Aetna: Investing in Diversity Case

By Wayne Cascio, Ph.D.
PROJECT TEAM

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INTRODUCTION

Raymond Marcos, chief diversity officer at Aetna, is preparing to make a presentation to the company’s board of directors at its mid-December meeting. In a deteriorating economic environment that seems to be global in its reach, the board is looking to cut expenses in any way possible. To do that, it is reviewing every major company business initiative. Diversity is one such initiative, and the board wants to understand the business case for it. It also wants to see a clear plan to measure outcomes, including systems and data. Raymond knows that some of the board members are relatively new, that almost all of them are independent directors from outside the company and that they may not have a deep understanding of the historical roots of Aetna’s diversity efforts or the objectives of those efforts. At the same time, he is eager to showcase the company’s diversity initiatives and their results, both direct and indirect.

The board has allocated 35 minutes for Raymond’s presentation and another 15 minutes for questions. In preparing his remarks, Raymond has assembled a wide range of information and has to decide what to include and what to exclude. Time constraints simply do not allow him to present everything he would like. Bottom line: he has to make logical arguments and a compelling case to the board to support the company’s continued investments in diversity.

He has information relevant to the following issues:

1. Company background.
2. Current economic environment.
3. The business case for diversity.
5. Aetna’s values-based approach to running its business and its broad-based approach to diversity.
6. Direct and indirect payoffs from Aetna’s diversity efforts.
As Raymond surveys the information, he is feeling a bit overwhelmed. He asks himself, “How am I ever going to be able to condense all of this into a 35-minute presentation?” While he is unsure of all of the details of his presentation, Raymond has a deep appreciation and understanding of diversity at Aetna. He wants to build his presentation on a long-standing belief that broadening the definition of diversity is actually an opportunity. “In the past, diversity was an employee relations issue, largely around race and gender. This was the traditional first-order view of diversity, born out of compliance and human resources. We have learned that diversity comes in many different shapes and flavors, and we have an obligation to recognize the many different ways people present to us. The beauty of diversity is the differing perspectives everybody brings to the table. Those perspectives enrich the dialog, and that, in turn, promotes better decision-making.”1 As he ponders the best way to proceed, Raymond considers the information he has collected.

COMPANY BACKGROUND

Aetna is one of the nation’s leading diversified health care benefits companies serving approximately 37.2 million people (17.5 million medical members, 14.2 million dental members and 10.9 million pharmacy members, some of whom fall into more than one category).2 Aetna offers a broad range of traditional and consumer-directed health insurance products and related services, including medical, pharmacy, dental, behavioral health, group life and disability plans, and medical-management capabilities and health care management services for Medicaid plans. Aetna customers include employer groups, individuals, college students, part-time and hourly workers, health plans, governmental units, government-sponsored plans, labor groups and expatriates.

Aetna’s health care network includes 4,919 hospitals, more than 843,000 health care professionals, and more than 490,000 primary care doctors and specialists. It subsumes five member companies: ActiveHealth Management, Aetna Student Health, Goodhealth Worldwide, Schaller Anderson and Strategic Resource Company.

More than 35,000 employees work for the company. Of those, 31 percent are people of color and 76 percent are women. People of color hold 16 percent of management/supervisory positions, and 11 percent of senior leaders are people of color. Women hold 64 percent of management/supervisory positions, and 30 percent of senior leaders are women. Aetna’s 2007 revenue was $27.6 billion. Exhibit 1 (located in the appendix) is a snapshot of the company’s 2007 financial highlights.
Founded in 1853, Aetna has a long history of community involvement and leadership on employment and diversity issues. For example, 2009 is the “Year of the Woman” at Aetna, where it will celebrate 100 years of employment of women.

Aetna’s diversity activities have a long history. Since 1982, Aetna has published an African-American History calendar, profiling 12 well-known and lesser-known African-Americans in a variety of fields and professions each year. In that same year, Arthur Ashe, famed tennis player and world citizen, was voted to the Aetna board of directors. Ashe was not the first African American on Aetna’s board, however; Hobart Taylor, Jr., was named to the Aetna board of directors in 1973.

Aetna’s current ‘mature’ vision of diversity is a broad view that includes a wide variety of attributes that make all of us uniquely diverse from one another in some way. Exhibit 2 presents some key milestones in the company’s history.

CURRENT ECONOMIC ENVIRONMENT

While examining each major business initiative at Aetna, the board is well aware of global and domestic economic conditions. In 2008, widespread defaults on sub-prime mortgages triggered a global crisis in capital markets. Many of the world’s leading investment banks collapsed, credit markets tightened considerably around the globe, and governments and the private sector battled to shore up the global financial system. Following the demise of Lehman Brothers, Bear Sterns and Merrill Lynch as independent entities, the U.S. government undertook a massive bailout of troubled lenders Fannie Mae and Freddie Mac, insurance giant AIG and major banks.

All 15 European countries that use the euro currency (the “euro zone”) have been in a recession following two straight quarters of declines in their gross domestic products. Governments across the world—including the UK, Belgium, France, the Netherlands, Germany, Ireland, Italy, Spain, Portugal, Iceland, Norway, Sweden, Austria, Hungary, Ukraine, Russia, China, Saudi Arabia, the UAE, South Korea, Japan and Indonesia—stepped up interventions to stem the worst financial crisis in decades. Those interventions took the form of interest rate cuts, capital injections and lending guarantees to restore liquidity, revive the ailing banking system and rebuild investors’ confidence.3

Against this backdrop, Aetna reported its financial results for the third quarter of 2008.4 Exhibit 3 presents more detailed information for the total company, and Exhibit 4 shows the performance of Aetna’s common stock from December 2000 through November 14, 2008. In summary form, third quarter 2008 results were as follows:

- **Operating earnings** were $1.12 per share, a 15 percent increase over the prior-year quarter, in line with the Thomson/First Call mean of $1.12 per share.
- **Net income** was $0.58 per share, a 39 percent decrease over the prior-year quarter, primarily as a result of net realized capital losses.
- **Net realized capital losses** totaled $232 million after tax; capital adequacy and holding company liquidity remain strong.

- **Medical membership** increased by 169,000 to 17.7 million.

- **Guidance:** Full-year 2008 operating earnings per share were projected to be $3.90 to $3.95, a decrease from prior guidance due primarily to lower fourth quarter net investment income.

- **Preliminary 2009 guidance:** Operating earnings per share were projected to increase 3 to 5 percent over full-year 2008 operating earnings-per-share guidance. This includes a projected $0.30 to $0.40 per share increase in the company’s 2009 pension expense, driven by 2008 equity-market performance.

Commenting on these results, Aetna’s chairman and CEO said, “Despite the significant weakening of the U.S. economy as well as the unprecedented turmoil in the financial markets around the world, our core business performance remains solid. We continue to win in the marketplace by offering a broad range of products and providing excellent customer service. Aetna also continues to be proactive at the national and state levels in promoting the important issues of increased accessibility and affordability of health care and improved quality for more Americans. Our national presence, strong competitive position and well-conceived strategy have continued to produce solid results even in this difficult economy.”

In a related comment, Aetna’s executive vice president and CFO said, “While we did incur investment losses this quarter due to the turmoil in the capital markets, Aetna is well-capitalized, with a strong balance sheet and excellent cash flows and liquidity. We expect to generate over $1 billion of excess capital in 2008 and currently have no need to raise additional capital. Our underwriting results were strong, demonstrating our continued ability to manage costs and price with discipline.”

**THE BUSINESS CASE FOR DIVERSITY**

At Aetna, celebrating diversity means appreciating and valuing individual differences. In general, managing diversity means establishing a heterogeneous workforce (including white men) that can perform to its potential in an equitable work environment where no member or group of members has an advantage or a disadvantage.\(^5\) This is a pragmatic business strategy that focuses on maximizing productivity, creativity and commitment of the workforce while meeting the needs of diverse consumer groups. Aetna pursues a more nuanced definition of diversity, namely, that it is more than just gender and racial or ethnic diversity. It is also diversity of background, training, functional experience, generational identity, etc.

To be sure, a mature view of diversity in corporate America requires a legitimate and sellable business case of diversity for the organization and its bottom line. An internal business case for diversity must extend beyond compliance (and the pain of fines and bad PR that non-compliance can bring) to a true strategic contribution to business growth and bottom-line results, employing the resources and market view of a diverse employee population.
Aetna’s Employee Resource Groups (ERGs) are good examples of such contributions. Here are just a few of them:

- Aetna's African American ERG served on focus groups to contribute ideas for greater penetration of urban markets, from product design to distribution and advertising.
- The Telework, Caregivers and Aetnabilities ERGs serve as invaluable resources to Aetna and strong contributors to creating a work environment that is welcoming to their particular segment while identifying external business opportunities.
- The Hispanic and Asian ERGs provide translation support. Documents translated by firms that specialize in that work may get the literal word-for-word match from English, but that translation may not have the same overall message as was intended. The Hispanic and Asian ERGs know Aetna’s terms and the messages it wants to convey, so they help develop high-quality translations of the English text into similar-meaning texts in non-English languages.
- Gen Y ERG is helping Aetna develop a recruitment and retention strategy that resonates with this employee segment. The Gen Y ERG also assists with marketing efforts to this younger population.

Broadly speaking, there are two key drivers of Aetna’s corporate strategy to pursue diversity: (1) growth opportunities in non-traditional and other targeted growth markets (e.g., gay/lesbian/bisexual/transgender (GLBT), Asian-American business owners); and (2) the need for an organization that reflects and understands the customer base it serves. To accomplish these objectives, Aetna is taking the following steps:

- Creating innovative and tailored product and service solutions that will meet customers’ unique needs.
- Developing a diverse supplier base that reflects the company’s multicultural marketplace.
- Building a workforce that understands the communities where Aetna does business.
- Fostering a culture of inclusion that attracts a diverse talent pool and recognizes and rewards the contributions of every employee while allowing employees to do their best work.

According to Aetna’s mission and values statement (www.aetna.com/about/aetna/ms/), Aetna appreciates effort but recognizes and rewards employees for achieving business results. Toward this end, Aetna uses the following metrics to assess the business impact of its diversity initiatives.
<table>
<thead>
<tr>
<th>Initiative</th>
<th>Metric</th>
<th>Business Impact</th>
<th>Area Affected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Market Initiative and Targeted Growth Markets</td>
<td>• Number of new markets • Membership growth</td>
<td>• Profitable growth in local markets • Local markets • Small and middle markets</td>
<td></td>
</tr>
<tr>
<td>Supplier Diversity</td>
<td>• Number of suppliers and amount in expenditures</td>
<td>• Promote strong company brand • Profitable growth</td>
<td>• Small and middle markets • Individual markets</td>
</tr>
<tr>
<td>AARP</td>
<td>• Number of new members 50 years of age and older</td>
<td>• Profitable growth</td>
<td>• Enterprise-wide • 50+ demographics</td>
</tr>
<tr>
<td>Multicultural Investments</td>
<td>• Money invested with minority- and woman-owned funds</td>
<td>• Promote strong company brand • Competitive returns</td>
<td>• Enterprise-wide</td>
</tr>
<tr>
<td>Cultural Competency Training</td>
<td>• Percentage of employees who have completed training</td>
<td>• Promote strong company brand by understanding different population segments</td>
<td>• Enterprise-wide</td>
</tr>
<tr>
<td>Multilingual Capability</td>
<td>• Percentage of employees who speak languages in addition to English • Percentage of materials available in languages other than English</td>
<td>• Promote strong company brand by understanding different population segments • Increased market share</td>
<td>• Enterprise-wide</td>
</tr>
<tr>
<td>Multicultural Customer Satisfaction Index</td>
<td>• Percentage of customers satisfied with our products and services</td>
<td>• Promote strong company brand • Increased market share from the multicultural market</td>
<td>• Enterprise-wide</td>
</tr>
<tr>
<td>Diversity Index Gaps</td>
<td>• Differences among employee demographic segments</td>
<td>• Increased employee engagement and productivity</td>
<td>• Enterprise-wide</td>
</tr>
<tr>
<td>HR Recruiting/Retention</td>
<td>• Differences among employee demographic segments</td>
<td>• Hiring and turnover savings • Employee satisfaction • Employer reputation and brand</td>
<td>• Enterprise-wide</td>
</tr>
<tr>
<td>Miami Advisory Council</td>
<td>• Miami market share</td>
<td>• Increased market share and brand recognition</td>
<td>• Miami-Dade County</td>
</tr>
<tr>
<td>Diversity Annual Report</td>
<td>• Reports printed and distributed • Languages used</td>
<td>• Promote strong company brand as an industry leader • Increased market share</td>
<td>• Enterprise-wide</td>
</tr>
</tbody>
</table>
Aetna’s diversity strategy is closely related to its broader HR strategy, as reflected in the overall statement of that strategy: “HR will be accountable for the advancement of a diverse, high-performing workforce to sustain industry leadership.” To operationalize that strategy from 2009 through 2011, HR at Aetna identified three key initiatives linked to business priorities and goals and tied to measurable outcomes that reflect success. An executive summary of the overall HR strategy is shown below.

### Executive Summary: 2009–2011 Human Resources Strategy

<table>
<thead>
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<tbody>
<tr>
<td>Aetna will lead the industry in providing high-quality, cost-effective health and related solutions that leverage information to meet the needs of targeted customers.</td>
<td>HR will be accountable for the advancement of a diverse, high-performing workforce to sustain industry leadership.</td>
</tr>
</tbody>
</table>

### Aetna’s Integrated Workforce-Management Strategy

<table>
<thead>
<tr>
<th>Business Priorities and Goals</th>
<th>Key Strategic Goals</th>
<th>Success Measures</th>
</tr>
</thead>
</table>
| • Forecast and plan for a superior workforce to meet changing business needs, including local and targeted growth markets  
  • Attract innovative, results-focused, diverse workforce | **Goal #1: Workforce Management**  
Supply a qualified workforce to support near- and long-term business objectives | • Effectiveness of workforce plans (e.g., timely delivery of right resources to meet business needs)  
• Diverse employee base that understands and reflects our constituents  
• Aligned systems and practices to support delivery of strategy (e.g., utilization of Talent Manager information) |
| • Develop bench strength and career growth in critical job functions, succession plans and enterprise leadership to ensure our ability to meet challenges of our growth strategy | **Goal #2: Leadership and Key Talent Capabilities**  
Identify, develop, utilize and retain talent with leadership and functional capabilities | • Internal talent placement into new and expanded roles  
• Talent retention  
• Middle management and functional talent development  
• Diverse pipeline of internal and external talent for leadership  
• Career progression |
| • Retain, engage and optimize performance of innovative, results-focused, diverse workforce  
  • Drive profitable growth | **Goal #3: High-Performance Organization**  
Drive employee, team and organizational performance and advance Aetna’s growth strategy | • Pay-for-performance results  
• Diversity scorecard results  
• Improved employee survey results  
• Employee health dashboard results  
• Contribution to growth-sales |
AETNA’S VALUES-BASED APPROACH TO RUNNING ITS BUSINESS AND ITS BROAD-BASED APPROACH TO DIVERSITY

Aetna employees live by a set of core values, known as the Aetna Way, which put the people who use the company’s services at the core of everything it does. While business results are important, Aetna’s senior managers believe that how the company achieves those results—how it makes a difference for the people it serves—is every bit as important. Exhibit 5 (located in the appendix) shows the company’s four core values: integrity, employee engagement, excellence and accountability, and quality service and value. Raymond focuses on the customer-centric nature of these values—that they all revolve around Aetna’s customers. He also notes how each value is defined operationally in terms of how employees are expected to behave.

- **Integrity**: Do the right thing for the right reason, honor commitments and behave ethically.
- **Employee engagement**: Lead people to success, value diversity, and build confidence and pride in our company.
- **Excellence and accountability**: Make a fair profit, innovate, anticipate the future—look, listen and learn.
- **Quality service and value**: Make it easy. Eliminate hassles; make Aetna the standard by which others are judged; build trusting, valued relationships with all constituents.

The “ICE” Strategy

Aetna’s diversity strategy is a unique marriage of values and business strategy with roots from more than 35 years ago. Its core components are integration, communication and education (ICE). Exhibit 6 is a graphic representation of this overall diversity strategy.

*Integration* means that all diversity components are working together across the enterprise (marketing, HR, Aetna’s philanthropic foundation, investments, procurement, sales, etc.) and that they are fully integrated into the short- and long-term business-planning process. Communication is the creation and dissemination of information to all employees and customers. Finally, education means deepening the understanding of what the diversity strategy is, its components, how it is manifested in Aetna’s business strategy, who is included, and the creation of development tools to increase individual and organizational competencies.

The outcome of this strategy is twofold: (1) to serve customers in current markets more effectively while (2) identifying opportunities in new markets. It recognizes that Aetna’s future success depends on a deep knowledge of all employee segments; clear and consistent communication to disseminate information to employees, customers and other key constituents; and an increased focus on developing the cultural awareness and competency necessary to sustain its business success. To be sure, Aetna’s ICE strategy extends well beyond diversity awareness to that of a strategic advantage.
As he examines Exhibit 6, Raymond notes that under the column heading “Integration,” Aetna’s diversity strategy supports its business goals. To illustrate this linkage in greater detail, he consults Exhibit 7, which shows the interplay between the company’s strategic business goals and the diversity implications associated with them.

As for the ICE components of communication and education (of new hires, current employees and senior managers), Raymond considers some of Aetna’s major initiatives:

- New-hire orientation includes an overview of the diversity strategy.
- The internal diversity web site includes information and resources related to diversity, including Aetna’s mission, strategy and other resources.
- Aetna’s robust performance management process includes diversity-related behaviors and competencies for all levels of employees.
- Aetna regularly publishes articles on different diversity topics on its intranet.
- Since 2005, the company has published an annual diversity report.
- Aetna sponsors a speaker series through its “Diversity in Action Lecture Series,” available to all employees via live webcast.
- The Aetna Diversity Board, chaired by the company’s chief executive officers, is comprised of Aetna executives, including its president.
- The Aetna Diversity Alliance, a multi-level cross-organizational group that leverages and integrates each other’s resources to maximize Aetna’s diversity-related presence and reach, internally and externally.
- The Aetna Diversity Scorecard.
- An annual report for Aetna’s board of directors, which captures the company’s accomplishments related to its diversity strategy.
- Aetna’s chairman reports the results of diversity initiatives at quarterly managers’ meetings and at all-employee meetings.
- Reporting results of key external diversity assessments and surveys such as the DiversityInc’s “Top 50 Employers for Diversity.”

Raymond identifies four diversity focus areas in Exhibit 7—namely, workforce and workplace, suppliers, marketplace, and community and professional alliances. In thinking about the best way to integrate this material into his presentation, Raymond considers how the company measures several of these important outcomes.

**Workforce**

In its 2008 and 2009 workforce, Aetna measured the representation of people of color in management, noting where it has under-representation relative to its best practice corporate and industry peers.
Workplace

Through an annual employee survey for all employees, Aetna measures the work experiences and perceptions among employees of different backgrounds. Specifically, it measures the difference in responses to two questions on the employee survey, collectively referred to as the diversity index. Any difference in responses between groups is referred to as the diversity index gap, and the company works to understand its drivers and make improvements as necessary. Examples of segments measured include: employees with and without disabilities; gay/lesbian and heterosexual employees; men and women; white employees and employees of color; and employees who work at home or in the office.

These two questions ask employees how strongly they agree or disagree with the following statements about Aetna:

1. Aetna deals with all employees fairly [an indicator of how a good manager should behave].
2. Aetna enables people from diverse backgrounds (e.g., ethnicity, race, gender, religion, age, disability, sexual orientation, gender identity) to contribute to their fullest.

Suppliers

Through its supplier-diversity program, Aetna actively seeks out minority- and women-owned businesses and invites them to compete for the company’s business. By tapping into different backgrounds, perspectives and experiences, Aetna enjoys several advantages. First, it gains access to high-quality goods and services. Second, it gains valuable insight into multicultural markets. And finally, it serves more effectively the communities in which its own employees live and work.

Community and Professional Alliances

With respect to community involvement, Aetna works diligently to build relationships with local community leaders, chambers of commerce and nonprofit organizations to gain an understanding of the health care needs in the community. It then works with those same groups to help address the identified needs. Sometimes that means reaching out to minority brokers and jointly developing community outreach strategies, as Aetna did in Chicago. Sometimes it means creating a council of business and community leaders to provide Aetna with insight and perspectives on the Hispanic community, as it did in Miami. Sometimes it means working with Chinese health care providers to ensure that Aetna’s members have access to culturally appropriate care, as Aetna did in New York. It always means working on a local level to develop an understanding of the needs of a range of communities, including African-Americans, Latinos, Asian Americans, Native Americans, the GLBT community and women-led businesses.
Incremental Costs

A question that members of Aetna’s board of directors might reasonably ask is, “What additional costs does a company incur by pursuing a diversity strategy that is as aggressive and broad as Aetna’s?” The honest answer is that Aetna’s diversity initiatives are not all free, but Raymond wants to emphasize that the additional costs are really investments in the company’s long-term sustainability. Aetna has historically adopted this perspective, but given the current economic conditions, he can certainly understand why the board might question such expenditures. Additional costs include:

- Investments in training and education, people resources, marketing and advertising.
- Funding of targeted program efforts and initiatives, such as travel budget to allow company recruiters to visit historically black colleges and universities and Hispanic-serving institutions or gay and lesbian chambers of commerce.
- Aetna knows that some members of its corporate peer group spend more than it does on diversity efforts and initiatives, so it tries to leverage its spending in this arena for maximum potential return to the organization (return on investment, or ROI), in whatever form that ROI may take—revenue growth, percentage growth in members, awards/recognition, talent acquisition, etc.

PAYOFFS FROM AETNA’S DIVERSITY EFFORTS—DIRECT AND INDIRECT

Aetna’s business results are impressive. Its market value has zoomed from $3.3 billion when the current CEO took over in 2001 to more than $29 billion in 2008. Aetna’s net income rose from a loss of $291.5 million in 2001 to more than $1.8 billion in 2007.9 Undoubtedly, much of the turnaround in business results can be traced to a more focused business strategy, but at the same time, the CEO made diversity a key business imperative. That aspect of Aetna’s strategy has also paid off. To begin to appreciate the broad range of recognition the company has received, consider some of its recent awards:9

- Top 40 Companies for Diversity, Black Enterprise magazine.
- Readers’ Choice, Best Diversity Company, Engineering & Information Technology magazine, diversity/careers category.
- Corporation of the Year Legacy Award, 100 Black Men of Greater Washington, DC.
- Top 10 Companies for Executive Women, National Association for Female Executives.
- Chairman’s Award, National Newspaper Publishers Association (Black Press of America), for outstanding advertising to and for African Americans.
- Top 50 Companies for Black MBAs to Work, Black MBA magazine.
- Top 50 Companies for Latinas, Latina Style magazine.
Top employer for leadership and accomplishment in hiring and promoting people with disabilities, State of Connecticut Department of Social Services.

25 Noteworthy Companies, DiversityInc.

5-Star Employer Award, U.S. Department of Defense, Employer Support of the Guard and Reserve.

America’s Most Admired Companies, Fortune magazine, #1 in the health care insurance category.

Hispanic Health Leadership Award, Ron Williams, Aetna chairman and CEO, National Hispanic Health Foundation.

National Diversity Bridge Award, Ron Williams, Aetna chairman and CEO, Chicago United.

One of the 50 best places to launch a career, Business Week.

WHERE TO GO FROM HERE?

To provide a more logical and compelling case for Aetna’s diversity initiatives, Raymond wants to frame his presentation in the context of a broad organizing framework. He has read about one such framework in Investing in People (2008). The key point he took from that book was that metrics alone are not enough to convince skeptical decision makers about the worth of any HR initiative such as diversity. To have an effect, metrics must create a true strategic difference in the organization. They are valuable to the extent that they improve decisions about talent and how it is organized. That means it is important to embed the metrics in a broader framework for creating organizational change through enhanced decisions. Exhibit 8 describes such a framework in greater detail.

As he ponders the depth and breadth of the information he has assembled, Raymond keeps asking himself several questions: Is there other relevant information that I should collect? How do I order, prioritize and integrate the information I have collected to make the most compelling case in the 35 minutes I’ve been allotted by the board?
## Financial Highlights
(Millions, except per common share data)

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>$27,599.6</td>
<td>$25,145.7</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>Operating Earnings</strong></td>
<td>1,837.1</td>
<td>1,847.9</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>1,831.0</td>
<td>1,701.7</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Operating Expense Ratio</strong></td>
<td>18.2%</td>
<td>18.8%</td>
<td>(3.2)</td>
</tr>
<tr>
<td><strong>After-tax Operating Margin</strong></td>
<td>6.6%</td>
<td>6.7%</td>
<td>(1.5)</td>
</tr>
</tbody>
</table>

### At year end

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>% CHANGE</th>
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<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>$50,724.7</td>
<td>$47,626.4</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Shareholders’ Equity</strong></td>
<td>10,038.4</td>
<td>9,145.1</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>Market Capitalization</strong></td>
<td>28,649.5</td>
<td>22,280.3</td>
<td>28.6</td>
</tr>
<tr>
<td><strong>Common Shares Outstanding</strong></td>
<td>496.3</td>
<td>516.0</td>
<td>(3.8)</td>
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</table>

### Per common share

<table>
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<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>% CHANGE</th>
</tr>
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<tbody>
<tr>
<td><strong>Operating Earnings</strong></td>
<td>$3.49</td>
<td>$2.90</td>
<td>20.3</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>3.47</td>
<td>2.99</td>
<td>16.1</td>
</tr>
</tbody>
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1 Operating earnings excludes from the net income: net realized capital (losses) gains of $(48) million, $(74) million pretax) in 2007 and $24 million ($32 million pretax) in 2006; a reduction of the reserve for anticipated future losses on discontinued products of $42 million ($64 million pretax) in 2007 and $75 million ($115 million pretax) in 2006; the write-off of a $72 million ($47 million after tax) insurance recoverable related to a prior-year class action settlement in 2006; a debt refinancing charge of $12 million ($8 million after tax) associated with our debt refinancing in 2006; and an impairment of $8 million ($6 million after tax) of previously capitalized software due to the acquisition of a more multifunctional system in our acquisition of Broadspire Disability in 2006.

2 The operating expense (GAAP basis) was 18.3% in 2007 and 19.2% in 2006. The operating expense ratio excludes net realized capital (losses) gains from total revenue as discussed in Note 1 above and also excludes the prior-year class action settlement insurance-related charge, debt refinancing charge and acquisition-related software charge from operating expenses as discussed in Note 1 above.

The foregoing financial information should be read in conjunction with the financial statements and related notes as presented in Aetna’s 2007 Annual Report, Financial Report to Shareholders.
Exhibit 2: Key Milestones in Aetna’s History

1850
- In 1850, Aetna Insurance Company organizes an annuity fund to sell life insurance. Aetna Insurance Company turns to a Hartford, Conn., judge, Eliphalet A. Bulkeley, who is a general counsel to the company and also on its board of directors. Judge Bulkeley had been the president of the Connecticut Mutual Life Insurance Company, which was, when founded in 1846, the first life insurance company in Connecticut. He is chosen to head the annuity fund operation, and in the summer of 1850, the department commences business.

1853
- The annuity department separates from Aetna Insurance and is incorporated as Aetna Life Insurance Company. The company’s first president is Eliphalet A. Bulkeley. The name “Aetna” is retained to take advantage of the good reputation of the original Aetna and because three years of life insurance policies already had been issued under that name. The name was inspired by Mt. Etna, an 11,000-foot volcano on the eastern shores of Sicily, then the most active volcano in Europe. Awed by the strength of the mountain, they named their fledgling venture Aetna Insurance Company.

1865
- Annual income tops $1 million. By 1864, Aetna has increased its business volume by 600 percent over 1861 levels and has increased annual premium income nine times. This rapid growth gives Aetna the financial stability and resources needed to meet the stringent requirements placed on life insurance companies in Massachusetts and New York, and by 1865 the company is authorized to solicit business in both states for the first time. In the eyes of the industry, Aetna has arrived. Also in 1865, the company pays a large cash dividend—the first since 1857—and its size eclipses the combined total of all previous dividends.

1899
- Aetna enters the health insurance field. It wasn’t until the turn of the century that larger insurance companies, with the statistical bases to set adequate pricing levels and the sales forces capable of spreading risk, entered the field and health insurance became a part of the industry. In 1899, Aetna becomes one of the first stock insurance companies to enter the health insurance business. The new product is offered only to people holding or purchasing an Aetna life or accident policy and is not intended to be anything more than a spur to the sales of the other two lines.
1902

- Aetna begins offering liability coverage. As the nation’s industrial base grows more complex and the Progressive social reform movement gains political momentum, Aetna responds by organizing an accident and liability department in 1902 to handle employers’ liability and workmen’s collective insurance. This department becomes the cornerstone of the Aetna Accident and Liability Company in 1907, which in rapid order moves into more lines of property and casualty insurance, including protection against damage to horse teams, flywheel breakage, auto collision coverage, plate glass and burglary insurance, and surety bonds.

1907

- The company begins offering automobile coverage. In 1907, Aetna creates a casualty subsidiary—the forerunner of Aetna Casualty and Surety—to handle (among other things) automobile property coverage. Soon after, Aetna begins aggressively developing related lines such as collision and damage.

1913

- Aetna forms a group department to sell group life insurance, becoming one of the first insurers to write group coverages for businesses. The line became the foundation upon which Aetna built its current health care business. The 1900s bring into the public consciousness the notion that employers are responsible for the safety of their workers. As a consequence, the emergence of a market for employer liability insurance prompts Aetna to enter the fray. Over the years, the company adds group accident (1914), group disability (1919) and group medical (1936) to its original group life portfolio.

1926

- Aetna appoints its first female officer, Dr. Marion Bills. Dr. Bills completely revamps the company’s personnel policies within two years. She also introduces the Bonus Plan, a piecework sliding-pay scale that is primarily applied to data-processing departments.

1929

- The stock market crash kicks off the Great Depression. Aetna’s fortunes are not as devastated as one might have expected from a company so heavily involved in investments. Only about 12 percent of the company’s assets are in common stock, and almost half of that is in its own companies. The inherent strength of the Aetna companies enables them to survive the 1930s. Aetna manages the crisis by withholding dividend payments to shareholders from late 1932 to early 1934, reducing the workforce through attrition, and cutting salaries by 10 percent. Aetna employees survive the Depression in relatively good shape; there are no layoffs, and the company-wide pay cut, already less than the national average of 25 percent, is more than offset by a deflationary cycle that increased purchasing power.
1940
- Aetna bonds the construction of seven U.S. Navy aircraft carriers—the Essex, the Yorktown, the Intrepid, the Hornet, the Franklin, the Ticonderoga and the Randolph. More than 1,600 Aetna employees served in the military during World War II. As it did in World War I, Aetna aids the war effort by throwing its substantial resources behind bond drives, raising millions for the war chest.

1951
- The group department introduces major medical coverage as a labor shortage coupled with a wage freeze make employee benefits one way employers can attract and retain workers. As American society becomes more affluent, it insists on adequate and accessible medical care. Providing this care in the form of benefits packages becomes the focus of the department during the years after the war as it develops plans to cover first routine medical expenses and then, in 1951, catastrophic illnesses.

1963
- Aetna insures the lives of the first seven American astronauts. An enterprising Houston agent convinces America’s original seven astronauts to purchase Aetna policies. He then convinces Aetna to write the policies, the first individual life insurance policies for spacemen. When L. Gordon Cooper caps the pioneering Mercury program with a historic 22-orbit flight, Aetna is there too.
- The company formally crafts an equal opportunity employment policy.

1968
- The company is listed on the New York Stock Exchange. Aetna appears on the Big Board for the first time on September 24, 1968, four days after the stockholders approve an increase in stock from 26 million to 40 million shares of common stock and the creation of 10 million shares of preferred stock.
- Aetna expands its international business in 1968 by acquiring a majority interest in Producer’s and Citizen’s Cooperative Assurance Company, a Sydney, Australia-based entity, for a negotiated price of $10 million.

1981
- Aetna reorganizes along market segments. As part of a companywide reorganization, Aetna abandons its divisional arrangement in favor of a more market-focused structure. The personal financial security division is created to meet the needs of individuals; the commercial insurance division is developed to cater to small and large businesses; and the group division is renamed the employee benefits division to better describe its function.
▪ Aetna acquires a 40 percent interest in two Chilean companies, a pension and a life enterprise. Soon to follow are ventures in England, Spain, Hong Kong, Taiwan, Indonesia and Korea.

1982
▪ Aetna introduces its “Aetna, I’m Glad I Met Ya!” advertising campaign.
▪ The company re-enters the managed care industry with the introduction of its first formal HMO, Choice HMO, in Chicago.

1990
▪ Fortune magazine lists Aetna as its fifth most-admired financial services company.

1999
▪ Aetna completes its acquisition of Prudential HealthCare for $1 billion, making Aetna the country’s largest provider of health benefits, with more than 21 million members.

2000
▪ Aetna completes the sale of its financial services and international businesses to ING for $7.7 billion and spins off the health business to its shareholders. The sale helps Aetna redefine itself as an independent health and group-benefits company, on its way to restoring industry leadership in terms of service, reputation and profitability.

2003
▪ Aetna celebrates its 150th anniversary. To mark the milestone, Aetna executives ring the closing bell at the New York Stock Exchange on June 16.

2004
▪ An award for “Best Business Turnaround—More Than 2,500 Employees” is presented to Aetna as part of the 2004 American Business Awards competition. The awards recognize outstanding leadership, innovation, perseverance, creativity, teamwork and integrity in business.

2005
▪ After achieving a company high of $1.1 billion in earnings during 2004 and a new high-water mark in stock price, Aetna declares a two-for-one split of the company’s common stock effective March 11, 2005.
▪ Aetna completes a series of strategic acquisitions that allow the company to strengthen its base of products and services while reaching new customer segments. These acquisitions include Strategic Resource Company (SRC), an administrator of group benefit products for part-time and hourly workers; ActiveHealth
Management, a clinically focused, technology-driven health management and health care data analytics company; and HMS Healthcare, a regional health care network operating in Michigan, Colorado and other states.

2006

- Ronald A. Williams becomes chairman, chief executive officer and president of Aetna, succeeding John W. Rowe, M.D., who retires.
Exhibit 3: Aetna’s Third Quarter 2008 Financial Results

**Revenues**, excluding net realized capital losses, increased 14 percent to $8 billion for the third quarter of 2008, compared with $7 billion for the third quarter of 2007. The growth in third-quarter revenue reflects a 16 percent increase in premiums and an 8 percent increase in fees and other revenue. This revenue growth reflects a higher level of membership and premium rate increases.

**Total Operating Expenses**, excluding the $42.2 million allowance recorded against the reinsurance recoverable, were $1.4 billion for the third quarter of 2008, $121.1 million higher than the third quarter of 2007. Operating expenses as a percentage of revenue were 17.4 percent for the third quarter of 2008 and 18.2 percent for the third quarter of 2007. Including net realized capital losses and the allowance against the reinsurance recoverable, this percentage was 18.8 percent for the third quarter of 2008 and 18.3 percent for the third quarter of 2007.

**Corporate Interest Expense** was $39.3 million after tax for the third quarter of 2008, compared with $28.6 million for the third quarter of 2007. The increase for the third quarter 2008 was due to higher average debt levels in 2008.

**Net Income** was $277.3 million for the third quarter of 2008, compared with $496.7 million for the third quarter of 2007. The decrease in net income for the third quarter 2008 was primarily due to net realized capital losses in the third quarter of 2008 of $232 million after tax. Approximately $120 million of these losses were due to other-than-temporary impairments of certain fixed income investments, which decreased in market value due to the widening of credit spreads in the marketplace in the third quarter of 2008. These losses also include approximately $70 million for the impairment of Aetna’s investments in debt securities of Lehman Brothers Holdings Inc., Washington Mutual, Inc. and other investments, as well as $42 million from sales of investment securities.

**Operating Margin** was 11.4 percent for the third quarter of 2008, compared with 12.1 percent for the third quarter of 2007, pre-tax. The after-tax net income margin, which represents net income divided by total revenue, was 3.6 percent for the third quarter of 2008, compared with 7.1 percent for the third quarter of 2007.

**Share Repurchases** totaled 11.1 million shares at a cost of $472.8 million in the third quarter of 2008.
Exhibit 4: Monthly Performance of Aetna’s Common Stock (December 2000–November 14, 2008)
Exhibit 5: The Aetna Way

People who use our services

Honor commitments

Lead people to success

Value diversity

Build confidence and pride in our company

Integrity

Employee Engagement

Make diversity

Make a fair profit

Build trusting, value added relationships with all constituents

Innovate

Anticipate the future—look, listen, learn

Make it easy—eliminate hassles

Make Aetna the standard by which others are judged

Quality Service and Value

Build confidence and pride in our company

Do the right thing for the right reason

Behave ethically

Lead people to success

Value diversity

People who use our services
## Exhibit 6: Aetna's Diversity Strategy and Focus Areas

### Aetna’s Diversity Strategy

<table>
<thead>
<tr>
<th>Integration</th>
<th>Communication</th>
<th>Education</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Includes all diversity dimensions (race, sexual orientation, age, telework and caregiver status, etc.)</td>
<td>• Disseminate information to employee and customers and other key constituents</td>
<td>• What is the strategy and its components?</td>
</tr>
<tr>
<td>• Its components work together across the enterprise (Marketing, HR, Foundation, Procurement, Sales, Investments, etc.)</td>
<td>• Communicate about diversity in internal and external forums positioning Aetna as a best-in-class company</td>
<td>• How is it manifested in the business strategy?</td>
</tr>
<tr>
<td>• Supports Aetna’s business goals</td>
<td>• Share progress and challenges</td>
<td>• Who is included?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• What tools are needed to increase competencies and meet marketplace needs?</td>
</tr>
</tbody>
</table>
## Exhibit 7: Linking Aetna’s Strategic Business Goals to Diversity Outcomes

### Context for Aetna’s Diversity Strategy

<table>
<thead>
<tr>
<th>Aetna’s Strategic Focus</th>
<th>Diversity Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitably grow market share and earnings</td>
<td>Build a workforce that understands the racial/ethnic, gender, sexual orientation and generational diversity of the marketplace</td>
</tr>
<tr>
<td>Deliver superior medical quality and total cost management</td>
<td>Create an inclusive work environment that maximizes each employee’s contributions and productivity</td>
</tr>
<tr>
<td>Achieve optimal expense structure through improved productivity to support growth</td>
<td>Attract potential candidates to Aetna; choose from a broader and deeper pool of candidates</td>
</tr>
<tr>
<td>Create customer value through innovation and technology</td>
<td>Achieve criteria to bid on government and public-sector businesses</td>
</tr>
<tr>
<td>Apply technology to create customer value</td>
<td>Enhance workforce capabilities to address the needs of our multicultural/multilingual constituents</td>
</tr>
<tr>
<td>Deliver best-in-class customer experience</td>
<td>Provide culturally appropriate consumer experience; design products and services to meet their needs</td>
</tr>
<tr>
<td>Foster compliance as a core competency</td>
<td>Establish business relationships with organizations and local communities to support community-based marketing and sales</td>
</tr>
<tr>
<td>Enhance our diverse, high-performance culture and workforce</td>
<td>Establish an infrastructure that supports sales and renewal efforts of employers</td>
</tr>
</tbody>
</table>

## Diversity Implications

- Build a workforce that understands the racial/ethnic, gender, sexual orientation and generational diversity of the marketplace
- Create an inclusive work environment that maximizes each employee’s contributions and productivity
- Attract potential candidates to Aetna; choose from a broader and deeper pool of candidates
- Achieve criteria to bid on government and public-sector businesses
- Enhance workforce capabilities to address the needs of our multicultural/multilingual constituents
- Provide culturally appropriate consumer experience; design products and services to meet their needs
- Establish business relationships with organizations and local communities to support community-based marketing and sales
- Establish an infrastructure that supports sales and renewal efforts of employers
- Increase supplier diversity spending to fully leverage business opportunities at the local levels
- Link diversity metrics directly to enterprise scorecard
The acronym “LAMP” refers to the four components of the model: logic, analytics, measures and process. Here is a brief description of each of these.

Logic provides the story behind the connections between the numbers and outcomes. Well-grounded logic helps leaders outside the HR profession understand and use measurement systems to enhance their decisions. In other words, Raymond thought, the most fundamental question is, “How does Aetna create value from its emphasis on diversity?” He wants to develop a “logic diagram” for the effects of investments in workforce diversity—a figure that is similar to those he saw in the book *Investing in People*. One such diagram, shown below, illustrates the logic of employee health and wellness.

### The Logic of Employee Health and Wellness

The diagram illustrates the logic of employee health and wellness, showing how employer investments in employee lifestyle health and assistance with specific issues lead to healthier employees, reduced costs, and increased performance value.
Analytics is about drawing the right conclusions from data. It transforms logic and measures into rigorous, relevant insights. It includes statistics and research design relevant to key diversity issues that have been identified, for example, between Aetna’s diversity initiatives, metrics and business impact. The ultimate objective would be to establish cause-and-effect relationships between specific diversity initiatives and business outcomes.

Measures of the effect of diversity initiatives have received considerable attention at Aetna, as described earlier. The company pays considerable time and attention to enhancing the quality of these measures, based on criteria such as timeliness, completeness, reliability and consistency. Raymond knows that such standards are important, but lacking a context, namely the “value-creation” logic in the LAMP model, it is easy to pursue them well beyond their optimum levels.

Process is about making the insights gained from effective measurement motivating and actionable. To do that, the measures must fit within a larger change management system that includes learning, education and knowledge transfer. For example, suppose board members question the additional costs that Aetna incurs to support its diversity initiatives. Raymond’s strategy is to discuss the various measures that Aetna uses to assess the business outcomes of such initiatives in a broader “value-creation” framework. By adopting this approach, Raymond believes that he and other HR leaders can gain credibility and extend the discussion to include additional logical connections between diversity initiatives and other organizational outcomes, such as learning, trust, performance and profits. What began as a focus on costs can be shifted to a more nuanced discussion about the optimal investments in workforce and marketplace diversity and how those investments pay off.
Endnotes

5. Ibid.
12. Net realized capital gains and losses arise from various types of transactions, primarily in the course of managing a portfolio of assets that support the payment of liabilities. However, these transactions do not directly relate to the underwriting or servicing of products for customers and are not directly related to the core performance of Aetna’s business operations.
13. As a result of the liquidation proceedings of Lehman Re Ltd. (“Lehman Re”), a subsidiary of Lehman Brothers Holdings Inc., Aetna recorded an allowance against its reinsurance recoverable from Lehman Re of $27.4 million ($42.2 million pretax) in the third quarter of 2008. This reinsurance was placed in 1999 and is on a closed book of paid-up group whole life insurance business. This is an “other” item for the third quarter of 2008 because it does not reflect underlying 2008 performance.
14. Operating expenses as a percentage of revenue excludes the allowance recorded on the reinsurance recoverable (described in footnote 12 above) from operating expenses and net realized capital gains and losses from total revenue.
15. In order to provide useful information regarding Aetna’s profitability on a basis comparable to others in the industry, without regard to financing decisions, income taxes or amortization of other acquired intangible assets (each of which may vary for reasons not directly related to the performance of the underlying business), Aetna’s pretax operating margin is based on operating earnings excluding interest expense, income taxes and amortization of other acquired intangible assets. Management also uses pretax operating margin to assess Aetna’s performance, including performance versus competitors.
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