

Employee Engagement *The Caterpillar Project*

By Ernest Skipper and Glenn Terrell, Ph.D.

As indicated by the title and sub-title, this issue of The LETTER describes our experience working with the Caterpillar organization. Senior author, Ernest Skipper, a new project director at The Pacific Institute, will develop that portion of this presentation. Welcome to you, Ernest! To prove that we are pleased to have you join all of us at TPI, we are giving you, right out of the chute, this important assignment of co-authoring The LETTER. Ernest will describe this vital project that he has been working on for some time. But first, I shall discuss the concept of "engagement," a term that has been used for many years because of its relationship to measures of productivity.

In the April, 2002 issue of the *Journal of Applied Psychology*, J.K Harper et al, "Business-Unit-Level Relationship Between Employee Satisfaction, Employee Engagement, and Business Outcomes, A Meta-Analysis," (an analysis based on many studies) found that engaged employees were more productive and satisfied. This study was based on several thousand business-units in 36 companies. Furthermore, these outcomes were also found in thousands of studies done between 1976 and 2000. The authors explain that the "business unit" was used in these analyses because the reports, of these units, include measures of such outcomes as customer loyalty, profitability, turnover and safety. The above results are based on a review of the literature. The authors also conducted another study of their own in which they conclude that "employee attitude measures were related to business-unit outcomes, and these relationships were generalizable." Again, quoting the authors, "We should again note that the business-unit-level observed correlation, between over-all satisfaction and employee engagement, was .77."

The preceding paragraph leaves no doubt that engaged employees are more satisfied and productive. But how can we recruit, develop and retain engaged employees? A recent article appeared in the *Gallup Management Journal*, September 26, 2002 entitled "The Four Disciplines of Sustainable Growth." This article contains some useful information about how sustainable growth can be accomplished. The Four Disciplines referred to in the title of the article are as follows:

Discipline One:

Hold all employees accountable for their local performance outcomes.

This is not as simple as it sounds. The authors report that 58% cannot strongly agree to the statement, "I know what is expected of me at work."

Discipline Two:

Teach all employees to identify, employ, and develop their strengths.

Here the authors stress that employees should be taught to focus on identifying and increasing their strengths rather than their weaknesses. The authors are influenced by their belief that





A MESSAGE FROM LOU & DIANE TICE

Our work with Ernest Skipper and Caterpillar has been very interesting, in part because of the success in assisting them to improve employee engagement. For many years, employment engagement, or satisfaction, has been known to increase productivity and effective relationships in any organization. We believe there is no area of the application of our education more important than our ability to increase the efficacy of our client organizations through assisting in the enhancement of the happiness and satisfaction of employees.

Also of great emphasis to us is the belief that increasing employee satisfaction can take place at any time in the life cycle, not just during the early, middle and adolescent years, as some interpretations of the research by neurologists would lead us to believe. Our experience with Caterpillar, and many other clients around the world, indicates clearly that members of private and public sector organizations can and do learn new skills and improve on existing skills at any age. Many reports published in THE LETTER clearly demonstrate that individuals can learn new skills and enhance existing skills, even in the later years of life.

Lou & Diane Tice

weaknesses are due to neurological developments, suggesting that human traits – such as happiness, engagement, and other skills (much of what we call “efficacy”) – are learned. Also, that if these characteristics are not learned by the mid-teens, human beings are severely handicapped in their attempts to do so later in life. My objections to this approach will be discussed later. No one associated with TPI will have any difficulty in predicting what my opinion is on this belief.

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Discipline Three:

Align all performance appraisal and review systems around identifying, deploying, and developing employee strengths. (This is an extension of Discipline Two.)

Discipline Four:

Design and build each role to create world-class performers in the role.

The authors find that only 20% of employees will “strongly agree” to the statement that “at work I have the opportunity to do what I do best every day.” The “career ladder” concept too often mistakenly leads to the promotion of successful sales people and technicians to supervisory or management positions.

One additional finding: Gallup’s own research, based on the use of their Q12, their 12-question survey of employee engagement, shows that 70% of employees are not engaged at work. I would guess that there were no TPI clients in their sample.

I now turn my attention to the point of disagreement referred to above – the claim that neurologists have presented data that indicates, in the words of the

Gallup Management Journal, "beyond a person's mid-teens, that unique network of synaptic connections, in which some are strong and robust and others are non-existent, does not change significantly." Quoting further, "This means that a person's recurring pattern of thought, of feeling and of behavior do not change significantly. If he is empathetic when he is hired, he will stay empathetic. If he is impatient for action when he is hired, he will stay impatient. If he is strategic, always asking 'what if,' he will stay strategic. If he is competitive he will stay competitive—They don't change much after a person is hired."

Surprisingly, two paragraphs later, the Gallup Management Journal seems to somewhat change its tune with these words. "Of course, none of this implies that a person cannot change. Not only can he learn to better channel his talents by stabilizing his values or by developing a measure of self-awareness, but he can also be taught new skills and knowledge... Given our limited time and money, where is he likely to improve the most? Or more bluntly, where are we likely to see the biggest bang for our training and development buck?"

It appears to me that the Gallup group is equivocating. However, their predominant belief about the acquisition of human traits and skills seems to be that they must be learned before mid-adolescence, or they probably will not be learned after that. Or, at the very least, the learning of traits will be much more difficult thereafter. As mentioned previously, this predominant belief appears to be based on the interpretation of neurological research suggesting that the maturation of synaptic connections, associated with the acquisition of human traits, ends in the mid-adolescent years. I have consulted with two neurologists, who believe that such a conclusion is premature. Much more research needs to be conducted on this issue before we can confidently conclude that the learning of human traits stops at mid-adolescence.

I hasten to add, however, that the study of the relationship between maturation of brain mechanisms and behavior is a

new frontier in our understanding of the dynamics of human behavior. New brain imaging, with new techniques such as positron emission tomography (PET), has enabled scientists to discover brain correlates of behavior and are promising. I fully expect to see increasing collaboration between neurologists and psychologists as a result of these procedures.

Some of these developments have clear implications for education. Harry Chugani, a Wayne State University neurologist, for example, has shown that there is a "window of opportunity" in early and middle childhood for the learning of languages. And yet, schools still introduce new language instruction in the high schools. Chugani and others have studied the brain images of Romanian children, who were subject to early deprivation which, "showed bilateral dysfunction (as indicated by the increased glucose metabolism) of medial temporal structures including the amygdala and hippocampus, as well as bilateral dysfunction of the inferior temporal cortex. Characteristics of behavioral abnormalities at the time of adoption, including absence of crying, stereotyped behaviors such as rocking and head-banging, social difficulties, may be related to bilateral dysfunction in these brain regions during early brain development."

The research literature, of distinguished psychologists such as Professors Albert Bandura and Martin Seligman, demonstrates the capability of individuals of all ages to increase their efficacy. Bandura uses the term "efficacious self-renewal," an ongoing process throughout the life span. Many studies demonstrate the ability of people to acquire new skills from birth into the elder years. Indeed, The Pacific Institute has demonstrated the ability of people to change their thought processes and to thereby change their behavior, even in elderly populations. THE LETTER has reported numerous outcome studies with our clients, clearly demonstrating that changing the way we think can change the way we behave.

My colleague, Ernest Skipper, will now describe the exciting work he and his associates at TPI have done with the

Caterpillar organization, a remarkable demonstration of the relationship between employee engagement (or satisfaction) and productivity. Ernest gives much credit to the implementation of *Imagine 21™* for generating the increase in employee engagement and the subsequent increase in productivity.

Bold Goal Achievement Journey

Caterpillar, Inc. decided, in early 2000, to consolidate several units, that performed logistics functions in various divisions, into one group to achieve synergies, thereby reducing costs and improving the quality of service to the customers. This reorganization created the Logistics Division, or more commonly referred to as Cat Logistics.

Within Cat Logistics, an integration team was formed with the responsibility to develop the organizational structure and the implementation plan, including the identification of goals. The team used an “accelerated transition” merger integration methodology to identify the key value drivers, which would create the most value, and manage an intensive 100-day integration plan. The identification of these value drivers led to “Bold Goals” being established. Based on benchmark data, with the expectation of the achievement of the Bold Goal glide path over the next three and one half years, this would establish Cat Logistics as the best logistics company in the world – Lowest Cost, Highest Quality, Best Service.

I was named manager for the newly formed Caterpillar Distribution Services, Americas Division, within Cat Logistics, effective July 2000. In this role, I was responsible for 15 facilities and had 19 direct reports throughout the US, Canada, Mexico and Brazil. The organization consisted of approximately 1,000 people.

The responsible key managers throughout Cat Logistics began Bold Goal achievement project kick-off meetings with their direct reports. The expected process was to clearly explain the Bold Goal challenges and begin developing the project plans necessary to achieve the improvement glide path.

I decided to use a different approach. I

knew that the facilities had only averaged 3% productivity improvement per year for the past several years, and the Bold Goal was to achieve an improvement of 34% over the next three and one half years. A new belief in what might be possible would be needed. We organized a four-day meeting, spending the first two days taking all of my direct reports through The Pacific Institute’s *Imagine 21™* workshop. This approach, which I co-facilitated, built a personal bond with my reports and opened them to new possibilities, and a new way of thinking. The next two days were spent talking about the Bold Goals and what the Americas Distribution Services Division would be like in three years, when it was part of the best logistics company in the world. At the end of the two-day vision-building session, a document was created, stating in present tense, what it would be like at the end of 2003. Stated simply, affirmations of the desired future.

Four weeks later the group came back together to complete the two-day *Imagine 21* Phase II workshop, and to finalize and achieve consensus on the vision document. At no time during these sessions were there any efforts made to develop a project plan. The immediate goal was to get everyone solidly locked onto the Bold Goals.

After returning to their respective facilities, each manager started facilitating discussions with their staff and brainstorming process improvement ideas.

1. Project Approach

Following the completion of the initial *Imagine 21* workshop, it was decided that I would personally facilitate a series of six more *Imagine 21* workshops for 150 managers, supervisors and team leaders within the division, to insure consistency. Phase II of the workshops were tightly tied into a hierarchy of goals to be achieved over the next three and one half years. These SMART Goals were balanced between:

- a. Employee Satisfaction
- b. Customer Satisfaction
- c. Stockholder Satisfaction

The specific facility SMART goals were established using industry benchmark data. This ensured that all facilities would improve to at least the top two sector quintiles, as determined by the benchmark data, in terms of quality (accuracy of stock in stores, number of shipping errors) and productivity (expressed in LHY – lines handled per employee/year).

A monthly reporting process was developed and implemented at the end of the first month. This results-tracking process included a “Dashboard” report for each facility showing the progress being achieved against each goal. Also, an annual recognition process, previously used, was modified and tied directly to the balanced goal achievement for each facility. This process was referred to as the Caterpillar Excellence Award.

2. Behavioral Changes

The managers, indeed, the whole organization became highly committed to the goals and also improved its trust in leadership (as evidenced by employee satisfaction surveys). This led directly to substantial operational improvements exceeding the ambitious bold goals. Specifically, each of the 15 facilities (and not just the ones most visible to senior management) delivered substantial improvements on an

ongoing basis. Relationships with the workforce and their Union improved tangibly (improved employee satisfaction, fewer “high-level” grievances).

3. Operational Results

By the end of the first eighteen months, ending in December 2001, the Americas group had accomplished radical improvements as compared to the 1999 baseline:

- a. A 24% improvement in LHY productivity, leading to needing 178 fewer people in the organization (lost mostly through attrition, and not replaced);
- b. Total operating costs per line shipped reduced by 19.2%;
- c. Dealer claims reduced by 22.5%;
- d. New inventory accuracy performance record established;
- e. Many managers, not previously identified as “high-potentials,” were given new and expanded opportunities.

4. Financial Results

The above operational results were estimated to represent an annual cost savings of several million dollars, with little or no capital expenditure. The implementation of



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Dr. Terrell served as Chairman of the Department of Psychology, University of Colorado, Dean of the College of Liberal Arts and Sciences and as Dean of Faculties at the University of Illinois in Chicago before an 18-year tenure as President of Washington State University.

He also served as President of the National Association of State Universities and Colleges, Commissioner for the State of Washington on the Western Interstate Commission for Higher Education, served on the Board for General Telephone Northwest and West for 23 years, was a Fellow for the Society for Research in Child Development, and a Fellow for the American Psychological Association.

Dr. Terrell has received numerous honorary degrees and awards, among them a listing in Who's Who in America: American Men of Science, and Distinguished Graduate of the Department of Psychology, University of Iowa. His first book, *The Ministry of Leadership: Heart and Theory*, was published in December, 2002.

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Imagine 21™ was judged to have made a substantial contribution to the achievement of these results. (This contribution can be estimated at about 25% of the total saving, by comparing the Americas group's improvements (using *Imagine 21*) with the other groups' improvements (that used the traditional project improvement process).

The cost of the program was minimal, when compared to the actual savings achieved.

5. Lessons Learned

- Commitment from the top was essential. A senior manager's direct involvement and ongoing support was critical for success.
- Clear and bold goals were set on the 20% of the areas which would yield 80% of the benefits, using a credible benchmarking approach.
- Focus was on securing strong commitment to the goals and to a clear vision, rather than on the formal project planning of "how to get there."
- Consistent messages and common answers to questions contributed to the trust and commitment to the goals and vision.

6. Relationship Between Productivity and Employee Satisfaction

One interesting statistic was identified when comparing the 2001 productivity to

the 2000 results. The five facilities with the lowest Employee Satisfaction scores only achieved an average productivity improvement of 13.2%, while the five with the highest satisfaction achieved a 15% improvement (and these were already the higher productivity facilities). You might say that there isn't much difference between 13.2% and 15%. However, in this case, it is estimated that approximately \$350,000 more would have been saved if every facility had achieved the higher level of performance.

The graph below demonstrates the relationship between productivity and employee satisfaction, or most commonly referred to as "Employee Engagement." The facilities are ordered by lowest to highest employee satisfaction. Satisfaction is plotted on the right axis, and productivity on the left axis. The linear regression line for 2001's productivity improvement is steeper than the line for 2000. This is a clear example of the power of employees when engaged – the higher the employee satisfaction, the higher the productivity, the higher the productivity in 2000, the more improvement in 2001.

Is it true, the harder employees work, the more satisfied they are? Or is it the more engaged they are, the more productive they are? I think we all know the answer. As Glenn mentioned earlier, we give much credit to TPI's implementation of *Imagine 21™* for increasing our employees' engagement and productivity.

