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Defining “strategy” and why having one is critical for insurance businesses in Arabian Gulf markets

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Why this paper?

While “strategy” has been around since the time of the ancient Greeks and Chinese who applied it in its original sense to warfare, its application to the world of business and other fields did not really surface until the 1960’s. Indeed, since its earliest applications in warfare, it appears to have faded until the time of the Napoleonic wars in the 1700s where it was once again applied to warfare and advanced further in the late 1800’s as steamships, railroads and motorized vehicles began to impact the speed and effectiveness of military deployment.

Even though much has been written about strategy and its application in the commercial world, a surprisingly large number of business leaders still do not understand it, confusing its terms and terminology with other aspects of business.

As examples, many still confuse ‘strategy’ with “tactics” or “strategy” with “strategic objectives”. Many also confuse “strategy”, “business models” and “operating models”.

This paper aims to provide clarity on terminology by defining terms using analogies to the military application of strategy. It will then proceed to consider why an adaptable, flexible strategy is more essential now than ever before in a business world that is changing at an increasingly unprecedented pace which is leaving many businesses behind their competitors. Finally, it will consider a model for strategic design which consists of 10 interconnected elements of strategy applicable to any business in the insurance sector as opposed to the traditional “pillars of strategy” approach.

About the author

The author of this paper has 34 years’ experience across all forms of insurance, working for insurers and brokers, in many countries. His last 10 years have been specifically focused on health system financing in developing countries in the Middle East and Africa. The author’s work has also included working for a “Big 4” advisory firm, a GCC government and providing *pro bono* advice to other regulators in the Middle East and Africa. He has also provided advisory and consulting services in health system financing and regulation to clients of global consulting companies.

Limitations on scope

This paper focuses primarily on the insurance markets of the Arabian Gulf Cooperation Council (GCC)

Accreditation

All views expressed and statements made in this paper (unless otherwise specifically referenced) are those of its author.

Origins

Military origins and development

Strategy, its associated terminology and its application to the commercial world, can best be understood with a rudimentary knowledge of its original application to the area of military warfare.

The first works that discuss strategy are from the Chinese during the period of 400 – 200 B.C. Sun Tzu's *The Art of War*, written in 400 B.C. being one of the first. The word "strategy" has its roots in ancient Greek with the word "strategos" meaning general. A Roman writer, Frontius, wrote a book with the Greek title of "*Strategemata*". *Strategemata* describes a set of *strategema*, or "strategems," which are literally "tricks of war."

The word "tactics" also has a Greek origin from the word "*taktikos*" meaning an arrangement or formation, typically used in relation to troop deployment on the battlefield. But as will be covered later, "tactics" are subordinate to "strategy". In military terms, strategy is about how to win a war whereas tactics is about how to win a battle. Military strategy was further developed by a number of writers during the second half of the second millennium, one of the first being Niccolo Machiavelli with his work "*The Prince*" with others including French and Prussian military commanders.

Terminology

Many business leaders are so busy trying to carry out their functional duties that they often lose sight of the bigger, longer term nature and direction of the business as they focus on daily issues or "fire-fighting" unexpected challenges as they arise.

Because of this, many leaders fail to align their activity to this longer term direction of the business and in turn lose touch with the meaning of terms such as vision, mission, strategy and others, often confusing them. These terms and concepts are explained below.

Company vision

A vision statement describes what a company wants to achieve in the long-term. It describes a vision of what the company will look like in the future and sets a defined direction for the planning and execution of its corporate strategy. In military terms an example might be "to become the dominant military power over a (defined) geographic region".

Mission

A mission statement expresses a company's core values and purpose. A mission statement is usually two to three sentences that set forward what the company does, how it does it, and, sometimes, why. It can also include information on the company's target market or audience, or a general statement about the company's values and current goals. In military terms an example might be "to subdue neighbouring countries through either the threat or use of force. Any use of force should minimise both the financial costs of military operations and casualties".

Strategy

As mentioned earlier, strategy is a long term approach describing how a company is to achieve its strategic objectives. Strategy relates closely to the company's vision. To continue the military analogy, this might be a description of how the country seeking dominance will apply its military and financial resources to subdue each of the target countries. For example, who will direct the overall operations, which elements of the military will be utilised, over what timeframe, the required supporting military hardware production capacity and how will operations be financed.

Tactics

Whereas strategy describes the approach to the broader and longer term objectives of the organisation, tactics are more closely related to current operations and the mission statement. In military terms, tactics describe how troops and military hardware will be deployed and arranged in specific battles.

Strategic objectives

Strategic objectives are high-level but measurable goals establishing what an organization wants to achieve with a clearly defined deadline. They help organizations create strategic roadmaps, initiatives, and projects that are aligned with the company's strategy and vision. To continue the military analogy, strategic objectives might include such things as which countries to subdue first and over what period of time, how will "subjugation" be measured and what would be the associated acceptable cost in terms of finance and casualties.

Strategic direction

Strategic direction refers to a course of action that will lead to the achievement of the goals of an organization. It is a roadmap outlining how an organization should progress to reach its vision and long-term objectives. Strategic direction is the guiding principle that shapes an organization's actions, operations, and decisions.

A clear strategic direction helps an organization align its resources and efforts, develop employee understanding and support, provide a sense of purpose and helps stakeholders understand where the organization is going and how it plans to reach there.

Strategic planning and strategic thinking

These two terms are quite distinct. Strategic planning is a systematic process which involves establishing an organisation's objectives, evaluating its current position and developing the strategic direction of the organisation to achieve its long-term goals. It involves setting priorities, allocating resources and creating action plans that guide decision-making at all levels of the organisation.

Strategic planning translates provides a structured framework for aligning the organisation's resources, capabilities and activities to achieve desired outcomes. It also involves an analysis of the external environment, including market trends, customer preferences, the competition and internal strengths and weaknesses.

Strategic thinking is quite different. It is a thought process of analysing complex situations, foreseeing the future and developing innovative strategies. It extends beyond daily operations and tactical decision-making involving a holistic understanding of the business environment in which the organisation operates. It involves a critical examination of the current situation, identifying opportunities and challenges and generating insights that can shape an organisation's direction.

Strategic thinkers see the big-picture and consider multiple perspectives, challenging assumptions and assessing alternative approaches. Strategic thinkers will ask probing questions and consider the potential consequences of different actions.

Strategy implementation

This is perhaps the stage where all efforts in developing strategy can go to waste. Often, a perfectly sound strategy is developed, documented and then filed away.

It is essential to include a number of steps in the implementation process which explain the strategy to all stakeholders in the organisation, especially employees and managers who will be critical to a successful implementation.

Firstly, it is necessary to explain the company's vision and mission upon which the strategy is based. Secondly, the strategy itself needs to be explained including strategic objectives and strategic direction. The objective of

the process is to help stakeholders understand the “why” underpinning the organisation’s *raison d’être* in order to justify its strategy and thereby seek stakeholder buy-in and support during implementation.

Implementation of a strategy also includes monitoring of progress against the strategic direction to ensure that all is on track and to identify what is and is not working. Whilst this may result in some adjustments to tactics, the strategy itself, if developed in a sound manner, should not require any adjustments, unless of course, some catastrophic change to the business environment occurs which would require a complete review of the organisation’s strategy. This is where strategic thinking plays an important role in strategy formulation.

Business model

The business model describes the “why” and the “what” of an organisation. Typical elements will include

- Value proposition
- Market segments
- Distribution channels
- Customer engagement approaches
- Diverse revenue streams
- Key resources (physical, human and financial)
- Strategic partnerships

Together with company vision and mission, the business model will feed into strategy development.

Operating model

The operating model describes the “how” in terms of how strategic objectives can be achieved in an operational context including business processes and the skills and knowledge required and technology and other infrastructure needed to support those processes.

The critical role of strategy

Largely undocumented, rarely reviewed and poorly executed

It is perhaps the short term nature of insurance (there is relatively little long term life insurance in GCC countries) that leads many insurers to neglect development of a well thought out, long term strategy. The imperative is attraction of new business and the renewal and retention of existing business on an annual basis.

The author has met with many CEOs of insurers and other C-suite executives and it is not unusual to find that the companies they represent say that they have a strategy but cannot produce a strategy document. One CEO even asked why they needed a strategy in writing. Another CEO when asked what his company’s strategy was responded “to achieve profitable growth”. That is a *strategic objective* not a strategy. When further asked how he was going to achieve “profitable growth” his response was “by growing profitably”. This naïve approach displays a lack of understanding of strategy. It is no wonder that so many insurers are technically insolvent as they chase the current year’s sales targets while ignoring the longer term stability and sustainability of their business.

Even where a company does have a strategy, it largely sits in the heads of a few executives and is largely undocumented making it extremely difficult to implement (see section above on strategy implementation).

Another problem is that even if a strategy exists and is documented, it is rarely reviewed unless specific matters are raised such as questions from shareholders concerned about the direction of the business or by regulators concerned about solvency issues.

The end of “status quo”

For many years the challenges facing insurers were fairly static and did not change rapidly. However, over the last decade or so, the number of challenges has increased and the pace at which those challenges develop has increased rapidly, not least so in the areas of regulation, technology and changing consumer expectations. The

image below shows what these challenges are. Some of them are specific to the health insurance line of business but this is relevant in GCC markets where in some countries health insurance accounts for around 50% of all written business.

Some of these of note which have experienced rapid change over recent years include new laws and regulations, changing distribution channels, changing consumer expectations and achieving digital transformation. In the case of the latter, this has become even more challenging given the pace of development of AI-enabled tools and their application to claims processing and customer interactions.

Others such as insurers lacking scalability and lack of resources to upgrade technology have their roots in a lack of capital, especially for those insurers who are technically insolvent.



Why strategy must be documented

One reason why strategy should be documented is that if strategy resides in the minds of a few key executives, some of it can be lost if some of those executives leave or retire. However, the foremost reason is that if strategy is documented, implementation is more effective. Having a documented strategy means that it can be shared across the organisation enabling individuals to better understand the part they have to play in its implementation.

Another reason is that it makes it easier to assimilate new executives and other employees during any onboarding process such that they can quickly understand the organisation’s strategy and align themselves and their behaviour with it.

A fourth, and increasingly important reason is that regulators are becoming increasingly interested in insurer solvency and where they have concerns about solvency levels they will almost certainly look more favourably on company’s that can demonstrate a clear strategy which includes a path to recovery.

Finally, existing shareholders and potential investors may also have greater confidence in a company which can show that it has a clear and documented strategy.

Developing a strategy

Internal or external?

The author has witnessed three internal methods employed in the development of strategy:

- Sole ownership

Here, it is typically the CEO, Managing Director or General Manager who develops the organisation's strategy. This is problematic in three ways. Firstly, it takes account only of the thoughts of the individual. Secondly, it takes no account of the experience and thoughts of other executives and leaders. Thirdly, because it is developed in isolation, securing a broad buy in and successful implementation are very difficult.

- Collective leadership approach

Here, a few key executives determine strategy in collaboration with each other. The problem with this approach is that these executives may be disconnected from the "front line" of their business.

- Silo-based approach

This is possibly the worst approach. Under this method, each department head is asked to contribute their part of developing strategy from their perspective. The result is typically a strategy of disconnected elements, founded on the perspective of each individual department head and with a high risk of being developed with a significant element of self-interest and role protection.

There are two main questions raised when deciding whether or not to outsource strategy development in whole or in part. One is cost. Strategy consultants (and consultants in general) are often viewed as expensive and deliver a model only but with no support for its implementation. This view is well-founded. However, this cost (and the length of time involved) should be balanced against the cost of deploying internal resources with other operational responsibilities in developing strategy internally.

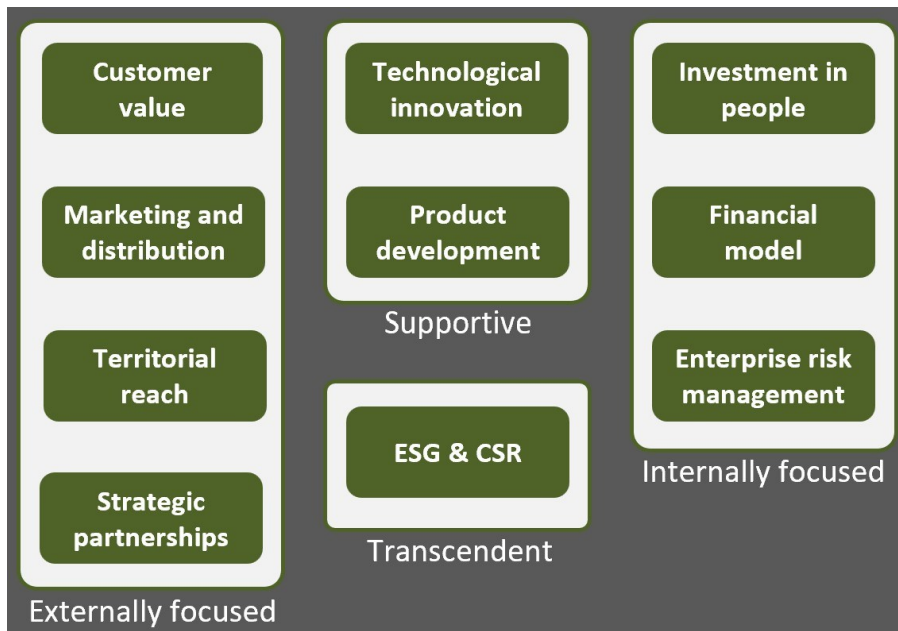
Another question is that of "connectedness and delivery capability", meaning, how well does the external consultant understand your business and what is the level of experience of the individual consultants who will actually work on the project? All too often, consultancy firms produce glossy presentations and proposals highlighting partners' and senior directors' profiles to win the business. The reality is that when it comes to the winning bidder commencing the project they send in junior consultants who have to be "taught" by the client about the client's business.

However, the benefit of using an external resource includes bringing broader and deeper experience of strategy development largely unavailable internally. It also brings much needed objectivity and independence to the whole exercise.

10 elements of strategy

Most strategists talk of "pillars" of strategy. But pillars are not interconnected. They can only support a strategy (given a solid foundation) in isolation. The author chooses the term "elements" of strategy because elements can be combined and connected. It is this "interconnectedness" which should be the core of modern commercial strategy. This methodology also overcomes the dangers of the internally developed "silo-based" approach to strategy development.

The image below shows the "Consilient 10" elements of strategy. As can be seen, these are classified as either externally focused, internally focused, supportive or transcendent, the latter meaning that each of the other 9 elements of strategy should incorporate elements of environment, social and governance as well as corporate social responsibility. This will add a "gloss" to the overall strategy as well as enhance both it and the organisation's credibility.



How are the elements interconnected?

As an example, marketing and distribution strategy cannot be developed in isolation from other elements of the overall strategy. The marketing and distribution strategy will depend upon the types of products developed in the product development element. It will also depend upon what type of technology will be used for distribution. Territorial reach will also impact marketing and distribution as will any strategic partnerships entered into. In turn, the marketing and distribution element of overall strategy may have an impact on the investment in people element.

Another example of interconnectedness can be seen in the element of customer value. Product development will play a part in the value that is delivered to customers as will marketing and distribution (for example how easy is the purchase process).

Enterprise risk management is an often overlooked element of strategy. However, getting the products or their pricing wrong, an ineffective marketing and distribution strategy, expanding territorial reach in untested markets, failing to keep up to date with technology or having a poor people element all present risks to the business which need to be either avoided or mitigated.

Hopefully it is now clear that a “silo-based” approach to strategy development simply will not produce a cohesive overall strategy that includes all 10 elements.

How The Consilient Consultancy Limited can help

Gap analysis

The starting point will be to conduct a gap analysis to identify areas of your strategy that are incomplete, not well defined or absent.

To do this we will need to understand your current business and operating model. This will include a review of your existing business in terms of lines of business, business volumes and distribution channels employed as well as historical trends in your lines of business and business volumes over the recent past including profitability.

Understanding your current operating model will help us to understand the structure of your business, its ownership, its management and its financing and costs of operations.

The next step is identifying your main challenges. To do so we will discuss with you and your team the challenges faced by the business and rank them according to the principles of “The Eisenhower Matrix”.

Identifying your existing strategy and understanding your approach to market will be the foundation of the gap analysis. To do so we will review any written documents you have which either individually or collectively may constitute your corporate strategy. We will conduct interviews with individual executives to understand how they interpret and implement the strategy as identified.

We will work with you to understand your approach to market and the rationale for that approach as well as making enquiries both internally and externally to understand the effectiveness of your approach to market.

We will conduct a comparison of your strategy against our 10 elements of strategy and based upon that comparison we will provide a report detailing areas where your strategy is either incomplete, ill-defined or absent in respect of the 10 elements listed. The report will identify which elements need to be added to your strategy and which current elements need to be enhanced.

We will provide a priority list of areas upon which you should focus in redeveloping your strategy and provide a further gap analysis of the resources available and the resources that may be required to redevelop the strategy. We will also make recommendations as to any adjustments which may be required to your operating model in order to facilitate a redevelopment of your strategy.

Collaborating to develop or redefine your strategy

Having reviewed our gap analysis report and recommendations you may then want to progress to developing or redefining your strategy. You may choose to do this internally (not recommended) or engage an external consultant to work with you. Consilient would be happy to discuss being involved.

- Robin Ali