

Solid Investments in Engagement Yield Shareholder Return: The Aetna Story

By Craig Hurty & Debra Osborn, Aetna, and Anne Herman, Ph.D., Kenexa Research Institute & Jeffrey M. Saltzman, M.A.

Aetna has been one of the best-known names in the insurance industry for more than 150 years, but at the beginning of the twenty-first century, the company experienced significant business failure. Then, under new leadership in 2001, Aetna engineered one of the most successful corporate turnarounds in recent American history. Over a five-year period, Aetna's shareholders were rewarded with a stock price increase of more than 600 percent. By the end of 2007, Aetna was vying for industry leadership.

One of the keys to this dramatic success was the institution of The Aetna Way, a set of mutually reinforcing elements that serves as the foundation on which Aetna's culture is built. Central to The Aetna Way are its values, intrinsic ideals and beliefs that guide company decisions and actions. These established the core of Aetna's culture and became central to the dialog with employees on what it means to become a high performing organization. To monitor the company's cultural performance, an employee survey was instituted in 2002. Employees responded with a very high participation rate—typically above 90 percent.

As Aetna sharpened its goals and action plans, employee survey results began to improve. In 2002, less than half of the employees said that Aetna was practicing The Aetna Way. By 2007, more than 80 percent of the employee population was responding favorably to that question. Employee pride in working for Aetna followed a similar positive pattern. Aetna met and surpassed norms on the questions it had targeted to measure employee survey performance. In many ways, measures of Aetna's cultural performance paralleled its outstanding financial performance.

After the 2007 employee survey results, Aetna was considering where it wanted to go next. An employee engagement index was developed in partnership with Kenexa® based on questions regarding willingness to recommend the company, pride in the organization, extreme satisfaction and retention. However,

before Aetna could go down the path of utilizing this index, it had to satisfy a critical question from its Chairman and CEO, Ronald A. Williams. He wanted to know how performance on the employee engagement index was associated with successful financial performance.

Throughout the turnaround phase, and as Aetna began to grow again, Williams emphasized the importance of not simply growing, but growing profitably. He often joked with employees that when "profitable growth" was listed in the dictionary as a single word, he would know that he had been successful in getting his message across. It was no surprise that he would not be satisfied with a measure of cultural success that was not explicitly aligned with profitable growth.

To meet the challenge, Aetna first needed a way to measure financial performance that would lend itself to some kind of linkage or correlation analysis. Since consistent operating performance to improve shareholder value and restore investor confidence has been an important theme for Aetna, Total Shareholder Return (TSR) seemed to be a logical measure. TSR is a concept used to compare the performance of different companies over time by combining share price appreciation and dividends paid to show total shareholder return.

Next, an analysis needed to be done with a comparable group of publicly held companies that asked matching employee survey questions and for which TSR measures could be derived. Aetna turned to Kenexa to help conduct the analysis and find an answer.

Aetna and Kenexa

Aetna and Kenexa started by identifying publicly traded organizations that had also conducted a survey with Kenexa in 2005, 2006 or 2007, with the majority of the results used from 2006 and 2007. To be considered for inclusion in the analysis, an organization had used an

engagement index that was measured in the same manner as Aetna. In addition, information about one-year and five-year TSR had to be available.

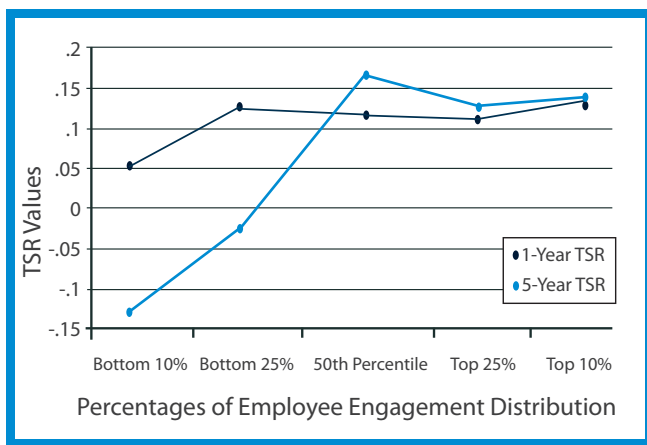
Thirty-nine organizations were identified for inclusion in the study based on those parameters. Relationships among one-year and five-year TSR were examined with respect to employee engagement (as an index) and the four independent items that comprise the index. The average scores of these items, the engagement index and the one-year and five-year TSR values had a fair amount of variability across all 39 organizations.

Figure 1: Values Across 39 Organizations

Average Value (percent favorable or TSR)	EI	Pride	Advocacy	Retention	Extreme Satisfaction	One-Year TSR	Five-Year TSR
	66%	74%	67%	54%	68%	11%	11%
Lowest Value	43%	55%	40%	37%	51%	-44%	-59%
Highest Value	83%	90%	86%	75%	85%	63%	76%

The relationship between TSR and employee engagement was investigated using a few different methodologies. Employing traditional linkage study analyses, the correlations among the TSR values and the employee engagement index and individual survey items were calculated. There were significant relationships between the five-year TSR and the engagement index, the advocacy survey question, and the retention survey question, with correlation coefficients of $r = .45$, $r = .36$, and $r = .43$, respectively, meaning that as engagement values in an organization are larger, the five-year TSR values also tend to be higher.

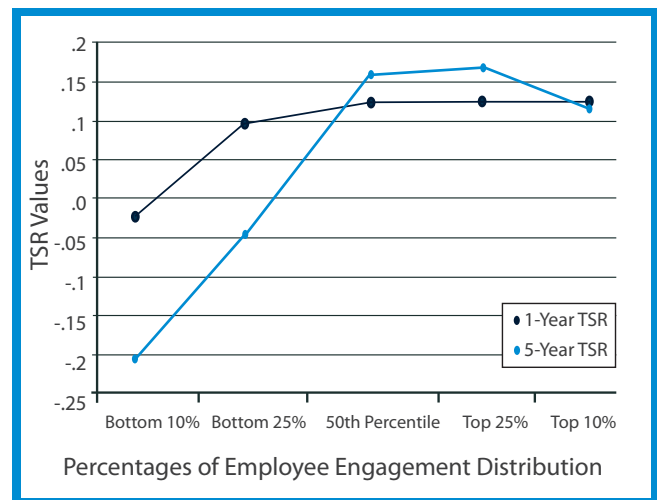
Figure 2: Advocacy and TSR



Upon examination of the one-year TSR values in the sample, it was noted that a higher proportion of these values relative to the five-year TSR values were negative (i.e., more companies had poorer short-term one-year performance than five-year performance). Though there were similar ranges for both the lowest and highest values of one-year and five-year TSR, it is posited that the higher proportion of negative values of one-year TSR may have contributed to the pattern of results that was observed. Specifically, the higher proportion of negative values of one-year TSR may be contributing to the lack of significant relationship with organizations' engagement levels. However, it may be that engagement and organizational culture have longer cycles that impact an organization's culture and a five-year TSR may be indicative of a longer-term, more consistent performance pattern.

To better understand what was happening at the varying levels of employee engagement across the sample, the sample was divided into some commonly used normative percentile markers, namely the bottom 10 percent, bottom 25 percent, 50th percentile, top 25 percent and top 10 percent. The graph below depicts the relationship of engagement and TSR.

Figure 3: TSR as a Function of Employee Engagement Percentile Groups

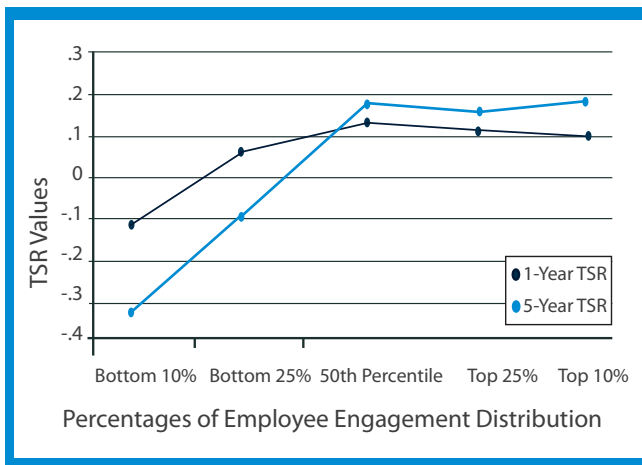


The average high performing organization on employee engagement shows a five time greater shareholder return than does an average bottom performing organization on employee engagement over five years.

The average high performing organization on employee engagement shows a six time greater shareholder return than does an average bottom performing organization on employee engagement over a one-year period. The average high performing organization on employee engagement shows a three time greater shareholder return than does an average bottom performing organization on employee engagement over a five-year period.

Similarly, a descriptive representation of TSR at the same percentile markers was created for the relationship with advocacy and retention.

Figure 3: Retention and TSR



In examination of the graphs, some interesting relationships among the engagement variables and TSR are evident, especially in the lower half of the distribution of the engagement values. This study is not telling us that engaged employees will result in an organization having a higher TSR, but it is suggesting that having more engaged employees is a part of the mix for organizations that have higher TSR. The relationship of engaged employees and TSR may be even more important in organizations that are average or less than average at the organizational level of TSR (Figure 4).

A 2008 collaborative study between Aetna and Kenexa is currently underway and will include trends in scores for engagement data across the years included in the one-year, five-year and ten-year TSR matches. Furthermore, we are examining the relationship of other employee perceptions such as customer orientation, belief in delivery of high quality products and services, and managerial effectiveness.

Figure 4:

Engagement Index Score	One-Year TSR	One-Year Gap	Five-Year TSR	Five-Year Gap
Top 25%	12.09%	2.53 pts	17.93%	22.06 pts
Bottom 25%	9.56%		-4.13%	

$|17.93| + |-4.13| = 22.06$, so 4.13 is approximately one-fifth of the total percentage difference between the top and bottom 25 percent averages.

Engagement Index Score	One-Year TSR	One-Year Gap	Five-Year TSR	Five-Year Gap
Top 10%	12.09%	14.45 pts	11.13%	33.3 pts
Bottom 10%	-2.36%		-22.17%	

$|12.09| + |-2.36| = 14.45$, so 2.36 is approximately one-sixth of the total percentage difference between the top and bottom 10 percent averages (14.45). $|11.13| + |-22.17| = 33.3$, so 11.13 is approximately one-third of the total percentage difference between the top and bottom 10 percent averages.

Williams asked his research team a critical question—not only for Aetna but also for any company utilizing engagement in helping to drive organizational performance. Essentially the question is, does engagement impact performance, and more specifically, does it impact financial performance?

While this study is unlikely to be the definitive answer and there is always more research to be done, the data presented here bring one to the conclusion that engagement helps create conditions that allow companies to achieve more positive financial results. ■

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