

Product Innovations Lead to Higher Organizational Performance: An Evaluation with Special Reference to Insurance Industry in Sri Lanka

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Introduction

Innovation is identified as the backbone of the organizational success. Innovation can be defined as the "New way of doing things that are commercialized (Poter, 1990). According to Jessen (2003), there are four types of innovations namely, product or service innovation, process innovation, position innovation and paradigm innovation.

In recent years service sector has become a fast growing sector in the world economies including Sri Lanka. GDP contribution of Banking, Insurance & Real Estate sector is highly considerable in the Sri Lankan economy. Insurance industry in Sri Lanka is comprised with 18 Insurance companies and 11 of them are engaging in both General and Long Term Insurance businesses, 5 companies are engaging in General Insurance business and two companies are engage only in Long Term (Life) Insurance business (Sri Lanka Insurance Board).

Insurance total Premium has shown a considerable negative growth in 2009 and this has been continuing during the last consecutives yeas. However, the total premium income from long term and general insurance has shown a negative growth of 1.57% in 2009 with compared to a positive growth of 12.11% in the previous year. Not only that but also from 2008 to 2009, the premium income from general insurance has declined by 3%, while the premium income from long term insurance has grown only by 0.65%.

Hence, the primary purpose of this research was to identify the lead of product innovation on the performance of the life and general insurance industry.

Methodology

The conceptual framework can be depicted as follows.

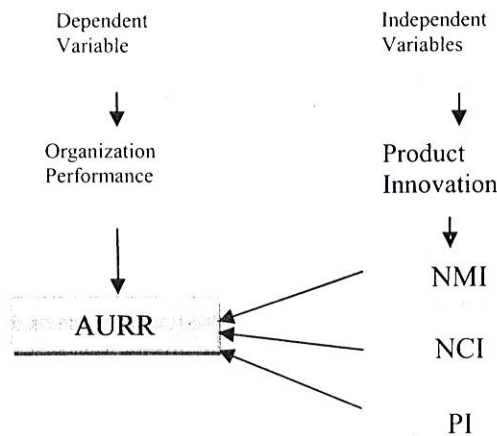


Figure 1: Conceptual Framework

The study identifies three main type of product innovations in insurance sector namely, new to the market innovation (NMI), New to the Company innovation (NCI) and

Product improvement (PI) as given in Figure -1. Further, the study explored the organizational performance with respect to Average Under Writing Result (AURR). Data were gathered from 14 insurance companies which had got registered in 2006 and after 2006 in Sri Lanka. Primary data were gathered for four years from 2006 to 2009. Data in relation to product innovations were collected through a questionnaire and AURR was obtained through the annual reports of the Insurance companies. Data were analyzed by using the regression analysis.

Results and discussion

Results revealed that NMI, NCI, PI have a strong positive relationship with the AURR. Overall finding indicates that innovations are significantly and positively affected to the performance of the insurance industry. R-Square of the regression analysis tested for overall Insurance industry is .757 it emphasizes that 75.7% of the total variation of the AURR is being explained by the components of the independent variable. The statistically significant ($P < 0.05$) and fitted regression model can be depicted as follows.

$$\text{AURR} = -2422.196 + 239.413 \text{NMI} + 148.641 \text{NCI} + 130.504 \text{PI} + \mu$$

As far as the overall insurance industry is concerned, results suggest that performance of the industry is significantly affected only by NMI rather than other types of innovation.

In accordance with the R-Square value of the multiple regression tested for life insurance industry, 75.5% of the variation of AURR can be explained by the independent variables. The fitted model is as follows.

$$\text{AURR} = -326.130 + 132.462 \text{NMI} + 27.581 \text{NCI} + 53.033 \text{PI} + \mu$$

Further, according to the results, it was identified that there are several NMIs in life insurance industry for instance, "Health deposit" and "Unit Link" of Union Assurance "Premium life plan" of Asian Alliance can be pointed out as examples to the NCI. PI is introduced by changing the features of the product. "Family health care" of Asian Alliance, "Ceylinco Pranama" etc can be considered as PIs.

Considering the performance of the General Insurance, R-Square value explains that 64.2% of the variation of the performance can be explained by the independent variable. Further, the fitted multiple regression model can be expressed as follows.

$$\text{AURR} = -781.229 + 153.679 \text{NMI} + 124.765 \text{NCI} + 135.310 \text{PI} + \mu$$

In addition, results proved that the performance of the General Insurance has also got significantly affected by the NMIs. "One and only" of Ceylinco, "My home", "My car", "My life" of Janashakthi can be considered as NMIs. Further, "Pet insurance" of Janashakthi, "My home" of Amana Takaful etc. can be identified as examples to the PIs.

Conclusions

It can be identified that the insurance system of any country becomes a very effective partner in the process of economic development. Therefore, product innovations namely, NMI, NCI, and PI would be playing an important role in increasing the organizational performance of the insurance industry. As far as the entire industry is concerned, product innovation has become a leading factor for higher organizational performance. If a company engages only in either life or general insurance, they have

an opportunity to introduce more new to the market innovations and reach higher organizational performance. However, it is important to match the products with the customer needs and wants in delivering the products to the customer. In the above discussion it was clear that certain amount of the variation in the organizational performance was not explained by the independent variable. This unexplained variation might be explained by other variables such as consumer's financial matters, delivery of products, regulatory environment, and awareness of the insurance.

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