and Health Insurance Companies as Financial Institutions (Atlanta: Life Office Management Association, 1984), p.8

f. Consumerism:

In the United States, critics suggested that sales agents tend to sell those policies that generate higher commissions for themselves.[41]

Legislative bodies in the United States requested, in an attempt to convince consumers that life insurance policies are adequate, all agents to show buyers the cost comparisons of policies, that is the total premiums paid and total dividends received discounted to the present, as well as cash or surrender values received, again discounted to the present.[42]

In Lebanon, of course, this practice is non-existant, and even if it existed, it would need legal and government control to become enforceable.

g. Public Attitudes:

In the United States, companies try to create a positive public attitude through the creation of a high degree of fiduciary responsibility among agents, which means a high degree of trust in the agent and the belief that the agent represents the best interests of the consumer. To create this fiduciary responsibility,

----

41 Carlson, p. 515

42 Ibid, p. 516

insurance companies have an excellent record in terms of security and ability in meeting promises. Also, investments have to be safely placed in order to protect the money deposited by various policyowners. In addition, fiduciary responsibility involves the agent acting as a financial adviser to his clients and selling him the plans which most likely suit him. In an attempt to increase the knowledge and sharpen the skills of its agent, insurance companies encourage its agents to enroll in specialized insurance courses offered by several well-known institutions.

2. Internal Influences

Insurance companies, like other business entities, continuously face an ever changing environment. Therefore, it is wise to consider internal company practices, in addition to the external influences, in order to project for a better picture.

a. Policyowner Service:

In the past, the sales agent was the one who provided all the after-sales services to his clients. However, with the increased turnover among agents and mobility of the policyowners especially in Lebanon, these policyowners did not always get the services they were entitled to. Companies have responded by creating a special department geared towards that purpose, with staff playing the role of councellors for clients. ALICO Lebanon was one of the leaders in this area, with a Policyowners Service department which is successfully filling the gap of after-sales service.

b. Sales Practices:

Sales practices by agents have not been always desirable, and usage of misleading approaches has been often the case in many insurance companies. As a remedy, laws and regulations in the United States have been enacted to prohibit the use of certain words and practices. In Lebanon, however, the picture seems to be rather pessimistic. In the midst of war, seldom were any laws enacted, and even rarely were they practiced. This situation is likely to continue, should the political conditions remain shaky. ALICO Lebanon, like any other company operating in Lebanon, is suffering from abuses and fraud, and this in turn affects its bottom line results every year.

c. Products:

Since early 1960's, life insurance companies have tried to design packages which would provide for flexible benefits instead of rigid ones. This change was caused by rapid inflation, alternative attractively designed investment vehicles and a sharp decrease in the purchasing power of the dollar. Insurance companies are now providing these plans on a large scale, with minimum guarantees in addition to variable benefits. These types of variable life insurance policies are described as equity-based, because the amount of the benefit, except for the guaranteed minimum, is based on the performance of equity investments. In Lebanon, such policies were non-existant until the American Life Insurance Company issued its Income Growth Plan (IGP) in Spring 1986. This type of plan has had a very favorable response, and sales are increasing at a fast rate. The percentage number of IGP policies expected to be sold by year-end 1991 is 80% of total number.[40]

----

[40] American Life Insurance Company, Budget (Beirut: 1991) p. 5

d. Operating Costs:

Increasing operating costs have been a basic characteristic of life insurance companies. The use of computers and the additional expenses incurred on training and motivating field force and staff have surged these costs up, which consequently affected the amounts of cash values, surrender values and premiums relating to life insurance companies. This has forced the premiums to move upwards.

e. Public Relations:

Companies are extensively using public relations in an effort to provide a healthy and sane picture of life insurance. In Lebanon, much of the advertising is placed to promote insurance institutions and products.

C. Statistical Measurement of Demand for Life Insurance

So far, the most important qualitative factors which universally affect life insurance have been examined, and a comment has been incorporated, where appropriate, on the effect of these influences on the Lebanese market. However any analysis would be somewhat meaningless without drawing upon the quantitative measurements, thus trying to relate the theory to practice.

A word of caution should be mentioned here. The quantitative analysis is not as complete as should be, due to the unavailability of data on one hand, and the impossibility of accurately predicting future outcomes, especially in situations where everything in Lebanon seems unknown and risky. An attempt will be made to select the factors for which data is available and which can be relied upon for predicting future outcome. Based on these factors, a regression equation will be constructed and commented upon.

To make use of one of the most trustworthy statistical tools for forecasting and planning, managers at higher levels of an increasing number of organizations are using regression analysis. Regression analysis uses a formal model to measure the average amount of change in one variable that is associated with unit increases in the amounts of one or more other variables. When only two variables are studied, the analysis is called simple regression. When more than two variables are studied, it is called multiple regression.[41] There is usually one dependent variable, and it is the one to be listed and analysed.

----

41 Charles T. Horngren, Cost Accounting: A Managerial Emphasis, 5th ed. (Englewood Cliffs, N.J.: Prentice-Hall International, Inc., 1982), p. 811.

Other variables are independent and they are important in the sense that they determine the value of the dependent variable. Often the manager has a choice of several possible regressions that use different independent variables or combinations thereof. In order for the regression to be most helpful, the following criteria should be met:[42]

1- The regression equation should be plausible. It should make economic sense.

2- The goodness of fit should be acceptable. The r^2 (coefficient of determination) should be high (close to 1). The t-values (the regression coefficient of each independent variable divided by its standard error) should be respectable.

In this analysis, the dependent variable is chosen to be the market sales of insurance in terms of number of policies. By using the total market sales as a dependent variable, ALICO can therefore predict what will the future size of the market be, and hence can anticipate how many policies it needs to sell to preserve or increase its market share. Table 4 shows total market sales in number of policies between 1979 and 1986.

----

[42] Ibid, p. 814

TABLE 4
TOTAL MARKET SALES 1979-86

Year	Total Market Sales in number of policies *
1979	3,290
1980	3,700
1981	3,753
1982	4,438
1983	6,001
1984	4,842
1985	6,942
1986	11,573

* Source: L'Association des Compagnies d'Assurance du Liban (ACAL), Sada' Al Ta'meen, (Lebanese Periodical, 1979 - 1986)

The independent variables chosen are the money supply, consumer price index (CPI), and interest rates. The variables have been chosen because they have a direct bearing on insurance sales. First, the total money supply determines how much money there is in circulation among the public, and hence a higher money supply is favorable to insurance sales and a lower money supply has exactly the opposite effect. Money supply has been defined as the total currency in circulation plus demand deposits. It defines and determines the rate of supply and demand for money in the market, and consequently the value of money.

Table 5 shows the money supply in Lebanon for the period 1979 to 1986. Figures are in millions of L.L.

TABLE 5
MONEY SUPPLY 1979-86

Year	Money Supply *
1979	6,684
1980	7,666
1981	9,005
1982	11,070
1983	12,845
1984	13,784
1985	20,154
1986	30,326

* Source: L'Association des Compagnies d'Assurance du Liban (ACAL), Sada' Al Ta'meen, (Lebanese Periodical, 1979 - 1986).

The second independent variable, CPI, or consumer price index, measures and compares the price of several hundred or thousand goods and services in a given year or years to a specific year, or base year. CPI is also useful to determine the value of money, and there lies its true strength. When the CPI rises, the same amount of money will buy less goods and services and vice versa. The CPI is useful here because it bears a direct impact on the sales of insurance policies. Usually people are reluctant to buy insurance which provides stable coverage in periods of inflation and price increases. (See Table 6).

Note the following simple example:

Imagine a person buying an insurance policy for a coverage of L.L.100,000 in 1970. Is its value today what it was in 1970? Of course not! Even in 1980, when the U.S. dollar exchange rate was stable to the Lebanese pound, The LL 100,000 were worth much less than in 1970.

The CPI indicates to life insurance companies how much of total spendable income will be available for buying life insurance. It also gives an indication as to how much coverage is needed in light of the price levels and the value of money.

TABLE 6
CONSUMER PRICE INDEX 1979-86

Year	CPI *
1979	348
1980	403
1981	501
1982	574
1983	615
1984	774
1985	1,314
1986	2,950

*Source: "Le Commerce du Levant", April 4, 1988, p. 16

The third independent variable is the rate of interest which is important in the sense that it can influence the competitive posture of other financial services institutions. When interest rates are high policyowners are tempted to surrender their insurance policies or even refrain from buying any new policies, and will deposit their savings in commercial banks or other financial intermediaries which will offer them higher rewards in the form of higher returns through higher interest rates. The process of leakage of funds from insurance companies to other institutions is called disintermediation, and could be very harmful to insurance companies, as we have mentioned earlier.[43]

Furthermore, interest rates are important because the prices of life insurance policies are determined by three factors: the mortality experience, company anticipated future expenses and the rate of interest. The higher the rate of interest at which the company will be able to invest its funds, the higher its profits, and consequently, the more it can afford to reduce its premium rates to make its products cheaper. (See table 7).

----

[43] Greene, p. 8

TABLE 7
INTEREST RATES 1979-86

Year	Interest Rates *
1979	5.50%
1980	7.50%
1981	9.50%
1982	11.70%
1983	10.10%
1984	13.00%
1985	13.40%
1986	18.25%

*Source: Central Bureau of Statistics, Banque du Liban, Quarterly Bulletin, (1st Quarter, 1987).

Neither the price of ALICO products, nor the price of other competitors products are helpful because, in insurance every product has a different price, and not only that, but in each product, the price is different according to every age, work classification, health condition and other factors that affect the underwriting and rate classification of every policy. In addition, one cannot compare products of different companies, because there are no similar products offered among two companies. Each company designs a product which best fits its estimate of mortality experience, interest rates and expenses.

Additionally, the size of the Lebanese population was not considered because these figures are only estimates, and are varied according to each conducted population study.

Using multiple regression, we get the following equation:

$$\text{Market Sales} = 1966.68 + \underset{\text{Money Supply}}{0.32} + \underset{\text{CPI}}{0.82} - \underset{\text{Int. Rate}}{150.27}$$

t = 1.81 t = 1.69 t = 0.83

$R2 = 0.97$

Tabulated t = 1.4149 at 90% Level of Confidence.

97 percent of the changes in the dependent variable are explained by changes in the independent variables, which leaves only 3 percent due to chance. This is statistically very significant and reliable. Also, the t values of the independent variables are higher than the tabulated t, which also indicates that figures used truly explain the relationship between the dependent variable and the three independent variables.

If ALICO management could use this equation and insert probable future figures for the independent variables, they could easily and accurately predict the number of future insurance sales. Given new figures, ALICO could set a target figure of sales to achieve, so that it may conserve and even improve its market share. Given its interest in improving its medical products and the level of services, the set targets determined by the regression equation could easily be achieved.

Chapter VI

VI- ACTUAL STRATEGY FORMULATION AT ALICO LEBANON

A- Process and People Involved:

ALICO has implemented a process for formulating a strategic plan, and this process has been followed every year. However, a few years back no plan was ever done for Lebanon.

The Home Office in Wilmington prepares, through the Vice President for Planning, various figures relating to the operational year ahead. These figures include targets for sales quotas, first-yeat premium income, renewal income, investment income, acquisition expenses, operating expenses and other figures. These figures are then distributed to the various regions depending on last year's performance and future expectations. The Middle East region receives its share of the total figures, and the Vice President for the Middle East distributes these among the 11 territories which constitute the region, depending on each territory's past performance and expectations. Each territory receives its allocated figures and distributes them according to each agency's past performance and expectations. Finally every agency manager distributes his allocated figures to his agents according to each one's past performance and expectations.

As mentioned earlier, only recently has ALICO worked on strategic planning. The only plans ever prepared were operational in nature, extending for one year ahead. Lebanon used to receive its share of set targeted figures (sales, income, expenses...) and try to follow this set plan for the year-end.

However, with the emergence of long-term strategic thinking, ALICO instituted its Planning Department in the 1970's. The planning process used to rest on a top-down approach. Then, large variances caused the company to change its approach to that of a bottom-up one. This now is being in practice.

Toward the month of July, meetings by the General Manager with Profit Center managers are held to analyze and assess current performance vis-a-vis the year's targets. When deficiencies exist, such as drop in sales, or surge in expenses, management sets some additional measures to offset gaps and reset the company on the right track. Additionally, forecasts are built and tentative targets are set for the following year. It is worth examining the process by which targets for the coming year are set.

First, the second main person in charge of the strategic plan in ALICO is the Legal Advisor. In spite of the competency of that person in legal matters, he/she is not always the ideal person to be in charge of planning for the Company. Naturally, the legal advisor has a say in the plan , because he/she has to make sure that all topics and plans are in compliance with existing rules and regulations of the country, but he/she should rather not be in total charge for preparing the strategic plan. Instead, the General manager, profit center managers, marketing managers, chief accountant and other functional managers are those who set out plans and execute them. This is the first possible gap in ALICO Lebanon's planning process.

Second, no mathematical approach is used to forecast any of the targeted figures, should they be in number of policies sold, premiums generated, interest income, overhead expenses, operating expenses, renewal premiums, persistency, number of new recruited agents or any other figure. When one staff suggested using some of regression equation to predict future sales, his comments were ignored on the basis that building a regression equation and interpreting it were too complicated, that subjective guessing was simpler and required less time and efforts.

Third, no analysis of the market really exists. Management bases its judgements on the annual report of the ACAL (Association des Companies d'Assurances au Liban). This report lists the names of life insurance companies in Lebanon and the premiums generated by these companies during the preceeding year. There is no real analysis of potential customer groups, market needs or other opportunities available in the market. For instance, with the surge in hospital and medical expenses in Lebanon, several companies have, in response, designed competitive packages at low cost and high coverage. They have risked incurring short-term losses against long-term profits. These companies have conquered a high portion of the market by appealing to the needs of the customers. It is true that one medical claim might have wiped up the premiums of ten new policies, and this has actually occured frequently, but by adding thousands of new customers, the final outcome was positive. Interest income from these could ultimately take care of potential payments of claims. These companies have built solid reserves in such a short period of time (one to two years). During that time, ALICO was a spectator. In response to the protests of our devastated field force, management responds calmly:"We are American Life Insurance

Company, and not American Medical Insurance Company". True as it is, this answer remains remote from competitiveness and far from providing for the present needs of the customers. The consequence of this is that a large number of our field force are selling medical insurance with our competitors. These agents are placing part of their business in other companies despite the fact that their agreements with the Company spell out clearly that they should sell insurance exclusively with ALICO.

Fourth, the plan that ALICO develops and calls business and strategic plan cannot actually be categorized as such. It is actually an operational plan for the following year. No attention is paid to examine ALICO's position, competition, environmental and other factors above the period of one year. Only some vague words are expressed as to the operation of ALICO after the one-year period.

B- <u>Evaluation of Weaknesses and Strengths</u>

When companies assess their various strengths and weaknesses, they build upon these characteristics action plans. Executives capitalize on their strengths. They try to preserve them and even enhance them. They also try to resolve their weaknesses by building remedy plans and work on achieving them, in an effort to turn weaknesses into strengths.

At ALICO, the yearly strategic plan entails a chapter on various strengths and weaknesses. This chapter is stated briefly in terms of points (or keynotes), and another more brief explanation as to why these points represent strengths or weaknesses to the company. However, being brief is not the real problem. The actual problem lies in whether any major effort will be made to eliminate weaknesses and capitalize on strengths.

Below are the topics which have been stated in the strategic plan for 1989. It is worth mentioning that these weaknesses and strengths are transferred from yearly plan to the following yearly plan, without changes in the topics; strengths have been kept as they were without any additions, and it is wondered as to how long these strengths will hold. Weaknesses have, on the other hand, increased.

Before we elaborate on our weaknesses and strengths, it is worth mentioning that the actual authority does not lie in the hands of the local General Manager. Authority is embodied in the Senior Vice President of the Middle East, who is based in Limassol, Cyprus. No important decision is taken locally, no matter how vital and urgent it is. Steps such as purchases of computers, upgrading of employee benefits, amending insurance plans and shifting a marketing strategy all have to be approved by the Senior Vice President, together with the relevant regional manager. This, of course, limits the capability of local management to maneuver, especially in the face of fierce, aggressive and dynamic competition whose decisions are taken quickly and locally.

1- Weaknesses:

Below are listed the updated 1989 weaknesses as stated by management, together with explanations as to why they are so. For several years now, the first topic on the list is quality of service. It is stated exactly in the following manner:[44]

i- Quality of services to policyowners and field force is not keeping pace with growth of business due to:

- Necessity of maintaining two separate administrative offices with small departments in each.

  This is a weakness because it leads to minimal or no functional depth in each of two locations, hence no flexibility. Inability to delegate, hence insufficient modernization of processing and services.

- Lack of second line managers.

  This is a weakness because it imposes organization and functional rigidity.

----

44 American Life Insurance Company, Strategic and Business Plan, p. 19.

ii- No Local Data Processing facilities:

This is a weakness because the operation is highly dependent on manual processing, which renders the operation manpower intensive and cumbersome. It also creates gap-time in processing and burdens operating expenses.

These two weaknesses have been grouped together because they will be commented upon together, as they both fall under the category of service.

With the devaluation of the Lebanese currency vis-a-vis the U.S. Dollar and other currencies, salaries of staff have become insufficient to provide for the basic necessities of life. As psychologist Abraham Maslow developed his "need hierarchy model" which was later adapted for management use by psychologist Douglas Mc Gregor, it seemed obvious that the first level of needs in the hierarchy is the "physiological need", which is the need for food, clothing and shelter. This need has to be satisfied first before someone might move into higher levels of needs.[45] These needs are usually provided for by money. Psychologists have determined that money is the most important motivator, especially to cover the physiological needs. They have even found out that money can indirectly influence other needs, such as achievement,

----

45 Huse, pp. 384 - 85

affiliation, power or self-actualization.[46] In Lebanon, and since 1985, pay rates have not allowed, in general, employees to provide for even the physiological needs. Motivation in all sectors of the economy has undoubtedly gone down. ALICO employees were, of course, no different. Productivity started to go down and with it the level of service went down. Therefore, what was written in the strategic plan does not tell the whole story. The need to improve salaries and fringe benefits remains the most important factor for improving employee morale and hence improve the level of service.

Additionally, management has been very slow in installing a suitable Data Processing System. Actually, the company has bought so far two personal computers in the "West side" Head Office and one personal computer in the "East side" Head Office. These are inadequate to accomodate the work flow of all the departments. Furthermore, no adequate training on P.C. usage was done to employees when these three personal computers were installed. Therefore, many reports and procedures (policy underwriting and changes, claims, policy issuance, production reports, cash flow and bank reconciliation statements)

----

46 Gary Dessler, Personnel Management: Modern Concepts and Techniques, 3rd ed. (Reston, Virginia: Reston Publishing Company Inc., 1984), pp. 317-18

are partly or totally manually processed. This undoubtedly requires much more time, and allows for greater human error.

Buck Rodgers, former Vice-President of Marketing at IBM, states in his book "The IBM Way":

> "Let's face it, we didn't build one of the world's greatest sales organizations by just caring for our people. Being concerned helps, all right, but it doesn't build homes, educate children, or pay for cars, boats or vacations. It doesn't assure anyone of a financially trouble-free retirement. Those things take money...IBM wants its people to be concerned not only with their own financial health but with the Company's too. They will be if they are treated fairly".[47]

Having this analogy in mind, ALICO has, since 1985, done a rather poor job. Unfortunately, it has not adequately provided for building homes, educating children, paying for vacations, cars and food. Accordingly, ALICO could not expect its employees to be extremely concerned with the financial health of the company.

----

47 Buck Rodgers, The IBM Way (New York: Harper & Row Publishers, 1986), p. 183

iii- Highly Conservative policy concerning products, benefits, rates and procedures. Mostly affecting group business. This is a weekness because it reduces ability to be competitive.

In fact, this weakness is related to what has been referred to as reliance on regional decisions, rather than local ones. Being conservative comes from the fact that seldom is regional management interested in being responsive to the market. They view Lebanon as being extremely risky, and where events are completely unpredictable. Competitors, whose decision makers are in Lebanon, and whose overall operations are in Lebanon, cannot afford to be conservative or even passive as is ALICO. Most of our competitors are local firms, and very few are representative of foreign companies. These companies respond quickly to the needs of the market by using the marketing concept, which holds that the key to achieving organizational goals consists in determining the needs and wants of target markets and delivering the desired satisfactions more effectively and efficiently than competitors.[48]

----

[48] Philip Kotler, Marketing Essentials (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1984), p. 15.

ALICO uses the selling concept, which holds that consumers will not buy enough of the organization's products unless the organization undertakes a substantial selling and promotion effort.[49]

Its actuaries design products that are needed in the U.S. or the Gulf, but then they instruct ALICO Lebanon to launch them in its own market. These products might or might not succeed in Lebanon.

iv- Absence of some Agency managers from their agencies due to dislocation and unavailability of second line managers in these agencies.

This is a weakness because it impacts production and the smooth running of sales activity of some agencies.

The weakness has persisted since 1985, just when crossing between the two parts of Beirut became restricted to one or two passages. Some Agency managers living in the East side could not regularly attend to their offices and perform their duties on regular basis. Had the company been aggressive enough, it would have appointed new agency managers who could perform the regular and normal duties. However, this was not done. On the contrary, the company is still paying them large

----

49 Ibid.

sums of money for duties they are not regularly performing. The reason behind this staticity is that top management does not wish to create ill-feelings among these few agency managers.

v- Must maintain a low profile approach due to security consideration. This is a weakness because it hinders ability to utilize any publicity or advertising activities, at time competition capitalizes on media exposure.

Ever since the outbreak of the civil war in Lebanon, ALICO has been using this sentence in the Strategic and Business plans and other diverse reports touching upon promotion. Management said they did not want to jeopardize the lives of employees and agents especially in view of anti-American feelings. This could be true in the sense that management stresses on the importance of staff safety and security. However, non of the staff is actually American or even non-Lebanese. Besides, a few television advertisements for ALICO most probably will not provoke emerging threats to the company.

This has limited the company's ability to face the aggressive advertising and promotion of other companies. ALICO claims that it promotes from within, that it offers a large number of bonuses and awards for deserving agents, as well as launching contests for qualifications to tours and conventions outside Lebanon. Indeed, this is a very motivating tool for our agents, but promotion through the media could facilitate our agents' jobs and improve sales tremendously.

vi- One final weakness, which is rarely mentioned, but which greatly affects management's ability to operate effectively and efficiently, is the lack of authority and power in the hands of top management and middle management in Lebanon. As mentioned earlier, all important local decisions are taken outside Lebanon. Decision making in the Middle East is centralized and practiced by the Senior Vice President residing in Limassol, Cyprus. Sometimes, even minor steps have to be approved by the Vice President or regional management operating mainly from Sharjah, U.A.E.

This limited ability to maneuver renders our actions slow and late. We have constantly reacted rather than acted.

2- Strengths:

Despite its weaknesses, ALICO still has some strengths which it rests upon. Till how long these strengths will hold depends upon whether the company is able to understand that things change, and flexibility, aggressiveness and increased automation, among others, are the name of the game.

i- One strength which is listed in the 1989 Strategic and Business Plan is the one that truly remains the backbone of the limited success of ALICO. It is ALICO's longevity in the market, coupled with corporate stability and world-wide cover.

It is a strength because it induces a sense of security to policyowners. As has been described earlier, ALICO is indeed a strong and healthy financial institution worldwide. This is vital to an insurance company because policyowners would want to be assured of the safety of the funds they deposit in insurance companies. People want assurance that promises will be met many years later. The life insurance policy is a long-term contractual obligation, and hence any investment made by insurance companies should be placed safely. In this respect, no doubt that the good reputation of ALICO is beyond any doubt.

ii- Other strengths mentioned in the yearly strategic plans are not always as valid as the above mentioned reason. Some of these points are:

-Seasoned Agency Force and relatively large number of producers.

-Competitive agent's compensation system.

Effective marketing mix with variety of products to meet changing market needs.

-Large business portfolio.

These so-called strengths are becoming less obvious. Due to our inadequate medical products - providing limited coverages for expensive premiums when compared to competitors' products - a large number of ALICO producers are placing their business elsewhere. In that sense, ALICO recruits, trains and motivates agents and they wind up generating income to other companies. As to the marketing mix offered by ALICO, this is not truly a strength in the sense that the Lebanese market does not need a variety of products to chose from. What people mostly need nowadays is medical, hospital and surgical insurance. As to the large business portfolio, this is a result-not a cause-of the better strategy used earlier by ALICO.

Chapter VII

CONCLUSION

Despite its image of worldwide strength, ALICO is weakening in Lebanon. As has been described, one can relate its decreasing market share to the failure of ALICO to build a realistic strategic plan, one that is scientifically approached.

ALICO's top management should be able to study its environment more deeply, locate potential opportunities, analyze its market needs, and anticipate competitors actions and reactions.

To do that, ALICO should first assign the planning duties to someone in the company other than its Legal Advisor. The General Manager should be backed up by the various profit center managers (Ordinary Life, Personal Accident and Group Insurance), together with the Chief Accountant. The inclusion of a few knowledgeable field force members in some parts of the plan can be instrumental and vital, because these are the people who are actually in the market; they know what the market needs, and how much it is willing to pay. They can provide the company with the various competing products, their benefits, exclusions, rates. They can suggest new products which are in demand in the market. Their presence is helpful in the sense that they bring the real world matters and draw them into structured lines and sentences, upon which action plans could be built and acted upon.

However, without doing much effort in regard to building a well structured, realistic, scientific strategic plan, the company can improve its market share by entertaining two urgent subjects. One is designing a competitive medical insurance plan, and second is improving services.

Firstly, the medical plans that ALICO offers are expensive and do not provide for full expenses incurred. The competitors are designing plans whose structure follows comprehensive major medical plans.[50]

These types of policies provide broad coverage for both hospital expenses and outpatient expenses. They provide a high maximum benefit amount such as US$ 10,000. The maximum benefit amount available under a major medical policy usually applies to each covered sickness or injury, rather than to each covered expense. Our medical coverage in contrast provides for specific percentage of coverage for each category of sickness or accident, thus practically never

----

[50] Morton, p. 256

attaining the full actual expenses incurred by the insured person. In view of the economic difficulties encountered by the public, especially after the rise in foreign exchange rates vis-a-vis the local currency, and the resulting inflation, people have become interested in medical insurance; hospital bills have become prohibitively high and unaffordable by the largest portion of the public.

Additionally, some insurers provide payment of claims directly to the hospitals, without the insured person paying any amount. This system is called the direct billing system. This system appealed greatly to the public that found a relief from having the burden of paying the expenses incurred and then claiming them from the insurance company. This has gained popularity during 1987, 1988 and 1989 and continues to be the dominant factor behind selling health insurance. ALICO has, in summer 1990, introduced the direct billing system in a selected number of its group policies. The company will review its experience in this respect and will decide whether to use this claim settling system for its individual policies or not. A decision of this sort will need much time to be taken, probably more than one year. By that time, market share would most probably diminish further and competitors will reap the benefits of increased returns before ALICO would.

The second subject is improved services. Quick and efficient policyowner services is a matter whose importance cannot be over emphasized.

Management is very much aware that customer service is vital to the survival and growth of the company. Yet, no action has been taken in this respect to improve the level of services. The matter, however, is quite simple. ALICO needs to compensate its employees properly in order to motivate them to perform their jobs as conscientiously and efficiently as possible. Little has been done in this respect and the level of salaries at ALICO is far lower than what should be for a firm of its size and strength. Motivation is oriented toward the field force who are compensated heavily by means of bonuses, awards, conventions, vacation trips and a generous commission scale. This is being done at the expense of employees' salaries and other fringe benefits.

Management so far is probably failing to understand that not only is the sales agent important, but the clerical employee is equally important. The situation is similar to a monetary coin: the coin needs to have both facets in order to have the value it claims.

Another means to improve services is automation. Our business era requires that a company of the size of ALICO in Lebanon should at least have one main-frame computer linked to a number of terminals. At least one terminal should be available in each and every department. Continuous computer training for employees should be done. At least one telefax machine should be available.

At least one electronic telephone line should be available in each agency (branch). Nothing of this sort exists at ALICO. Only 3 not-state-of-the-art personal computers are available. They hardly could accomodate one department at best. No telefax is available, and several agencies do not have electronic telephone lines, and hence do not have any telephone contact with the outside world. The telex machine is agonizing and needs instant replacement. Several typewriters have been in use for over ten years and only two photocopying machines are available. With all these constraints, the bulk of the business has to be performed using the good-old-way, manually!

All these factors have decreased the efficiency of the administrative services and hence customer services. Any claim which would normally be paid within a maximum of one week takes more than 3 weeks to be settled. A change of policy size or addition of a rider takes more than 2 months to be affected. An application which would be underwritten and issued within a couple of days takes an average of 2 weeks to 2 months to be handled.

One final note on ALICO's level of services. Several positions are left empty if the respective employee is sick or is taking his annual leave. Usually no one is there to be temporarily in charge until the regular employee is back. The flow of work is hence frequently interrupted and the work load is enormous upon the regular employee's return.

On the importance of service, Edson P.Williams, Vice President, Ford Motor Company and General Manager, Ford Truck Operations wrote:

"I'd have to say that (before the events of the last four tough years) our culture in the Ford Motor Company said that there's one central objective in our business and that's to earn a return on our investment. I think we've now learned there's something else that's central-and that profits will fall to you if you view this as central: Serve the customer. You have to have your costs right, quality right, all those other things that have to be done. But we must always think the customer is the middle of the thrust of what we're trying to do. I think that's what we've learned. I don't think it's much more complicated than that, and I would suggest it to you for your consideration".[51]

Here is another small note capitalizing on the importance of customers:

"At Disneyland and Disneyworld, every person who comes onto the property (the "set") is called a guest. Moreover, should you ever write the word at Disney, heaven help you if you don't capitalize the G".[52]

With the right products, the right services and a more scientific approach to strategic planning, and given the immense human and non-human resources that ALICO possesses, no doubt that leadership, growth and improved market share will inevitably mark the years to come.

----

[51] Tom Peters and Nancy Austin, A Passion for Excellence: The Leadership Difference (New York: Random House, 1985), p. 44.

[52] Ibid, p. 47.

BIBLIOGRAPHY

Books

Abell, Derek F. and Hammond, John S. Strategic Market Planning: Problems and Analytical Approaches, Englewood Cliffs N.J.: Prentice - Hall Inc., 1987.

Beam, Burton T. Jr., Group Benefits: Basic Concepts and Alternatives, Bryn Mawr, PA: The American College, 1987.

Carlson, Dean. Life Company Operations, 6th ed. Atlanta: Life Office Management Association, 1984.

Certo, Samuel C. Management of Organizations and Human Resources, Dubuque, Iowa: W. C. Brown Publishers, 1985.

Chamie, M., "Labour Force Participation of Lebanese Women", in Abou Nasr, J., Khoury, N. and Azzam, H., eds., Women Employment and Development in the Arab World, Berlin: Mouton Publishers, 1985.

Dessler, Gary. Personnel Management: Modern Concepts and Techniques, 3rd ed. Reston: Reston Publishing Company, Inc., 1984.

Goodwin, Dennis W. Life and Health Insurance Marketing. Atlanta: Life Office Management Association, 1989.

Greene, Mark. Life and Health Insurance Companies as Financial Institutions, Atlanta: Life Office Management Association, 1984.

Greider, Janice E., Crawford, Muriel L. and Beadles, William T. Law and the Life Insurance Contract, 5th ed. Homewood, Illinois: Richard D. Irwin, Inc., 1984.

Horngren, Charles T. Cost Accounting: A Managerial Emphasis, 5th ed. Englewood Cliffs, New Jersey: Prentice - Hall International, Inc., 1982.

Hosmer, La Rue T. Strategic Management: Text and Cases on Business Policy, Englewood Cliffs, N.J: Prentice - Hall Inc., 1982.

Huse, Edgar F. Management, 2nd ed. St. Paul: West Publishing Co., 1982.

Kotler, Philip. Marketing Essentials. Englewood Cliffs, New Jersey: Prentice - Hall, Inc., 1984.

Morton, Gene A. Principles of Life and Health Insurance. Atlanta: Life Office Management Association, 1984.

Pearce, John A. II and Robinson, Richard B. Jr., Strategic Management, Homewood, Illinois: Richard Irwin, Inc., 1982.

Peters, Tom and Austin, Nancy. A Passion for Excellence: The Leadership Difference, New York: Random House, 1985.

Rodgers, Buck. The IBM Way, New York: Harper & Row Publishers, 1986.

Wheelen, Thomas L. and Hunger, J. David. Strategic Management, 3rd. ed. Reading, Massachusetts: Addison-Wisley Publishing Company, 1990.

Young, Arthur. The Manager's Handbook: The Practical Guide to Successful Management, New York: Marshall Editions Ltd., 1986.

Reports

American International Group, Annual Report. New York: 1989.

American Life Insurance Company, Year In Review. Wilmington, Delaware: 1989.

American Life Insurance Company, Strategic and Business Plan. Beirut: 1989

American Life Insurance Company, Budget. Beirut: 1991.

Association des Compagnies d'Assurance du Liban, Sada' Al Ta'meen, Lebanese Periodical, 1979 - 1986.

Central Bureau of Statistics, Banque du Liban, Quarterly Bulletin, Beirut: 1987.

Journals

"Le Commerce du Levant", Beirut, April 4, 1988.