

Organizational Capabilities and the Role of Routines in the Emergence of a Modern Life

Insurer: The Story of the AMP.

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INTRODUCTION

The ability to undertake organizational change and renewal is an important component in ensuring the long term survival of an enterprise. In recent times life insurers and other financial sector firms have undergone such a process in response to the opportunities created by changing technological and regulatory environments. The emergence of financial conglomerates providing a wide range of products has been a feature of financial markets in many Western economies. Whilst the outcome of this trend has dramatically altered the way in which financial firms operate, it is not a unique event. Other phases of organizational change have been associated with the extension of business activities in the past. In respect to the development of life insurers in Australia, the 1950s was another period in which changes in the structure and organization of these firms facilitated the expansion of their activities into other financial markets. The organizational restructure that occurred within life insurance firms in the 1950s formed the basis upon which the modern finance firm has evolved. Restructuring facilitated the introduction of computerization in the late 1950s. It was also associated with the development of personnel management, the sophistication of investment and forecasting methodologies and the diversification of the organization into other financial markets.

It is the purpose of this paper to investigate the changing organizational structure within Australia's largest life insurer, the Australian Mutual Provident (AMP) as it evolved from a classic unitary form of management to a multi divisional form in the 1950s. This process can be explained with reference to organizational capabilities and the role of learning within the organization. Chandler argued that the competitive strengths of the firm are reliant on its learned organizational capabilities. In this context the process of organizational learning depends on three types of knowledge. These are technical capabilities, involving the knowledge required to support and expand core business. Functional capabilities, the knowledge required to co-ordinate the functional activities.

Managerial capabilities, the ability to integrate and co-ordinate technical and functional capacity to ensure the long term survival of the firm.¹ Essential to organizational learning is the role of routines. Chandler, in citing Nelson, emphasises that routines that are built into an organization define the boundaries of organizational capabilities.²

Nelson points out that changing the structure of the firm and the way it goes about making operating decisions is a major undertaking.³ He highlights the relationship between strategy, structure and organizational capabilities. In proposing a theory of 'dynamic firm capabilities' he argues that a hierarchy of routines is the key underpinning the firms core organizational capabilities. At any given time, routines define the boundaries of tasks the firm is capable of achieving.⁴ Organizational routines are the repositories of organizational capabilities, and as such, shape the development of the firm.⁵ Routines may offer insights into the process of organizational change in a number of ways. They provide a benchmark for analysing change and assist in identifying pathways through which sources of change impact on the organization. As repositories of organizational learning they provide a key to understanding factors that encourage endogenous change.⁶ They may also identify the drivers of change within the organization.

Nelson and Winter identify three categories of routines. Lower level routines relate to the daily processes within the firm and refer to the short run characteristics which define its operation. The second set of routines define the longer term investment decisions of the firm and determine the ability of the firm grow into the future. Higher order routines influence the strategic behaviour of the firm and its ability to 'search' out ways of improving lower order routines. In this context routine changing processes are themselves routine guided.⁷

¹ Chandler, *Inventing the Electronic Century*, pp.2-4.

² Chandler, *Organizational capabilities*, p.86.

³ Nelson, *Why firms differ*, pp.67.

⁴ Nelson, *Why firms differ*, pp.67-68.

⁵ Nelson and Winter, *An Evolutionary Theory*, p.14.

⁶ Becker et.al *Applying Organisational Routines*, discuss the nexus between routines and organisational change at length, pp.775-80.

⁷ Nelson and Winter, *An Evolutionary Theory*, pp.16-19.

The operation of a life insurance firm rested upon the accurate processing of large volumes of information. Within this context routines played a very important role and evolved to minimise the problems associated with asymmetric information that surrounded a firm whose core business was risk management. Systems of checking and cross checking were developed to protect the integrity of data collected. The record keeping functions of routines were incorporated into the accounting procedures used to manage the business. They formed part of the development of actuarial practices that underpinned the development of insurance products. In addition they also formed the basis of the labour management system used by these firms. The organizational structure that evolved was that which facilitated the management of information and protected against adverse selection. It was not necessarily the most efficient form of organization, but one that attempted to minimise the potential impact of hidden information or hidden actions on the firm.

This paper investigates the role of routines in explaining the development of organizational capabilities within the AMP. It looks specifically at the organizational restructure which took place in the 1950s and the insights pre existing routines offer in explaining this event. Prior to the changes implemented in the 1950s lower order routines determined the expansion of an immature organization. At this stage of development organizational change was driven by the failure of lower order routines and designed to improve these routines. Although higher order routines existed in a limited capacity they were not the key drivers of change. This changed in the 1950s when a change in the organizational structure provided the scope for higher order routines to develop. As this occurred the Society matured and the beginnings of the modern financial firm emerged.

The next section of this paper will set the scene and establish the place of the AMP within the life insurance market. Following that, the evolution of the institution will be discussed with reference to the manner in which routines evolved to manage information flows and problems arising from information issues. The reorganization of the firm will then be evaluated to establish the role of routines in explaining the processes of organizational change.

THE EVOLUTON OF THE AUSTRALIAN LIFE INSURANCE INDUSTRY

Providers of life insurance in Australia have historically fallen into three categories, mutual associations, publicly listed companies and government agencies. Of the three groups, it has been the mutual associations which traditionally held the largest percentage of industry assets.⁸ The significance of mutual associations is a feature of the of the Australian life insurance industry which distinguishes it from experiences in other countries. In Britain, major life insurers evolved as departments of composite insurance companies selling a range of insurance products.⁹ In the USA, major life insurers converted to mutuals in the early part of the twentieth century in response to public pressure to curb the perceived corporate excesses of these large firms.¹⁰ The leading Australian life insurers however, were established as mutuals and traced their foundations to co-operative values that had more in common with friendly societies than commercial insurers. The basis on which early mutual life offices operated was very different to that of private insurers. Mutual life offices were established as societies representing groups of concerned citizens with a common affiliation, be it religious or philanthropic and this influenced their approach to business and corporate development.

The first mutual life insurance association was the Australian Mutual Provident Society (AMP) formed in 1849. The aim of the Society was to set up a 'modest life office' for the benefit of clergymen and other professionals to provide for their old age and dependents.¹¹ The AMP remained the only Australian mutual society for twenty years. The second mutual life association was not formed until 1869 by which time the AMP had established market dominance in the life insurance industry. What competition the AMP experienced between 1849 and 1869 came from the limited number of Australian proprietary and overseas general insurance companies in operation in the colonies. Four Australian companies established in the late 1850s and early 1860s sold life insurance as

⁸ The mutual form of organization was based on co-operation and pooling of resources. Ownership is derived from membership. Policyholders were also owners of the firm's assets however they are unable to trade their interest in these assets.

⁹ Supple, *Corporate Growth*, p.74.

¹⁰ Keller, *Life Insurance Enterprise*.

¹¹ Blainey, *AMP*, pp.3-4.

part of their general business. However all these companies had ceased to do so by 1889. Of the overseas companies, 18 British firms had agents who sold life insurance in Australia between 1860 and 1869. This number had been reduced by half in 1880 and by 1893 there were no British companies selling life insurance in Australia.¹² In the 1870s several new mutual insurers established in the market. These included the National Mutual Life Association and the Colonial Mutual Life which were to become serious competitors to the AMP in later years. With the entrance of these associations the industry expanded at a comparatively rapid rate given the size of the population base. In 1880, 15,530 new policies were sold generating a premium income of £4.4 million. In 1890, 28,840 new policies were sold generating income of £8.4 million.¹³ The sale of new policies increased at an average rate of 8.5 per cent per annum in this decade. The rate of increase in the business done by Australian firms even outpaced that done in other countries where the industry had been established much earlier. The rate of growth in the sale of life insurance in Britain for example ranged between two and four per cent.¹⁴ In 1880 the AMP was recorded as selling the largest number of policies amongst the major Australian and British firms. A total of 6,128 policies were sold at a value of £2.1 million by the AMP. The nearest British firm, the Gresham, sold 4,717 policies at a value of £1.7 million.¹⁵ The pre-eminence of the AMP continued throughout the 1880's. The Society's annual report for 1885 commented on the fact that number of new policies sold in that year was 'almost double what any British society had sold' and only a little less than the business that all the life offices in Canada had generated.¹⁶

As AMP grew its organizational structure developed in an ad hoc manner. Initially the structure was very simple. In 1849 the Society consisted of a Board of Directors, a company secretary and a messenger. The business of insurance was conducted by the Board that held weekly meetings to approve policy applications and direct the investment of funds. The growth of business in the 1860s led to the establishment of branch offices and the branch system, that was to characterize the organizational structure for the next 90

¹² Gray, *Life Insurance*, p. 22-3.

¹³ AIBR, 1881; 1891.

¹⁴ Gray *Life Insurance*, p. 49.

¹⁵ AIBR, 1881 p. 97.

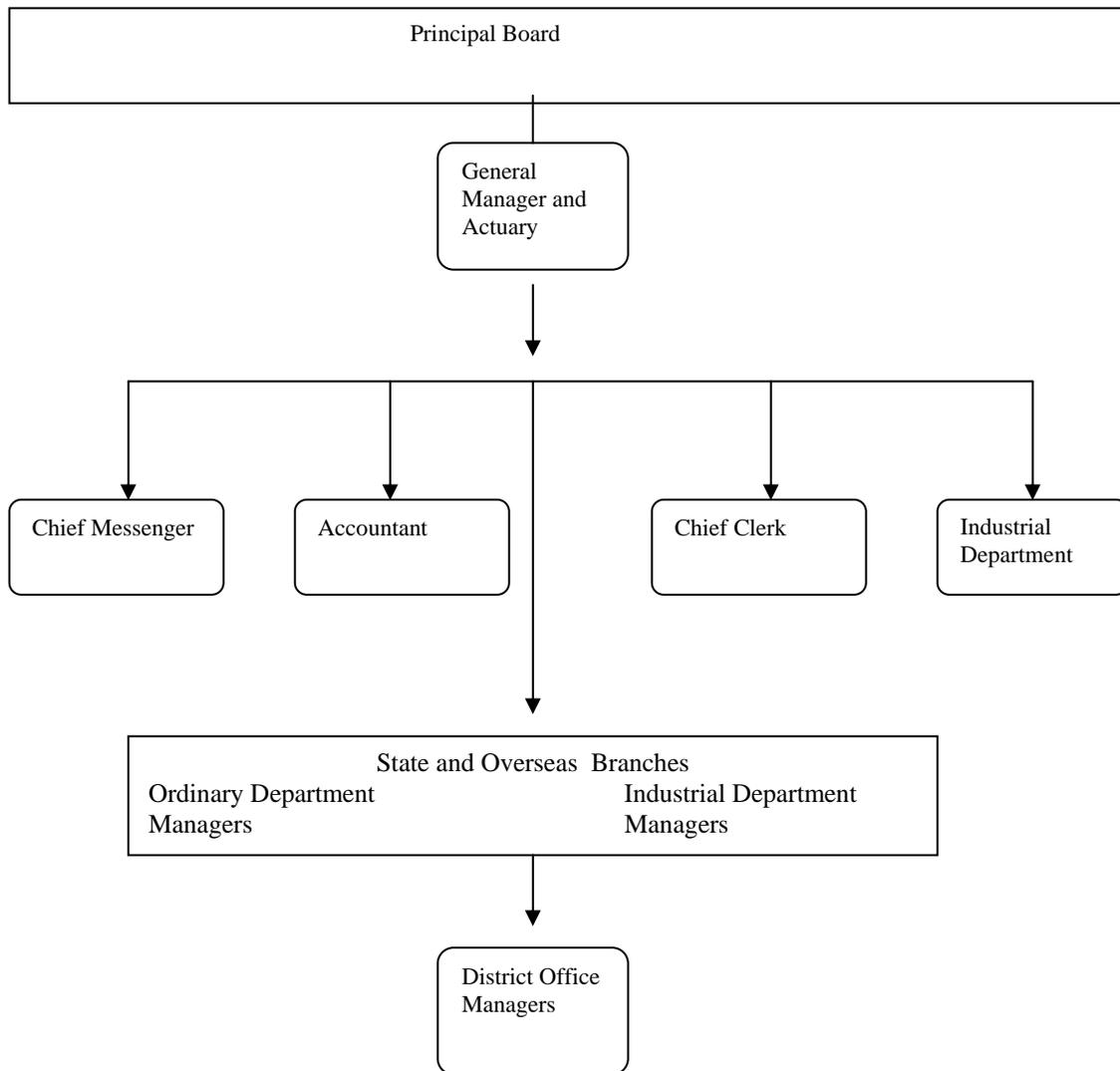
¹⁶ AIBR, 1886, p. 285.

years, evolved. The first branch was established in Victoria in 1863, followed by offices in New Zealand, South Australia, Western Australia and Tasmania. The various branches replicated the structure of the Principal office. A local board was appointed which was entrusted with the entire business in that colony. Staff however, were appointed by the Principal Board which kept a close watch on the activities of the branches. Branches were responsible for accepting proposals, issuing policies, paying bonuses, and making loans.¹⁷ A system of branch circulars and instructions operated to ensure that routines were clearly established and followed at the branch level. Weekly, monthly and annual reporting mechanisms as well rotation of managers ensured that branches complied with Principal Board directives.

Further growth in insurance business led to the creation of District Offices in within each colony. In 1881 the first district office was established in New South Wales and with this, the introduction of ‘canvassing agents’ contracted to sell insurance. Previously the Society had relied on an agency system in which business agents were appointed to sell insurance policies as part of their business activities. This system had not proved an effective means of selling policies so the switch to dedicated agents, a type of travelling salesman, was made. District offices were managed by an appointed officer under the control of the branch office. Life insurance proposals were initially handled at the district level but transferred to the branch level for approval, By the 1900s the branch system that had evolved at the AMP was firmly entrenched. Whilst branch offices had a degree of autonomy in the acceptance of policies and the investment of funds, they were tightly constrained by the directives of the Principal Board in the way in which they operated their business. Within the central office the Principal Board was serviced by several sections. These were headed by the Actuary who was the chief executive officer, the Chief Clerk, the Accountant and the Chief Messenger. Figure 1 explains the structure as it existed at the beginning of the twentieth century.

¹⁷ AMP *Jubilee Report*, p.31.

The Organizational Structure of the AMP c 1905



THE ROLE OF ROUTINES IN THE DEVELOPEMNT OF THE AMP

As the business of the AMP grew, the need to process large volumes of information accurately increased. Errors in the gathering, recording and processing of information had the potential to be very damaging to life insurers. Routines became an essential means of checking and managing data. The volume of information to be processed meant that the branch system became an important way of containing data to manageable levels. It was essential however, that processes be replicated between branches to minimise the possibility of error occurring. In the days before mechanisation

the ledger was the main tool for processing data. Lower order routines evolved around the use of the ledger system, the same processes being applied as newer technology emerged. Ledgers recorded every transaction undertaken by the office. They were linked and cross linked to ensure that new policies, renewals, lapses and payouts were all accounted for. The pool of routines expanded as the activities of the AMP grew and variations on insurance products were introduced. Labour management functions evolved specifically to support the processes required. Like other financial firms, the AMP developed an internal labour market.¹⁸ This was driven in part, by the need to ensure the supply of specialised labour with a detailed knowledge of company systems. Specialised knowledge was involved in estimating mortality risk, evaluating policy applications, and claims for the various types of policies offered. The system of recruitment and promotion was designed to reinforce routines. Within each section of the organization there was a hierarchy of staff positions with senior positions overseeing junior positions. Outside recruitment was limited to clerks between 16 and 18 years of age. They were then put through a process of selection and training to ensure that only the most eligible were promoted through the ranks.¹⁹ All managers and senior officers were appointed from within the ranks of the organization. Promotion at the management level was usually on the basis of succession with the assistant general manager in line to be the next general manager.

While lower order routines rigidly governed the operations of the organization, there is evidence that higher order routines existed. The higher order routines defined by Nelson and Winter refer to the ability of firms plan out and implement strategies to ensure long term growth and survival.²⁰ These routines however, were constrained by the decision making structure at the AMP. All key management decisions were made at the Principal Board level. The Board traditionally had a reputation for being conservative and risk averse. One reason for this was the nature of the mutual structure that gave policy holders a voice in the management of the organization. Policy holder voice was quite vocal at times and influential in determining the direction the growth of the organization

¹⁸ For example see Merrett and Seltzer ,*Work in the Financial Services Industry*, pp.133-52.

¹⁹ Keneley, *In the Service of the Society*, pp.537-41.

²⁰ Nelson and Winter, *An Evolutionary Theory*, pp.16-17.

took. An example is the controversy which raged over the plans to open an office in London. It was first proposed in 1885 that the AMP open a London branch. At the time policy holder opposition blocked the move. The issue was raised several times again over the next two decades but it was not until 1908 that a branch was opened in the United Kingdom.²¹

Routines that allowed for the implementation of growth strategies were in existence despite the fact that the Principal Board was hesitant to adopt suggested development paths. AMP managers were leaders in the field of actuarial studies within the Australian industry and they played a leading role in the professionalisation of the discipline.²² Actuarial skills were an important criteria for promotion within the AMP and the general manager was in most cases the chief actuary of the organization. The development of actuarial practices were important in ensuring the ability of the life insurer to correctly predict risk and ensure policies adequately covered the probabilities involved in determining mortality rates. Advancement in actuarial practices allowed for the development of insurance products creating new markets and opportunities for future growth.

Another routine used to promote longer term planning was the practice of monitoring developments in other firms both within Australia and overseas. The AMP closely observed its local competitors keeping copious records of their activities as published in the press.²³ More important was the practice of sending the general manager or actuary on a 'world tour' every three to five years to investigate and report on best practice in life insurance firms in Britain, Europe and the United States. In this manner the AMP was informed of the latest developments in mechanisation and information processing. The card system introduced in the newly formed industrial insurance department in 1905 was modelled on that used by Prudential Insurance the largest

²¹ AMP Principal Board Minutes, 1885; AMP Chairman's Address, 1908, AMP Archives, Sydney.

²² Bellis, *Future Managers*, pp.56-62.

²³ AMP Guard Books and Annual Report collections, AMP Archives, Sydney.

provider of industrial insurance in Great Britain.²⁴ The system was seen in operation by the newly appointed manager to the Industrial Insurance department in 1904.²⁵

Although recommendations to acquire mechanical devices were adopted fairly rapidly, general managers often struggled with the Principal Board to get other recommendations implemented. For example the proposal to sell industrial insurance was first made by the General Manager Richard Teece in 1889. It was not until 1904 that he was successful in gaining Board approval to establish the industrial department.²⁶

Whilst the Board was conservative in its approach to change it also had another problem that hindered its ability to develop and implement longer term strategies fully. The Board had traditionally concerned itself with the detailed operation of the Society. This practice continued as the organization grew and was reinforced by the fact that there was no New South Wales branch meaning that issues that would have been dealt with at branch level in that State were dealt with by the Principal Board. This structure was a legacy of earlier times when the Society was much smaller. The directors had been reluctant to relinquish control of the daily operation of the Society and the position continued as the organization grew. By the 1930s the inefficiencies of such a system of management were clearly impacting on the ability of the board to undertake policy development. Most of the time of the Board was taken up with business relating to staffing and the day to day running of the NSW branch.²⁷ In 1930 however the Board agreed to a suggestion by the general manager to relinquish its control on N.S.W. business. A New South Wales branch was created.²⁸

Changes made to the organizational structure in the decades of the 1930s and 1940s extended existing routines and processes. The creation of a N.S.W. branch meant that the head office functions had to be realigned. The review of office administration led

²⁴ Industrial Insurance involves the sale of policies for which a weekly payment is made. It was designed to take advantage of the demand for insurance amongst those on low incomes who could not afford to pay annual premiums. See Campbell Kelly, *Data Processing in the Prudential*, pp.122-23 for a description of how it evolved in this institution.

²⁵ Apperly Special Letterbook 1904, AMP Archives Sydney.

²⁶ AMP Principal Board Minutes 23 September 1904, AMP Archives, Sydney.

²⁷ AMP Principal Board Minutes 1925-1930, AMP Archives, Sydney.

²⁸ AMP Principal Board Minutes 27 August 1930, AMP Archives, Sydney.

to the enlarging of the general managers department and the collapse of the sub tier of departments which reported to the general manager. The functions of these departments were divided between the general managers office and the newly created N.S.W. branch. The purpose, as identified by the general manager, was to 'divide the Head Office administration into main departments as in banks and other financial institutions'.²⁹ The function of the General Manager's office was to supervise the Society's general administration. It was comprised of the General Manager and assistant General Manager, Actuary and actuarial department, Secretary, and Accountant. The N.S.W. branch was organised along the lines of the other branches and consisted of a branch manager (ordinary business), industrial insurance manager, accountant and chief clerk.³⁰

The existence of routines offer insight into the manner in which organizational restructuring occurred at this point in the AMP's history. The presence of higher order routines did not necessarily guarantee the organization had the ability to develop the capabilities necessary to adapt to changes in the business environment. An important factor in driving fundamental change was the strength and character of the general manager. A fundamental problem with the labour management routine in use by the AMP was that the general manager was a permanent appointment until retirement. The appointment was usually made on a succession basis with the assistant manager following as the next in line. Whilst the promotion process ensured only the most capable made it to management level, they were not necessarily the most innovative. Unless the manager was actively engaged in pursuing the upgrading of organizational structures the status quo prevailed. This was the case with the refinement of the organizational structure in the 1930s which occurred after a change in general manager. The previous manager H.W.Apperly died in 1930 and it was under his replacement F.T. Bridges that the reorganization took place. Although Bridges himself was close to retirement, he was described as an 'activist'.³¹ He had been in the position of acting manager for 15 months between January 1929 and March 1930. He used this time to evaluate the existing

²⁹ AMP Head Office Circular No.74, 28 August 1930, AMP Archives, Sydney.

³⁰ AMP Head Office Circular No.74, 28 August 1930, AMP Archives, Sydney.

³¹ Blainey, *AMP*, p.194.

structure and assess the need for change. Within a month of his appointment as general manager he had authored a report recommending the reorganization of head office.³²

Despite the restructure of the Society's organization there was little progress in the development of higher order routines as a result. The restructure created a new layer of administration but did not effectively change existing practices. Whilst some of the matters that had previously occupied the time of the Principal Board were now handled by the NSW Board this had not altered the routine of matters dealt with by the Board. Moreover, the members of the Principal Board were also the members of the N.S.W. Board, their time still being occupied with the same issues but in two separate committees.³³ Likewise the emphasis of the newly reorganised general managers office was on supervision rather than planning as it had been under the previous structure.³⁴

The 1930s reorganization, whilst it had rationalised procedures, did not expand the capabilities of the organization or foster changes in routines that would alter strategic behaviour. It was a further two decades before such a process occurred.

THE 1954 ORGANIZATIONAL RESTRUCTURE

By the 1950s a number of problems with the existing structure had become apparent. Citing 'an increasing complexity of technical problems' a review of office organization commissioned by the Principal Board occurred in 1953.³⁵ A.W. Wheatley, the assistant actuary, was co-author of this report, together with S. C. Chatten the South Australian branch manager. Wheatley had recently returned from a tour of the U.S.A. and

³² Memo to the Principal Board dated 22 August 1930, AMP Principal Board Minutes 27 August 1930, AMP Archives, Sydney.

³³ For example the minutes of the Principal Board for 26 April 1933 indicate the matters dealt with included the review of finance, branch reports, investment decisions made, staffing and policy issues. The minutes of the NSW branch meeting held on the same day at which the same people attended dealt with insurance policy applications, investment decisions and industrial department transactions. AMP Principal Board Minutes 26 April 1933; AMP NSW Board Minutes 26 April 1933, AMP Archives Sydney.

³⁴ Memo to the Principal Board dated 22 August 1930, AMP Principal Board Minutes 27 August 1930, AMP Archives, Sydney.

³⁵ AMP Principal Board Minutes 9 November 1953, AMP Archives Sydney.

Canada bringing back with him details of innovations taking place in the industry in those countries.³⁶

In 1950 the AMP had 37 district offices that supported the branch offices in each state. This system of district office organization was unique to the Society and had evolved partly as a means of organising the agency system and partly as a marketing technique. District offices were intended to provide a service to policy holders in terms of enquiries, claims and payments, assist in the production of new business and assist in creating opportunities for the investment of Society funds.³⁷ The organizational review found that the existing decentralised branch and district office structure was both costly and inefficient. The structure fostered the duplication of certain tasks, particularly relating to the accounting systems used to manage policy documentation and payment. It also pointed to the inefficiencies associated with managing a district office where the manager spent most of his time engaged in clerical work. The report found that savings of £136,000 per annum could be made with the closure of the AMP's district offices.³⁸

In addition to problems associated with the established way business was done at the AMP, a number of other factors were placing pressure on the structure of the organization. In the post war period the demand for insurance products was changing. The growth of industrial insurance premium income which had outpaced ordinary insurance before the second world war slowed considerably. This was associated with an increase in the cost of selling this type of insurance as agents successfully negotiated a new industrial award. Changes in methods of payment of premiums for ordinary business also impacted on insurance offices. Conventionally such policies had had premiums paid annually. During the depression instalment payments were introduced and this increased the bookwork involved in accounting for this process. This practice grew after the war so

³⁶ Report by Assistant Actuary A.R.Wheatley on American Trip, 8 March 1951, AMP Archives, Sydney.

³⁷ Draft Agenda Managers Meeting re District Office Organization, 1953, AMP Archives, Sydney.

³⁸ AMP Memo to General Manager District Office Organization 26 March 1953, AMP Archives Sydney.

that quarterly and monthly premium instalments became more common. The growth of group insurance and superannuation also impacted on insurance office practices.³⁹

Increased competition amongst insurers occurred as the market expanded in the post war period. Although the AMP was the market leader in the sale of ordinary business it was sensitive to competitive pressures and monitored the actions of competitors closely.

A third factor impacting on the administration of the insurance business was advances in information processing technology. In 1949 the AMP installed the latest Hollerith punched card machines in its N.S.W. branch office. These machines allowed the compilation of accounting and statistical data that had previously been very costly to produce. To be used effectively though, the process required the centralisation of bookkeeping and record keeping procedures which had previously been undertaken at branch and district office levels. The compilation of data at the district office level complicated the punched card process because allowance had to be made for inter office transfers. A further consideration was the expense of installing these machines which required a specially constructed sound proof room.⁴⁰ The expectation was that mechanisation of office functions would increase as the punched card system evolved.⁴¹ As this occurred there would be more pressure to centralise office functions. The review presented three possible courses of action to the Principal Board. It could continue with the establish procedure of spasmodically closing offices where business declined substantially. Or it could withdraw from a number of towns where the value of the office was not regarded as compensating for the cost. The third option was to implement a fundamental change in the system and functions of district and branch offices. It was the last option that the general manager advocated and the Principal Board opted for.

Once the decision was made to reform the district and branch structure, that had evolved as the Society had since the 1840s, the general manager's office initiated a wide ranging review of all office functions. This review, which took place in early 1953, found that 60 per cent of district office duties could be eliminated if they were taken over by the

³⁹ Gray, *Life Insurance*, pp.218-24.

⁴⁰ AMP News and Views Vol.1 14 April 1949, AMP Archives Sydney.

⁴¹ Notes on Executive Luncheon: District Office Organization 18, May 1953, AMP Archives Sydney.

branch office.⁴² It was found that relocating office functions could lead to substantial salary savings but the reduction in staff in these offices would create a number of problems.⁴³ Monitoring and checking routines that had evolved along with accounting and administrative procedures would no longer operate at the district office level. This was particularly important in respect to the supervision of agents in the field. There would also be a loss of connection with the local business community who were an important source of new business and investment facilities. Loans on mortgage and loans on policies were a key channel for the investment of capital by life insurers. In addition concern was expressed that the downgrading of district offices the Society would lead to a loss of goodwill and it lose out to other competitors.

The solution to these problems was to create a regional office structure where each state was divided into several regions depending on its population base. Under this system the regional manager would travel regularly throughout the region. A regional network was progressively introduced in major states in 1954 with small district offices being either closed, merged or downgraded. New routines emerged in response to this change. The functions of the regional manager became narrower and more specialised. Rather than managing office and information processes as the district manager had done, the role of the regional manager was sales focused involving the promotion of the insurance business in that region.

The centralisation of many accounting and administrative functions at the state branch level had broader and more wide ranging implications for the structure of the life insurance office. Relocation of work functions was linked to the reorganization of these processes along functional lines. The Principal Board minutes for 9 November 1953 carry with them an appendix which outlines the proposal for the new divisional form of organization which was to be implemented in 1954. It was from this point that the organization began to mature into a modern financial firm. Reorganization was associated with a change in routines that resulted in a growth in the significance of higher order routines allowing the development of strategies to promote the expansion of the firm. The

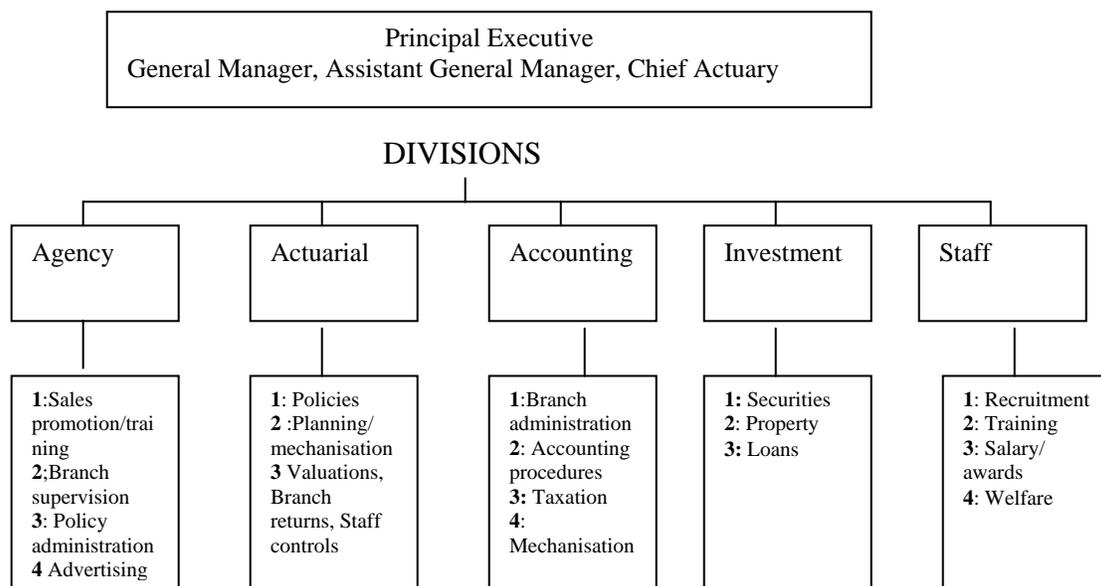
⁴² General Managers Department, Reorganisation file AMP Archives, Sydney.

⁴³ Net salary savings in the state of Victoria alone were estimated at £18,000 per annum. General Managers Department, Reorganisation file AMP Archives, Sydney.

main benefits identified by the authors of the plan were that it provided for all essential functions, it defined lines of authority and responsibility, it avoided duplication, provided scope for the development and exercise of talent and established effective lines of communication between personal in the Society.⁴⁴

Initially the divisions were limited and fairly basic. Five divisions were created in 1954. These were Agency, Actuarial, Accounting, Investment and Staff. Figure 2 illustrates the new structure.

Figure 2 AMP Organizational Structure 1954



Within each division there was a further subdivision into the core functions of each unit as is indicated in Figure 2. Whilst a separation of functions, existed there was a strong emphasis on development and planning within each division.⁴⁵

The extent of change in the structure is indicated in a comparison with the former branch structure. This type of organization was basically a Unitary (U) form typified with

⁴⁴ *AMP Information Digest* Vol.4, No. 2 1955, AMP Archives, Sydney.

⁴⁵ AMP Divisional Reports, 1954-1960, AMP Archives, Sydney.

several layers of management namely the general manager, branch manager and district manager. It was further complicated with the separation of ordinary insurance business from industrial insurance which added another layer of management. Co-ordination of the business functions was an issue with this type of system. Management of the various business processes occurred at the top level and was administered down the chain through the use of office circulars and instructions. Volumes of circulars were sent from head office to the branches each year. Circulars were also sent from the manager of the industrial department and from the branches to the district offices. The opportunities for cumulative control loss increased as the quantity of information up and down the organizational chain grew. Cumulative control loss occurs because of the existence of bounded rationality.⁴⁶ Loss of information occurred as the volume being transmitted increased, this in turn impacted on the ability of management to make fully informed decisions.

Within the U-form structure the general manager and Principal Board were very involved in the operation of the Society. Although the creation of a N.S.W. branch office in 1931 alleviated some of this work, much of business associated with the running of the organization continued to be dealt with at the top management level. This included issues relating to staffing, policy administration and investment. The Board occupied itself with 'busy work'. A typical agenda before the Principal Board meeting was a weekly finance report, a report from each branch, a report on the investment of funds and a range of matters relating to staffing including applications for leave, staff transfers and staff illnesses.⁴⁷ A problem with this approach was that it left little time for strategic planning and the development of higher order routines.

The transformation of the organization to a multi divisional structure allowed the reassignment of operational decisions away from the general manager and Principal Board to divisional managers. In announcing the office restructure the Principal Board minutes made the comment that the new form of organization will allow a greater degree

⁴⁶ Douma and Shreuder, *Economic Approaches to Organizations*, p.159.

⁴⁷ For example Principal Board Minutes, 26 April 1933, 1 April 1937; 14 April 1937, AMP Archives, Sydney.

of delegation by the senior executive and more time for them to address 'important matters'.⁴⁸

The new structure also encouraged specialisation both at the management and operational level. Under the previous system, life offices managers and clerks were expected to be skilled in all areas of the business and were moved from department to department and branch to branch to ensure that they acquired the appropriate knowledge. A downside of this approach was that as the business grew the 'jack of all trades and master of none' effect became a problem. For example branch and district office managers were expert in the administration of life policies but this left them little time to maintain skills in investment management. The investment of funds became an increasing issue for the Society as revenue from policy income grew over time. The divisional structure alleviated this sort of problem by allowing the focus on a particular part of the operational process. Although this was raised as a concern amongst some senior executives the Principal Board conceded that specialisation was inevitable for the 'proper conduct of a large organization.'⁴⁹

Specialisation also alleviated some of the informational problems that had occurred under the previous system. The flow of information could be more effectively organised under a divisional system. The volume of information flowing up the chain would be reduced as operational information relating to a particular division was contained to that division. The circular system of distribution would also be rationalised so that information was clearly distributed along functional lines rather than by date of issue that occurred under the branch system. A divisional structure promoted a more effective classification of information on operational procedures overcoming the problems associated with the flow of large volumes of diverse sets of instructions.

The reorganization of the AMP did not stop with the restructure introduced in 1954. It continued to evolve over the following decade and it is from this process that higher order routines developed which enabled the firm to grow and mature in the following decades. From five divisions in 1954 the structure expanded to six in 1956 with

⁴⁸ AMP Principal Board Minutes, 9 November 1953, AMP Archives, Sydney.

⁴⁹ Notes on Executive Luncheon: District Office Organization 18, May 1953; AMP Principal Board Minutes, 9 November 1953, AMP Archives, Sydney.

the inclusion a planning division. With the introduction of this division strategic planning with respect to staffing, work simplification and computerisation was carried out. Higher order routines with respect to these issues were established with this division. A key focus was on forward planning and determining improved work practices. One example was implementation of new technology that would generate efficiency gains in terms of managing and accounting for information. An outcome was the commissioning of the Society's first computer an IBM 650 in 1958.

The structure of the AMP further evolved in 1957 with the formation of an economists division. The creation of this division was in recognition of the need for accurate analytical data on the economy, the share market and investment trends. Prior to the 1950s the approach of the AMP to the investment of its capital had been decentralized and very conservative. Low risk investments were the priority. Loans and government securities formed the majority of the Society's investment portfolio. Investment decisions were largely determined at the branch level with general oversight of the Principal Board. Branch managers were responsible for investing the funds accumulated in the respective State. Each district manager expected to seek out investment opportunities within their own district. Although the AMP had begun to branch out into the equities market in the late 1940s it was not until the establishment of an economists division that diversification of investment occurred. The AMP embraced the equities market in the late 1950s. Geoffrey Blainey writes of the AMP that the 'vigorous' buying of shares transformed the society. Its approach to risk taking in the 1950s changed more than in any previous decade.⁵⁰ The Society's first economist Dr Harold Bell led the division and the research produced by this unit was utilised by the investment division to diversify and expand the Society's investment portfolio. The economists division provided advice and information on economic and political issues. It undertook share market analysis, economic and industry surveys all of which provided the investment division with up to date financial data. It also undertook outside consultancies developing contacts with universities and making public comment on economic issues of the day.⁵¹

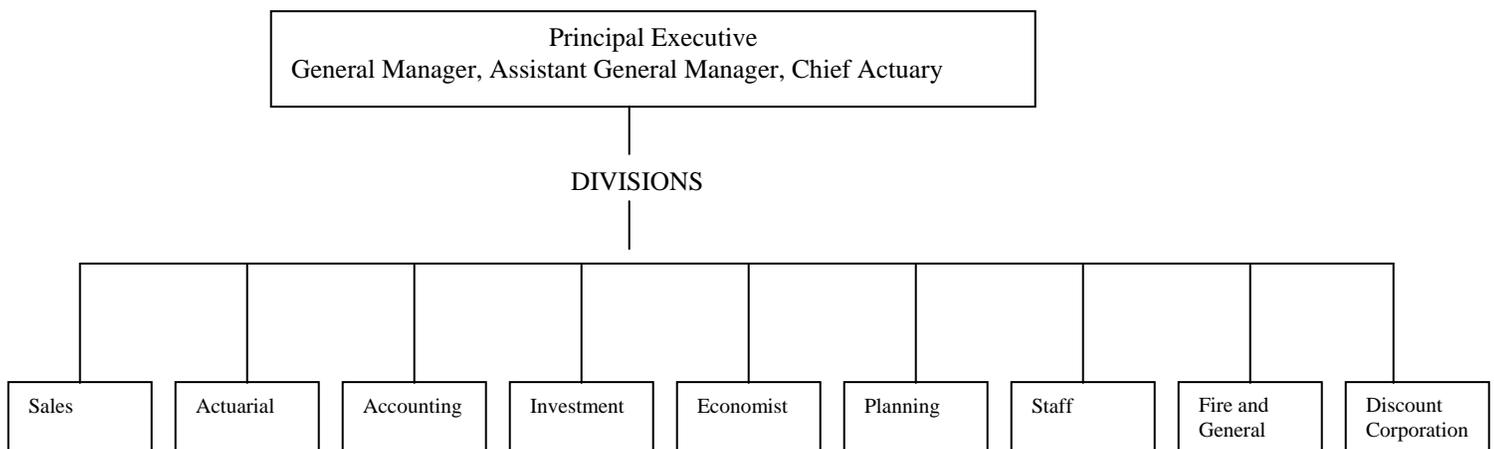
⁵⁰ Blainey, *AMP*, p.264.

⁵¹ AMP Divisional Report 1957, AMP Archives, Sydney.

Further additions to the divisional structure occurred as the AMP diversified into other financial markets. The growing sophistication of strategic planning processes was associated with the expansion of the AMP into other related markets. In 1958 AMP Fire and General was established as the Society's general insurance subsidiary. It was incorporated into the divisional structure. Further extensions included the Discount Corporation of Australia established in 1959 as the Society's official short term money market operation and AMP Acceptances which operated in the unofficial short term money market.

By 1960 the multi-divisional form of organization was clearly evident as is indicated in Figure 3

Figure 3 AMP Organizational Structure 1960



Within the divisions more sophisticated approaches to management were also emerging. Higher order routines were put in place to ensure progressive improvement within the organization. Developments in the recruitment and training of agents were applied by the agency division. Aptitude testing as a means of selecting sales agents was introduced in 1954. This process had been first mooted in 1950 and was outlined in a paper presented to the Insurance Institute of N.S.W. by A.C. Gray. Gray summarised the American and Canadian system of testing pointing out that while it could not be

replicated in Australia it could be adapted.⁵² Within the agency division a specific grouping had been established to oversee the supervision and training of agents. Psychological testing was one method introduced to improve the calibre of sales staff. By 1957 this had been extended to the introduction of formal training courses agents were expected to undertake before commencing in the field.⁵³ Within the Staff division, training officers were appointed at each branch specifically to train branch staff and executives were sent on training courses provided by the Australian Institute of Management. The Society considered it was following an 'enlightened policy in these matters' and toyed with the idea of developing its own executive training school.⁵⁴ By 1959 the Staff division was able to report that there was unanimous recognition that staff training had contributed to increased efficiency.⁵⁵

Within the other divisions similar improvements in work practices were taking place. The accountancy division for example introduced cost control systems such as forward budgeting. The actuarial division began to computerise its processes and the investment division built on the output of the economists division to develop more sophisticated investment practices, particularly in respect to the equities market. The planning division developed clerical cost analysis procedures for use by the staffing division. As a result staff division was able to report in 1959 that it was approaching the stage of being able to get a 'scientific measure of productivity of groups of people performing similar work tasks'.⁵⁶

The change in the organizational structure allowed the development of higher order routines that enabled the Society to grow and expand in the 1960s. Strategic planning processes developed in the divisions resulted in the modernisation of the firm and the services it provided. Mechanisation and computerisation of work processes were expanded and upgraded as new technologies emerged. New products were developed to replace those were no longer providing the benefits policy holders were seeking.

⁵² Gray, Modern developments in the selection of salesmen, p.76.

⁵³ Prior to that training had been undertaken on the job under the supervision of a superintendent. Keneley, 'In the service of the society', p.544.

⁵⁴ AMP Divisional Report: Staff 1958, AMP Archives, Sydney.

⁵⁵ AMP Divisional Report: Staff 1959, AMP Archives, Sydney.

⁵⁶ AMP Divisional Report: Staff 1959, p.4, AMP Archives, Sydney.

Industrial insurance which declined in popularity in the 1950s was replaced by a more sophisticated family protection policy designed to provide greater benefits to policyholders with young families. Old modes of premium payments that required extensive recording and checking systems were replaced by new methods that included salary deductions and account debits. Superannuation products and investment linked products evolved to take advantage of these emerging markets. Investment continued to diversify⁵⁷ and the AMP embarked on projects which had previously been outside its remit. One such project was its investment in the Stanbroke Pastoral Company which grew to become one of the largest pastoral companies in Australia.⁵⁸

CONCLUSION

This paper has investigated the role of routines in determining the processes of organizational change in a leading Australian life insurer. The AMP established as a mutual association. The organization developed in an ad hoc manner. As business expanded in the various colonies branches were established to handle the administration associated with the sale of policies. Routines were designed to overcome the problems associated with managing information and minimising the risks associated with adverse selection and moral hazard. The management of the Society was preoccupied with supervision of the sale and administration of life insurance policies. The maintenance and improvement of lower order routines came to dominate decision making processes and occupied much of the time of the Principal Board of Management. Although some higher order routines existed they were unable to make a sustained contribution to strategic planning under the type of system that evolved at the AMP. This was a function of the immaturity of the organization and the inability of the Principal Board to relinquish control over operational matters.

A minor restructure of the organization in 1931 allowed for some change in the work regime of the Principal Board and executive management. However the longer term

⁵⁷ Within the constraints of the regulatory environment which mandated a minimum of 30% of assets be held as government securities.

⁵⁸ Blainey, *AMP*, pp.257-58.

effect was to reinforce established routines rather than create potential for higher order routines to become more effective. Eventually the limits of the branch system began to impact on the bottom line of the Society's accounts. A review of the office structure found that it was both costly and inefficient. The momentum to restructure the management of the Society came from the resulting reform of the branch system. The centralization of office functions encouraged reorganization along functional lines and it was from this that the multi divisional structure emerged. The reassignment of decision making processes to divisional managers created the scope for the executive to become more involved in strategic planning. The specialisation encouraged by the divisional system allowed the development of higher order routines upon which the executive could draw. The resulting growth and sophistication of the organization in the late 1950s ensured higher order routines were able to continue to promote further development. It was at that point that the AMP began to mature into a diversified financial intermediary.

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