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Building an Innovation Strategy

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INTRODUCTION

This non-empirical paper describes the innovation strategy for Aetna, Inc. This company is a national managed care organization, and although it is already large in scope, it operates more like a government agency rather than an innovative organization (Schack, 2000). This paper will highlight the theories, or ingredients, of innovation strategy, followed by an explanation of how the theories support and help in the creation and application of the recommended innovation strategy for Aetna.

This paper also describes the organizational design model that drives innovation, the processes that enable innovation, and the success factors necessary for people to develop and implement innovation within the organization. Finally, this paper will offer a definition of essential innovation success measurements and will integrate corporate social responsibility (CSR) and sustainability as a function of the organization's innovation strategy.

AETNA

Aetna is one of the leading health care benefit companies in the world, offering a range of traditional and customized health insurance solutions, including medical, pharmacy, dental, behavioral health, group life, long term care insurance, disability benefits, and medical management (Aetna, Inc., 2012). The company operates primarily in the United States and is headquartered in Hartford, Connecticut. Aetna is divided into several divisions: federal, state Medicaid, behavioral health, and commercial. All of these report to the corporate offices, which the employees refer to as Bit Aetna. When a division is pursuing a large contract, subject matter experts are pulled from each division to contribute, and attempt to control the effort. This organizational structure has a unique effect on business development opportunities. The positive effect is a level of inter-division interaction and a sharing of knowledge. The negative effect is a level of internal competitiveness and struggle for control that can slow the development process (Aetna, Inc., 2012).

In the early 2000s, even though the surface revenues remained strong, Aetna was struggling on all fronts; its rapport with customers and physicians was rapidly eroding and its reputation was being bludgeoned by lawsuits and a national backlash against health maintenance organizations and managed care, which Aetna had championed (Katzenbach, Steffen, & Kronley, 2012). The company was losing approximately $1 million a day because of cumbersome processes and enormous overhead, as well as unwise acquisitions, which could be attributed to its 150-year history and a culture of reverence for *Mother Aetna* that encouraged employees to be steadfast to the point that they had become risk-averse, tolerant of mediocrity, and suspicious of outsiders (Katzenbach, et al., 2012). Employees were naturally wary of any potential threat to the prevailing executive mind-set, “We take care of our people for life, as long as they show up every day and don’t cause trouble” (p. 111).

Without ever describing their efforts as cultural change, Aetna’s top management began with a few interventions that led to small but significant behavioral changes that revitalized Aetna’s culture while preserving and championing its strengths (Katzenbach, et al., 2012). The New Aetna culture reinforced the employees’ preexisting commitment to customers as demonstrated in the organization’s history of responding quickly to natural disasters and employees’ pride in the company that had eroded over time. This combination of established values and a new direction was embraced by employees and they came to accept the New Aetna (Katzenbach, et al., 2012). The cultural change started to move the company in the right direction, but there is still a great deal of improvement to be implemented, as indicated in the company’s financial statements. In 2011, Aetna employed 33,300 people and recorded revenues of $33,779.8 million, a decrease of 1.4 percent over FY2010 (Aetna, Inc., 2012). The operating profit of the company was $3,077.8 million in FY2011, an increase of 16.4 percent over FY2010, with a net profit of $1,985.7 million in FY2011, an increase of 12.4 percent over FY2010.

MASTER INNOVATION FOR AETNA

This next section outlines step-by-step recommendations for innovation that are in line with the findings of knowledge leaders and researchers and are in keeping with the best practices demonstrated by industry frontrunners. The first step is to position the organization to serve a niche overlooked by the competition. It should use domains to help focus management’s attention on the overall value of an innovation, rather than on individual projects and experiments; and to engage senior management more effectively and efficiently in the innovation process, with smaller numbers of larger domains attracting greater interest (Ramírez, Roodhart, & Manders, 2011). Domains are recognized within the social sciences as dynamic structures of mutually oriented and dependent people, which may have life-cycles (Dopson, 2001).

The second step is to adequately fund innovations and provide organizational support through efficient production and the launching of new innovations. Aetna should develop organizational structures to drive new growth, including demonstration projects, a process manual that provides a step-by-step guide to creating new-growth businesses, and teaches senior management and project team members the mind-set and behaviors that foster disruptive innovation and growth (Brown & Anthony, 2011). Third, the company should strike the right balance between the central creation of big brands, global plans, strategic initiatives, and the local activation of those plans and programs, because those carefully devised plans have no value unless the local marketer executes those plans with professionalism, ambition and excellence (Birkinshaw & Robbins, 2010).

Within Aetna, each division can employ the Blue Ocean approach and introduce an entirely new product as a disruptive innovation in one division (Kim & Mauborgne, 2004), while simultaneously employing the Fast second approach to colonize the managed care market by improving on existing product and service offerings (Markides & Geroski, 2005). Kim and Mauborgne (2004) define the Blue Ocean approach as a first-mover strategy in which traditional companies are upstaged by newer entrants, creating an emergent design that dominates the marketplace, usurping previous technology and preventing further entrants from competing.

Aetna's business model will find that its public sector division is one that can most easily attempt to employ a disruptive innovation in the managed care industry in general, and the Medicaid market specifically (Hagel, Brown & Davison, 2008). The business model will be aligned with the company goals will be self-reinforcing, and robust (Casadesus-Masanell & Ricart, 2011). The market approach will be one that focuses on the introduction of new products and services in the existing Medicaid market, while featuring value-added incentives for the clients and the public which the company serves (Remneland-Wikhamn, Ljungberg, Bergquist, & Kuschel, 2011).

Organizational Design Model That Drives Innovation

Schlegelmilch, Diamantopoulos, and Kreuz (2003) offered the following definition of strategic innovation: "Strategic innovation is the fundamental conceptualization of the business model and the reshaping of existing markets (by breaking the rules and changing the nature of competition) to achieve dramatic value improvements for customers and high growth for companies" (p. 118). This definition incorporates three key organizational design elements that define strategic innovation and can be applied to Aetna. The first element is the fundamental reconceptualization of the business model where strategic innovators must ask the most basic questions about their business model. Looking at its fundamental business model forces Aetna to look at the tacit rules and assumptions that underlie the way business is traditionally conducted in its industry. Taking nothing for granted, Aetna's senior management can guard against established mental models and tacit industry rules, accepting where their company is, focusing on what it could be (Schlegelmilch, Diamantopoulos, & Kreuz, 2003), and positioning the organization to serve a niche overlooked by the competition (Raynor, 2011).

Processes That Enable Innovation

Enabling innovation requires the reshaping of existing processes by making strategic innovators aware of the tacit rules and assumptions that underlie a certain business. These innovators purposefully break tacit rules and reshape existing markets by changing the nature of competition by focusing on more than market rivals or their competitive position within a strategic group. Aetna can look across substitute markets and strategic groups, and instead of fighting for market share in existing markets, strategic innovators invent new market space (Schlegelmilch, et al., 2003).

Aetna has a track record of focusing on outperforming competition, and as a strategic innovator, the company must seek radically superior value to make competition irrelevant (Schlegelmilch, et al., 2003). Aetna can use domains to help focus management's attention on the overall value of an innovation, rather than on individual projects and experiments (Ramirez, et al., 2011). To engage senior management more effectively and efficiently in the innovation process, with smaller numbers of larger domains attracting greater interest (Ramirez, et al., 2011), these strategic innovators will not have try to adapt to external trends as they occur in their market. Aetna can instead actively participate in shaping the markets and external trends over time (Schlegelmilch, et al., 2003).

Success Factors Necessary to Develop and Implement Innovation

The success factors necessary for Aetna to develop and implement innovation encompass dramatic value improvements for customers. Strategic innovation is not about making marginal or incremental improvements, but about achieving quantum leaps in value by placing the customer, not the competition, at the center of strategic thinking (Schlegelmilch, et al., 2003). Many conventional companies focus on retaining and better satisfying existing customers, promoting a hesitancy to challenge the status quo for fear of losing or dissatisfying existing customers. If Aetna is to become a strategic innovator, the company must also follow non-customers closely because they provide deep and often unusual insights into trends and changes.

Definition of Essential Innovation Success Measurements

If Aetna funds innovations and provides organizational support for new innovations (Brown & Anthony, 2011), these essential activities will allow the company to identify new products and services to offer before existing customers even think of them (Schlegelmilch, et al., 2003). Aetna can develop an industry-wide reputation for innovating and expanding into markets and product lines that are outside conventional offerings for such an organizations, such as interactive websites and mobile communication technology for Medicaid beneficiaries, employing certified peer specialists for their commercial as well as their public sector clients, and engaging family members and community support in care management planning. As a strategic innovator, Aetna must question everything about their particular industry, business model and competitors, and then explore a far wider range of strategic options than other companies, broadening their creative scope, allowing them to find opportunities where other companies can see only constraints imposed by external conditions (Schlegelmilch, et al., 2003). Aetna has the ability to innovate and reinvent itself in not only their market presence and product offerings, but also in their level of customer engagement and customer service. If the company strives to be an industry innovator, it must strike the right balance between the central creation of improved healthcare delivery brands, national expansion, strategic initiatives, and the deployment of those plans and programs through carefully selected marketers who execute those plans with professionalism, ambition and excellence (Birkinshaw & Robbins, 2010).

Social Responsibility and Sustainability a Function of Organizational Innovation Strategy

Aetna's leaders need to be interested in ethical business practices, social and economic impact, and the impression of impropriety an absentee management style can transpire if strict attention to these details is not accomplished. Wee (2002) related the business case of Enron in which the Houston-based energy producer described a Wild West culture that sublimated everything to their goal of driving up the value of their stock. Elms, Harris, and Phillips (2010) explained this thought process as lacking in an ethical center, one in which a foundational, explicit inclusion of moral considerations is unfamiliar, primarily because as the field of strategy historically evolved into a more quantitatively empirical field, strategic management.

In today's economic environment, there is increasing interest in the role of business in environmental sustainability, both under the broad umbrella of strategic management and in consideration of business ethics (Elms, Harris, and Phillips, 2010). Although interest in environmental issues historically lay outside the main focus of business scholarship, a research agenda on business and the natural environment has recently grown from a stakeholder perspective, and as a context in which to study industry self-regulation (Elms, Harris, and Phillips, 2010). Managed care organizations also face very real legal and social challenges, generally related to access to care, correct treatment for the most volatile diagnoses, and the prevention of fraud and abuse, and to achieve sustainability, Aetna must practice good business ethics, thereby creating dividends that go beyond avoiding legal disaster (Wee, 2002). Wee (2002) also stated that there are a host of studies that illustrate that employees have a higher level of job satisfaction and feel more valued when they perceive their companies to have a conscience. He further cites the 2000 Ethics Resource Center study which canvassed corporations and nonprofits across the country and found that, in general, managers' efforts that instill good business ethics were welcomed overwhelmingly by workers and employees who feel valued and have higher levels of job satisfaction are more productive, and are less likely to leave the organization, thus providing the corporation the sustainability management is so desperately seeking.

CONCLUSION

Aetna has recently taken steps to advance its innovation strategy through acquisitions, investments in mobile solutions, and launches of new product and service offerings. The company has also been pursuing accreditation of its existing programs to enhance its competitive position in the marketplace. For example, in April 2011, Aetna Pharmacy Management announced that it was awarded full pharmacy benefit management (PBM) accreditation from URAC, an independent health care accrediting organization that evaluates and monitors PBM's for quality, safety and effectiveness (Aetna Inc., 2010).

Aetna has been actively involved in accrediting its subsidiaries and extensive deal making since the start of 2011. Its recent acquisition of Medicity, a health information exchange technology company, headquartered in Salt Lake City, Utah will help to accelerate long term growth prospects (Aetna Inc., 2010). In June 2011, the company also announced that it entered into an agreement with Genworth Financial, Inc. to acquire Genworth's Medicare Supplement business and related blocks of in-force business, and during the same month, Aetna completed the acquisition of Prodigy Health Group, the nation's largest independent third party administrator (TPA) of self-funded health care plans (Aetna Inc., 2010). The following month, the company announced that it entered into an agreement to acquire PayFlex Holdings, Inc., one of the nation's largest independent account-based health plan administrators, with approximately 1 million accounts and approximately 3,300 direct employer customers. These acquisitions will enhance its existing product capabilities and long term growth prospects.

Aetna's investment in mobile solutions is intended to take advantage of the fact that mobile phones have increasingly become the preferred communication device for consumers. Wireless subscriber connections, a good indicator of mobile penetration rates, increased from 233 million in 2006 to 331.6 million in 2011, and the trend is expected to continue in the near future as consumers are likely to carry more than one mobile phone per person (Aetna Inc., 2010). Consumers are increasingly using mobile phones for a variety of purposes including subscription to managed healthcare providers and Aetna intends to benefit from this trend by investing in mobile related technologies and applications. Mobile solutions are not only a matter of convenience but a powerful way to reduce costs related to healthcare delivery and communications, and an investment in mobile solutions will allow Aetna to conveniently serves its existing customers as well as attract the new ones, widening its customer base (Aetna Inc., 2010).

The company's launch of new products and service offerings have helped Aetna place significant emphasis on developing and maintaining product and service offerings to serve existing and new customer markets. Over the last five years, this focus has led to the introduction of new products, such as Aetna One, a suite of integrated products that offer disease management and prevention, wellness and health promotion, and health, disability and absence assessments (Aetna Inc., 2010). Aetna has also introduced their Personal Health Record, an electronic health record that provides members with online access to personal information to help them make better informed decisions about their health care.

Finally, Aetna has continued to improve the transparency of its products and pricing by using their Navigator online tool to give its members access to physician-specific cost, clinical quality and efficiency information in additional select markets (Aetna Inc., 2010). The introduction of new products and services helps the company to increase its geographic operations and the customer base.

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