ABSTRACT

Identifying good performance measures and their drivers is never as easy task. Development in the area of performance measurement over the years suggests that the fundamental problem of measuring the wrong outcomes and/or drivers has shifted toward measuring too many of the right ones (Neely and Bourne, 2000), resulting in a rather complex framework and too many indicators. An integrative yet simple framework consisting of only a few measures possibly provide a beneficial alternative for a better-focused management. This research endeavor builds on such notion.

The purpose of this study is to provide a normative framework of performance management and test it with empirical data from the life insurance industry, the largest financial service sector in Thailand. Essentially, this research proposes that success of a company lies with only three good qualities: ability to lead, ability to adapt to changes, and responsibility to stakeholders. These drivers are termed ROI, which, of course, is not return-on-investment but responsibility, orientation, and innovation.

Innovation has long been recognized as an essential ingredient for success in all industries (Drucker, 1954). It creates the opportunity for firms to grow and become leaders in the market (Jaworski et al., 2000). Orientation, especially market orientation, represents an important characteristic of firms being able to detect changes in the external environment and adjust themselves accordingly. There are evidences that firms with good orientation quality will be survived and become more

successful in the future (Narver and Slater, 1990; Jaworski and Kohli, 1993; Han et al. 1998; Matsuno and Mentzer, 2000; Noble et al., 2002).

However, the aforementioned two qualities only suggest that firms are "good at" doing business. There are more and more calls for firms to also be "good to" their stakeholders i.e., be responsible to their society, environment, creditors, suppliers, employees, and so on in addition to being good to their customers and shareholders (Clarkson, 1995; Blodgett et al., 2001). A problem is there is not much evidence to link the responsibility quality to the bottom line of conducting business. Conceptual papers begin to be more widely available (Robin and Reidenbach, 1987; Carroll, 1999; Maignan and Ferrell, 2004) but empirical evidence still seems to be scarce (Waddock and Graves, 1997; Sen and Bhattacharya, 2001). Furthermore, finding evidence of the impact of business responsibility on profitability must be controlled for other conventional performance drivers such as orientation and innovation as well.

In summary, this research aims to investigate whether there are links between the three claimed qualities of firms and their success under a simple framework of ROIS: responsibility, orientation, innovation, and success.

Consistent with the concept of customer relationship management and the broadened scope of performance measures, the success construct are operationalized to include the aspects of customer acquisition and retention as well as financial and non-financial measures. The financial measures include acquisition and retention efforts, measured by costs per new policy issued and existing policy retained respectively, while the non-financial ones entail acquisition and retention rates, measured by the ratios of new policies gained and existing policies retained respectively. Those two sets of financial and non-financial performance measures, consisting of a four variables in total, serve as the dependent variables in the analysis.

Three set of independent variables are developed to represent the three constructs of ROI. Altogether, there are four indicators representing the construct of responsibility, three for orientation, and two for innovation.

A 6-year data set used to test the operationalized framework comes from the database available from the Thailand's Department of Insurance, Ministry of Commerce. It covers a good number of measures for all firms in the industry during the period of 1998 to 2003. Annual data were used to test the model using canonical correlation, resulting in 6 sets of findings. The chi-squared statistics are significant at .05 level and the values of redundancy index range from .538 to .842, supporting the appropriateness of the model.

Consistent with prior findings in the literature, orientation and innovation appeared to be significantly linked to firms' success. Interestingly, however, only the employee and shareholder dimensions of the responsibility construct were significant. The two groups of stakeholders can be considered internal to the firm. The other two dimensions of responsibility, customer and community which can be considered external to the firm, turned out to be non-significant statistically. The results raise a question about a direct link between responsibility and success and warrant a further

investigation into the conceptualization, measurement, and the nature of a structural relationship between the two constructs.

Additional findings at the firm's level also indicate a negative relationship between acquisition and retention rates, posing a caution for setting a strategic direction and resource allocation decision for management of the firm.