

# Corporate Culture Makes a Fiscal Difference

BY MICAH R. KEE



## EXECUTIVE SUMMARY

Companies really can (and really should) measure their culture because a weak culture can cost an organization hard cash. Caterpillar Inc. has enjoyed success with the cultural assessment process it developed to measure and then enhance its work atmosphere.

“The plant will be extremely difficult to work with,” the small company executive told me. “We have difficulty running the daily business, much less delivering any of our savings projects. Good luck in making anything positive happen.”

Sure enough, the operation was in trouble. Not only were the equipment and space poorly organized, but the people were visibly inefficient in their activities. We had our work cut out for us. Where to start?

As we began walking through the facility, we stopped a fork truck driver to ask him questions about the layout and operation. He was openly skeptical at first, but as he saw that we were genuinely interested in his opinions he began to open up. Then we asked the magic question: “What would you do to improve the operation?” It was as if no one had ever asked that question of anyone in the facility. We were quickly surrounded by three other drivers. A 45-minute discussion ensued, and we ended up with a list of improvement ideas several pages long. All of the ideas were actionable and eventually formed the foundation of our recommendations.

We requested that the plant workers be represented on the project team and that they be involved in implementing the recommended solutions. The plant ended up saving several hundred thousand dollars a year, not because of groundbreaking outside ideas but because someone thought to ask a fork truck driver how to improve a bad situation.

What this company’s executives saw as an untenable situation between corporate management and plant employees was really a systemic lack of communication that stifled ideas and risk taking. When these workers were engaged and actively involved — the communication barriers removed — the whole operation began to improve.

Think this situation can happen only in a small company environment? Think again.

### Fortune 500 fiasco

I am currently working with the project team of a Fortune 500 company. The project is in disarray because the leading option — a true technological advance — is clearly not the best solution for the current business. There are other aspects of the manufacturing process that are in desperate need of attention. The problem lies in the fact that the project team’s members are rewarded for advancing technology, not for ensuring the business is better off for the change. The team members are not the only ones to blame, however. Division management set a capital limit that barely covers the cost of the new equipment. Attempts to add extra capital to improve the other parts of the business as well are met with denials. The additional capital is simply not required to deliver the new technology. Said one manager, “If it doesn’t affect me, then I’m not interested in it, and it shouldn’t factor into my decision.”

The project will likely go forward, the individuals rewarded — and the business will continue to struggle. Unless something changes, the lack of leadership and the misalignment between company goals and the employee reward system will ensure that many similarly poor decisions continue to be made.

Situations like these are not isolated. Issues dealing with communication, reward and recognition systems, and leadership values — just some of the components that form a company’s culture — are prevalent and ongoing. And they cost companies untold millions. The amazing fact is that companies know these issues are there but they are unwilling or unable to address them. Rob Goffee and Garith

Jones, in their book *The Character of a Corporation*, explain why: “Most companies are intimidated by its [corporate culture] intangibility, convinced of its secondary importance to the ‘harder’ components of their strategic plans, or simply don’t know how to assess culture or change it.”

Can companies really measure — and change — their culture? Can companies put into hard dollars what a weak culture costs them? Can they determine a return on capital invested to strengthen their culture? After observing the work of a small group of people in one of America’s largest corporations, I can say that the answer to these questions is an emphatic yes.

### Fortune 100 Success

In the spring of 1999, Caterpillar Inc.

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## Aiming Six Sigma at a \$30 billion target

In September, Caterpillar Inc. Chairman and CEO Glen A. Barton confirmed to a group of financial analysts that the company has plans to achieve \$30 billion in sales and revenues this decade. The incremental growth of approximately \$10 billion is divided among the company’s three business segments, with about \$5 billion in engines, \$4 billion in machines, and \$1 billion in financial services.

Barton cited Six Sigma as the major contributor to the company’s current success. “We’ve seen a direct impact of Six Sigma on manufacturing costs, product quality, and volume. In the second-quarter results announced last month, the major enabler for our increase in operating profit was Six Sigma. It is delivering our corporate strategy by reshaping our company, making us more efficient, and building the Caterpillar of tomorrow today,” he said.



## The cost of neglecting culture

Caterpillar's cultural assessment process is successful in part because it allows upper management to see the business results of the decisions they make with regard to their organizations. Two such results have to do with attrition and overtime. CAP consultants use many tools, including the two below, to help management see the potential financial impacts of changing culture.

### Exercise: Cost of attrition

List the number of people and the amount of time required for each of the following activities. Then apply your organization's average hourly or yearly compensation rate to estimate the total annual amount of money invested in recruiting and hiring. Divide the number of people hired per year by this total to get a total cost per new hire.

- General recruiting events (job fairs, search firm fees, job postings, etc.)
- Screening new applicants
- Interviewing new applicants
- Testing new applicants
- Medical exams
- Background checks
- New hire training programs
- Learning curve issues (new employee as well as co-workers)

Considering your organizations' turnover rate, is it worth the time to identify and address the reasons people leave unexpectedly?

### Exercise: Cost of lost time

Estimate the amount of time lost each day due to the following actions of employees:

- Being late for work
- Taking an extra-long break
- Taking an extra break
- Waiting for information
- Waiting for materials
- Waiting for assistance or training
- Machine downtime
- Leaving work early

Multiply this time by the number of employees in your organization and then by your organization's average hourly or annual compensation rate. These minutes per day add up to hours and contribute to productivity loss and excessive overtime.

tasked a small corporate group with developing a tool to measure its organizational effectiveness. The tool needed to be applicable to any organization in any of Caterpillar's many divisions. Their charge: Integrate employee engagement, ongoing operations, and physical assets, thereby improving overall business results.

After a great deal of research, Caterpillar's human services division rolled out its cultural assessment process. CAP was designed to serve as both a full physical to establish a baseline performance of participating organizations and a continuous improvement tool for recommending and implementing needed change. Today, CAP has a patent pending and has been used in more than 50 of Caterpillar's organizations and divisions worldwide. Using techniques ranging from the traditional employee survey to focus groups and one-on-one interviews, the human services division has compiled an impressive database of hundreds of thousands of data points and more than 6,000 hours of dialogue. In just over four years, organizations participating in the cultural assessment process have developed improved communication initiatives, modified incentive programs, and standardized tools and methodologies. The organizations have also documented millions of dollars in bottom-line savings through improvements in attendance, attrition, overtime measures, and other factors.

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For Caterpillar, engagement has a full life cycle, encompassing pre-employment, employment, and post-employment. The key is ensuring that employees continue to learn and apply that learning within the organization. So just how does an organization change?

### Know the culture

To measure and change culture, you first have to understand what it is.

A company cannot establish or

define its culture simply by issuing organizational charts and corporate value statements. Fundamentally, a company's culture comprises the beliefs, habits, attitudes, and expectations of the people occupying the positions in the org chart. Identifying key cultural elements such as these (Caterpillar's CAP focuses on 10 of them) and how they affect employees' behavior is the basis for successfully affecting business results. They are not static measures.

Leaders shape and change culture by what Edgar Shein, in *The Corporate Culture Survival Guide*, calls "embedding mechanisms." That is, leaders demonstrate what is important to them and therefore to the company by what they reward (by promotions and raises), what they model (through their actions), what they measure, and what they control on a regular basis.

By focusing on these key elements the CAP is not only able to identify root problems and inefficiencies, but it is also able to help leaders begin the continuous improvement cycle.

It is not enough simply to ask questions. To change a culture, leaders must listen and respond.

Many companies collect information from their employees through annual reviews and surveys. What really matters is what they do with the data once they have it. A Gallup poll of Fortune 500 companies found that 80 percent conducted surveys and solicited opinions from their employees, and 60 percent of those companies reported a negative impact as a result of their efforts. A study by Keilty, Goldsmith & Company sheds light on the reason behind the numbers: There is a strong correlation between follow-up and perceived leadership effectiveness. Companies are better off not doing anything at all than they are by soliciting ideas and opinions and then not following through on the results of those inquiries.

By using CAP results as a springboard to improvement, participating Caterpillar organizations have been able to prove the numbers above. In as few as three to four months, some participating organizations have seen 50 percent improvements in employees' perceptions on a wide array of issues ranging from communication and leadership actions to recognition and career planning.

In one example, a global organization of 1,500 people went through the CAP and began working on a list of recommended action items. Less than 12 months later, a follow-up survey revealed statistically significant improvements on 17 out of 19 indicators tied directly back to the action plan.

Caterpillar views leadership as the glue that holds the company together.

### **Accountability counts**

To change in a substantial way, organizations must hold themselves accountable.

Accountability requires two things: commitment and measurement. The CAP consulting team will not execute an assessment without an upfront commitment from the organization's management to communicate both the assessment results and the ensuing action plan. Indeed, there have been times when the CAP was deferred until the participating organization could devote adequate time and resources to the task. As explained above, it is better to wait than to put little or no effort behind the process.

The initial assessment benchmarks several key indicators, both "soft" (attitudes and perceptions) and "hard" (attrition, attendance, overtime, and the like) and concludes with a 100- to 120-day action plan. This time between assessments allows the organization to begin addressing the components in the action plan as well as measure its progress against those items. At the conclusion of



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## 10 key cultural elements

1. Assumptions: Unwritten rules that are accepted as fact.
2. Norms, customs, and routines: How people behave, interact, and work at all levels of the organization.
3. Power: Not the result of position or a title, power – which can be positive, negative, or mixed — determines who influences opinion.
4. Rites and rituals: Ceremonies and events that highlight what is important and not important.
5. Roles and responsibilities: Determine expectations and provide insight into performance measures.
6. Stories and myths: Help describe the company's history.
7. Structure: The invisible organizational chart that identifies relationships, communication, and power.
8. Symbols: Nonverbal communications that help explain values and beliefs.
9. Systems and rules: Methods to control, measure, and reward desired behavior.
10. Values: What the organization cares about the most.



# Why assess culture?

- Cultural assessments help establish differences between perceptions, intuition, and reality.
- Cultural assessments require data collection, which leads to good business decisions and provides a sound basis for implementing those decisions.
- Cultural assessments help establish a baseline measurement that enables improvement on a consistent, repeatable basis.
- Cultural assessments drive end results by identifying the effects of the choices made, the priorities set, the options weighed, and the discretionary effort received from others.

each 100- to 120-day period, the CAP recommends each of the indicators be reassessed, compared to their baseline measurements, and a new action plan developed. Thus begins the continuous improvement cycle.

The process also requests that each organization commit to an employee participation rate such that the data is statistically significant to the 95 percent confidence level. This fact, along with the follow-up assessments, reveals improvement in individual indicators and demonstrates the correlation between the soft and hard indicators. Therefore, the organization can see results not only in the performance of the organization but also in its profitability.

Culture must be an integral part of the enterprise. The goal of the cultural assessment process is much like that of a manufacturing operation. A plant brings in parts or raw materials every day. They are either on- or off-specifi-

cation. For those that are off-spec, managers have three choices: scrap the piece, re-work it, or issue a deviation. Companies face similar choices in their corporate cultures: managers can choose to be proactive and align their cultures or they can choose to ignore problems and find work-arounds.

If the manufacturing operation chose to issue deviations, it could never guarantee the quality or the integrity of its product. Similarly, the company that chooses to ignore cultural issues rather than work to change them limits its efficiency and effectiveness.

## What's next

Caterpillar continues to conduct assessments in its organizations around the world. And true to its continuous improvement objective, it continues to make changes and introduce new tools based on what

it learns in the process.

In addition, Caterpillar has begun offering the CAP to suppliers and dealers and eventually plans to license its tools and methodologies to outside companies.

“Ultimately, we are all students,” concludes a CAP manager. “We believe that benchmarking ourselves against other companies and allowing others to use our findings supports our culture of continuous learning. It can only benefit us in the end.”

Caterpillar is proving that with understanding, leadership, and a commitment to learning, it can measure and change its culture. It is also showing that these changes have a positive effect on the bottom line. Faced with the data, companies cannot afford not to work on their cultures. ❖

## For further reading

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