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# ENTREPRENEURSHIP BEYOND STARTUP: THE EXAMPLE OF INSURANCE COMPANIES AND INVESTMENT FUNDS

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**Abstract:** *Ideas, knowledge, innovations and entrepreneurship are basic values that have to be of particular importance for each national economy and for businesses – start-ups as well as mature companies. The one and the only thing that is certain is innovation, but it is hard to predict form and the intensity of changes in the global environment. The subject of this paper is review of entrepreneurial and innovative activities of institutional investors, such as insurance companies and investment funds. Clients' demands are changing, new technology has become available and in such market environment insureds are looking for wider and more affordable coverage of risks and innovative services, while investors in funds are seeking for new investment opportunities. Having those facts in mind, focus in this paper will be on open innovation and customer co-creation, where insureds and investment funds' investors are generators of new ideas and contribute through web technologies to creating supply of insurance companies and investment funds worldwide. Despite the numerous researches and results regarding the importance of innovation for successful business, survival and development of a company as well as country, innovations are still not taken properly in many countries, especially in developing ones.*

Key Words entrepreneurship, innovations, insurance, investments, funds

## 1. INTRODUCTION

Business environment of insurance companies, investment funds and other financial institutions forces them to constant innovation and an entrepreneurial approach to business. However, the concept of entrepreneurship as well as realization of new commercial ideas is commonly associated with the implementation of new entrepreneurial companies and start-ups. In many countries there are thousands of new entrepreneurs on a daily and monthly basis. Entrepreneurship is a key "ingredient" that allows not only the improvement of the national economies, but their transformation. In Serbia however, entrepreneurship has been constrained in the past period [1]. Also, the current situation indicates a continuous inhibition of entrepreneurship development which limits the possibility that the new entrepreneurial ventures become the basis of the vitality of the national economy. In the entrepreneurship lies a huge potential for development of the Serbian economy. Starting from the premise that entrepreneurship involves the implementation of creative business ideas, it is evident that entrepreneurship allows connection of creativity and economy.

Entrepreneurship could be defined as a business of entrepreneurs and creative individuals, which is aimed at starting a business in order to make profits. This common definition of entrepreneurship neglects the possibility of developing entrepreneurial spirit after the founding of entrepreneurship startup. Numerous studies [2] indicate that a large number of employees and their managers consider that companies lose the ability and capacity to operate in the entrepreneurial way and to stimulate innovation and development when they reach particular size. The same author, however, believes that the companies cannot survive in a dynamic and highly competitive market environment of today if they are not willing to adapt themselves and to adopt a proactive approach in terms of innovations. Also, a prominent expert in the field of management Isak Adizes emphasizes the importance of maintaining an entrepreneurial spirit in already established companies. Isak Adizes [3] has developed the idea of the importance of the entrepreneurial approach in all phases of the life cycle of the company with four managerial roles (producing results, administration, entrepreneurship and integration) should respond to the key questions: what, how, when and who, always taking into account the question of why.

## 2. IMPORTANCE OF INNOVATIONS FOR PROMOTING ENTREPRENEURSHIP BEYOND STARTUP CONCEPT

Entrepreneurship beyond startup, known as corporate or internal entrepreneurship, according to Morris and Kuratkou [4], represents a framework that allows continuous change and innovation in existing companies. Companies must constantly examine contentment of market and to run business successfully, having in mind interests of different stakeholders. Entrepreneurship beyond startup is a concept for applying entrepreneurial approach and realization of commercial innovations in already established companies. In this paper, we analyze whether applying of internal entrepreneurship concept enables continuous implementation of innovations and realization of profitable ideas in insurance companies and investment funds, as institutional investors.

Continuous investment in research and development (R&D) that should result in innovations are imperative for survivals of companies, regardless their core business. Certain or expected rate of return on investment (ROI) should be realized in order to increase company's capacities for new investment. In terms of globalization, new technologies, deregulation of financial markets, shortening and accelerating life cycle of products and services, developing of social networks, increasing requirements of customers, companies have to innovate, but they are also looking for ways to reduce risks of failing investments in R & D. In such business conditions companies seek for external partners such as customers, suppliers, universities, etc. in order to collaborate in the innovation process, called open innovation. According to Chesbrough [6] open innovation is the principle that accepts that the best ideas come from anywhere, not necessarily from within a single organization. Open innovation process enables companies as competitors and their customers to become partners through finding new ways of satisfying needs of customers and creating value for them by delivering new products and services to the market. Open innovation approach connects company's stakeholders, accelerates development on micro and macro level, creates new jobs and ensures return on company's investment. Regardless location, open innovation offers everyone opportunity to participate in realizing new ideas, which can mitigate asymmetry between innovation-rich and innovation-developing regions, enhancing competitiveness and overall economic development [7].

According to the research of Organization for Economic Cooperation and Development [8] big companies are four times more likely to collaborate in the process of innovations than SMEs. Most SMEs prefer traditional model of innovation, where new products, services and processes are developed within enterprise. Having in mind globalization and developing of social networks and new technologies, enterprises should be opened for sharing new, fresh ideas, knowledge and experience of different stakeholders worldwide, as Ken Blanchard says "None of us is smart as all of us". At the same time SMEs, but companies too, have opportunity to sell their know-how and technologies that have been previously protected as intellectual property. This is the double way of promoting entrepreneurship beyond startup as precondition of survival and development of SMEs as well as companies.

Although obvious advantages of implementation of open innovations, manifested in lower costs and investments in R&D, accessing external knowledge, ideas and experiences, without hiring experts, shortening period of developing and delivering new products and services to the market, shift from traditional "closed", to the open innovation method is not simple process. Company should embed innovative corporate culture, accepted by majority of employees, followed by adequate reward system that usually requires a lot of time and efforts of all participants in this process.

In the process of building special relationships with external partners as collaborates in innovation process, companies are especially interested in experience of final consumers of their products and services, but become more open for the opinion and experience of other partners, indirectly included in the process of development, producing, delivering or maintaining products and services to the final consumer. This phenomena of relationship between companies and their stakeholders who would be involved in or affected by the new offering is known as co-creation, term that has been introduced by Prahalad and Ramaswamy.In the customer co-creation process are also regarded experience of internal groups, actually everyone is welcome to share own ideas and experience through company web site or social networks [9]. A lot of successful companies (Dell, Cisco, Starbucks, Procter & Gamble, Sony, etc.) in different branches of producing products and services, as well as financial institutions (banks, insurance companies, investment funds) apply concept of co-creation.

### 2.1. Financial innovations and co-creation of financial services

There are a lot of definitions of financial innovations that have in common creating new financial products, services or processes in promoting financial activities, in relationship with customers. In the interaction between financial institutions and final consumers or users of services, social networks have become more important, which indicates that progress in telecommunications leads to the financial innovations and enables financial institutions to collect outward ideas and knowledge. Having in mind that financial services are part of every-day life of average consumer, their delivering by financial institutions should be convenient and almost invisible und unrecognized by the consumer, which means consumer do not have to always be aware of its realization. Financial service should also be tailored to the needs of customer. This is the way of changing consumers' perception of financial services as inconvenient. Regardless of financial knowledge and/or investment goals of consumers of financial services, financial institutions as "providers" of services and users should understand each other, or in the other words, they should co-create financial services [10] .

Although there are lot of criticism of financial innovations as potential cause of financial crisis, instability and recession, they are necessary for reducing transactional costs, for risk management, accelerating economic growth and development. According to the research of Fidelity Center for Applied Technology in 2009, average lifetime of the companies in S&P 500 (Standard & Poors) index has decreased from 60 to 15 years. Also probability of a market leader falling from the top has increased two to three times since the seventies years of the 20$^{th}$ century. The need for financial innovations emerges from changing tax regulations, fluctuations of interest rates and inflation rates, development of new technologies and communication channels, problem of information asymmetry, increasing number of competitors on the global level, demographic changes. Allen also points out necessity of financial innovations as a corrective tool in terms or market inefficiency and incompleteness, also in order to avoid agency conflicts or effects of changing tax regulations. In those circumstances banks, institutional investors and other financial institutions have to innovate in order to retain and increase their market share, to attract new customers and capital owners, to create value for them and with them (co-creation) and to achieve satisfying financial and non-financial performance indicators. Financial innovations are primarily directed toward business financing, but they can also be used for improvement of resource allocation and financial support to specific branches and fields, e.g. environment protection (green investing) and global health [11].

Financial innovations such as microfinance, social-investment banks, social-impact bonds, clean-tech investments, sustainable hedge funds and other innovations contribute to promotion of entrepreneurial spirit in start-ups, but mature companies too. Simultaneously through these innovations banks and other financial institutions widen market and adapt themselves to changing market and business circumstances trying to retain present and to attract new consumers of their services.

## 3. ENTREPRENEURSHIP BEYOND STARTUP IN INSURANCE COMPANIES

Insurance companies have been traditionally conservative in terms of innovation. Pearson [12] on the basis of the analysis of insurance industry in Great Britain during the period between 1700 and 1914 points out that innovations in insurance are important ingredient of success but have mainly counter-cyclical character and they are relatively undynamic. Garth [13] indicates that insurance companies had been innovative during the sixtees and seventies of the twentieth century while after that they became less innovative. However, the thesis of the relationship between innovation and long term success in insurance has been confirmed by many studies. Lehmann & Zweifel [14] have confirmed the thesis for health insurance. Garth [13] indicates that while insurers were innovative they achieved growth, expanded customer access and became more efficient. Lee, Wang & Chang [15] have found that marketing innovation cast a significantly positive impact upon the performance in the case of life insurance companies listed in Taiwan. By analyzing a panel data set of 12 private life insurance companies over the financial period 2006-2009 in India Dutta & Sengupta [16] found that increasing investment on IT-infrastructure which is resulting with technological innovation in business operation has a favourable impact on efficiency. Innovations in insurance also have positive impact on financial intermediation, capital accumulation, risk diversification and increased economic [17].

The insurance contract is a conditional promise of future payments, and is a key factor for the development of insurance offer, safety and clients' confidence in the quality of the insurance company. It means prompt, transparent and fair solving of compensation claims and is a basis for the success of the insurance companies and their competitive advantage. There are numerous examples of innovative solutions and entrepreneurial approach to compensation claims in insurance companies, particularly after the catastrophic events. For example, after Hurricane Katrina, Lloyd's has established a direct, free, phone line in order to offer assistance to threatened insureds and improve their satisfaction. After the train explosion in Mumbai in July 2006, the Indian insurers agreed to make easier payment of compensation through simplifying process of claims report [18]. It follows that the application of entrepreneurship beyond startup in major insurance companies is the most important in the managing of claims.

Special importance in the entrepreneurial approach to the business of insurance companies is the application of innovative technology solutions in almost all business activities of insurance companies, particularly in the claims management, risk management and distribution of insurance services. In the management of compensation claims innovative technological solutions are used for the assessing of risk of the insured before some risk is accepted in the insurance coverage. In the United States are used two databases, CLUE (Comprehensive Loss Underwriting Exchange) and A-PLUS (Automated Property Loss Underwriting System) that serve insurers to check the risk of the owner and the real estate. In enables promptly obtaining of information, which contributes to savings in time and money.

One of the key conditions to improve operations of the insurer is to provide services of insurance coverage at the time and the place where future insured prefer. By analyzing the requirements of the clients insurance companies are expanding their distribution network, while the services of insurance coverage that can be standardized, are offered through the Internet.

In developed countries, insurance companies, thanks to the extraordinary development of mobile telephony in recent years, are developing mobile applications for all forms of communication between insurer and insured by smart phone. Also, bancassurance is developed as a form of cooperation between insurance companies and banks, which enables selling insurance coverage services through banks and it is usually applied for life insurance policies, especially if it is precondition for getting bank loan.

In order to satisfy demands of clients, insurers develop new services of insurance coverage. A typical example is micro-insurance, which is intended for people who do not have access to the "traditional" insurance and who are excluded from public social insurance programs and they are often employed in the informal sector. The essence is the need to ensure a quick, cheap and simple insurance coverage for individuals with very little money. International Association of Insurance Supervisors (IAIS) defines micro-insurance as insurance for population with low income, which provide a number of institutions, but which is governed by the generally accepted insurance practices. It indicates that the risk accepted in the micro-insurance are managed on generally accepted principles in insurance, although those risks are going to be covered by collected insurance premiums.

Microinsurance Innovation Facility defines micro-insurance as a mechanism to protect the poor from risks (accidents, illness, death, natural disasters, etc.) in exchange for payment of the insurance premium that is tailored to their needs, income and level of risk. Churchill [19] defines microinsurance as a financial deal which aims to ensure the protection of people with low incomes from certain risk in exchange for regular payment of the insurance premium that is proportionate to the probability and costs associated with the realization of the risk. The term microinsurance has emerged not because of the size of risk, institutions or delivery channels, but due to the fact that this type of insurance is customized to the needs of people with lower incomes

## 4. INNOVATIONS AND ENTREPRENEURSHIP IN THE OPERATIONS OF INVESTMENT FUNDS

Investment funds as institutional investors collect capital from a lot of individual owners in order to invest collected capital in different types of securities, financial derivatives, real estates, depending of type of fund and its investment policy. Having in mind changing requests of investors, financial deregulation, emerging of new technologies, investment funds are forced to innovate and to change their traditional investment portfolio management. Unlike innovations in the real economic sectors outcomes of funds' innovations usually depends on timing and market environment. Sometimes, triggers for investment funds' innovations are non-market factors, such as changes in tax policy [20].

After the global financial crisis of 2008 and bankruptcy of many banks, funds, even countries, a lot of criticism of financial innovations have emerged. Having in mind increasing number of poverty-stricken people in developed countries and especially in the third world countries, trend of philanthropy among capital owners (especially very rich), has become popular. In the 2009, there has been launched "impact investing" which combines achieving financial return and social or environmental benefits. Social investing has been establish earlier and there are also specialized intermediaries such as social responsible funds and social investing banks. Clean-tech investments also mark increasing trend and support investing in alternative (clean) sources of energy. A lot of investors are interested to invest in social-impact bonds, whose rate of return depends on success in saving public money that government should give to the organization who realizes some social project, aim or benefits for the society.

The most popular innovations of the investment funds have been index funds, socially responsible funds, funds of funds and exchange traded funds (ETF) as a new type of investment company, high-frequency trading funds (HTF) which require using sophisticated technologies, etc. [20].

Using mobile phones for investing, but also for redemption capital from investment funds is very popular innovation and convenient service to the potential investors in funds. For example in India is popular investing in gold ETFs that is alternative of buying gold. Although on the less developed financial market, investors are more likely to invest in less complicated investment products, innovations and creation new, as well as hybrid investment products with the potential investors in funds are necessary. This is a precondition od funds existence and development, having in mind expressed competition and a lot of intermediaries on the financial market who are collected free capital and looking for high yield and/or stabile investment opportunities.

## 5. CONCLUSION

Entrepreneurship after startup is also known as corporate or internal entrepreneurship which covers implementation of entrepreneurial approach and realization of commercial innovations in already established companies. Fostering internal entrepreneurship enables continuous innovations during all phases of products life cycle. Globalization, emerging of new technologies, shortening and accelerating life cycle of products and services, developing of social networks, increasing requirements of customers, force companies to innovate continuously, but investments in R & D as a precondition of future innovations requests capital certain rate of return on investments and always have a risk of failure. This is the reason why companies include external partners such as customers, suppliers, universities, etc. in order to collaborate in the innovation process by using new communication technologies and social networks, which is known as open innovations.

Implementation of open innovations, enables lowering costs and investments in R & D, accessing external knowledge, ideas and experiences, without hiring external experts, shortening period of developing and delivering new products and services to the market. Companies and SMEs gain know-how and technologies, new intellectual property, that can be sold later. Open innovations contribute to promoting entrepreneurship beyond startup as a precondition of survival and development of a company or entrepreneur. Although there are numerous advantages of open innovations, successful implementation of this concept requests development of innovative corporate culture, accepted by majority of employees, which is not simple process.

Insurance companies and investment funds as institutional investors implement different financial innovations in their business, by using social networks in the communication with users of their services. Financial services and their delivering to final users should be convenient and almost unrecognized by the consumer and also tailored to their needs of users. Continuous progress in telecommunications enables insurance companies, investment funds, and other financial institutions to collect external ideas and knowledge. Having in mind keen competition and a lot of intermediaries on the financial market, collecting free capital and looking for high yield and stabile investment opportunities, insurance companies and investment funds have to innovate continuously and to promote internal entrepreneurship, regardless the phase of their lifecycle.

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