



BUSINESS ETHICAL BEHAVIOR AS A CRITICAL FACTOR IN HR CHANGE TRANSFORMATIONAL MODELS IN THE INSURANCE INDUSTRY – THE CASE OF THE REPUBLIC OF NORTH MACEDONIA

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Abstract

The insurance industry is in the continuous process of facing fundamental change, predominantly due to applying new technologies at diversified insurance portfolio, while still remaining heavily dependent on the potential of the human factor for advancing the business. Insurance managers are constantly attempting to implement changes at internal insurance processes, which derive from increased industry competitive pressure, regulation and evolving and modified customers' needs, as well as from the tendency for increasing the importance of the human resources management (HRM). Organizational changes at insurance companies are struggling to impose more transparent and sustainable models of ethical behavior and particularly to increase the importance of insurance intermediaries, especially as their influence in overall insurance industry constantly rises. Moreover, the contemporary InsurTech models are extending the improved application of classical insurance business concepts and techniques and, therefore, revolutionizing and transforming the future of current insurance business models, according to the current internal and external challenges. In that regard, HRM needs to be systematically and carefully developed and oriented to specific consumers' needs and expectations for achieving sustained competitive level, particularly while solving numerous insurance ethical constraints and challenges, in order to increase the transformative capacity of the insurance industry, as a whole. The insurance industry in the Republic of North Macedonia is achieving sustainable and relatively high growth. However, additional stimulus can be created by imposing and practicing advanced ethical business models, predominantly understood as a model for increased competitiveness and profitability, rather than as a formal regulative prerequisite. HR developmental models in the industry are weak and limited, whereas the interactions with distribution channels are quite poor. The absence of effective, executive and interactive ethical models at insurance companies, aimed at obtaining higher value from the insurance human capital management (HCM), is one of the critical factors for stimulating the industry's sustainable growth and creation of higher insurance culture. This paper profoundly analyzes the contemporary HCM challenges and, in particular, emphasizes the transformative function of business ethical behavioral models in the modern insurance industry, in close inter-dependence with the change management practices at insurance industry.

Keywords: Business ethics in transformational change, HRMP (Human resource management practices) and HCM (Human capital management), insurance industry, Republic of North Macedonia

1. INTRODUCTION

The key analytical and research focus of this paper is placed on identifying, validating and further

improving the current position, managerial effects, as well as behavioral capacity of undertaking competitive actions for advanced application of HRM, which would influence implementing crucial change

and development at overall insurance industry, especially needed in times of digital transformation and increased regulation of the industry. Intensive and diversified competitive pressure, accompanied by low interest rates and significant entrance of new insurance technology, have forced numerous companies which were performing on mature, emerging markets to introduce new business models, that pay increased attention on sustaining price competitiveness, enrich entire portfolio with new and modified insurance offers, both dependent on the development of employees and higher importance of human resources in insurance developmental processes and behavior. These change management approaches have reshaped the way the industry creates and sustains value in overall insurance business. However, it is rather important to emphasize that, although the role of digital technologies is profoundly increasing insurance processes productivity, especially in the areas of risk management and measurement, customer relations, and claims settlement, they should not be entirely perceived as a magic tool for improving the performances of overall insurance business.

The managerial capacity for planning and implementing changes in insurance industry predominantly relies on the structural market analyses of the importance of various insurance categories, as well as on the intensity and success of industry developmental tendencies, in order to interconnect the potential of the insurance companies with the insurance market expectations. The academic debate for illustrating existing challenges, in this narrow sense, is quite limited. As an analytical illustration, in the empiric survey analyses conducted by KPMG in 2018, which included CEO's from U.S. insurance companies, particularly has been pointed-out that, among other concluding implications, 77% of CEO's are planning to up-skill 41-60 % of their workforce in the field of digital capabilities, which is a clear indication of preparing their human resources for more advanced managing, as a methodological pathway for broader application of the concept of HCM, rather than the existing HRM.

In practice, it seems that particular research in expert and academic analyses are rather converging with the changes arising from insurance technology advancements, having especially in mind that the regulatory and supervisory regimes are pretty vary-

ing across markets. There is a substantial need for frequent, in-depth, and empirical analyses of the important role of HCM in shaping the industry's challenges, positioning it as a key driver for change, because, in fact, these are lacking. Or, as an anonymous insuring company CEO claimed in the Korn Ferry Survey (2017), "I am not afraid about insurance companies, I am afraid if Google decides to get into insurance," justifying the issue of industry re-evaluation and the need for reorientation.

This paper offers a contribution to low-level insurance industry-focused academic and expert debate, examining the role of HCM for business model transformation and changes and, locating it as an important factor for companies' development and growth, rather than for short-term profitability. In emphasizing the transformative and change value of HCM in the insurance industry, we bring the "put aside" issues to the forefront of the academic debate. Kwon (2014) clearly argued that the human capital attraction and retention challenge is becoming acute in the insurance industry and the need for a supply of workers, especially talent workers with a passion for risk management and insurance (RMI), remains a critical issue for insurers of all sizes in all economies, or in general that human capital is what is most lacking in insurance operations in these changing and volatile times. Kwon reiterated the findings of several academic works and surveys, namely the work of Sweet at al. (2010) and McKinsey & Company (2010) that showed that the work force in the insurance industry is aging, as the 55-64 workers proportion raised by 38 percent and the part of the 55+ workers in the insurance industry have risen by 75 percent in the period of 2000-2008. This particular insurance industry's developments and the Lloyds's Risk Index finding that the "shortage of talent and skills" becomes a second operational business risk globally, affects, in specific manner, the insurance industry and profiles its reputational risk while the Kwon would underline that, "the insurance industry, as well as most insurance companies, has not attained a high reputation or wide recognition in most of the countries", based on the Reputation Institute Survey from 2012.

A new insurance awareness is needed, because previous work has shown that employees, as a key element of HCM, exercise pressure to produce results

in highly, competitive markets (Coetzer & Rothmann, 2006), and that insurance employees are facing high levels of stress caused by dealing with difficult clients, challenges of meeting deadlines, and the constant drive to achieve targets (Lai, Chan, Ko & Boey, 2000), because the whole industry is changing and the HCM remains even more important for a company's performance, organizational climate, and competitiveness in relation to its employees (Bressler, 2014), especially by involving people who possess higher levels of individual competence (Dae-Bong, 2009).

Therefore, two inter-dependent research issues were evaluated in an integrated manner:

1. *Identifying and categorizing the factors and areas of behavioral ethical changes that influence the transformative capacity of human capital in insurance industry.*
2. *Diagnosing the potential influence of pre-conditions for HCM advancements toward future principal change management pathways of the insurance industry of North Macedonia.*

These research issues represent our thorough intention to establish and further increase the importance of proper management of the human capital, on one hand, and clearly to inter-connect the HCM advancements with applying change management techniques for sustained development of the overall insurance industry, on the other hand.

Holistically, the application of the entire potential of HCM defines the character of managerial decisions for ethical models and the pace of insurance industry change and transformation, and therefore greatly shapes the future of insurance industry performance, particularly its productivity.

2. THEORETICAL BACKGROUND

2.1 Advancements from Human Resource Management to Human Capital Management in sectoral analyses

In attempting to advance from treating employees *from the traditional view point of human resources toward the modern understanding of their being organizations' or institutions' human capital*, it is important to identify the core analytical expert's managerial approaches that incorporate the con-

temporary attempt to underline the potential, direction, and inter-functional use of the entire staff, as a function of the previously determined mission, vision, strategy, and goals.

Principally, "'best practice' at employee performances is no longer good enough to survive in today's incredibly challenging global marketplace" (Collins, 2001; Collins & Hansen, 2011; Anderson & Caldwell, 2017a), whereas "the quickly evolving nature of the world market place demands the companies to become constant risk-takers, agents of change, and willing innovators" (Collins & Hansen, 2011). Therefore, initial understanding of *effective human resource management* as a "concept that enables employees to contribute effectively and productively to the overall company direction and the accomplishment of the organization's goal and objectives" (Madsen, 2012) is to a large extent interconnected with its determination as "resource management that refers to the policies and practices involved in carrying out the human resources aspect of management position including human resource planning, job analysis, recruitment, selection, orientation, compensation, performance appraisal, training and development and labor relations" (Dressler, 2007).

In this context, effective human resource management practices (HRMP), as the inter-dependending behavioral linkage between human resource management and human capital management, implies "a practice in the organization that will enable employees to contribute effectively and fruitfully to the attainment of the organization's goals and objectives. It makes employees to be committed to their work and elicit positive behavior that will increase the organization's effectiveness" (Sabiu, Ringim, Mei & Joarder, 2019), which is a clear indicator that the practical view point of human resource management addresses far more employee efficiency and potential for future development, especially through management goal setting and expectancy theories, fundamentally leading to the managerial importance of the concept of organizational performances, i.e., ethical climate, identified as a "set of norms, procedures, policies and practices walled in the organizational life cycle that usually guided employees to conduct their behavior with a high level of ethics for organizational development" (Martin and Cullen, 2006).

Constant and progressive advancement to a higher ethical climate requires internal and external changes in relation to human resource development. In addition, we should state that “the usual reaction of the employees to change is resistance, however, it is acknowledged that the management who understands and prepares plans to cope with such employee concerns generally develops an instinctual protective reaction” (Born, 1995). In sustaining the overall ethical climate, the CSR concept plays a highly recognizable behavioral role, which applied in practice to human resources leads to their mutual inter-influence: “the relationship between CSR and HRM appears to be a reciprocal one, whereby CSR can affect HRM practices and HRM practices can affect a firm’s choice in CSR” (Voegtlin & Greenwood, 2016). On the other hand, the role of HR employees is often taken as dedicated to “leading and educating employees on the value of CSR, developing responsible and sustainable practices, communicating CSR activities to employees and other stakeholders, and providing direction, control and action plans for implementing the program in the organization” (Iniya, Awa and Enuoh, 2011).

To manage the overall workflow of each employee, i.e., quantitatively and qualitatively, human resources should be subject to planned and continuous development, with a focus on human resource development, understood as “the organized activities arranged within an organization in order to improve performance and/or perform general growth for the purpose of improving the jobs, the individual/or the organization. It includes planning and development, career development, organization development” (Okoye & Ezeji, 2013). As a transformative method for measuring and re-orientating the performance of employees, to a high extent due to the inevitable importance of contingency leadership, the human capital management system has been developed as the proper design and re-design of the work place and of managerial systems for creating and disseminating enriched and completely new knowledge, skills, and experiences, especially in the sectorial application of IT. As such, it is a complex iterative process that fundamentally comprises of the following three methodological steps for identifying *HCM maturity level* (Bassi & McMurrer, 2007):

- *Step 1* – Employees and managers are surveyed to quantify variations in HCM maturity across functions, business units, regions, and job categories and also to document organizational HCM strengths and weaknesses.
- *Step 2* – Variations in HCM maturity are linked to variations in key organizational outcomes, either financial or non-financial. This step identifies which HCM factors are most critical to organizational performance,
- *Step 3* – Findings from the first two steps are then used to identify the HCM factors that significantly drive organizational performance as well as those that represent areas of relative weakness.

Finally, the degree of HCM maturity is expressed in range of 1 (poor organizational performance – low maturity) to 5 (strong performance – high maturity).

2.2 Principal ethical constructs to increase the transformative capacity for managing changes in a particular business sector

The prior managerial determination to create an environment to thoroughly and systematically develop a transformative system that will simultaneously initiate and implement changes which possess a distinctive ethical capacity, implies, at the initial level, identifying the values that can guide managerial orientation toward *transformative ethics*, determined as “newly developed ethical standard that mirrors greatness as related to moral behaviors” (Al Lawati, Syed, & Caldwell, 2019). In applying ethical standards of greatness to a particular industry, as is the case of the insurance industry in our analyses, it is of utmost importance, on the second level, to enable a competitive pressure that will incorporate *disruptive innovation*, as a managerial pathway for technology adaptation, especially information technology, ; *ethical accountability*, as an integral element of a profound corporate social-responsibility ethical model; and an *ethical climate*, which is crucial for increasing the overall organizational productivity.

Contemporary integration of above *triple distinctive competitiveness components* implies iden-

tifying the following *behavioral managerial analytical dimensions* that add value to the overall potential of human resources in each advancing and changing industry, such as the insurance industry:

- *Human Capital Management* is focused principally on identifying and implementing human resource managerial approaches that are focused on increasing and sustaining the degree of organizational performance, analyzed from the viewpoint of better managing the capacity of employees through particular HCM drivers (Bassi & McMurrer, 2007), such as *learning capacity*, *knowledge accessibility*, *employee engagement*, *workforce optimization*, and *leadership practices*, best illustrated through the implications of HCM drivers toward HCM practices (Table 1).
- *Human Resource Management Practices* as a function of enhanced organizational performance –refers to the potential to apply the concept of HRMP (Sabiu, Ringim, Mei & Joarder, 2019), understood as a “unique approach to employment management that aims to attain competitive advantage through the strategic improvement of well dedicated and competent workers by means of an incorporated collection of cultural, structural and human resources techniques” to the field of the most influential dimension of organizational performance, i.e. *performance appraisal (PA)*. Because in the terminology of HRMP, performance appraisal is also perceived as *performance review*, *employee appraisal*, etc., analyzed through behavior, time, costs, quality, and quantity, it should lead to increasing the overall career

Table 1: Human Capital Management Drivers – Practices

HCM Drivers	Leadership Practices	Employee Engagement	Knowledge Accessibility	Workforce Optimization	Learning Capacity
HCM Practices	Communication Management's communication is open and effective.	Job Design Work is well organized and taps employees' skills.	Availability Job-related information and training are readily available.	Processes Work processes are well defined, and training is effective.	Innovation Now ideas are welcome.
	Inclusiveness Management collaborates with employees and invites input.	Commitment Jobs are secure, employees are recognized, and advancement is possible.	Collaboration Teamwork is encouraged and enabled.	Conditions Working conditions support high performance.	Training Training is practical and supports organizational goals.
	Supervisory skills Managers eliminate barriers, provide feedback, and inspire confidence.	Time Workload allows employees to do jobs well and enables good work/life balance.	Information sharing Best practices are shared and improved.	Accountability High performance is expected and rewarded.	Development Employees have formal career development plans
	Executive skills Senior executives eliminate barriers, provide feedback, and inspire confidence.	Systems Employee engagement is continually evaluated.	Systems Collection systems make information easily available.	Hiring Hires are chosen on the basis of skill; new hires complete a thorough orientation.	Value and support Leaders demonstrate that learning is valued.
	Systems Leadership-development and transition systems are effective.			Systems Employee performance management systems are effective.	Systems A learning management system automates aspects of training.

Source: Bassi & McMurrer (2007)

potential of each and every employee, prescribed through the following performance appraisal determination: “a part of measuring, comparing, finding, guiding, correcting and managing career development of the employees” (Mullins, 2007). Therefore, the linkage of HRMP and PA states that in order to achieve excellence in the majority of employees, especially managers, the evaluation process should integrate behavior that respects business ethical constraints, especially the ethical climate, which has a large influence on the most applicative dimension of the organizational performance, organizational productivity. The process of planning and implementing the concepts of HCM and HRMP is dependent on a successful methodological selection from various change management techniques which possess ethical considerations and lead to identifying change

management imperatives for each business sectoral analysis with the following *management developmental approaches*:

- *Behavioral change techniques* reflect the necessity to support “designing interventions to yield behavior that is best done with an understanding of behavior change theories and an ability to use them in practice” (Glanz, Lewis, & Rimers, 1990). In practical industry analyses this implies imposing such changes that change the attitude and develop behavioral manifestations that are crucial for increased organizational performances, especially productivity. The exact determination of certain behavioral change initiative, usually called “interventionist action behavior,” is dependent to *a proper selection among majority of strategies for behavioral changes, which determine the potential of behavioral change techniques* (Table 2).

Table 2: Elements and Strategies of Behavioral Change – Social Learning Theory

Element	Definition	Strategies for Behavioral Change
Threat	A danger or a harmful event of which people may or may not be aware	Raise awareness that the threat exists, focusing on severity and susceptibility
Fear	Emotional arousal caused by perceiving a significant and personally relevant threat	Fear can powerfully influence behavior and, if it is channeled in the appropriate way, can motivate people to seek information, but it also can cause people to deny that they are at-risk
Response Efficacy	Perception that a recommended response will prevent the threat from happening	Provide evidence of examples that the recommended response will avert the threat
Self - Efficacy	An individual's perception of or confidence in their ability to perform a recommended response	Raise individuals' confidence that they can perform the response and help ensure that they can avert the threat
Barriers	Something that would prevent an individual from carrying out a recommended response	Be aware of physical or cultural barriers that might exist, and attempt to remove these barriers
Benefits	Positive consequences of performing recommended response	Communicate the benefits of performing the recommended response
Subjective Norms	What an individual thinks other people think they should do	Understand with whom individuals are likely to comply
Attitudes	An individual's evaluation of or beliefs about a recommended response	Measure existing attitudes before attempting to change them
Intentions	An individual's plans to carry out the recommended response	Determine if intentions are genuine or are proxies for actual behavior
Cues to Actions	External or internal factors that help individuals make decisions about a response	Provide communication that might trigger individuals to make decisions
Reactance	When an individual reacts against a recommended response	Ensure that individuals do not feel that they have been manipulated or are unable to avert the threat

Source: Witte (1997)

Each of above strategies for behavioral change is linked to different behavioral developmental approach, such as *social learning behavioral theory, which exists alongside social cognitive theory, planned behavior, etc.*

- *Transformative capacity for ethical sectoral changes* fundamentally focuses the interest of a fast-growing industry, such as the insurance industry, on the *key transformative ethical determinants*, including *clear organizational purpose*, i.e., explaining that companies with a customer-focused virtuous purpose as the driving focus of their organization were inevitably more successful financially than companies that emphasized creating profits as their driving objective (Kollins & Porras, 2004); *ethical virtues*, i.e., individuals who do not believe that they can realistically achieve a result rarely make the effort to pursue that goal (Vroom, 1994); *culture of trust, respect. and support*, i.e., creating an organizational culture of mutual trust and respect is usually far more influential than possessing expert employees who do not collaborate; and *building an environment of multidisciplinary interests from changes, current or potential*, i.e., ensuring that the majority of stakeholders feel the implications of industry changes in order to increase the overall competitiveness of the insurance industry. In the process of achieving the highest industry standards of the insurance industry, it is important to pay great attention to tendencies for *internal integration and external adaptation*.

2.3 Current and future challenges and perspectives of the insurance industry – Analytical framework of sectoral human capital management

The global insurance industry is witnessing profound changes caused by the *overall changes in financial systems, macroeconomic factors, and in particular the influence of the intensifying digital transformation and customers' behavioral orientation*. To understand the depth, structure, and directions of the changes, we must act holistically and in a comprehensive and coherent manner. It is common to stress the implications of the application of the modalities of new technological advancements and their convergence to InsurTech models worldwide, as well as the fact that

the growth globally is driven by emerging markets. Eventually, *it is all about the change, willingness, and determination to adapt to the future predicted conditions and, capacity and maturity, of HCM in the insurance industry to apply it in a consistent manner.*

It is important to note the *key managerial insurance industry constraints, which form the basis of research limitations* which principally must be taken into account, best identified by us as:

1. *The insurance industry is a highly regulated mechanism.*
2. *HRM is crucial for organizing, but even more so to accomplish customer contracts and in particular for customer retention*, because the price (for simpler classes of insurance) already is highly competitive.
3. *The technology is open to everyone, including suppliers (companies) and intermediaries*, often creating intense vertical and horizontal price competition, so that issues of the basic and advanced role of HCM remain extremely important, understood *primarily* as a crucial factor for innovation and transformation of the business processes, behavior, and customization of the use of digital technologies in new product and service developments, and *secondarily* as a key component for upgraded ethical behavior as a factor for internal organizational culture, sustainability, and growth, and especially for external differentiation, market recognition, and customers' added-value implications.

Principally taken, in the insurance industry as a whole, even though the major success influencer relates to the information and digital technology that significantly reshaped the business processes for reaching customers, underwriting, distributing products and services within the new intermediaries, and in particular to risk assessment and claim settlement, *it is HCM that, as a major behavioral change factor, enabled reaching and sustaining the desired level of application of IT*, aimed at constant progress. However, we can claim that the insurance industry still is lagging and challenging its business model for the future, to a great extent because of the *inappropriate and limited industry importance of the influence of change management techniques benefiting in full from the HCM behavioral concept.*

As an industry that is predominantly focused and relies on human resources, it is evident that HCM is one of the most challenging factors for creating and achieving insurance companies' competitiveness and market success. Specifically, HCM has been and remains the key component for companies' differentiation, because it is responsible for building the culture and climate for innovation and constant change toward critical change areas such as optimal use of the technologies for cutting costs and offering innovative models for acquiring and retaining customers; advanced customer focus, in particular for innovative, affordable, and useful products and services; compliance to the enhanced human capital requirements and regulations and integration of ethical behavior as a factor in sustainable business; and new approaches to leadership that would need to correlate to the adequacy of talent pipelines for effective use in the future. (Mercer Survey, 2014)

The tremendous impact of technology in the insurance business rapidly changed the maturity of markets and offered great opportunities for emerging markets. It redefined the measurement and management of risk and increased cost-effective distribution channels, among other positive consequences, but at the forefront of a company's successes or failures lies consistent HCM processes transformation. In addition, the technological advancement created *new risks, unprecedented for*

classic insurance, and imposed higher differentiation between incumbent firms and the InsurTech market entrants. Moreover, we should always have in mind that the digital insurance progress cannot and is not simply to be imported and easy transferred and its results can be briefly summarized from the viewpoint that "a successful business strategy for a digital transformation ... requires a comprehensive digitization talent strategy to complete the mission" (Vickers, F., Hammerich, K., Landis, D., Lewis, J., Zes, D., Moreno, J., & Ramos, B., 2016)

In any case, the insurance industry perspective heavily depends on internal understanding of the challenges and its orientation toward innovative, new business trends. A recent survey of more than 60.000 insurance employees in the U.S. showed *worsened industry perception of internal change compared to the perception for changes within the General Industry* (Korn Ferry Institute, 2017), as shown in Table 3, in which an index ratings over 75% means clearly favorable, an index between 65% and 75% means moderately favorable, an index between 50% and 60% is a warning sign, and an index below 50% is a red flag.

The same survey addressed the possible critical factors for decreasing the insurance industry change, primarily indicating *the element of missing resources for digitalization and focus on technologies, and especially the top management focus on execution rather than innovation.*

Table 3: Insurance Industry Survey Perception vs. General Industry Norm Perception

Statement	General Industry Norm 2013	General Industry Norm 2015	Gap for General Ind. Norm	Insurance 2013	Insurance 2015	Gap for Insurance
The company is effectively managed and well-run.	62	63	+1	75	68	-7
The company provides a high- quality customer experience.	66	69	+3	73	67	-6
I believe my pay is fair considering the pay of people doing similar work in other companies.	49	43	-6	53	48	-5
There is a clear link between my performance and my compensation.	44	45	+1	58	54	-4

Source: Korn Ferry Institute, (2017)

At the same time, it indicates the internal and overall significance of consistent and sustainable transformation of the industry based on advanced HCM. Although the relevant analyses predict severe decreases of some job positions due to insurance digitalization (Institute of International Finance, 2016) (Figure 1), that classic and static insurance models pose threats to market success, and that new digital opportunities create new risks as well as new opportunities for the industry, we can *define HCM as a critical factor for creativity, innovation, and ethical changes in the technology model of insurance business implementation, rather than as a clear eradicator of jobs and employment in the industry.*

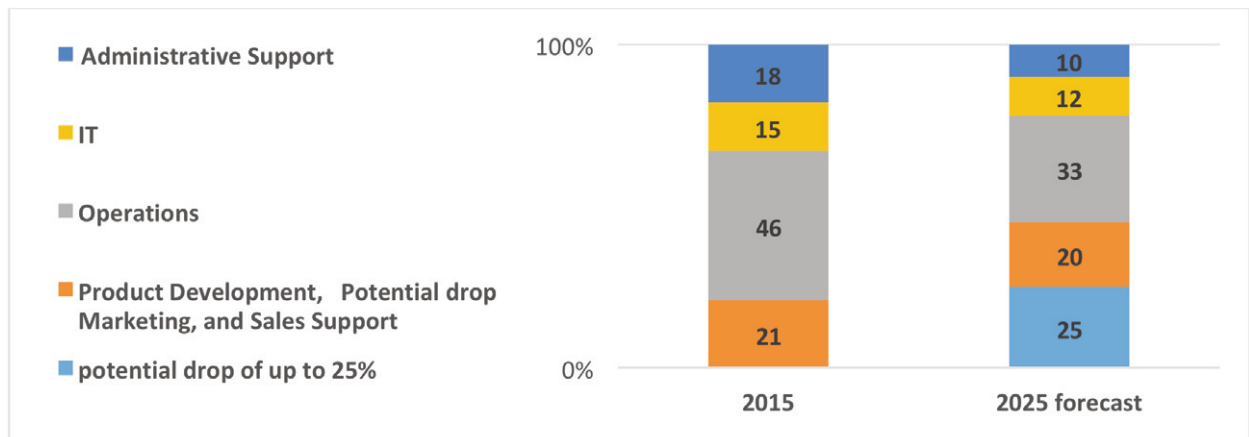
In emphasizing HCM as important for introducing and managing the ethical technological advancements in the insurance industry through its “ability to recruit, develop, and retain workers with proficiencies in fields related to computer programming and data engineering, as well as the industry will be forced to pay more attention to devising effective strategies outlining how to entice top technical talent” (Institute of International Finance, 2016), consequent innovative answers and actions should address contemporary challenges for faster developing the insurance industry.

The adequate matrix enabling the HCM changes could be found at the *four-step LITE (Learn-Insight-Test-Enhance) approach to marketing, distribution, product design, new business, operations,*

and servicing (PWC, 2015), on one hand, as well as at the *more detailed and systematic business processes* (Korn Ferry Institute, 2017) on the other hand. The latter include:

- *Evolving customer expectations through substantial organizational change that will co-integrate with the digitization and allow employers to fully leverage their communications teams internally and externally for full, timely, and integrated fulfillment of the future needs of the insurance consumer;*
- *Improving the communication strategy for employees in terms of the company’s future development, technology involvement, product roadmap, and customers feedback, as well as raising the internal trust and confidence as a result of HCM might prevent lowering trust and confidence as a result of lower and moderate business growth rates;*
- *Dealing with the issues for actual workforce overload or structurally insufficient staff by reinventing processes and focusing on the targeted need for specific talents and specialized workers;*
- *Focusing on innovation based on knowledge and HCM and its differentiation rather than on common insurance business processes execution; and*
- *Careful evolution of the company’s organizational culture by conceptualized and innovative functional approaches to HCM basic and advance functions.*

Figure 1: Forecast on insurance industry workforce volume in Western Europe



Source: Institute of International Finance Report, (2016)

Overall, the focus on HCM as a transformative factor will *raise insurance industry awareness of and ability to adopt to the new trends*. Even though the innovations and changes are led by start-ups and new market entrants, it is the core insurance business carriers, regardless of their maturity and market share, that should carry out the major planned transformative changes.

2.4 Interconnecting the advancements in HCM in the insurance industry with sectoral productivity and increased behavioral ethical accountability

Each systematized and integrated attempt to interconnect the ethical considerations that are interwoven within the model of change management practices lead to *enabling the model of human capital management in order to increase the potential and overall performances*, especially organizational productivity in a particular industry, e.g., the insurance industry. It undoubtedly implies the necessity of applying the *developmental preconditions for the HCM advancements, human resource planning*, which leads to “a strategy for the acquisition, utilization, improvement and preservation of the human resources of an organization. It is the activity of the management which is aimed at coordinating the requirement for and the availability of different types of employees. This involves ensuring that the company has enough of the right kind of people at the right time and also adjusting the requirement to the available supply” (Lazar, 2001).

Principally, the *synergetic and symbiotic ethical construct in human resource planning* lies in creating a relationship between the available, not nominal, quantity and quality of human capital, with the required level of employee’s performance appraisal, particularly from the viewpoint of its future effective potential, as a critical element in increasing the workload of a majority of employees, especially at managers.

An additional important factor identifies the significance of model of employee training and development, through *the development of specific programs to increase the overall capacities of the human capital*, which is fundamentally linked to *accommodating the prevalent employee engagement with the learning capacity of each category of the workforce, which in return creates an environment for workforce optimization that is dependent on*

knowledge accessibility and further utilization. In practice, each training and development model is concerned with proper *application of ethical climate, while preparing and implementing specific, i.e. distinctive and competitive, modalities of disruptive innovation of managerial approaches to benefit from human capital*. Eventually, it is aimed at reaching the desired level of ethical accountability of changes within the insurance industry as a whole.

The insurance industry should pay great attention to and take steps toward productivity-stimulating mechanisms. Specifically, while preparing the prevalent business philosophy for benefitting from the current concept of HCM, systematic and coherent short- and medium-term strategies should aim at achieving, as much as possible, numerous *preconditions for higher organizational productivity*, among which most the influential are the following (Okoye & Ezejirofor, 2013): *production targets, planning and workflow of outputs, physical working conditions, incentives, job allocation, and effective supervision*.

It is highly recommended that a fast-growing and innovative industry such as the insurance industry develops *challenging targets, with an optimal allocation of resources, especially support and training of employees for multi-tasking activities, stimulating work environment, incentives that are dependent on a combination of qualitative and quantitative performance, allocation of job responsibilities in accordance with the degree of authority and influence, and supervision of critical performance points*.

2.5 Change management pathway for HCM advancement in the insurance industry in the Republic of North Macedonia

Challenges of the strategic, systematic, and national market–orientated HCM changes are a key component of the insurance market of the Republic of North Macedonia. The process is far from being at the top of the insurance companies’ management agenda and internal strategies. Practically, the *insurance market suffers from developmental constraints inherent in the category of small, late-developed markets with low insurance culture, i.e., the companies and the intermediaries focus on gaining larger market share by the conventional approach of price competition per se and*

competitiveness in limited mandatory classes of insurance, rather than on strategies for demand creation by offering customized, tailored, and insured beneficiary services. Even though the competition results in the growth of the industry, this growth is driven by GDP growth as a crucial factor, instead of recognizable and sustainable industry outcomes such as new customers, products, and business processes. Our profound analytical framework principally included qualitative, predominantly secondary, information sources and reporting frameworks that are most illustratively detailing the reality that such limited national markets, as in North Macedonia, do not have the possibility to evolve. The pace and intensity of the digital transformation of the insurance industry and customer's needs for behavioral transformation necessarily urgently require insurance entities' change and transformation.

The following *key determinants of the insurance market*, which serve as *indicators of the potential for developing overall performance in insurance industry*, can be evaluated and explored: (1) *lack of viable HCM management*—the strategic orientation of the companies prevents major transformation and ownership of the sustainable development as an internal process; (2) *prioritization of HCM solely in the sales processes, rather than emphasis on attracting a skilled work force*—the continuous training and development of employees as a critical component of the new product development and customer orientation processes, is seen as particularly important in adding value in the value chain and a basis for innovative and ethical business behavior; (3) *supply driven industry, with limited orientation to and business actions for transformation of the industry* to a demand-driven industry, as a consequence of the internal transformation and changes; (4) *significant role of the intermediaries for the industry and missing HCM training and ethical responsibility awareness in the distributive channels*, thus increasing the risk of their involvement in preserving the customers' existing entry barriers, low retention, and, in particular, low trust and confidence, as the major problem; and (5) *a low level of company management's acceptance of the concepts for continuous and recognizable change through increasing the HCM capacity*, as a factor for high customer volume exclusion from the market, resulting in the dominant "classical" insurance processes and management practices in a rapidly changing environment.

In this context, *no easy, fast, and unified prescription is available and achievable.* However, the key issue of implementing the advanced behavioral concept of HCM must be emphasized through an in-depth and profound managerial approach. On an integral basis, as an initial point for behavioral ethical transformations in the insurance industry of our country, the following *principal change management pathways* are perceived as being of crucial importance:

- The change of the awareness of companies' top management of *the HCM maturity priority.*
- Underpinning the importance of the internal HCM transformation as a crucial factor for *innovative business, new customized product development and creation of demand for particular products and services.*
- Increasing demand can be sustainably achieved by a *unique convergence of the concepts of micro-insurance*, which is not present in the market, and *the evolving paradigm of inclusive insurance*, by prior demystification of the insurance products and mechanisms, thus opening new customer bases and adding value to the companies' business model. *We cannot expect changes in the market without prior change of insurance leaders; in addition the change determinants must comply with systematic improvements in the actuarial processes and behavioral ethical accountability.* The industry must accept that the market is underserved and the possibilities for affordable and appropriate products are vast.
- The industry must introduce *sustainable business models with HCM as their centerpiece*, as a key prerequisite for transformation of consumer trust and confidence, and of the insurance culture. Because the industry is heavily dependent on HCM, we can hardly correlate the future increase of the demand exclusively with decreasing the transaction and claim settlement costs, including the slow introduction of information technologies to the business models, and claim the utmost importance of human capital to its sustainability and growth,
- The processes of *ethical changes and transformation should be internally driven and "owned by the industry"* as their organizational culture determinant and "must do" approach, serving as their best strategy for competitiveness and sustainable leadership in the

insurance market. Behavioral biases of customers, in this sense, should be transformed into companies' new product development processes, and should be related to the corporate behavioral adaptation, diversified demand creation, and perpetual business model innovation, based on internal HCM.

The dynamism of advancing through the above *steps of the principal change management insurance industry pathway is dependent on the potential for increasing HCM maturity through behavioral change techniques, in order to enable the productivity-stimulating mechanism of the prevalent training and development model in the national insurance industry.*

3. DISCUSSION AND CONCLUSION

The insurance industry in developing country, such as North Macedonia, is witnessing continuous and profound transformation and change. It appears that industry changes are more externally influenced and driven, compared to the internally comprehensive advancements, predominantly related to the capacity of the insurance employees. However, the industry is, to a large extent, understood as being traditional with quite slower degree of acceptance of changes, principally introduced by the ICT insurance industry environment, as well as by already practiced FinTech models. As an illustration, previous concerns that non-insurance companies such as Google, Amazon or Tesla for instance, would enter the insurance business, are more than evident and fast approaching.

The role of the national regulators is an additional critical industry factor, as certain markets are perceived as crucial for enabling changes. In this regard, the introduction of the InsurTech models, is expected fundamentally to go in-line and converging to the inclusive process of technological and distributional industry changes debate, predominantly referring to advancement of treatment of employees from human resources to the concept of human capital, through intensive application of human resource management practices that possess immense ethical and social responsibility. The importance of identifying a proper ethical behavior possesses an intensive applicative importance in establishing an industry organizational culture based on trust and respect, which, along with the regulators role in the field of consumer's education, in-

formation consent and companies' supervision, in particular to the Solvency 2 determinants, constitute a contemporary change managerial industry framework.

Empirical insurance analyzes and experiences vary, principally in relation to the industries' level of capacity for development. As the developed and mature markets are witnessing profound transformation of their industry and continuous growth of the InsurTech daily operations, the developing markets are still struggling to define an optimal use of the technologies and, yet, to converge to the regulative and behavioral constraints and challenges for the future, such as managerial attempt for increased direct and intermediate sales by new, low-cost sales and distribution channels. In that regards, as the technology transfer would be, somewhat an "easy" and yet "understood as cost challenging operation", in particular at current periods of low interest rates and profitability, it would be precisely the human capital maturity, being manifested as critical factor for companies' competitive advantage and sustained business model, predominantly in internal initiating industry qualitative changes and, therefore, advancing the overall change capacity of the insurance industry, as one of the most dynamic national financial sectors.

The transformation towards HCM imposes an orientation towards implementing disruptive innovations, ethical accountability, and proper ethical climate. Therefore, it is evident that current HRM techniques would clearly evolve, in the pathway of creating a clear distinction of companies' departments and employee's task and duties, while the use of the ICT models would prevail, as more accurate, productive and faster productivity mechanism, in particular for the low complex operations. The importance of integrating new industry developmental targets, with more intensive, continuous human capital education and training, leads to enabling a positive and encouraging work environment, transformation of the incentives into more dependable on qualitative rather than on quantitative performance indicators, and benefiting from the HCM system as a tool in function of preventing internal human resource risks, while solving external customer adaptation challenges.

The priority change managerial action at HCM of insurance industry is to comprehend, accept and harmonize behavioral changes, which are aimed at imple-

menting the LITE industry approach, i.e. learn-insight-test-enhance. In this context, models of InsurTech define the contemporary industry developmental needs for better risk management and re-define the role of distribution channels. In that regard, the core action should be placed at transformation of the “consumers pull” to “consumers push and retain” philosophy in parallel to the shift of the product to service supply. It is rather expected that the managerial focus on establishing viable HCM, applying it in all departments, not only in sales, increasing the importance of the demand industry side along with the supply one, placing proper role of intermediaries, and, enabling a permanent and sustained behavioral changes, would all increase the overall potential of the insurance industry.

This paper attempts to scratch the surface of the immense developmental managerial insurance challenges, particularly having in mind the lack of previous

empirical academic work at insurance industry in our country. Additionally, research limitations lie in the variety of market levels and specific behavioral pre-determinants of the insurance culture within transformative economies. We intend to overcome and solve these obstacles in our future research industry analyses, in a close linkage with the quantitative research methodology of the insurance market, as well as HCM developments in the region of South-East Europe. However, as a prior research and analytical basis for our further comprehensive scientific-research work, we conclude that the dynamism of advancing through the steps of the principal change management insurance industry pathway in the Republic of North Macedonia is dependent on the potential for increasing HCM maturity, through behavioral change techniques, in order to enable the productivity-stimulating mechanisms of the prevalent training and development model in the overall national insurance industry.

SUMMARY IN SLOVENE / IZVLEČEK

Kljub temu, da se zavarovalniška panoga nenehno sooča s temeljnimi spremembami, predvsem zaradi uporabe novih tehnologij pri raznovrstnem zavarovalnem portfelju, je še vedno močno odvisna od potenciala človeškega dejavnika za napredovanje poslovanja. Upravitelji zavarovanj poskušajo nenehno uvajati spremembe v notranjih procesih, ki izhajajo iz povečanega pritiska, nadzora, razvoja in spreminjanja potreb strank ter tudi iz težnje po povečanju pomena ravnanja s človeškimi viri (HRM). S pomočjo organizacijskih sprememb si zavarovalnice prizadevajo, da bi postavile bolj pregledne in trajnostne modele etičnega vedenja in še posebej povečevale pomen zavarovalniških posrednikov, saj njihov vpliv na splošno zavarovalništvo stalno narašča. Poleg tega sodobni modeli InsurTech razširjajo izboljšano uporabo klasičnih konceptov in tehnik zavarovalniškega poslovanja in s tem revolucijo in preoblikovanje prihodnosti sedanjih zavarovalniških poslov v skladu s trenutnimi notranjimi in zunanjimi izzivi. V zvezi s tem je treba HRM sistematično in skrbno razvijati ter se usmeriti v posebne potrebe in pričakovanja potrošnikov za doseganje trajne konkurenčne ravni, zlasti ob reševanju številnih zavarovalnih etičnih omejitev in izzivov, da bi v celoti povečali transformacijsko sposobnost zavarovalništva. Preučevana zavarovalnica v Republiki Severni Makedoniji dosega trajnostno in razmeroma visoko rast. Dodatne spodbude je mogoče ustvariti z uvedbo in izvajanjem naprednih etičnih poslovnih modelov, ki jih večinoma razumemo kot modele za večjo konkurenčnost in dobičkonosnost, ne pa kot formalno predpisane pogoje. Modeli razvoja kadrov v industriji so šibki in omejeni, medtem ko so interakcije s kanali distribucije precej slabe. Odsotnost učinkovitih, izvršilnih in interaktivnih etičnih modelov v zavarovalnicah, katerih cilj je pridobivanje večje vrednosti pri ravnanju s človeškim kapitalom zavarovalnic (HCM), je eden ključnih dejavnikov za spodbujanje trajnostne rasti industrije in ustvarjanje višje kulture zavarovalništva. Ta prispevek poglobljeno analizira sodobne izzive na področju HCM in zlasti poudarja transformacijsko funkcijo poslovnih etičnih vedenjskih modelov v sodobni zavarovalniški industriji v tesni soodvisnosti s praksami ravnanja s spremembami v zavarovalništvu.

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