

CHANGING THE CORPORATE CULTURE AT CHEVRON

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Abstract. At the Association for Behavior Analysis Convention in May, 2000, Darry Callahan, former CEO of Chevron Chemical, now Senior Vice President of Chevron Corporation and Chevron Chemical Company were presented with the award for “Outstanding Contribution to the Field of Organizational Behavior Management,” by the Organizational Behavior Management (OBM) Network. Chevron Chemical Company is the first corporate recipient of this award. Chevron Chemical Company implemented the largest-documented systematic and systemic behavioral intervention by a major corporation. They branded their corporate-wide behavioral intervention, “Reinforcement-Based Leadership” (RBL).

The following article is comprised of three parts: The first section provides an overview of Chevron Chemical’s use of RBL to achieve business results; the second contains the text of Darry Callahan’s speech following the presentation of the award; the third section provides more background material and data regarding the implementation of RBL.

Key words: leadership, behavior, scorecards, reinforcement, results.

Overview

In 1994, Chevron Chemical was embarking upon a significant growth strategy to increase both its market share in the chemicals industry, as well as its overall contribution to the profitability of Chevron Corporation. Several developments preceding this initiative demonstrated the need for a different approach for achieving growth. For instance, a 7-year Total Quality initiative yielded improvements in performance but not the substantial performance improvement they were seeking. Moreover, data from several years of employee surveys indicated that leaders lacked effective supervisory skills (e.g., coaching, feedback, listening). Finally, a recent enterprise-wide technology implementation revealed that the company was inefficient and inflexible with respect to change.

Company leadership had also recently developed and communicated three vision objectives: (1) Become the most efficient and reliable supplier in the industry; (2) Possess the best technology in core products; and (3) Be a great company to work for. Although Chevron Chemical had done some work on their strategies and processes and made some progress toward meeting their long-term vision objectives, they wanted to make more

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significant progress toward those objectives. They came to realize that the piece of the puzzle they were lacking was a focus on *behaviors*—the element that could help them execute their strategies, enable their processes, and make significant progress on their vision objectives (See Figure 1).

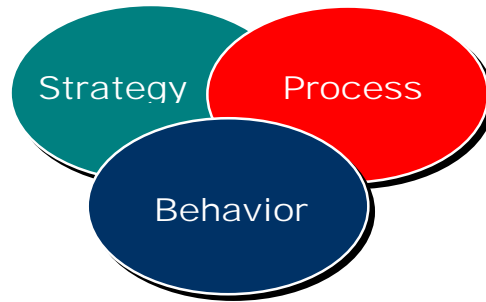


Figure 1. Elements of Chevron Chemical approach to getting results.

Chevron Chemical Company engaged Leslie Wilk Braksick, CEO of The Continuous Learning Group, Inc. (CLG), to develop a behaviorally-based roadmap to guide the entire Chemical Company in executing a 2-year strategy to achieve superior business results through positive leadership behaviors. Moreover, Chevron Chemical was interested in fundamentally transforming the culture of the company to one that was positively motivating and one which tapped into the discretionary efforts of employees at all levels. This behavioral approach was branded by Chevron as “Reinforcement-based Leadership” (RBL).

Chevron’s behavioral approach was initiated in late 1995, fully implemented in 1996-1997, and continues today as an integral part of their approach to getting results. The initial RBL program covered 24 different sites and involved the participation of more than 3,000 employees—and touched the lives of the more than 5,000 employees across the company. Chevron Chemical’s knowledge of behavior analysis allows them to execute their strategies and enable their key business processes. Moreover, it has helped them redefine their culture and what it means to be a leader within the company.

In May of 2000, the OBM Network recognized the accomplishments of Chevron Chemical Company by presenting them with the prestigious “Outstanding Contribution to the Field of Organizational Behavior Management” award. This award recognized not only the past contributions of Chevron Chemical, but also its continued use of RBL and behavior analysis as a key strategic advantage in getting business results and shaping the company culture. Accepting the award on behalf of Chevron Chemical was Darry Callahan, former President and CEO of Chevron Chemical and Executive Sponsor for RBL, now Executive Vice President of Chevron Corporation. The following is the text of his address on the occasion of the award.

Darry Callahan Speech

I have to say it's kind of awesome for an engineer to talk to Behavioral Scientists. I'm really not sure who's nuttier here, me for talking to the experts or you for listening to me.

I acted as executive sponsor in my former job—I was Chief Operating Officer for Chevron Chemical Company and the Executive Sponsor for the design and implementation of Reinforcement-Based Leadership (RBL) across Chevron Chemical Company. We had worked for years on strategy and then probably for 10 or more years on quality. Somehow, many of us always said, “something is missing.” We've got great strategies, we've got great processes, and sometimes they don't work. Of course, the reason, as you all have known a lot longer than I have, is that there is a *people* dimension to all of this. Understanding behavior and how to apply that in the workplace was the real secret ingredient for all of us. It took probably a quarter to a third of my time for a year and a half or so, but it has been extremely rewarding for me and I think very much so for the rest of the company.

I do want to reiterate the “thank you” to all of you and to Leslie (Braksick). We didn't start on RBL to win awards. We did it because we needed to improve our business results. And, it's nice to have folks like you look at what we've done and say “Hey, that really went pretty well.”

I knew that we were on the right track with RBL early on when an operator at one of our chemical plants said, “You know, I've worked with this company for 30 years, and this is the first time they've told me when I do things right.” We'd had positive discipline and we'd tell people when they'd screwed up, but the thing we started doing, is telling people when they did things right. As you know, that's very powerful stuff.

I thought I might start by telling you a little bit about the chemical company. We're (Chevron Chemical) a subsidiary of Chevron Corporation, about 10% of the total corporation. We have 5,000 people and about 2/3 of them are in the United States. Sales around \$4 billion last year, tend to rise and fall as we go through the supply and demand cycle; it's such an integral part of the chemical business. Our headquarters are in Houston, TX with manufacturing facilities in 9 states. We market in over 80 countries across the globe.

The business we're in is making intermediate petrochemicals, like etherine, propylene, benzene, cyrine, and then we polymerize many of those into plastic products like polyethylene, and polystyrene. You all know what those are used for—you have films in your kitchen; you have bottles on your shelf, and so on. That's about 2/3 of the chemical company in this area. The other third is in the Oronite additives business where we make a variety of lubricating oil additives and fuel additives, and of course they help keep engines running well and gearboxes and all the associated stuff.

At the beginning of last year (1999) we had some real problems in our industry, and we were taking some defensive measures. What we were really trying to do was eliminate the “nice-to-haves,” really get people focused on the “must-haves,” and be very, very specific. Of course, RBL helped a great deal in that because we were able to

reinforce these new behaviors even though they were sometimes difficult and the R+ made the whole thing somehow less threatening.

These are some of the things we actually did in 1999 (See Figure 2), and each of them represented a challenge in terms of leadership and managing performance. They all had obvious implications in how we managed behaviors, at every level throughout the organization to make sure those behaviors took place. For example, “Meeting business plan commitments for cost-savings initiatives” in the second-to-the-last point. Here we used an integrated approach, including a deployment plan and a shaping plan to minimize disruptions to changes in four functional areas (HR, Finance, and others). And it really helped us make what would normally have been a very difficult implementation successful and accepted.

- **HQ moved from San Francisco Bay Area to Houston**
- **Reorganization created Petrochemicals and Plastics Divisions**
- **Streamlined Oronite Additives Division**
- **Exited specialty polymers business**
- **Divested unprofitable product lines**
- **Established corporate-wide cost-reduction initiatives**
- **Started up new plant in Saudi Arabia**

Figure 2. Chevron Chemical Major Events in 1999.

I really wish I could stand up here and say RBL made “this much” profit for us. The problem is in our business we go through these tremendous supply-demand swings. The bottom of the cycle some years has been only \$50 million dollars for us, the top, more than \$500 million. So you can see in those kind of swings there’s so much noise it’s awfully hard to sort out what an individual thing like RBL had done to improve things.

What we basically do is we tell stories and anecdotes and measure smaller things—some of the individual stories that collectively give us the confidence that RBL really was a winner for us.

Maybe in terms of a summary, I should just say that as I go around the company today, everywhere I look I see improvements in safety, reliability, lower operating expenses and happier, more engaged employees. These improvements have all come from applying the behavioral tools with focus, knowing the desired business result, using quality tools to identify root causes, building Performance Improvement Plans (PIPs) to achieve behavioral changes.

As we moved into the year 2000, we faced yet another set of significant challenges (See Figure 3). Underlying all of these was a need to preserve the culture that we had

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built with RBL and the way of acting we learned from our RBL deployment. Not only did we need to focus on the “*what’s*” but then we really had to decide *how* we’d accomplish those “*what’s*.” And as you can expect, in addition to process improvement and problem solving, RBL was a big piece of those “*how’s*.”

- **Improve our financial performance**
- **Grow the businesses that achieve acceptable returns**
- **Meet or exceed, on a consistent basis, our business plan commitments, including cost-savings initiatives**
- **Do it the “Chevron Way” (Values/TQM/PP&E)**

Figure 3. Challenges for 2000.

Leadership behaviors are a big part of RBL, not the only part by a long shot, but a big part. And, I’m a different leader today than I was years ago. One of the early things that showed up in my feedback was that I was “shooting the messenger.” And you all know what that means—I was dealing with content of the message rather than behavior of the person coming to tell me the message.

In fact I’ll tell you a very recent story. Last week somebody came in and said, “We took down the boiler at the Orange (TX) plant to do some repairs, and we cranked up the stand-by (the spare). Well the standby didn’t work.” They had allowed it to slip without maintenance and all of the sudden the whole plant was down for a lack of a stand-by boiler. I remembered my training and coaching and I said, “Thank you—I needed to know that.” Then we began to talk about what we were going to do about it, why did it happen, and it’s that kind of learning that helps me reinforce people coming to me with things I need to know to run the business.

The quarterly business reviews have gone from a punishing exercise to one that’s fraught with R+. They are now an opportunity to reinforce what people are doing right, and have done right in the past quarter. And the organization as a whole has really become more adept at this as well, and that really has given me confidence that Chevron Chemical will be able to meet the new challenges in the year 2000.

To share another example (there’s just so many stories in this thing I probably could sit up here and spin yarns all day), I’ll talk about our safety professionals in our plants. They used to be seen as “safety cops.” The guys would say, “Uh-oh, here comes the guy to tell me what I’m doing wrong.” But as they began to focus on catching people doing things *right* and even started keeping their metrics on the number of observances of right activities which are 99% +, suddenly safety has improved a whole step. We’ve gone from

recordable incident rates of maybe 1.5 for every 100 people/month down to the point that we're starting to push against 1.0, and we'll be below that soon.

So what was my strategy for making the changes that we needed to make as we went into 2000? First of all, I wanted to reduce the number of antecedents and really focus on consequences. At the beginning of the year particularly, it's always easy to roll out the antecedents. "This is what I want you to work on; this is what I want you to do." And I deliberately tried to minimize those in favor of reinforcing what I liked from the prior quarter in the prior year.

Also, I tried to increase the frequency of positive feedback. I think through my example, others have done the same. I've noticed that doing that, increasing positive feedback, has a positive impact on people who are struggling with all of the uncertainty. The result has been improved performance.

We have had unusually good operating performance in the past few months. We've had unusually low incidences of safety problems. There were times in the past where we would probably have 30 "#1" important things in the chemical company. People can't begin to figure out what's important when there are 30 things that are all the most important.

We've really done a number of things to take advantage of our newfound knowledge of RBL. For example, in our short-range planning process, it used to set analysts and business people in the industry against analysts and business people in the chemical company and likewise in the corporation. Very punishing kinds of steps going on there that wasted resources and a lot of energy. Despite all of that—maybe because of it, we really didn't have accountability for results. We now manage our performance systems very differently. We have eliminated short-range plans in favor of the results scorecards. A sharp focus on a few things deployed throughout the organization makes it very smooth, very easy, and it's easy for me to hold people accountable for what they have on their scorecard.

In all of those ways we were really ready to take on this new year of 2000. But the best laid plans . . .

In February we announced that we were merging our Chevron Chemical Company with Phillips Chemical Company. The merger combines the petrochemical and plastics piece of Chevron with Phillips to make a world-class chemical company. We'll be in the top 5 producers in the world in nearly every business that we're in. And it looks like we'll be able to close this deal by the end of June. Now as you can expect, as a result of this merger, suddenly the results targets have shifted. Before I get into that, you might be wondering how we went about getting together.

The first thing we did is to talk about each of our visions for this joint-venture company. And that was pretty important as a first step, because if we had wanted to grow the joint venture and Phillips had wanted to "cash cow" it, that would have been a non-starter from the get go. But fortunately we (Chevron and Phillips), shared each of these issues (See Figure 4). We also had to make sure we were together and evaluate these issues.

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- **Vision:** Create a world-class chemical company
- **Strategy:** Business/product/technology
- **Synergies:** Process and product optimization/
personnel
- **Valuation:** Revenues/earnings/assets
- **Structure:** Joint venture/Board of Directors/
management
- **Culture:** Leadership/communication/work
environment

Figure 4. Key Issues in Chevron-Phillips joint venture.

As you look at each of these items, you are really creating a number of pretty high-level antecedents that then have to be deployed through the organization. You have these questions of “Who’s got the ball? What do they need to work on? When will they need to get it done? Who acts on the consequences?” It is yet another change to implement.

The culture issue (Figure 4) is really an intriguing one. I think we in Chevron have come to understand the importance of culture. We understand that cultures can be planned and created. It takes time, but it can happen.

The challenge here is not only how to use leadership and communication to create and sustain a culture, but how do we influence our new partners to use some of the behavioral tools that are really the *right* way to accomplish many of the things that need to be done.

My basic strategy is one that we used in Chevron Chemical in the beginning—it’s demand-pull. Show them the value and they’ll want it versus pushing it upon them. I’m hoping that the Chevron side of the joint venture will demonstrate to the Phillips side how vital RBL is, and they’ll begin to scratch their heads and say, “Oh boy, this looks like it’s pretty neat. How do I do that?” And through that, I think we will be pretty successful.

My involvement will continue through implementation and even beyond closing for a while, but then I go on the Board of Directors and so I’ll have to pull back and see this from further away. Until then, the question is “How do we put these two companies together, reduce the areas of overlap by 1/3, and still keep the results coming?”

I told you earlier how important it was in my early learning to see the *people* side through behavior, drop into the whole group of cogs that were flying around in my head. *Behaviors* really rang the bell! This approach carried down to the Performance Improvement Plan (PIP), which also has the ABC Analysis and has really worked well for us.

Just to give you another example, at our St. James Plant, the Styrene Plant in Louisiana, we have very tight steam balance. That’s a good phrase for you behavioral

folks to remember. Next time you get around a plant, throw out a “tight steam balance” and you’ll really wow them! Any small upset in that system would bring the whole plant kind of crashing down, and we had probably 1.0 to 1.5 outages each month that costs millions of dollars, potentially damages equipment, and creates lots of other issues.

So the operators got together and they developed a PIP around steam outages. And every shift when they come in, the first thing they do is review one more time the processes they’ll go through if they start to lose steam. And the result of that is reducing steam outages from 1.0 to 1.5 per month to 1.0 in 18 months. This stuff really works folks!

As I said, the formation of the joint venture has caused our results target to shift. This joint venture really is there to strengthen our business; it’s a strategic solution. It certainly is not a failure of Chevron Chemical or RBL. It positions us for profitable growth, something that we would have a tough time doing on our own.

And, we’ll handle it just as we would any other change in the organization, through a combination of strategy, process, and application of behavioral tools and consequences.

The joint venture represents a new strategy for Chevron Chemical that was driven by changes in the marketplace and by the competitive environment. The creation of the joint venture has caused our results target to shift, so we need a guidance system to redirect our behaviors towards the new target. We need to be able to beam antecedents and consequences at those behaviors that are already occurring so that they change direction towards the new target.

So what becomes of RBL? I’m sure that it’s going to continue certainly in the Oronite Additions Division, which stays part of Chevron, and in other parts of Chevron Corp. I think also in the part of Chevron Chemical that goes to the joint venture and hopefully through demand-pull to the Phillips businesses that come in also.

The way you change a whole company is by changing the individuals in that company. By influencing the behavior of an individual you adopt the perspective of that individual. What prompts his or her behavior? What does that person find reinforcing? It’s almost as if you run the whole company through an individual filter, and you disaggregate the whole into the individuals that make up that organization.

I think I am a better leader because of RBL. My wife is in the audience and she tells me, and lots of other people as well, that I’ve changed at home. I guess this whole business of reinforcement doesn’t just work at the office.

RBL has changed the way I look at the world. I see it through a behavioral lens. I recognize that there are good and valid reasons why people behave the way they do; they’re not crazy or stupid or lazy or evil. It’s really due to what their reinforcements have been. So I’m a better person, I think, because of what I’ve learned from RBL.

I’ve talked to you about the past few years of RBL in Chevron Chemical and how it’s worked for us. I hope I’ve given you a few examples of Chevron Chemical in transition and about my personal journey. It’s had a real impact on me.

But, it’s not been limited to just 3 or 4 people. It was a large-scale intervention that affected thousands and I’m just one of many. I guess if there was any conclusion to draw

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from my talk today, it's one that you already know and that's that it all comes down to behavior . . . but behavior with strategic importance.

We started by wanting to get our vision implemented company-wide, and to do that meant that we had to get to the individual level and the way you do that is through behavioral analysis. So, thank you again on behalf of Chevron Chemical for the wonderful award, I hope you've enjoyed some of my comments as much as I've enjoyed talking to you today. Thank you very much.

Background on RBL at Chevron Chemical

RBL at Chevron consisted of three components (See Figure 5). First, achieve alignment around critical results needed and the behaviors that drive those results and ensure there is accountability and ownership for those results and behaviors at every level of the company. Second, help leaders develop and use superior leadership and coaching skills so that the people of Chevron Chemical Company would know what was expected of them; when they were doing a good job; and what they needed to do differently to achieve the targeted results. Third, arrange systems such as selection, compensation, recognition, and promotion so that they were aligned with the new desired behaviors specified for people at all levels.

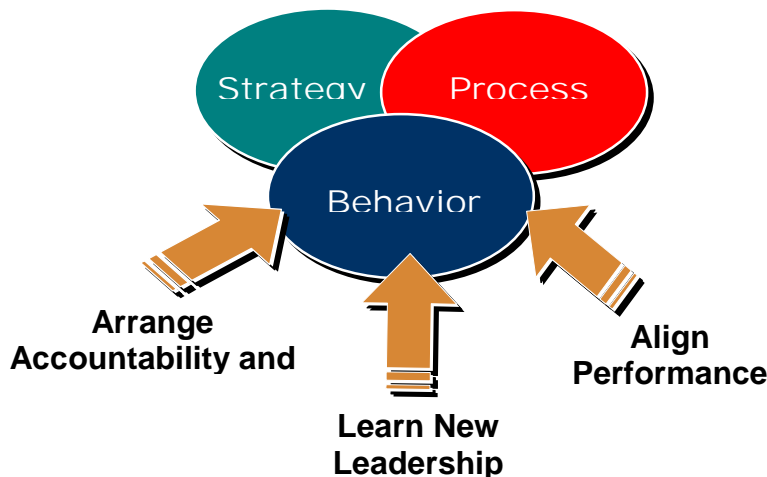


Figure 5. Components of behavioral approach.

The leadership at Chevron valued achieving critical business results through the use of desirable leadership behaviors. They wanted to be certain they did not reward nor encourage coercive or intimidating tactics to achieve performance targets. They wanted to demonstrate a commitment to the achievement of superior business results through

positive leadership behaviors. One of the key aspects of the behavioral roadmap was the development of a system to specify and measure performance on both the business results and leadership behaviors dimensions.

To that end, Chevron Chemical Company and CLG developed a monthly scorecard system to track both streams of data. Results scorecards (See Figure 6) were established at the highest level of the company, and similar scorecards were developed and cascaded down to the first line supervisor level all across the company. Hence, scorecards at the front-line of the company rolled-up to the scorecards for the work unit, which rolled up to the group performance, which rolled up to the site level, all the way up to the company level scorecard. This process ensured that results specified at one level were the key areas that drove performance for the level above, and so on.

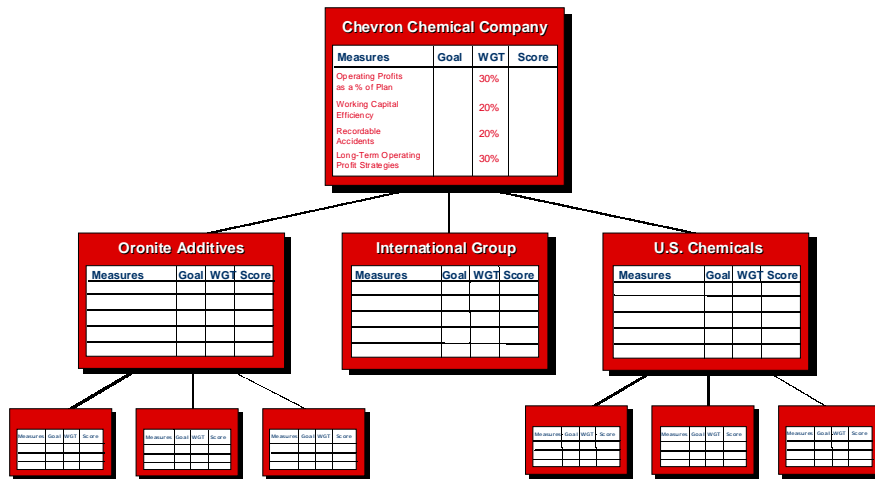


Figure 6. Scorecard cascade.

In addition to tracking business results, a leadership scorecard system was developed to track individual leader behavior. A list of 12 key behaviors (See Figure 7) were derived from the analysis of a the correlation between behavioral measures from several years of upward feedback surveys and 360° evaluations, and bottom-line results achieved by those leaders. Ten behaviors were determined to have a 0.82 correlation, and Chevron Chemical Company chose to add two additional behaviors that were important to them. Thus, these 12 behaviors became known as the Leadership Scorecard, on which every manager and supervisor across the company was evaluated at six-month intervals.

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- 1. Delegates meaningful assignments to me**
- 2. Holds me accountable for results**
- 3. Acts in a manner congruent with our stated values**
- 4. Accepts responsibility for her/his decisions and behavior**
- 5. Helps us work as a team**
- 6. Shows a willingness to experiment with new ways of doing things**
- 7. Provides timely, positive and constructive feedback to facilitate the continuous improvement of my performance.**
- 8. Helps the group solve problems to remove barriers to performance**
- 9. Facilitates collaboration between internal and external suppliers, customers, and employees**
- 10. Meets customers' needs**
- 11. Understands my contributions and acknowledges them**
- 12. Supports development of my skills and knowledge**

Figure 7. Key leadership behaviors on scorecards.

On a semi-annual basis, those individuals who worked most closely with each leader were given a PIN number for their supervisor, to use when calling a touch tone telephone system. They would then call into a 1-800 number where a voice prompt asked them for numerical ratings for their leader on each of the 12 behaviors. In addition they were prompted to provide specific comments and feedback which would be transcribed and delivered to the leader along with the numerical data. Thus, every 6 months, leaders received a 2x2 matrix that plotted their performance on Results indices and Leadership Behaviors. This scorecard data provided leaders with regular feedback on business results and leadership behavior and was used as the core data for the individual leadership coaching CLG provided to Chevron Chemical leaders at all levels.

RBL at Chevron did not rely upon these scorecards alone. CLG educated leaders in applied behavior analysis for use in addressing business challenges. They also helped Chevron develop plans to increase the delivery of performance feedback with their people around critical business targets and provided each leader with 1:1 coaching support, as they engaged in new behaviors and applied the behavioral principles taught in the RBL classes.

An action plan called a *behavior roadmap* was developed to guide the implementation and rollout of RBL throughout the Chemical Company. The roadmap provided not only an overall implementation plan based upon the business targets for the company, but also a template for the development of site-specific plans for each of 24 locations throughout the company. At each site, education and implementation processes were customized to fit that sites need so that the strengths at each location could be leveraged and the needs of each location could be prioritized and addressed. The sequence of gaining alignment around critical results targets, implementing results and leadership scorecards, participating in RBL education, coaching, and developing PIPs to go after important results using the behavioral tools and systematic feedback delivery, was repeated at each location of Chevron Chemical Company. Each site engaged in the overall impact of the program on business results was continuously tracked using the scorecard data, and feedback was provided and improved upon.

The final component of the behavioral intervention, as specified in the roadmap, was to ensure the alignment of all performance systems administered by the company to ensure they were supporting the behaviors now being expected by employees and supervisors at all levels. Systems such as selection, compensation, recognition, and promotion were analyzed and redesigned to enable and sustain the desired culture and performance of Chevron Chemical Company.