

Improving firm performance through entrepreneurial actions: Acordia's corporate entrepreneurship strategy

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Executive Overview

As the 21st century unfolds, entrepreneurial actions are viewed as critical pathways to competitive advantage and improved performance. One company in the healthcare management field, Acordia, Inc., developed and prospered through its strategic entrepreneurial vision. In the words of Acordia's CEO, Frank C. Witthun: "2000 was another landmark year for Acordia, with important acquisitions, innovative new products, and the foresight of sound, strategic planning fueling our impressive growth. It is our expert vision that has brought us to this point: a vision of what a brokerage firm can and should be in the new millennium, and our expertise in delivering innovative products and services to our clients in a way that not only exceeds their expectations, but fundamentally changes them."

Starting in 1986, entrepreneurial actions were instrumental to how Acordia has conducted business over the last 15 or so years. We use insights from the academic literature and business press as the framework for the story of how one company was able to use entrepreneurial actions as the foundation for its successful corporate entrepreneurship strategy.

Entrepreneurial actions were the medium through which Acordia, Inc., wanted to influence its competitive environment and establish its position, starting in the mid-1980s. Entrepreneurial actions are any newly fashioned behaviors through which companies exploit opportunities others have not noticed or aggressively pursued. Novelty, in terms of new resources, customers, markets, or a new combination of resources, customers, and markets, is the defining characteristic of entrepreneurial actions.¹

As was the case at Acordia, entrepreneurial actions are the conduit through which entrepreneurship is practiced in organizations.² Entrepreneurship includes acts of creation, renewal, or innovation that occur within or outside an organization.³ When these acts take place in an established firm, particularly a large one, like Acordia, they describe corporate entrepreneurship.⁴ Entrepreneurship is especially important for firms facing rapid changes in industry and market structures, cus-

tomers' needs, technology, and societal values.⁵ Because Acordia faced all of these conditions as the 1980s were closing, using entrepreneurial actions to form and implement a corporate entrepreneurship strategy was appropriate.

A firm's strategy is the set of commitments and actions taken to develop and exploit a competitive advantage in the marketplace. Because they are the source of how firms create value, being able to develop and exploit one or more competitive advantages is a universal objective of all companies.⁶ A competitive advantage "is the result of an enduring value differential between the products or services of one organization and those of its competitors in the minds of customers."⁷ Companies able to exploit the competitive advantages they own today, while simultaneously making decisions to shape the advantages they intend to own and use tomorrow, increase the probability of long-term survival, growth, and financial success.⁸

Acordia wanted to emphasize its current competitive advantages (marketing programs, administrative skills, and computer applications) while using entrepreneurial actions to develop innovation as tomorrow's competitive advantage.

Innovation offers interdependent benefits to firms. First, innovation itself can be an important competitive advantage. Indeed, especially in rapidly changing environments, innovation is a prerequisite to competitive parity as well as being a competitive advantage.⁹ In addition, being able to innovatively upgrade current advantages helps the firm derive maximum competitive value from them. An upper-level executive from Enron speaks to this benefit: "Innovation is at the heart of sustaining a company's competitive advantage."¹⁰ As we will see, Acordia's executives were aware of innovation's importance to their firm's current and future performances.

"Innovation is at the heart of sustaining a company's competitive advantage."

Innovations bring something new into being—products, processes for producing an existing product or service, and markets. Sometimes, new markets for the firm's current products are found; in other cases, new products are sold in new markets. Product, process, and market innovations often flow from newly fashioned entrepreneurial actions, through which firms exploit opportunities that others have not noticed or pursued.

The terms we use to frame Acordia's story have an interdependent and sequential relationship. For example, entrepreneurial actions are novel behaviors the firm intends to use to pursue opportunities; entrepreneurship captures the full set of entrepreneurial actions the firm takes to create, renew, or innovate; when practiced in large organizations, entrepreneurial actions are the foundation for corporate entrepreneurship, a specific application of entrepreneurship; and, when entrepreneurial actions are the foundation on which a firm's strategy is built, a corporate entrepreneurship strategy is being implemented. Because novel behaviors (that is, entrepreneurial actions) formed the core of its newly chosen commitments and actions, Acordia clearly chose to implement a corporate entrepreneurship strategy to reverse its fortunes and prepare for a successful future.

The Relationship Between Corporate Entrepreneurship and Firm Performance

The relationship between corporate entrepreneurship and firm performance in large organizations

has been assessed differently across time. During the 1980s, some argued that it was difficult for people to act entrepreneurially in bureaucratic organizational structures.¹¹ At the same time, others believed that, for companies of any size, entrepreneurial actions were possible, should be encouraged, and could be expected to enhance firm performance.¹²

A virtual revolution about the value of entrepreneurial actions as a contributor to firm performance took place from the late 1980s throughout the 1990s. This was a time during which companies were redefining their businesses, thinking about how to most effectively use human resources, and learning how to compete in the global economy. In short, "Some of the world's best-known companies had to endure painful transformation to become more entrepreneurial. These companies had to endure years of reorganization, downsizing, and restructuring. These changes altered the identity or culture of these firms, infusing a new entrepreneurial spirit throughout their operations... change, innovation, and entrepreneurship became highly regarded words that describe what successful companies must do to survive."¹³

As the 21st century unfolds, entrepreneurial actions continue to be seen as an important path to competitive advantage and improved performance in firms of all types and sizes.¹⁴ Some even believe that the failure to use entrepreneurial actions successfully in the fast-paced and complex global economy is a recipe for failure.¹⁵

Many factors affect companies' success when using entrepreneurial actions to implement a corporate entrepreneurship strategy.¹⁶ The most important factors concern the firm's ability to establish a vision and for top management to support it,¹⁷ to organize people and tasks in ways that make it possible for entrepreneurial actions to flourish,¹⁸ to have sufficient resources to support entrepreneurial actions,¹⁹ to use rewards and compensation systems that reinforce individuals' and teams' entrepreneurial actions,²⁰ and to encourage risk taking, as measured by individuals' willingness to accept risks and tolerate failure.²¹

Several topics are explored to tell the story of Acordia, Inc.²² First, we discuss the entrepreneurial vision, new-venture teams, and compensation that the firm emphasized to design and use its corporate entrepreneurship strategy. A new-venture team is a way of organizing people to promote entrepreneurial actions. Thus the factors Acordia concentrated on parallel three of those that research evidence shows to be critical for successful use of a corporate entrepreneurship strategy.

Figure 1 shows how most of the literature-

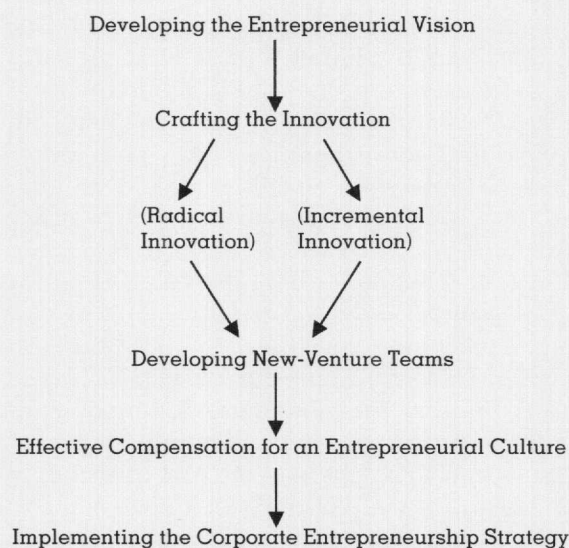


FIGURE 1
Entrepreneurial Actions and Implementation of a Corporate Entrepreneurship Strategy

supported factors are involved with designing and implementing a corporate entrepreneurship strategy. The specific manner in which Acordia applied the three factors that it determined were vital to its entrepreneurial efforts is shown in Figure 2. We then discuss the context and details of Acordia's entrepreneurial journey, and discuss its implications for managerial practice.

Entrepreneurial Vision—The Guiding Light

An entrepreneurial vision indicates what a company expects to achieve. Environmental opportunities and the patterns of competition between a firm and its rivals influence this vision.²³ Intended to capitalize on opportunities, an entrepreneurial vision's desired outcomes should be challenging. In a recent annual survey, *Fortune* found that the most admired companies set more challenging goals as compared with those failing to make the list.²⁴

The ultimate responsibility for forming a vision rests with top-level executives. An effective entrepreneurial vision allows affected parties to focus on critical tasks as they pursue organizational and personal objectives.²⁵ A meaningful vision is sensible in employees' eyes, is easily understood, suggests a higher calling,²⁶ and creates a cultural glue that binds people together in ways that help them share knowledge in competitively relevant ways. Moreover, in the global economy, the most effective vision highlights a firm's commitment to product, process, and market innovations. Talented vision setters know that part of their responsibility is

to coach employees to meet the challenges of organizational life, energize them by their own determination and relentless pursuit of success and opportunity, and facilitate their attempts to achieve more than they thought possible as they strive to help the firm reach its vision.²⁷

New-Venture Teams—An Organizational Form for Entrepreneurial Actions

In today's complex business environments, top-level executives don't have access to all of the information needed for their firms to innovate and pursue environmental opportunities. Because information is widely dispersed among employees, teams are formed.²⁸ Often called new-venture teams, their focus is on collective entrepreneurship rather than solely on the entrepreneurial abilities of a firm's top-level managers.

Collective entrepreneurship results in team-based endeavors in which the whole of the effort exceeds the sum of individuals' contributions.²⁹ The collective talent of a new-venture team can be particularly effective (as measured by product, process, and market innovations) when its members come from different functions (e.g., marketing, design, and production) and when top-level managers actively support the team's efforts.³⁰ When forming new-venture teams, firms should draw from their entire talent pool, because the most effective entrepreneurial actions sometimes surface from individuals or teams from whom such output wasn't anticipated.³¹ Unexpected, yet valuable, contributions surface because most, if not all, members of an organization have untapped talent and potential.³²

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Several benefits result from productive new-venture teams. First, because effective teams accept responsibility to monitor and control their behavior, managers have more time to engage in entrepreneurial actions, such as those necessary to find new markets. Effective new-venture teams also share their diverse knowledge sets. Integrating knowledge from team members' different functional areas increases the likelihood that the team will develop successful product, process, or market innovations. Research findings, as well as com-

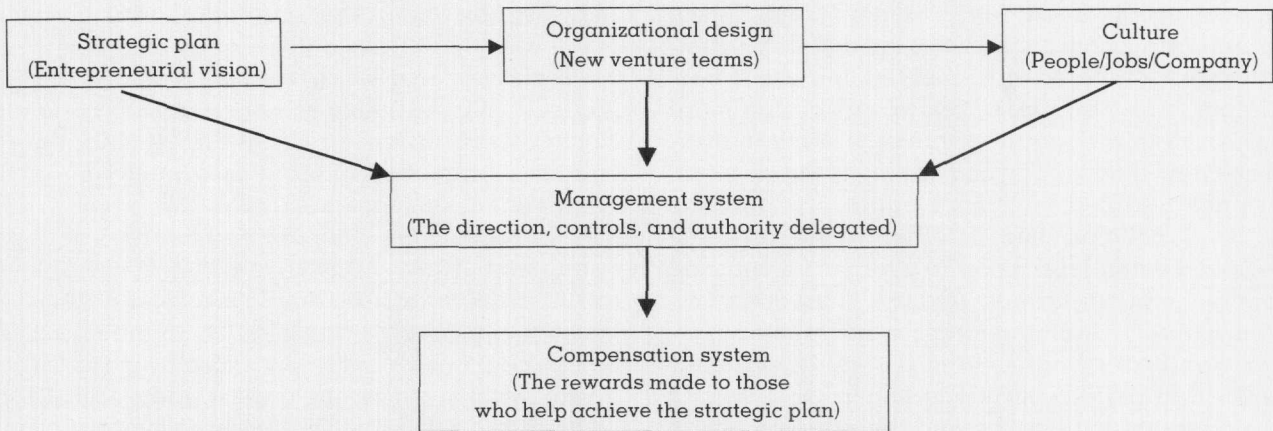


FIGURE 2

Acordia's Corporate Entrepreneurial Actions and Corporate Entrepreneurship Strategy

pany experience, suggest that the most effective new-venture teams have members who feel free to use their knowledge, intelligence, skills, and creativity while working together.³³

However, new-venture teams sometimes fail to fulfill their promise. Poor intragroup communications, a lack of commitment by all, and ineffective performance incentives are examples of conditions that contribute to failure. An experienced consultant believes that unsuccessful teams are a product of poor planning, preparation, leadership, and assessment.³⁴ In contrast, high-performance teams are diverse (in terms of members' work background and problem-solving approaches, for example) and characterized by supportive relationships (e.g., communicating with integrity and authenticity³⁵).

Compensation—An Important Motivator of Entrepreneurial Actions

Because it is among the most visible indicators of a firm's motivation and reward systems, compensation is a frequent topic of discussion among managers and employees alike. Compensation can have a powerful effect on outcomes resulting from individual and team efforts, and, ultimately, on firm performance.³⁶

Broad in scope, compensation can include "more than just money paid in the form of wages, salaries, and bonuses. If the definition is stretched, we could include intrinsic or psychic compensation, such as status, independence, power, and so on."³⁷ Traditionally, compensation components are grouped into three categories—indirect pay (benefits and services), direct pay (base pay, merit, incentives, and cost-of-living adjustments), and relational forms (recognition, status, security, challenging work, and learning opportunities).³⁸

What do we know about compensation's effects on firm performance? A review of the last 10 years or so of research findings suggests several things. First, it seems that the type of compensation system has a greater effect on firm performance than does the amount of compensation. Also, compensation's effect on firm performance is as significant as, if not greater than, the effects of all other human resource activities. And a mixture of variable pay or incentives results in a more significant effect on firm performance than does any single compensation source.³⁹

Some top-level managers believe that unique types and combinations of compensation should be used to stimulate entrepreneurial actions and to support implementation of a corporate entrepreneurship strategy. A survey of CEOs in *Fortune* 1000 firms revealed that in over 30 percent of the firms, managers of new ventures are compensated differently from their counterparts in more established organizations. Moreover, more than half of the respondents indicated that venture members' incentives should be based on the venture's ROI, and that incentives should be capped between 50 and 200 percent of an individual's salary. Internal compensation equity, the specification of new-venture goals, and determining how to respond effectively to any shareholder objections about new-venture teams were seen as the major obstacles to using entrepreneurial compensation practices.⁴⁰

Research findings offer additional insights about the relationship among strategies, compensation, and performance.⁴¹ For example, to achieve high performance, companies implementing an innovation strategy (searching continually for new-market opportunities, and developing process, product, and market innovations) should use

different compensation policies from firms implementing cost-leadership or differentiation strategies. Compared with cost leaders and differentiators, high-performing innovators assign more importance to the nature of the objectives that influence how new employees are attracted and current ones retained, are more aggressive in their pay level policies, use a wider range of merit raises and extend merit pay to a larger percentage of non-exempt employees, and are more open and participative in administering pay policies. Another significant finding from the study was that inferior firm performance was related to a lack of fit between the pay policy and the strategy being used.⁴² Though obvious, the managerial implications of these findings are important for firms seeking to be innovators, as was the case for Acordia, Inc.

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Acordia, Inc.—An Entrepreneurial Journey

In the early 1980s, Blue Cross/Blue Shield of Indiana experienced many environmental discontinuities and changes. Studying these conditions, many of which threatened the viability of how the firm had been competing, convinced L. Ben Lytle, the CEO and chairman of the board of directors, that decisive actions were necessary. Believing that the insurance industry's changing competitive environment called for innovation, Lytle was concerned about his firm's innovative ability. In particular, he feared that the company's bureaucratic structure was stifling what were at that time informal attempts by some employees to act entrepreneurially to develop product, process, or market innovations. Lytle's belief is consistent with research evidence suggesting that eliminating organizational structures "that obscure personal responsibility and homogenize individuals' actions"⁴³ is a prerequisite to successful corporate entrepreneurship. Moreover, Lytle envisioned innovation as the key to exploiting opportunities that were emerging in the external environment. Thus to improve Acordia's current performance and to lay the foundation for future success, Lytle knew that employees had to behave differently, and that incentives were needed to elicit and reinforce those behaviors. He also knew that, in conjunction with the other top-level managers, he had to visi-

bly support emerging entrepreneurial actions if they were to surface across the firm.

Beginning in 1986, Lytle and his company embarked on a multiyear entrepreneurial journey. An entrepreneurial vision, of the firm's becoming the nation's largest supplier of insurance products to mid-market customers, framed this journey. Mid-market customers were defined as cities with populations between 100,000 and 1,000,000, employers with fewer than 5,000 employees and \$200,000 annually in property and casualty commissions, and individuals with incomes exceeding \$50,000 per year, with a net worth greater than \$500,000 but less than \$5 million. Selling multiple products to mid-market customers was an opportunity that competitors had not recognized or had chosen not to pursue intensely.

Early in the journey, a corporate-entrepreneurship training program was started to introduce employees to the importance of entrepreneurial actions and to describe what would be done to elicit and support them. Upper-level managers took other early entrepreneurial actions, including changing the firm's name from Blue/Cross Blue Shield of Indiana to The Associated Group, and organizing the new company into operating units. The units were batched by industry, geography, demographics, and products, permitting a focus on mid-market customers' needs. Acordia, Inc., one of the major units created through the reorganization, is the focus of our story. As a subsidiary of The Associated Group, Acordia, Inc., created independent and entrepreneurial companies under its umbrella. Ranging in size from 42 to 200 employees, Acordia's companies (eventually 50 in total) operated independently of each other, with each having profit and loss responsibility. The constant was that each one had to focus on serving mid-market customers' needs. The companies' products included life insurance, property and casualty insurance, insurance brokerage, and health insurance.

Each Acordia company was expected to dominate its current market niche while simultaneously developing new ones it could expect to dominate, typically through innovations. Acordia's corporate entrepreneurship strategy called for identical entrepreneurial processes in all companies, although they differed in terms of products developed and serviced. Thus for each Acordia company, the same routines were used to form a vision, organize new-venture teams, and develop a compensation system that would support and reinforce entrepreneurial actions. Each Acordia company had its own CEO, vice presidents, and board of directors. Those chosen to lead the Acordia companies had experience with innovations, had shown competi-

tive aggressiveness in leading other firms, and had a history of taking appropriate levels of risk when steering firms by relying on entrepreneurial actions.

Acordia's Corporate Entrepreneurship Strategy

The primary objectives of Acordia's corporate entrepreneurship strategy were to use entrepreneurial actions to diversify into other insurance and financial services products with sales patterns that were either noncyclical or counter-cyclical to those of health insurance, expand geographically outside Indiana into growth markets such as the South, West, and Southwest, and strengthen its core healthcare business. Thus Acordia expected its independent companies to use newly fashioned behaviors to exploit opportunities and improve performance as a result.

To stimulate process, product, and market innovations by implementing its corporate entrepreneurship strategy, Acordia executives knew that an entrepreneurial culture was needed in each company. In such a culture, creativity, commitment, dedication, and a desire to innovate are common behavioral norms. To rapidly develop such cultures in the Acordia companies, corporate-entrepreneurship training programs were offered and performance responsibilities were decentralized to each company's CEO. Among several benefits, decentralization facilitated the forming of new-venture teams—teams that were expected to be a primary source of process, product, and market innovations. Including people with different functional backgrounds, teams were organized around discreet customer needs by industry type, geographic area, demographic characteristics, and products.

As previously indicated, Acordia's entrepreneurial vision was to become the nation's largest supplier of insurance products to mid-market clients. The following operational objectives guided the entrepreneurial actions taken to reach the vision.⁴⁴

Creating value

Objective: Demonstrate that value is created for an employer or an individual in selecting an insurance or financial service product, tailoring it to the customer's needs, and servicing the product after the sale.

The continuous restructuring of Acordia to form new companies focusing on distinct customer-segment niches with unique needs was the primary entrepreneurial action taken regarding this objective. Each Acordia company was expected to

develop process innovations to reduce its overall cost of distribution and administration. To create more customer value, profitable new products were to be created as well. This expectation resulted in the development of product innovations for segments called "pioneer customers."

Financial performance

Objective: Achieve a level of financial performance for shareholders at least equal to if not superior to the level that could be earned through investment alternatives.

An average of 15-percent annual growth in earnings per share and maintenance of an average annual return on shareholders' equity in the top one-half of comparable companies were the performance metrics used to assess Acordia companies' outcomes. Satisfying these financial criteria was expected to yield the capital required to create new Acordia companies and meet shareholders' expectations.

Market segmentation

Objective: Utilize a market-segmentation strategy designed to continually focus the Acordia companies on efforts to form increasingly specialized market niches.

The purpose of the market-segmentation strategy was to encourage each Acordia company to rely on innovation to identify new segments of existing markets or to locate new customers with specialized needs. Moreover, each company was to perform at a level that resulted in its being ranked no lower than third in the total share of its market. Identifying and then dominating increasingly specialized market niches yielded additional spin-offs from existing Acordia companies. To compensate entrepreneurial team members, stock options were associated with each spin-off.

Entrepreneurial companies

Objective: Maintain and develop small, highly entrepreneurial, expense-sensitive Acordia companies.

Using only two levels of management and preventing any Acordia company from exceeding 200 employees were two important aspects of Acordia's management system that helped reduce each company's operating costs. In addition, flat organizational structures and sophisticated management information systems stimulated the sharing of tacit knowledge⁴⁵ among team members as well as between and among the new-venture teams.

Table 1
Acordia's Annual Incentive Plan

Award Calculation Guide
(\$ expressed per \$10,000 of target award)

Financial result (Revenue growth)	Formula award (Cash bonus)	Individual Acordia companies' board of directors' discretion range	Acordia, Inc., parent company discretion range	Total maximum award earned
Threshold = 12%	\$6,000	Up to \$2,000	Up to \$2,000	\$10,000
Target = 15%	\$8,000	Up to \$2,000	Up to \$5,000	\$15,000
Outstanding = 18%	\$10,000	Up to \$2,000	Up to \$6,000	\$18,000
Below threshold	Not eligible for incentive based on formula.			

Increasingly, knowledge is recognized as an important competitive advantage. Of the different types, tacit knowledge, knowledge that can be observed in employees' actions and the outcomes resulting from them, is linked strongly to the development of successful process, product, and market innovations. Because tacit knowledge can't be easily codified, it is difficult for competitors to understand and imitate it. As a result, organizations prefer to rely on tacit knowledge as a primary foundation for their competitive advantages.⁴⁶

Incentive compensation

Objective: Develop a compensation system that continuously elicits, supports, and encourages entrepreneurial actions.

Focused on performance outcomes, the compensation system in the Acordia companies was instrumental to the success of Acordia's corporate entrepreneurship strategy. The compensation system called for cash wages to be consistent with individual market averages for individual positions. Each market average was a combination of base pay plus an annual incentive. The base pay was established at the low end of a market range; the annual incentive, however, was positioned at the range's upper end. This approach allowed high performers to earn more than those working in comparable positions in other organizations.

An individual Acordia company's financial performance, along with an assessment by the company's board of directors and the discretionary input from those managing Acordia, Inc., determined a CEO's annual incentive. A worksheet similar to the one shown in Table 1 was used by each company's board to create clear performance incentives. Incentives were also influenced by customer-satisfaction surveys, the quality of a company's product and geographic diversification, assessed by the board, and surveys of employee satisfaction

with the manager's performance, especially as it related to her or his ability to induce and support entrepreneurial actions. The aggressive incentives were intended to provide significant returns to high performers.

A stock-option plan (see Table 2) was another part of the compensation system. Intended as a long-term incentive and ownership opportunity for all Acordia companies' executives, the plan was framed around the stock of Acordia, Inc. Of course, the value of this stock was influenced by the quality of all Acordia companies' financial performances.

Operationally, the stock-option plan featured a target pool of 1,800 shares of stock annually for each Acordia company. For control and broad-based incentive purposes, an upper limit of 600 shares in any one year for each manager was established. Each company's board followed established guidelines to allocate shares. In total, the relatively rare compensation system facilitated implementation of the corporate entrepreneurship strategy by fostering and supporting an ownership perspective among the companies' executives.

Acordia Corporate Benefits, Inc.: A Product of Entrepreneurial Actions

Acordia Corporate Benefits, Inc., (ABI) was one of the 50 Acordia companies whose development and growth demonstrated Acordia's corporate entrepreneurship strategy.⁴⁷

On December 1, 1990, ABI was incorporated in Indiana as a third-party administrator and insurance agency. Consistent with the entrepreneurial vision of Acordia, Inc., ABI's mission was to develop, market, and administer innovative insurance and insurance-related products to firms with 50 to 1,000 employees. A limited number of manufacturing and service firms were the target market.

ABI started with 97 employees. As with each Acordia company, an immediate interest was to

Table 2
Acordia's Stock-Option Plan

Individual Performance	Operating company growth rate		
	12%	15%	16% & above
Poor	0	0	0
Good	100	150	200
Excellent	200	400	500
Superior	300	500	600

Note: Numbers refer to stock options awarded to each eligible employee.

build an entrepreneurial culture through which ABI could develop process and product innovations and identify new markets with unique needs. ABI's initial organizational structure influenced the company's subsequent culture. Each employee worked for one of four vice presidents, responsible for sales, systems, finance, and underwriting. The vice presidents reported to ABI's CEO. With only two management layers, employee independence and self-control were encouraged and supported.

A new, one-floor facility also proved instrumental to developing an entrepreneurial culture. The building facilitated interactive workflow procedures. Interactions among new-venture team members and among independent teams became grounded in forming and sharing tacit knowledge. Positive feelings surfacing from these interactions and the knowledge they fostered created positive morale in individuals and between employees and their vice president.

A new, one-floor facility also proved instrumental to developing an entrepreneurial culture.

An Employee Advisory Council was created with the primary objective to find ways for ABI to continuously improve its innovation abilities. Elected by peers, council members developed programs (e.g., quarterly all-employee meetings and dress-down day on each payday) that supported ABI's commitment to elicit and support entrepreneurial actions. The council's work was a positive influence on ABI's entrepreneurial culture.

ABI's entrepreneurial actions brought noteworthy results. In its first year, the company earned a pretax return of over 18 percent. Performance results in 1992 were better, with pretax net earnings exceeding 1991's by 22 percent. Moreover, during 1992, ABI earned over 40 percent of its net income from states other than Indiana; non-health insur-

ance businesses accounted for approximately 20 percent of earnings. ABI had become a licensed third-party administrator and life and health insurance agency in over 20 states.

Consistent with the objectives of Acordia's corporate entrepreneurship strategy, ABI continuously evaluated opportunities that might create geographic or product-line diversification. In 1993, Flexible Benefits Administration, a product innovation, was introduced. The product resulted from the sharing of tacit knowledge among team members engaging in entrepreneurial actions. This product innovation generated revenue of over \$1 million in its initial year. ABI also acquired a large Indianapolis-based property and casualty insurance agency in 1993.

As we have described, the entrepreneurial actions of ABI's employees contributed to the successful implementation of the corporate entrepreneurship strategy of Acordia, Inc. ABI remained small and tightly focused on unique and specific market niches. Company personnel continued to find new niche markets and serve them with new units such as the Indianapolis-based property and casualty insurance agency. Overall, ABI contributed to the improved performance of Acordia, Inc., through its successful use of entrepreneurial actions.

Corporate Entrepreneurship within Acordia

L. Ben Lytle, CEO of Blue Cross/Blue Shield of Indiana—the predecessor to The Associated Group and to Acordia, Inc., as a part of it—recognized the threats and opportunities the external environment of the 1980s created for his firm. Volatility, unpredictability, and rapid changes had become common in the insurance industry and were altering Blue Cross/Blue Shield of Indiana's familiar and comfortable competitive patterns. Approaching these challenges proactively, Lytle concluded that entrepreneurial actions were the foundation on which the company's future had to be built. As we noted earlier, both corporate experiences and research findings suggest that an entrepreneurial vision, effective new-venture teams, and a compensation system that stimulates and reinforces entrepreneurial actions are linked with a successful corporate entrepreneurship strategy. As we have described, this turned out to be the case for Acordia. The entrepreneurial vision—to become the nation's largest supplier of insurance products to mid-market customers—was bold and energizing. From the outset, it inspired employees and stimulated entrepreneurial cultures in which process, product, and market innovations became desired sources of competitive advantage.

The work of new-venture teams in the Acordia companies was instrumental to their success. Grouping employees by skills required to innovate in ways that could satisfy unique customer needs, rather than organizing people on the basis of their functional expertise (e.g., marketing, production, and finance), facilitated the sharing of tacit knowledge—knowledge that became the foundation of product, process, and administrative innovations. Importantly, too, grouping people by skill type signaled the expectation that employees were to work collaboratively rather than individually. Decentralizing decision-making authority empowered employees to regulate their own behavior and enabled rapid, creative responses to market opportunities as they surfaced.

The Acordia companies' compensation system fostered entrepreneurial actions. An important feature of the system was the decision to use a two-tiered structure. Initially, market rates were used to attract talented people. Importantly, though, significant incentives could be earned when entrepreneurial performance targets were reached or exceeded. Decentralization of decision making to first a company and then to teams within each company made it possible to create incentives that induced superior performances grounded in streams of individual and team entrepreneurial actions.

The Acordia Experience: Implications for Managerial Practice

Acordia's experience with entrepreneurial actions as the foundation of its corporate entrepreneurship strategy offers several insights that inform managerial practice.

Entrepreneurial actions and the corporate entrepreneurship strategy for which they are a foundation result from intentional decisions. Our analysis of the Acordia, Inc., experience suggests that forming an entrepreneurial vision, using new-venture teams, and relying on a compensation system that encourages and supports creative and innovative behaviors are products of careful and deliberate planning.

Upper-level managers must support the importance of entrepreneurial actions, through both words and deeds. Supportive words are one thing. Seeing their leaders behave entrepreneurially creates employee commitment to do the same and has a more significant effect than words. Moreover, watching managers behave entrepreneurially, including actions taken to deal with the consequences of those behaviors, demonstrates that all parties will work together to cope with the disruption to existing work patterns that novel behaviors create.

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All who will be affected by an entrepreneurial vision should be involved with its development. Visions formed this way take on the characteristics of a commitment, almost an informal contract, between top-level managers and their associates. The commitment to use entrepreneurial actions to improve the firm's performance by reaching the vision sometimes creates bonds that serve the firm well when difficulties are encountered. People and teams bonded tightly through a vision to which they are committed find ways to quickly and effectively resolve issues that have the potential to retard movement toward vision fulfillment.

Effective corporate entrepreneurship strategies consider the value of several types of innovation. Innovative products are important and can create significant value. However, process and market innovations are also valuable outcomes of entrepreneurial actions. Through process innovations, firms discover ways to operate more efficiently. Market innovations contribute to a company's interest in operating more effectively, in that they help the firm identify new market space in which it can compete. Thus the triad of product, process, and market innovations is the most desirable outcome for firms using entrepreneurial actions.

Eliciting entrepreneurial actions is challenging. An obvious indicator of a manager's success is the degree to which employees change their behavior to begin acting entrepreneurially. A second and complementary performance measure is the processes the manager used to elicit those behaviors. For example, did the manager begin to act entrepreneurially? Did he or she involve all relevant parties when forming an entrepreneurial vision, organizing new-venture teams, and developing a compensation system? Particularly in firms unaccustomed to focusing on entrepreneurial actions and innovation, processes are as important as content or outcomes.

Epilogue: Innovation Breeds Success

The corporate entrepreneurship strategy of Acordia, Inc., was a success, with entrepreneurial actions being used throughout the Acordia companies. Innovative processes helped to streamline company operations. The firm became more diver-

sified in its products and markets, in that new products were introduced into multiple markets, while new markets with specific customer needs were regularly identified. The commitment to serve new, highly focused markets led to additional Acordia companies. Using its original competitive advantages, as well as innovation, a new advantage was formed in many of the individual companies. Acordia's entrepreneurial journey proved to be the foundation for The Associated Group's success in the early 1990s.

Impressive financial results were recorded during implementation of the corporate entrepreneurship strategy. At the end of 1991, The Associated Group (TAG), the parent organization for all Acordia companies, was earning more than one-fourth of its \$2 billion sales revenue from business lines outside Blue Cross/Blue Shield of Indiana's original core product—health insurance. In early 1992, Acordia, Inc., completed a successful IPO. Subsequently, the firm's stock traded on the NYSE. In June of the same year, *Business Insurance* ranked Acordia, Inc., as the 10th largest insurance broker in the United States and 14th largest in the world.

Not all of Acordia's financial success can be attributed to using entrepreneurial actions within a corporate entrepreneurship strategy. Nonetheless, the corporate entrepreneurship strategy was clearly instrumental in the progress made toward reaching the entrepreneurial vision. A comment from an Acordia company's CEO demonstrates the value of using entrepreneurial actions as the foundation for a corporate entrepreneurship strategy: "We became an employer of empowered employees who look forward to change, new products, and a promising future."

"We became an employer of empowered employees who look forward to change, new products, and a promising future."

The results of a 1995 strategic plan brought change to Acordia and its parent, The Associated Group. As was the case in the early 1980s, a rapidly changing external environment, one that created threats and opportunities, influenced the changes.

Projections resulting from the 1995 analysis of the external environment suggested that the future would find healthcare being delivered, paid for, and administered in substantially different ways. In addition, expectations were that the healthcare industry would consolidate rapidly, resulting in a smaller number of competitors, each of whom would have the size required to develop performance-enhancing economies of scale.

Careful study of these projections and their implications supported TAG's decision that continuing its focus on product and geographic diversification would no longer be effective. TAG executives concluded that refocusing on core healthcare-insurance product lines was best. By concentrating its resources on a narrower product line, the firm felt that it could learn how to meaningfully satisfy customers' anticipated needs.

Actions were taken to refocus TAG so that its financial performance would remain strong. In 1997, Acordia's stock was purchased off the public market. Subsequently, all healthcare insurance businesses were transferred from the Acordia companies to TAG. Without its healthcare businesses, Acordia, Inc., was essentially a property and casualty insurance firm. TAG sold Acordia, Inc., in 1997 to a group of investors and company officers, creating the largest privately held brokerage company in the world as a result.

Contributing to the success Acordia has experienced since becoming a privately held company is its ability to grow by acquiring smaller U.S. brokerage firms. The intent is to identify local firms with outstanding reputations and business philosophies that parallel Acordia's. Each new acquisition benefits from Acordia's large and diverse resource base as it remains focused on providing superior service to its local clients. In 2000, Acordia completed seven major acquisitions of firms located in several states, including Alabama, California, and Minnesota.

Offering global reach with local expertise, Acordia remains committed to developing innovative products and innovative ways of delivering them. In 2000, Acordia debuted eProtector, a package of coverages intended to meet the needs of technology companies by dealing with the risks they face in the digital age. EProtector covers risks that general liability policies have not considered. Strategic partnerships, such as one formed in 2000 with Merck-Medco, have become an innovative means of delivering Acordia products. Merck-Medco is the nation's largest prescription benefits manager. Acordia and this firm pooled their resources to form scriptSMART, a private-label prescription program offered exclusively through Acordia. Offering deep discounts on over-the-counter medicines, vision care, and prescriptions, the program is administered out of Acordia's Cincinnati, OH, office.

With over 3,800 employees committed to providing superior client service, Acordia believes that it is "stretching the definition of what an outstanding brokerage firm should offer its clients."⁴⁸ Oriented to continuous product, process, market, and adminis-

trative innovations, entrepreneurial actions remain at the core of how Acordia stretches its resources to reach its objectives. Thus the entrepreneurial journey that started by establishing the first Acordia companies continues today as Acordia seeks to provide services that exceed clients' expectations.

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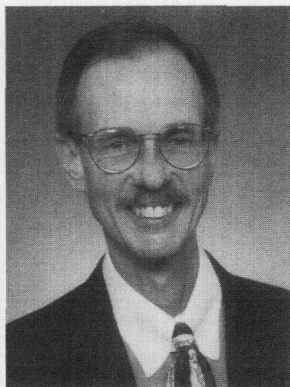
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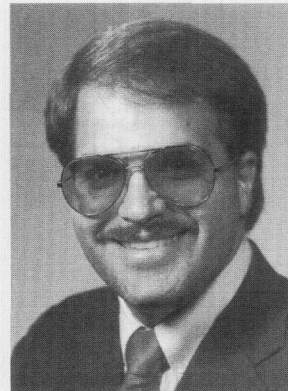
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