



Making the Case for Employee Engagement

Client: Northwestern Mutual

Agency Partners: Gagen MacDonald LLC with Employee Motivation & Performance Assessment, Inc.

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Project Summary

Employee engagement is a longstanding “hot topic” in our industry and a key concern for corporations during trying economic times. Towers Watson's *World at Work 2009/2010 U.S. Strategic Rewards Survey* results showed:

- A nine percent decline in employee motivation since 2008
- 36 percent of top performers said their employer's situation had worsened
- 20 percent fewer people would recommend their company as a place to work

Despite the heightened focus, companies still struggle with these questions: *Why invest in employee engagement? Where do you invest for the greatest impact? What's the tangible business value of internal communication?*

To address these questions, companies frequently establish basic perception measures (e.g. awareness, understanding). But those measures do not demonstrate a causal link between public relations¹ programs and business metrics e.g. productivity, customer service, profit, market share.

Northwestern Mutual's pioneering work addresses this challenge. Emerging from the global financial crisis, at a time requiring elevated employee performance, the company launched the “Motivated Workforce Pilot.” Using research and analytics, we identified a set of leadership behaviors –“soft” performance measures— that **predict productivity** at Northwestern Mutual. We tested and proved this link through a controlled pilot, making a case for the company's future investment in employee engagement. This approach arms PR practitioners with a compelling example, demonstrating the impact of internal communications on business performance.

¹ By “public relations” we mean the development of communications strategies and tactics designed to foster relationships between an organization and its publics, in order to achieve mutually beneficial outcomes.

Pilot Objectives and Scope

In February 2009, Northwestern Mutual launched the Motivated Workforce Pilot. This cross-functional effort involved Communications, Corporate Planning, and Human Resources, all focusing on three core objectives:

- Understand what drives employee motivation at Northwestern Mutual
- Demonstrate and quantify the business impact of increased employee motivation at Northwestern Mutual
- Build a credible business case for the company's continued investment in initiatives to enhance employee motivation

Gagen MacDonald and EMPA used a research-based approach to design the pilot—and therefore focused on absolute objectivity, ability to be replicated, and consistent reliance on applied research's best practices. Using the research findings as our foundation, the team ultimately designed the pilot program to *simultaneously* improve 1) productivity and 2) overall engagement/ motivation scores. (See “*Planning Overview*” document)

Strategy and Planning Considerations

- *Start off on the right foot*—ground the effort in credible external research to ensure the right focus
- *Bring the best minds to the table*—engage different corporate functions and strategic agency partners
- *Don't boil the ocean*—use a pilot to test and refine concepts before recommending system-wide changes
- *Build critical mass*—engage leaders to build support throughout the pilot's development and implementation
- *Be meticulous*—employ a rigorous and disciplined approach to measurement
- *Maintain a focus on business utility*—maintain a proper focus on both methodological rigor AND practical value; do not allow either goal to obscure the other

Challenges	Strengths/Opportunities
<ul style="list-style-type: none">▪ We launched our pilot on the heels of the global financial crisis, which created a “new normal” across companies. Our team was challenged to build employee engagement at a time of budget reductions, limited resources and hiring freezes.▪ Our final business case had to stand up to the analytical scrutiny of the company's leadership (including its toughest actuaries and lawyers) by demonstrating in statistically reliable and valid ways a measureable impact on business performance.▪ We needed to demonstrate results in both operations and professional services	<ul style="list-style-type: none">▪ Our pilot was driven through a strong and seamless partnership among Corporate Communications, HR, Corporate Strategy/Planning, and strategic agency partners. This partnership allowed us to create a multi-faceted approach to increase engagement among pilot departments.▪ Through our strategic agency partners, we accessed a wealth of external research. Leveraging this work created efficiencies in pilot planning and development.▪ The time was ripe for this kind of pilot. Executive leaders were interested in (if not

Challenges	Strengths/Opportunities
<p>departments. These departments had different metrics systems and required significant work to equalize data sets.</p> <ul style="list-style-type: none"> Northwestern Mutual’s annual budgeting process requires functions to submit rigorous, detailed business cases and compete for resources. Our results needed to present a compelling case for employee engagement that stood out from other programs. To align with the 2010 planning process, we had to implement the pilot and demonstrate meaningful results in a condensed timeframe. 	<p>convinced of) the need for a motivated and engaged workforce. With numerous change initiatives on the horizon—including the rollout of the company’s new corporate strategy—leaders were interested in the potential of increasing employee engagement to execute its strategic priorities.</p> <ul style="list-style-type: none"> Executives were also interested in the role of leadership in performance management and strategy execution—a subject that’s been extensively researched by other organizations. We built our pilot on the base of executives’ natural interest/curiosity.

Research Overview

We engaged our agency partners to conduct a comprehensive research effort. This work served as the foundation of our pilot:

The External Literature Review: As a first step, EMPA used their long-standing connection with the University of Michigan to retrieve and review more than 1,500 published studies to identify the proven drivers of, and proven outcomes resulting from, employee engagement in similar organizations (with a focus of approximately 75 studies that were most relevant to our specific efforts or that were conducted within the financial services industry). Ultimately, the findings of the external literature review allowed us to define broad parameters for the pilot by building on work that had been proven in other companies. *(See “External Literature Review” document)*

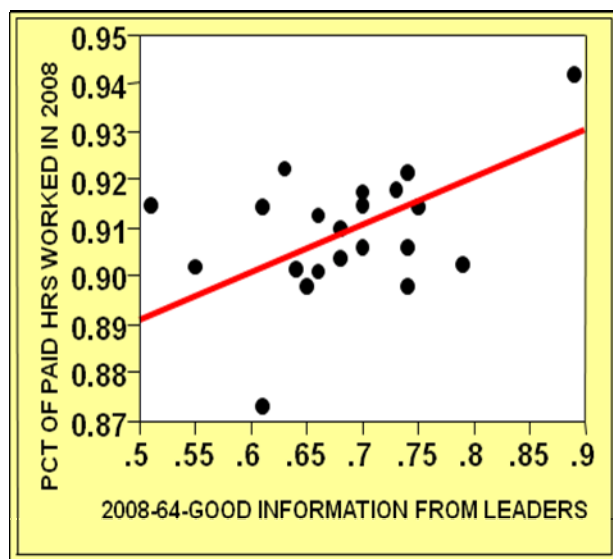
Leader Intake Sessions: As a next step, Gagen MacDonald conducted interviews with the executives to understand which business metrics they cared most about; identify potential departments for the pilot; and uncover any alignment challenges. Ultimately, these sessions allowed us to hone the broad parameters identified in the external literature review into a few possible options that would be most meaningful to Northwestern Mutual. *(Note: Given the confidential nature of these interviews, detailed findings are not available for submission. However, highlights are included in the “Research Overview” document)*

Linkage Analysis: As a final step, EMPA conducted a statistical linkage analysis between the company’s business performance metrics and the 2006-2008 employee survey data. This analysis gave us two critical pieces of data: 1) whether predictive links existed between the current survey tool and specific performance metrics; 2) where improving scores on the current employee survey would have a measureable impact on those metrics. *(See “Research Overview” document)*

We chose to run this analysis using existing survey data – as opposed to creating a new survey tool – to drive efficiency and maximize cost effectiveness. The analysis included the following metrics: worker compensation claims, customer satisfaction, field satisfaction survey scores, functional satisfaction survey

results, financial year-end data, monthly sales, call center performance metrics (e.g., cycle times, errors), corporate strategy metrics, head count, and operating expenses. Through analysis of the existing survey tool and available performance metrics data, we found one reliable and valid link to test in the pilot—good information from leaders (as defined by a set of eight questions within Northwestern Mutual’s 2006 and 2008 employee survey tool) is associated with productivity at Northwestern Mutual (*see Figure 1*). This link was made using a proxy metric – Percent of Paid Hours Worked.

Figure 1: Good Information from Leaders Is Associated with Productivity at Northwestern Mutual



The plot shows that where leaders provide good information employees work more of their planned hours than employees elsewhere.

This metric is called Percent of Paid Hours Worked, and it is computed in the following formula: $((HC * 2000) - (PTO + PTI)) / (HC * 2000)$ where:

- HC is the Department Headcount
- 2000 is the number of hours for a full-time year of employment,
- PTO is Paid Time Off, and
- PTI is Paid Time for Illness.

It is arguably a good (albeit not perfect) proxy measurement for productivity in general.

It is important to note here that the purpose of the linkage analysis was not to provide the ultimate metrics for our pilot effort; rather, it was intended to provide enough directional information to finalize what we were going to test in the pilot. Because Northwestern Mutual does not have one standard productivity metric, we established this proxy metric to provide the direction needed to formulate our working hypothesis. We tested the validity of the proxy metric and found that it was inter-correlated with many measures (*see Figure 2*).

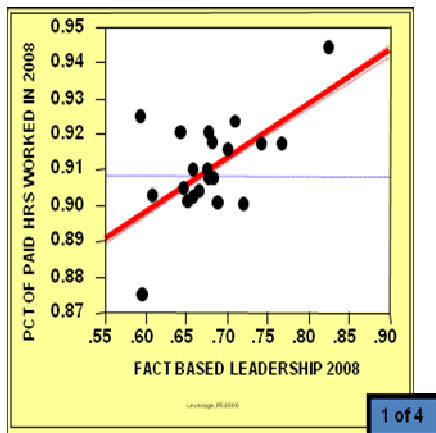
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- Authority to improve quality
- Respect throughout
- Good skill development
- Northwestern Mutual values lead to improvement
- Promotes trusting work environment
- Trusting work environment
- Good information from leaders
- Perceived benefits

² Fact Based Leadership is the notion that real knowledge in the form of empirical analysis of results is the shortest path to the best business decisions. At Northwestern Mutual, Fact Based Leadership is an approach to leading and managing teams. It's based on the idea that by acknowledging and analyzing facts and results, a manager is in the best position to make good business decisions. Fact Based Leadership means using the best available evidence to support decisions, moving away from guesswork, habit, personal bias, sacred cows, or the most recent fad touted in management literature. It requires a change in attitude, a change in how a manager thinks about decision-making. (For more context, see *Manager Toolkit* document, in particular Sections 6 and 7.)

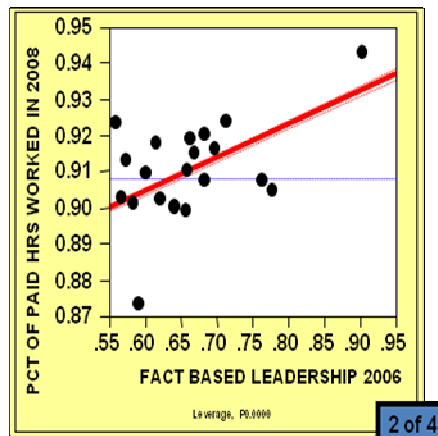
association, prediction, exclusion, and dose dependence (see Figure 3 below) and found a valid correlation.

Figure 3: Proof of the Linkage – “Fact-Based Leadership” Drives Productivity at Northwestern Mutual



Association

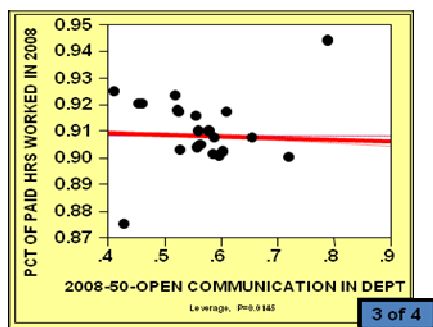
Fact-Based Leadership and our productivity measure rise and fall together simultaneously.



Prediction

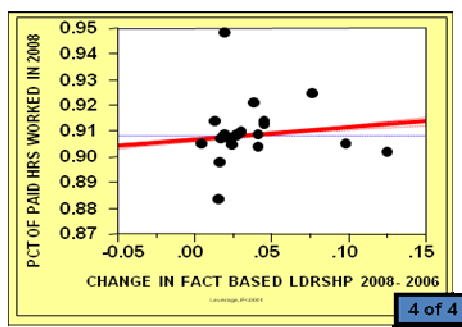
The better the score for Fact-Based Leadership in 2006, the better the score for productivity in 2008.

Statistical Note: MODEL 01: Freq: Survey N:
Covariates: RC 2008, RR 2008



Exclusion

Other drivers that have been linked to productivity in other companies do not seem to be driving productivity in the 2006-2008 dataset. It seems that Fact-Based Leadership is a *uniquely potent driver* of productivity at Northwestern Mutual.



Dose-Dependence

The greater the Increase in Fact-Based Leadership during previous years, the better the productivity this year.

Applying Our Research Findings – Pilot Hypothesis

After evaluating the information from the external literature review, leadership intake sessions and the linkage analysis, we formed the following hypothesis to test in our Motivated Workforce Pilot:

If we increase Northwestern Mutual’s reliance on Fact-Based Leadership, emphasizing intellectual challenge, good communication, feedback, and useful metrics, then we should be able to enhance employee motivation and improve productivity metrics (a clear business outcome).

A number of assumptions were considered when developing this hypothesis:

- The approach relied on existing survey data rather than designing a survey to find specific metrics that drive productivity.
- Correlations within current survey data have a strong statistical significance at a correlation rate of .30 or higher.
- Data used in proxy metric (percentage of paid hours worked) is not perfect; however, it is informative.
- Measures used to predict productivity can be individualized to the pilot areas.

Testing Our Hypothesis – Pilot Program

To test the hypothesis, the team designed and implemented a Fact-Based Leadership program in three business areas over 13 weeks. The team needed to secure participation in the pilot from both operations and professional services departments in order to build a business case that was representative of the company’s broader employee population.

Department Selection:

Gagen MacDonald led an evaluation of potential departments for our pilot against a common set of criteria. To make the selection, we pored through the 2006 and 2008 survey data, analyzed productivity metrics, interviewed department directors using a “Metrics Confidence Model” facilitation tool, and compared the information gathered. Departments were chosen based on their 2006 and 2008 results on the eight employee survey questions linked to productivity, their leaders’ interest in participation, and their productivity metrics.

We selected three departments for a total of four pilot tests. The departments selected included both operations and professional services groups. However, productivity was not a key performance indicator for the professional service group; instead, this team relied on an outcome measure—zero errors—to gauge success. For the pilot, we measured this group’s perceived productivity, which is a proven indicator for actual productivity in other companies. (See “*Department Selection*” document)

Pre-Test Survey:

For the pilot, we administered a pre-test survey to all employees in the three departments to establish the baseline measurement. The survey asked participants to rate how specific Fact-Based Leadership behaviors are demonstrated in their area. The survey also included an overall engagement score called the Employee Motivation Index (EMI), an average score of all 34 survey questions (*see “Survey Tool” document*). We achieved an 85 percent response rate on the pre-test survey.

Once the survey closed, we identified and collected key performance indicator metrics for each department to establish a productivity baseline. We divided each pilot group into “control” and “experiment” groups—the groups were selected randomly, and matched in size and type of work. We applied our “intervention” activity with treatment group managers to increase their use of Fact-Based Leadership with their teams.

“Intervention Activity” for Experiment Group Managers (only):

- *Kick-Off Session:* We conducted an orientation session to introduce managers to the overall pilot design, intervention activity, and the basic principles of Fact-Based Leadership. As part of the session, managers were given a self-evaluation tool to assess their performance against the Fact-Based Leadership behaviors. They left the session with a managers’ guide and schedule for the weekly study groups. (*See “Training Presentation,” “Training Participants’ Guide,” and “Environmental Scan and Self Reflection” documents*)
- *Study Groups:* Managers gathered every week to deep dive into a specific area of Fact-Based Leadership. Each study group was led by Northwestern Mutual’s internal HR facilitators and structured to allow time for managers to discuss wins/challenges from the previous week, explore a new aspect of Fact-Based Leadership, and brainstorm ways they could apply what they learned that week with their teams. (*See “Study Group Topics” and “Managers’ Toolkit” documents*)
- *Coaching:* Following each study group, Northwestern Mutual’s in-house Organizational Development coaches met individually with managers to discuss specific challenges and opportunities with their teams. Working with their coaches, managers set weekly goals and mapped out personal action plans to apply Fact-Based Leadership. (*See “Coaching Participant Journal”*)
- *Online Resource Center:* Throughout the pilot, experiment group managers had access to an online resource center. This password-protected intranet site included a regular blog that often featured encouraging video messages from executive leaders; group notes from the weekly study groups; a repository of all communication and training tools supporting the pilot; and a discussion board for managers to communicate and share lessons learned in between their weekly study group sessions. (*See “Manager Resource Site Screen Shots” document*)

Post-Test Survey:

In September, after 13 weeks of the Fact-Based Leadership pilot, we conducted a post-test survey (identical to the pre-test, except for the addition of three impact matrix questions) with all groups. The post-test, together with updated key performance metrics including productivity, allowed us to gauge:

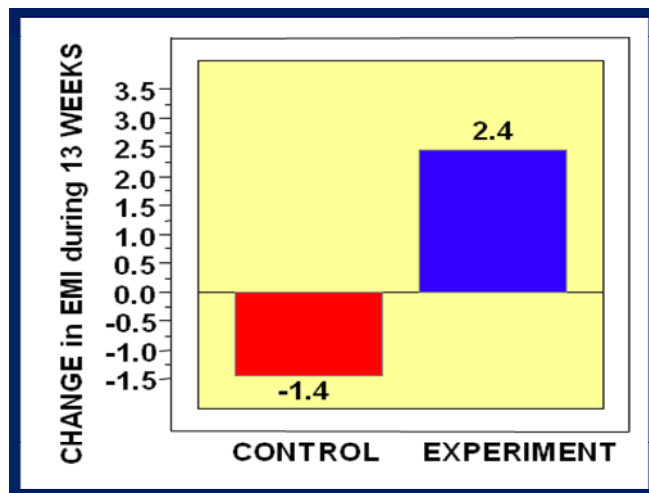
1. Differences between the responses of those in the control and experiment groups
2. Impact of the intervention on motivation levels, measured by the Employee Motivation Index (EMI)
3. Impact of the intervention on perceived and actual productivity

Evaluation of Outcomes

The results showed that increasing Northwestern Mutual’s reliance on Fact-Based Leadership led to an increase in employee motivation and productivity—just as our research-based hypothesis predicted. The experiment groups demonstrated not only an overall improvement in motivation levels, but also improvements in *objectively measured* productivity (See “Results Overview” document).

These findings are based on productivity measures and on a pre-test survey response rate of 85 percent and a post-test survey response rate of 82 percent. The excellent response rates mean that our survey had a high reliability coefficient ($\alpha=.96$) and a very small margin of error (± 2.3 percent). A regression analysis was performed to determine the statistical significance of the results, depicted in the following charts:

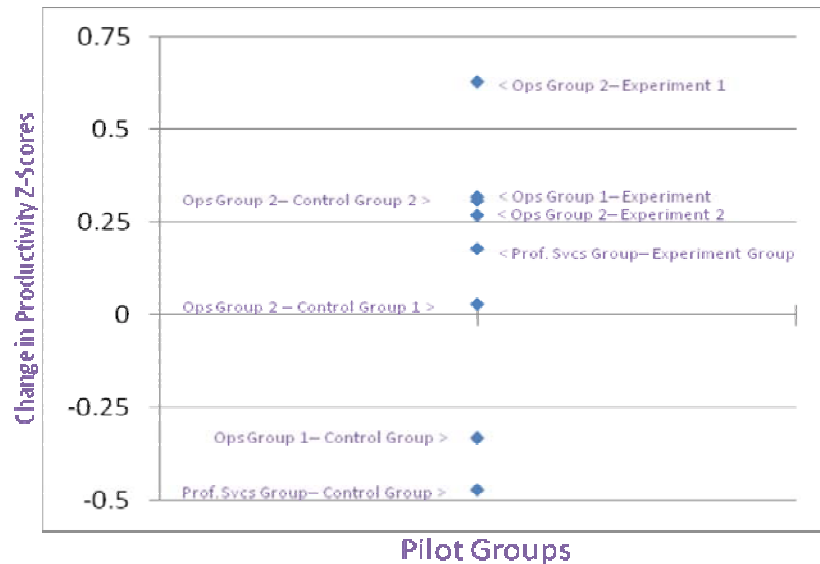
Figure 4: Employee Motivation Increases in Experiment Groups



The Employment Motivation Index in the four control groups fell from Spring 2009 to Autumn 2009 – perhaps due to cyclical changes in workload, season, or market pressures. However, during the same period the four experiment groups – which were selected by random assignment and matched in size and type of work – saw their EMI scores rise just as we hypothesized. The difference of 3.8 percent, although small in magnitude, is highly statistically significant ($p < .0001$) and quite promising given the short duration of the pilot study.

Statistical Note: Data Table=NM PRETEST-POSTTEST SPLIT 16. The model (Model 5) was highly significant: $R^2 = .23$; $F = 5.8$ $p < .0001$, $n = 92$, accounted for pre-test and post-test administrations (Sum Wts = 184) and controlled for the following covariates: Role (significant); Tenure (significant), NEW APPROACH 2: EVALUATING EVIDENCE (ns); NEW APPROACH 5: IP COMM & FEEDBACK (significantly positive); and NEW APPROACH 7: INTEL CHAL & MOTIVATION (ns). The predictor variable was TREATMENT GROUP, which was highly significant (Beta = 8.1; $p < .0001$). This model (Model 5) was used throughout the analysis of changes in survey scores

Figure 5: Change in business outcomes measuring actual and perceived productivity

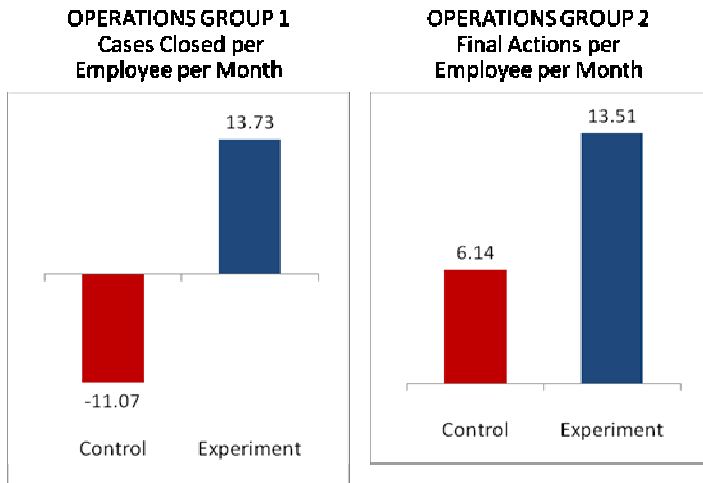


Even before we control for the effect of some important confounding variables (such as amount of PTO, the employee's number of years on the job, etc.) it is clear that on average, the control groups had a smaller amount of change than the experiment groups. Also, each experiment group experienced an increase in their productivity.

	Ops Group 2 – Control 1	Ops Group 2 – Control 2	Ops Group 2 – Experiment 1	Ops Group 2 – Experiment 2	Ops Group 1 – Control	Ops Group 1 – Experiment	Prof. Svcs Group – Control	Prof. Svcs Group – Experiment
Percentage	-2%	-1%	1%	-3%	1%	8%	-22%	11%
Change	(1.10)	(0.60)	0.70	(2.00)	0.70	5.50	(9.10)	6.60
EMI Pre	61.2	65.5	59.2	65.1	60.9	61.6	51	53.1
EMI Post	60.1	64.9	59.9	63.1	61.6	67.6	41.9	59.7
Productivity Changes (Z-Score)	+0.03	+0.31	+0.63	+0.27	-0.33	+0.32	-0.47	+0.18

Summary Results:

1. We identified and proved a unique lever for employee engagement at Northwestern Mutual – Fact Based Leadership.
2. We built an employee survey tool with the business capability of predicting productivity performance at our company.
3. Engagement/motivation improved in our experiment groups (*see Figure 4 above*).
4. Productivity improved in our experiment groups. For example:



Operations Group 2 results represent an average of two Control and Experiment groups combined.

5. **We made our case.** Northwestern Mutual is continuing its investment in employee motivation and engagement. We are approved for the next phase of our rollout—including a new, companywide resource site for managers. We are updating our annual employee survey to improve its reliability and business utility. We have launched a campaign in 2010 to increase two-way communications and dialogue through senior executives. And, we’re supporting a metrics deconstruction effort to increase the relevance of departmental metrics to the corporate strategy and create a clearer line-of-sight for employees.

Conclusion and Implications

The Jack Felton Golden Ruler Award recognizes excellence in public relations research, measurement and evaluation. We are confident that our program performs extraordinarily well against the award criteria as follows:

Research Methods: We used research as the foundation for our entire effort. We employed a rigorous, multi-faceted approach, drawing on three methods—a review of reputable, published external studies; internal interviews for qualitative data; and a statistical linkage analysis to focus our research strategy. Each segment of research had clear objectives, building on the findings of the previous segment. We tested the validity and reliability of our approach at every phase of implementation— whether showing the correlation between Fact-Based Leadership and productivity; demonstrating the reliability coefficient and margin of error for our pilot survey tool; or illustrating the statistical significance of our productivity and engagement improvements in our “experiment” groups. Our program provides a compelling example of how public relations practitioners can use a disciplined research/ measurement approach to inform their internal communications programs for the greatest impact.

Contribution to the Practice of Public Relations: Given its rigorous research design, the Motivated Workforce Pilot case study contributes to the overall body of industry knowledge in three, important

ways: 1) It demonstrates a clear and compelling link between employee engagement and hard performance metrics (e.g. productivity); 2) It provides public relations practitioners with an innovative (sophisticated analytics), but practical (small, pilot effort) approach to increase the utility and relevance of their internal public relations programs; 3) The “intervention” activity represents an advanced communications approach that moves internal communications beyond the corporate newsletter and into the area of influencing daily conversations between employees and their direct managers.

Quality and Substance of Findings: The results of our Motivated Workforce Pilot clearly demonstrate a link between internal public relations activity and measureable business outcomes. The pilot method ensured that we tested our approach in a cost effective way and worked out any kinks in the program before rolling out the effort to the broader organization. The impact of the effort is best illustrated by the fact that lessons learned from the Motivated Workforce effort are being incorporated into work across the entire organization over the coming years. Building energized and motivated employees is considered one of the strategic priorities for Northwestern Mutual, championed by the company’s CEO and executive management team.