TABLE OF CONTENTS AND FIGURES LIST

P.1 ORGANIZATIONAL DESCRIPTION

a: Organizational Environment

P.1a1 Caterpillar Financial Services Corporation U.S. (CFSC) is the financial services business unit within Caterpillar Inc., the leading manufacturer of construction and mining equipment, gas and diesel engines, and industrial turbines. CFSC was initially incorporated in 1981 to finance forklift trucks. This vision expanded in 1985 to include financing for Caterpillar's primary product lines. The company relocated from Peoria, IL to Nashville, TN in 1991.

With total net finance receivables exceeding $14 billion, CFSC is the second largest captive-equipment lender following IBM Credit. CFSC has grown exponentially over the past decade by meeting the needs of Caterpillar Users, Dealers, and Caterpillar Business Units (CatBUs).

CFSC maintains a supplier-customer relationship with the other 26 CatBUs who produce and market Cat products. CFSC complies with Caterpillar corporate policies and standards, but maintains separate Legal, Treasury, Accounting/Tax, Planning, Marketing, Information Technology, and Human Resources functions. CFSC issues commercial paper and medium-term notes, and reports to the Securities and Exchange Commission independently of Caterpillar.

As illustrated in the Organization Chart, this Application describes CFSC operations based in the U.S. and serving U.S. Users and Dealers. These include four major Divisions which offer a wide range of financing alternatives for the complete line of Cat equipment and engines, including Solar turbines, products equipped with Cat components, and new and used related products sold through independent Caterpillar dealers. *Figures P-1* and P-2 describe CFSC and the products and services offered.

CFSC serves three primary customer groups: the CatBUs, Dealers, and Users of Cat equipment and engines. *Figure P-3* illustrates how CFSC and CatBUs work together to serve Dealers who serve the User. Finance and lease contracts are long-term legal agreements between CFSC and the User. Therefore CFSC maintains direct contact with users for many years after the initial sale. Field-based Territory Managers (TMs) work with Users and Dealers to promote CFSC products, while most processing is centralized in Nashville.

P.1a2 CFSC is on a never-ending journey to a clear destination: to achieve Business Excellence in all that we do. Business Excellence is CFSC's overall business model (Figure P-4). It was developed by a cross-functional team in 1996 and revised in 2001 to meet changing organizational and market needs.

FIGURE P-2 CFSC Products serve a complete range of financing needs
Finance Type

Installment Sales Contracts	20%	Finance Leases (non-tax)	16%
Tax Leases	20%	Dealer Loans	8%
Wholesale Financing	17%	Govt. Lease-Purchase Contracts	1%

Business Excellence is more than just a slogan—it aligns all strategies, reviews, and daily decisions. In Business Excellence, CFSC has clearly defined what we will be (Vision), what we will do (Mission), what we believe (Shared Values), what we must achieve (Critical Success Factors, Strategy), and how we improve (6 Sigma). Business Excellence defines CFSC's culture, in which empowered and motivated employees focus on improving processes to serve internal and external customers.

This integrated model incorporates the needs of CFSC's key stakeholders: customers (Users, Dealers, and CatBUs), employees, our shareholder (Caterpillar), and the community. CFSC has determined the expectations for each of these groups.

- To Customers (Users, Dealers, and CatBUs), we must be an industry leader in providing innovative financing alternatives.
- To our employees, we must provide strategic direction and promote our Shared Values by making them a part of our daily lives.
- To our shareholders, we must add value to Caterpillar by offering innovative financing alternatives and by providing a reliable return.
- To our community, we must care for others in our workplace and our world.

Shared Values define what we believe. In 1995, senior leaders commissioned an assessment, not to change the company culture, but to preserve the "magic" that sparked CFSC's early success as it continued to grow. Focus groups were held where employees described what made CFSC successful. Their thoughts and sentiments were distilled into a statement of Shared Values and documented in a hardbound book and video that CFSC's President personally gave to every employee. Today, new employees receive the book and a replica of the Business Excellence

FIGURE P-3 CFSC works with CatBUs and Dealers to meet User needs.

FIGURE P-1: CFSC's Divisions and Departments are diverse in size and scope.

Unit	Managed Assets	# Customers (# Contracts)	Empl	Scope
Equipment Division			259	Equipment financing and leasing for CAT users and Dealers in the U.S. All operations except sales are centralized in the Nashville Customer Business Center (CBC). Average transaction $125,000, with cycle time < 1day.
Marine Division			35	Construction loans and financing of marine vessels powered by CAT engines. $750,000-$60 million transactions, typically conducted through shipyards and brokers. Cycle time 2- 12 months.
Power Division	Proprietary Data		14	New Division established in 2002 financing non-marine power systems. Transactions average $25,000 with cycle time, 3 days.
Global Division			34	Highly selective financing for Users and Dealers in higher risk and developing countries. Average transaction $100,000, cycle times average 1-2 months.
Support Depts.			392	Legal, Accounting, Human Resources, Information Technology, Treasury, Risk Management & Marketing, Remarketing, Business Excellence (Strategic Planning, 6 Sigma)

Vision

We will be a significant reason customers select Caterpillar worldwide.

We will leverage our intellectual capital to deliver customer-driven solutions and enhance shareholder value.

We will grow on our strong foundation as a caring and learning organization.

Mission

Helping Caterpillar and our customers succeed through financial service excellence

Critical Success Factors

- Customer Satisfaction
- Growth
- Reliable Returns
- Employee Satisfaction
- Leadership
- World-class Core Processes

Shared Values

We are people of **integrity** who **respect** and **care for others** in our workplace and our world.

We are **driven** by the **freedom** and **responsibility** to **exceed expectations** of those we work with and serve.

pyramid with the Shared Values statement engraved in the base.

CFSC defines six Critical Success Factors (CSFs) essential to accomplishing our Mission. They provide alignment and structure throughout Business Excellence.

- **Customer Satisfaction** – We must delight our customers by understanding and exceeding their expectations.
- **Employee Satisfaction** – We must develop a more diverse, global environment that encourages personal growth, rewards achievement, and values each individual.
- **Growth** – We must invest our resources to increase average managed assets.
- **Leadership** – We must demonstrate individual leadership in achieving our goals and living our Shared Values.
- **Reliable Returns**–We must consistently meet or exceed our financial performance plans.
- **World Class Core Processes**–We must utilize 6 Sigma to establish CFSC as a world–class provider of financial solutions and to achieve operating efficiencies.

Leaders, managers, and employees develop key business strategies and annual plans linked to these CSFs. The Performance and Development Process (PDP) links every employee's individual action plan to CFSC's

Gender	Male: 50%	Female: 50%
Payroll	Non-Exempt: 17%	Exempt: 83%
Education	Post Secondary Degree: 74%	Graduate Degree: 15%

annual plan for each CSF. The CFSC measurement architecture *(Figure 4-1)* continuously monitors performance in key areas.

P.1a3 *Figure P-5* describes CFSC's 734 employees. They are highly educated with 74% holding post-secondary degrees and 15% holding advanced degrees. A diverse workforce is consistent with Shared Values. The employee base mirrors the Nashville community. As an international organization, CFSC diversity considerations include full appreciation of varied cultures. Job diversity and career opportunities are evident with employees in a wide range of disciplines including legal, financial, marketing, technology, and human resources, in addition to our lending operations. Contract employees are used on a limited basis, primarily in technical disciplines such as Information Technology and Accounting, according to skills and availability.

CFSC operates in a professional service industry, non-union office environment. The CFSC compensation structure includes incentive compensation for every employee and a benefits package described by Money magazine as one of the Top 20 in the U.S. There are no special safety requirements for employees in our industry above OSHA standards, primarily those for ergonomics and building safety.

Employee needs are systematically evaluated and job satisfaction is measured twice a year. Results, analyzed by employee demographic and processes, exceed national benchmarks in many areas.

P1a4 Technology and Equipment: CFSC handles over 100,000 contracts monthly. Users and Dealers demand accurate, timely, complete, and responsive service. This requires substantial investment in leading-edge information- management systems and hardware.

Figure 4-3 describes the systems and applications that support CFSC employees, Users, and Dealers. Every employee has a networked desktop or laptop PC. Our systems support over one million e-mails per week and over 225,000 phone calls per month. Most systems are available to off-site employees via dial-up or secure intranet portals.

CFSC utilizes two primary loan and lease processing systems. Financ*Express* is CFSC's proprietary e-commerce solution and is used to transact most equipment financing. It gives Users, Dealers, and CFSC employees varied access to the same information. Users and Dealers may initiate their own quotes, credit application, and documents 24/7. Account*Express* provides Users and Dealers the ability to access and maintain their account records online. A highly customized installation of the commercially available InfoLease system provides a robust legacy system that is integrated with Financ*Express* and supports CFSC's back office functions. It is the primary system for the Marine, Global, and Power Divisions.

Financ*Express* provides automated approvals on loans with specified limits. While automated credit scoring is common in lower-dollar consumer lending, CFSC was among the first to deploy this technology for commercial finance. Other specialized applications have been designed or purchased for individual job requirements.

CFSC has an extensive presence on the Internet and a sophisticated telephone system to help maintain customer relationships. Customer*Express*, CFSCs customer relationship management software (coming on line in 2003) provides employees and Dealers one convenient

portal to the full array of customer information. The CFSC intranet and public folders provide employees with wide access to company knowledge and information. Comprehensive processes and metrics maintain and improve these systems for maximum uptime.

Facilities: In 2000, CFSC opened the 11-story Caterpillar Financial Center in Nashville. This state-of-the-art facility provides a comfortable, productive work environment and includes amenities such as an on-site fitness facility, auditorium, cafeteria, and convenience store. A 14-employee off-site data center is also located in Nashville.

Previously, CFSC operated from four sites in Nashville and had full-service regional offices in Baltimore, Chicago, Dallas, Atlanta, and Phoenix. When operations were centralized, CFSC moved from a functional structure to a process-centered operating structure. Loan life cycle activities that were previously processed at different Headquarters, Department, and Region office locations were merged at the Customer Business Center (CBC). The CBC processes and supports U.S. equipment financing. The Marine, Global, and Power Divisions maintain smaller, but similarly process-focused operations in Nashville.

Today, only the Territory and Regional Managers who call on Dealers and Users work in the field. Merchandising Consultants are located with the CatBUs they serve.

P1a5 Although less regulated than consumer lending, healthcare, or manufacturing industries, CFSC must comply with a variety of local, national, and international requirements such as OSHA, Equal Credit Opportunity Act (ECOA), Fair Credit Reporting Act (FCRA), and Fair Debt Collections Act (FDCA). Since CFSC issues publicly traded notes and commercial paper, we must meet the requirements of the Securities and Exchange Commission (SEC). CFSC has developed several key practices to effectively govern the organization and to manage the recently enacted Sarbanes-Oxley Act governance requirements, including fully staffed legal and internal audit departments. *Figure 1-6* describes applicable regulations and CFSC's control measures.

b: Organizational Relationships

P1b1 CFSC is a wholly owned subsidiary of Caterpillar. CFSC's President, Jim Beard, also serves as a Vice President of Caterpillar. CFSC is led by the cross-functional, nine-member Business Excellence Council (BEC), which meets for two days every month to review performance and strategy *(Figure 1-4)*.

The Audit Committee of the Caterpillar Inc. Board of Directors provides oversight to CFSC. The Board is highly independent—CEO Glen Barton is the sole employee member, and he is prohibited from serving on Board Committees. The Audit Committee reviews CFSC performance annually. *Item 1.1b* describes both corporate and CFSC-level governance accountabilities and processes.

P1b2 As Caterpillar's captive financing company, CFSC concentrates on the needs of CatBUs, Users, and Dealers *(Figure P-3)*. They may choose other financial services providers; therefore strong relationships are critical to CFSC's success. Success is not just due to efficient financing, but to CFSC's role in leveraging all elements of this value chain to provide competitive advantage. CFSC builds and maintains these relationships through formal and informal listening methods and quantitative measurement systems *(Figure 3-1)*.

CatBUs: CFSC has a unique supplier-customer relationship with the CatBUs. CatBUs have a variety of options available to help merchandise equipment and engines, such as price discounts, extended warranties, added features, and financing incentives (i.e., subsidized interest rates). CFSC Merchandising Consultants are co-located in the CatBUs to develop financial merchandising programs that achieve their equipment

and engine sales goals at the lowest possible cost. While CFSC and CatBUs generally share the same goals, there is an inherent conflict since the CatBU wants to sell or rent as much equipment as possible, while CFSC must maintain its strict credit approval requirements, which, of course, may limit some sales. Merchandising processes and CatBU requirements are described in *Figure 6-2*.

While merchandising programs are not common in the Marine, Global, and Power Divisions, the relationship with CatBUs is still critical in evaluating residual value and understanding product performance, availability, etc.

Dealers: Independent Dealers represent the primary distribution channel for CFSC services, but they are not required to offer CFSC financing to their Users. Dealers want a finance company to approve as many deals as possible. They are protective of the long-term relationships with their Users and insist that CFSC enhance overall User satisfaction. Dealers also require quick turnaround, fast funding, and easy-to-use processes.

CFSC processes are tightly interwoven with the Dealer network. CFSC defines any process that impacts Dealers or Users as a Key Core Process (KCP). Dealer requirements for these processes are documented and CFSC's performance is monitored *(Figure 6-2)*. Forty-nine TMs work with the 59 Dealers and their Users to develop relationships that will result in the Dealer recommending CFSC for financing. More than half of CFSC's TMs maintain offices in the Dealer's facility, reflecting this close partnership. CFSC also supports Dealers by providing lines of credit, rental fleet loans, mortgages, and other wholesale loans.

Users: For most Users of Cat equipment, the financial contracts with CFSC represent one of their largest capital expenditures. The equipment is essential to their operations, and they welcome our efforts at establishing long-lasting relationships. User needs are identified based on industry segments. Equipment segments include: Mining, General Construction, Heavy Construction, Industrial, Waste, Quarry and Aggregates, and Paving. Engine segments include: Industrial Engines, Marine, Oil and Gas, Power Generation, and OEM Truck Engines.

The KCPs reflect the needs of Users throughout the entire life cycle of a loan or lease. Origination processes include Quoting, Credit Approval, Document Preparation, and Booking/Funding. Back-end processes include Billing, Cash Application, Collections, Customer Service, Modifications, and Buyouts/Terminations. User requirements for each of these processes commonly focus on turnaround time and reliability. CFSC performance is tracked for each process for every contract *(Figure 6-2)*.

Financing operations are adjusted to reflect the unique needs of industry segments. For example, Marine, Global, and Power Divisions have similar KCPs, but the primary User requirement is financing availability, not turnaround time.

P1b3, 4 CFSC is a service organization selling the most generic of commodities—money. Information is both the prime input and output from our processes, and this information is used to differentiate CFSC. Correspondingly, Treasury and Information Technology represent over 70% of CFSC supply-chain expenses.

Treasury: CFSC must acquire billions of dollars annually to fund loans and leases. Sourcing these funds efficiently and effectively is crucial to CFSC's business. CFSC operates on a gross margin, or spread, of only 2-4% (difference between our cost of funds and the rates we charge). A quarter point change in borrowing cost, due to a changed credit agency rating or unanticipated rate change, can have a significant impact on both our profitability and competitiveness. CFSC funding suppliers include 20 commercial banks and brokerages. Our Treasury department manages these relationships on a daily basis using sophisticated processes and measures, including a proprietary, award-winning bank scorecard and annual reviews with banks and rating agencies. Treasury personnel are

FIGURE P-6 CFSC Suppliers	
Supplier	**Service**
20 Commercial Banks	Funding
ThoughtWorks, IDS	Operating Systems
Dun & Bradstreet, Experian, Trans-Union	Credit Information
PriceWaterhouseCoopers	Audit
RDA, Gantz-Wiley	Satisfaction Surveys
HP/Compaq, BirlaSoft, BellSouth, Dell	Technology, Networks
Highwoods, Eurest	Facilities, Foodservice

located in Nashville, as well as Dublin and Singapore (to access international funds). CFSC was able to capitalize on these relationships and suffered no disruptions when U.S. financial markets were temporarily closed after September 11, 2001. Treasury processes are described in *Figure 6-2*.

IT: CFSC's primary IT supplier is ThoughtWorks, Inc., developer of Financ*Express*. ThoughtWorks is located in the Caterpillar Financial Center and is intimately involved with CFSC technology planning, serves on the Financ*Express* Steering Committee, and is one of the first suppliers within Caterpillar worldwide to serve on a 6 Sigma team.

Other suppliers, whose products and services are used in the daily servicing of employee, User, and Dealer needs are listed in *Figure P-6*. Relationships with these suppliers are managed based on requirements of the KCP or Support Process they serve. Typical requirements include competitive cost, value-added technology, flexibility, and capacity to handle CFSC volume. Performance measures and supplier meetings, ranging from daily interaction to structured annual reviews, ensure that CFSC and supplier needs are met. Where practical, corporate contracts are leveraged to provide these services with minimal supplier process management required.

P.2 ORGANIZATIONAL CHALLENGES

a: Competitive Environment

P2a1 CFSC has earned an unprecedented leadership position in our industry. *Figures 7.3-1* and *7.3-2* illustrate that CFSC consistently exceeds industry growth rates.

CFSC does not compete directly with other captive finance companies such as Deere Credit or Case Credit. Competitors are primarily local, regional, and national banks and independent credit companies. Equipment lending typically represents only a small portion of a bank's total portfolio and is often consolidated with other commercial lending activities. CIT and CitiGroup/Associates are the largest national competitors, although no single competitor has greater than five percent share. Percent of Dealer Deliveries (PODD) is not a relevant metric for Marine, Global, and Power, who offer selective, project-by-project financing in significantly different markets than the core Equipment Division *(Figure P-1)*.

The Marine lending industry is highly fragmented with international and local banks providing most financing. CFSC is unique among engine manufacturers because we provide construction and permanent financing for the entire vessel. The Global Division provides funding in higher-risk and developing countries where funding in local currency is rarely available from any source or competitor. Only select deals, supporting the equipment sales goals of Caterpillar, meet our risk requirements. The Power Division finances engines that are often components of other equipment or power-generation packages, competing with a wide variety of banks and commercial lenders.

P2a2 Although the financial services industry is undergoing major change as captives, banks, and commercial lenders are facing consolidation (e.g., Associates, Heller, and Dana Credit) and portfolio downgrades, CFSC continues to grow.

CFSC research verifies several factors that give CFSC competitive advantage:

- Relationships: CFSC understands the industries served by Dealers and Users of Cat equipment. This allows CFSC to offer value-added services, such as skip-payments during the winter. When asked why they do business with CFSC, Dealers and Users list relationships over 70% of the time.
- Captive: CFSC understands the quality of Cat equipment and can confidently estimate long-term residual value or operating costs. CatBUs and Dealers understand that our shared purpose is to assist in the sales of Cat equipment.
- Merchandising programs: Flexible programs, customized to individual product lines, industries, or regional competition, give CFSC a clear advantage in meeting the needs of CatBUs, Dealers, and Users.
- Efficiency: Through effective Treasury, IT, and other world-class core processes, CFSC acquires funding and transacts business very efficiently. This translates into timely, reliable, and cost-competitive service to our Dealers and Users.

P2a3 *Figure 4-2* describes the types, sources, and uses of CFSC's comparative data. Because those involved in the industry vary widely in size and scope, there is no single comprehensive source of industry comparative data. Information from other captives is used for comparison where appropriate, but is rarely directly comparable. For example, Deere Credit is primarily a domestic consumer/agricultural lender making far smaller loans. Data on bank competitors' equipment lending operations are usually aggregated with other commercial banking activities, such as mortgages and operating loans. Analogous data from other industry leaders or Baldrige winners provide performance benchmarks, particularly in the more generic support processes. Benchmarking is also used to identify practical, world-class best practices transferable to CFSC. Key comparative data and information are selected based on company goals, customer requirements, alignment to CFSC processes and scope, and third party information availability.

b: Strategic Challenges

In addition to the current weak economy, the primary strategic challenges facing CFSC include:

- **Captive lender in a mature industry with high PODD**: Future growth from existing, familiar markets such as construction and mining is limited; however, as a captive, CFSC cannot expand into markets that conflict with Caterpillar goals.
- **Changing product mix and markets:** Caterpillar has very aggressive growth goals involving smaller equipment and less established industries. Associated transactions for significantly smaller purchases with higher risks will demand maximum productivity to maintain profitability.
- **Rapidly accelerating use of technology in financial services:** Automation in areas previously considered impractical for commercial lending, such as automated document preparation and artificial intelligence credit approvals, are required to be competitive. Dealers and Users have high expectations for e-commerce.

- **Complexity:** CFSC transactions range from $20 thousand to over $60 million in a portfolio that is growing in both managed assets and contracts. Business lines have grown from basic installment financing to new areas such as funding dealer rental fleets and marine vessel construction. Efficient processes and empowered employees are essential.
- **Attracting and retaining the most skilled employees**: Meeting these challenges requires skilled and motivated employees, making effective hiring and retention an ongoing priority for CFSC.

c: Improvement Approaches

CFSC effectively combines three approaches for performance management and improvement of Business Excellence: use of Baldrige Criteria for organizational assessment, aggressive deployment of 6 Sigma, and its process-oriented structure.

Baldrige: Since 1993, CFSC has used the Baldrige Criteria to assess the organization and guide improvement efforts. Each Category Leader assesses relevant approaches using the Criteria and analyzes feedback reports received from Tennessee Quality Award (TQA) and Baldrige *(Figure 7.5-16)*. Opportunities for Improvement are integrated into the CFSC Strategic Plan *(Item 2-1a)*. Progress is reported directly to the BEC.

CFSC completed five Applications and Site Visits through the TQA, becoming only the 14th of over 950 applicants to earn the Tennessee Quality Excellence Award. Others include Baldrige winners Eastman, FedEx and Pal's. CFSC earned a Baldrige site visit for our first Application in 2002.

6 Sigma: In the fall of 2000, Caterpillar began aggressive deployment of the 6 Sigma suite of integrated process and project tools *(Figure P-7)*.

6 Sigma includes thorough process evaluation, design, and improvement methodologies (DMAIC and DMEDI), and also facilitates the selection, prioritization, and management of improvement projects. The Project Selection Process prioritizes projects based on their linkage to CSFs and the Strategic Plan, as well as the financial or customer benefits the project can deliver. Business Risk Assessments are conducted for each project. Dedicated project leaders (Black Belts) and extensively trained part-time participants (Green Belts) complete the projects under the guidance of a trained Sponsor.

6 Sigma projects have innovated processes in every Division/Department of the company. CFSC's Incentive Compensation and 6 Sigma Rewards programs ensure that all CFSC employees fully embrace and share the benefits of 6 Sigma. Over 97% of CFSC employees are trained in the basics of 6 Sigma (Yellow Belts). After projects are completed, specific control mechanisms are installed, the new processes are documented, ongoing training is defined, and knowledge is shared company-wide. 6 Sigma process results are explained in item 6.1 and Figure 7.4-9.

Process-oriented structure: Divisions are structured along process lines to meet end-to-end customer requirements. Each KCP has an owner accountable for performance against User and Dealer-defined requirements. Defined process measures are used for ongoing review and process improvement. Similarly, Support Processes are defined, measured, and improved *(Figure 6-1)*.

P2c2 CFSCs approaches to organizational learning and sharing include: providing employees liberal access and streamlined linkage to existing information, cross-functional employee involvement on 6 Sigma teams, and documentation of new learning via eTracker. Customer and vendor information sharing is facilitated by systems such as Financ*Express*. Best Practices are focused, captured, and shared by proactive employee communications processes *(Figure 4-4)*.

FIGURE P-7 6 Sigma represents an integrated system for project prioritization and management, product design, process improvement methodologies, and process control measurements.
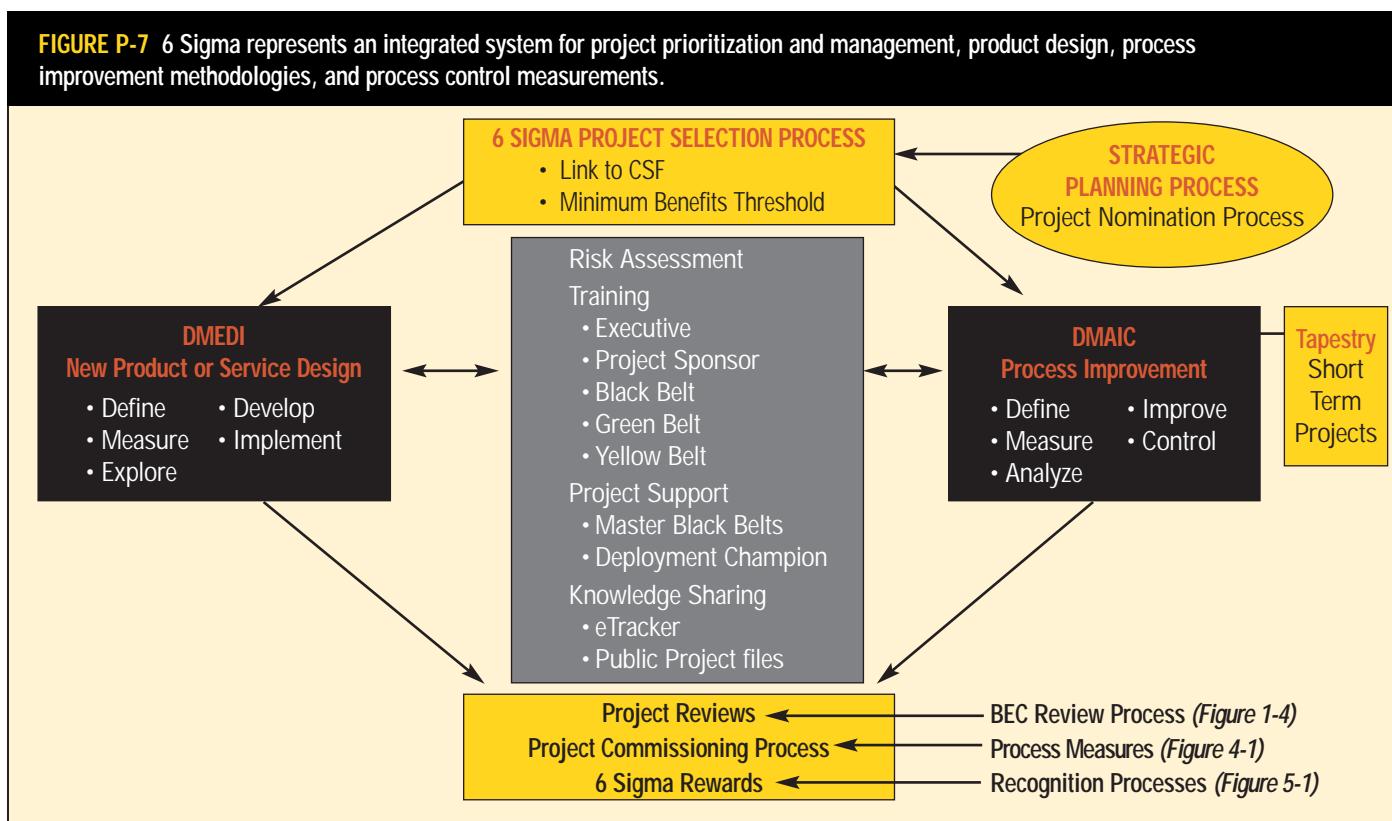
1.1 ORGANIZATIONAL LEADERSHIP

a: Senior Leadership Direction

1.1a1 CFSC includes Leadership as a CSF. This reflects the emphasis that CFSC places on developing effective leadership and leadership systems. Employee surveys and external assessments verify CFSC achieves world-class leadership system performance *(Figures 7.5-16 and 7.6-4)*.

Jim Beard, CFSC's leader since inception, has established a very lean executive structure. CFSC vice presidents serve (along with the vice presidents responsible for Europe, Asia, and Caterpillar Insurance Services Corporation) as an integrated management and shared decision-making body called the Business Excellence Council (BEC). As illustrated in the Organizational Chart, a small line of Department Managers supports the BEC and lead daily operations. There are few sub-teams or committees because of the review systems already in place. The BEC meets two days a month. This cross-functional group is responsible for high-level strategic planning, Top Tier and CFSC Health measure review, employee recognition, and corporate resource allocation.

The BEC uses the Business Excellence Model *(Figure P-4)* for setting, deploying, and communicating CFSC's Shared Values and performance expectations *(Figure 1-1)*. Because it incorporates the six Critical Success Factors (CSFs), this Model ensures balanced efforts in providing value to all stakeholders: Users, Dealers, CatBUs, employees, suppliers, our shareholder, and the community.

In use since 1996, the Business Excellence Model was updated in 2001. The BEC initiated this update to reflect a larger and more complex CFSC that is aligned with Caterpillar's updated strategies. The BEC established a Business Excellence Review Team (BERT) representing both the original Business Excellence architects and employees with new ideas. The team reviewed Caterpillar's revised corporate strategy, interviewed CFSC leaders, and captured employee opinion from surveys and meetings. Jim Beard launched the revised Business Excellence Model at the annual All-Employee Meetings in conjunction with the 2002 Strategic Plan. Improvements included:
- Enhancing the Vision and Mission to facilitate the 50% growth objectives established by Caterpillar.
- Clarifying wording and adding specific goals to each CSF.
- Replacing the general "Continuous Process Improvement" with "6 Sigma," emphasizing CFSC's specific methodologies.

As a testament to the strength of the original Business Excellence pyramid, the six CSFs and seven Shared Values were unchanged.

The structure of the CFSC leadership system provides the means for deploying values and strategic direction, and for performance review. CFSC's Strategic Planning Process *(Figure 2-1)* establishes both short- and longer-term directions and the performance expectations for each CSF. The BEC, Departments, and individuals implement these goals through the Performance and Development Process (*PDP, Figure 5-2)*. The PDP aligns every employee's annual goals with those of the CFSC Strategic Plan.

CFSC leaders use a system of interrelated approaches to communicate throughout the company and to suppliers *(Figure 1-2)*. These communications are designed to serve one or more of five key purposes *(Figure 1-3)*.

While each communication vehicle has a carefully defined audience, all include Business Excellence, which reinforces the interdependencies between the CSFs and the other components of the Business Excellence Model.

Informal communication plays an important part in daily interaction between CFSC leaders and employees. Company culture fosters a genuine "Open Door" attitude, allowing any employee full access to CFSC leaders. Leaders often participate in Department meetings, community involvement activities, and employee recognition events.

Further reinforcing the Shared Values of Integrity and Responsibility, CFSC allows wide access to information. With few exceptions (such as employee or confidential data), operational results and company information are available to all employees. Company results are reviewed with all employees at Quarterly Strategy Update meetings.

CFSC's emphasis on Shared Values and Business Excellence is communicated early and often to employees. During their first month, new employees are trained in Business Excellence and receive a replica of the Pyramid. Employees also receive their own copies of the *Caterpillar Code of Worldwide Business Conduct* guidelines and *Shared Values* book. CFSC recognition programs *(Item 5.1b)*, such as the Shared Values Award and Cat Bucks program, directly reinforce company values.

When tested, CFSC actions have reinforced Shared Values. In 2002, federal legislation was passed which retroactively accelerated depreciation schedules for leased assets resulting in a tax savings. CFSC was unique among major competitors in rebating this benefit to lessees. Stakeholder needs are systematically captured within CFSC's integrated processes, many of which directly include senior leaders. CFSC leaders participate in the Caterpillar Strategy Review Council to capture the needs of our shareholders and CatBUs. Leaders have direct contact with customers and employees, supported by CFSC's listening approaches

FIGURE 1-1 CFSC uses an integrated set of processes to set, deploy and communicate Leadership direction and expectations.		
	Set	**Deploy**
Organizational Values	• Shared Values • Business Excellence Model *(Figure P-4)*	• Business Excellence/Shared Values Training *(Item 5.2)* • Rewards and Recognition Process *(Item 5.1)* • Communications Processes *(Figure 1-2)*
Short- & Longer-term Directions and Performance Expectations	• Business Excellence Model • Strategic Planning Process *(Figure 2-1)* • BEC Review Process *(Figure 1-4)* • Caterpillar Strategy Review Council • Caterpillar Industry Councils • Customer Listening Process *(Figure 3-1)* • 6 Sigma *(Figure P-7)*	• Performance and Development Process *(Figure 5-2)* • Rewards and Recognition Process • Communications Processes • 6 Sigma • Measurement Architecture *(Figure 4-1)* • CFSC community activities *(Figure 1-8)*

(Figure 3-1 and *5.3b3).* These needs are incorporated into the CSFs and related performance goals. Key metrics, referred to as Top Tier Measures, provide a balanced scorecard across the six CSFs. Each CSF also has a family of related Health indicators detailing company progress in serving the needs of Users, Dealers, CatBUs, employees, suppliers, our shareholders, and the community. For example, while the Top Tier Measure for the Employee Satisfaction CSF is the Employee Satisfaction Index, the broader measure of Health adds indicators such as employee development, retention, compensation competitiveness, and internal turnover. Operational requirements of Users and Dealers are further defined for each Key Core Process *(KCP, Figures 6-1).* Top Tier and Health measures are listed in *Figure 4-1.*

By aligning the goals and measures with the CSFs, leaders ensure that the needs of all stakeholders are appropriately addressed throughout the company.

1.1a2 Empowerment begins with the Shared Values statement of *Freedom and Responsibility to Exceed Expectations of those we work with and serve*, and is translated into action by:
- Agility in serving customers
- Financial authority
- Flexibility in employee policies and freedom in daily management

Empowerment in serving customers is reflected in the authority given to employees to develop flexible customer solutions. For example, Territory Managers are free to create focused merchandising programs to increase sales at a specific Dealer. Document packages are routinely modified, within legal risk parameters, to meet customer requirements. Recognition programs and internal measures motivate creative solutions.

The PDP process cascades responsibility for serving customers and accomplishing the strategic plan to every employee.

The most tangible example of financial empowerment is the authority given to employees for credit approval, documentation, and funding. A significant amount of credit authority is given to Division Managers without involvement of the Credit Committee. Past decisions are reviewed and individual authority increases as experience justifies. "Mistakes," in the form of account write-offs, are expected and budgeted annually. Experience is documented and used to improve the decision models for future approvals. Although authority levels are liberal, CFSC consistently outperforms the industry in account write-offs *(Figure 7.3-6).*

Examples of employee freedom abound in CFSC's culture. Managers are empowered to define work schedules, allocate merit-based salary increases, and authorize $150 Eye-on-Quality Awards without higher approval. Treasury policies give employees the flexibility to make multi-million dollar funding choices to capitalize on quickly changing marketplace opportunities. Employees self-nominate in the Job Posting Process. Company policies tend to minimize paperwork when possible (e.g., travel expense reporting automatically determines the

FIGURE 1-2 CFSC uses a system of targeted methods to communicate to all stakeholders.

Stakeholder	Communication Channel	Frequency
Employees	*UpFront* Intranet and Video Monitors	*Daily*
	Business Excellence Pyramids	*Daily*
	Department Intranet pages and Public Folders	*Daily*
	Weekly Report	*Weekly*
	Business Metrics Display Boards	*Monthly*
	Birthday/New Employee Breakfasts*	*Monthly*
	Monthly New Employee Orientation*	*Monthly*
	Department Meetings*	*Monthly*
	FIS (Financial Information System)	*Monthly*
	Quarterly Strategy Meetings and Video*	*Quarterly*
	All-employee Meeting*	*Annually*
	Annual Leadership Conference*	*Annually*
	Strategy Launch Meetings*	*Annually*
	Handwritten Birthday Card from Jim Beard	*Annually*
	Milestone Celebrations (20 years, $10B)	*As needed*
	TN Quality / Baldrige Application Summary / Feedback	*As needed*
	Shared Values Book/Worldwide Code of Business Conduct Book	*As needed*
Dealers	Financ*Express* (on-line system)	*Daily*
	Dealer Financ*Express* newsletter	*Quarterly*
	On-site visits by Dealers*	*As needed*
	Dealer Association meetings*	*Annually*
Users	www.CatFinancial.com*	*Daily*
	Financ*Express* on-line contact system*	*Daily*
	On-site visits*	*As needed*
Caterpillar	Caterpillar Industry Councils*	*Quarterly*
	CatBU Meetings*	*Annually*
	Cat Executive Office Review (EOR)*	*Annually*
Suppliers	Supplier Meetings*	*As needed*
Public	Annual Report	*Annually*
	Press Releases and SEC filings (10K/10Q)	*Quarterly*
Indicates a two-way communications process		

minimum number of receipts required). Company training initiatives encourage this Shared Value through a "Delegating for Results" course in the *Leadership Development Series.*

6 Sigma teams are staffed by "Green Belts," employees who dedicate up to 20% of their time innovating work processes and are empowered

FIGURE 1-3 Communications Purposes

Purpose	Leadership Involvement
Communicate/reinforce values, directions, and expectations.	Jim Beard introduced Shared Values, BEC members introduce Living Our Values Shared program and New Employee Orientation
Reinforce customer focus and build customer relationships	Two BEC members visit our Top Users on a scheduled basis
Share process management approaches and improvements	Five BEC members have served as 6 Sigma Project Sponsors
Share knowledge and skills	Five BEC members have served as mentors
Facilitate two-way communication and solicit feedback from key stakeholders	BEC members host active Q&A sessions during the monthly new employee/birthday breakfasts

FIGURE 1-4 CFSC leaders review organization success, competitive environment, goals, and changing needs via a system of integrated weekly, monthly, and annual reviews.		
Method	**Frequency**	**Key Measures and Results Reviewed**
Business Excellence Council Day 1: Manage the Business	Monthly	*(See Figure 4-1)* • Financial Health • Employee Health • Technology Health • Customer Health • Portfolio Health • Process Health • Leadership Health
Business Excellence Council Day 2: Manage the Strategy	Monthly	• Progress on Strategic Plan Initiatives • 6 Sigma Projects • Divisional/Departmental Updates • Public/Community Support
Weekly Report	Weekly	• Initial marketplace results • Supplier actions • Significant customer activity • Key learning and best practices • Competitor activity • Employee actions • Activity on major initiatives • Community activities
Corporate Credit Reviews	Weekly	• Review financial exposure and loans
Pricing Review	Weekly	• Pricing Rate Analysis, competitive activity
Contributions Committee	Quarterly	• Contributions budget, community and employee requests
Quarterly Credit Review with Caterpillar Group President	Quarterly	• Review Portfolio Health, significant credits and exposures
Executive Office Review	Annually	• Strategic/operational review by Caterpillar Executive Office

to make necessary changes. The 6 Sigma Rewards package and Incentive Compensation motivate new and improved methods of doing business. Employees not on teams are also encouraged to improve processes, and a portion of every employee's Incentive Compensation payout is dependent on 6 Sigma process improvements. As explained in Item 6.1a4, the centralization of all processing in Nashville precipitated entirely new methods of processing loans and leases.

Organizational learning is achieved through both internal assessment and benchmarking with other companies. The Baldrige program is one of CFSC's favorite tools for learning. Since 1993, CFSC has completed seven Baldrige-based assessments, attended every Quest for Excellence, and benchmarked six Baldrige winners in the Service category. CFSC makes its TQA and Baldrige Application Summaries and Feedback Reports available to all employees. Thirty-nine CFSC employees have served as Tennessee Quality Award or Baldrige examiners, conducting over 50 site visits.

CFSC's 2001 launch of 6 Sigma included mandatory training for every employee, based on their involvement level. This continuing training reiterates customer-focused process improvement and fact-based decision making. Best practices worldwide are electronically summarized and cataloged for replication across Caterpillar.

CFSC is an eleven-year member of Belmont University's Peer Learning Network, where executives from 26 non-competing firms share best practices and explore leading-edge initiatives. Speakers have included Jack Welch, Peter Senge, Steven Covey, and Horst Schulze. After the BEC members and Department Managers participate in these monthly sessions, they meet to discuss how the knowledge applies to CFSC.

Employee learning begins with New Employee Orientation and continues throughout the employee's career. Internal and external training is offered on subjects ranging from job-specific tasks to computer skills and public speaking *(Figure 5-3)*.

CFSC supports continued employee learning through an educational reimbursement program. Employees attaining degrees or certifications (e.g., CPA, MCSE) are recognized with a financial bonus. The President also recognizes those earning a degree at the All-Employee Meeting with a special replica of the Business Excellence pyramid, reinforcing the linkage between employee learning and Business Excellence.

CFSC employees go to external seminars and participate in up to nine trade shows annually. Examples of these are the Equipment Leasing Association (ELA) Annual Convention and customer events such as MineEXPO. CFSC employees often partner with customers to learn about their business. For example, Nashville credit analysts travel with Dealer sales representatives and Marine employees visit shipyards. Key suppliers are also involved in knowledge sharing. ThoughtWorks, our e-business systems partner, and CFSC were jointly featured in a recent *Computerworld* article about leading-edge development technologies. CFSC recently organized a multi-company collaboration to deliver IT training in Nashville, thus making training more affordable to all participants.

Leaders create an environment that fosters legal and ethical behavior through Shared Values and by establishing the comprehensive array of governance and ethics processes described in 1.1b and 1.2b. The General Counsel is a member of the BEC, and ethics are measured as a component of the Leadership Index.

b: Organizational Governance

Effective governance practices are not new to Caterpillar and CFSC. Many of the elements in the recently enacted Sarbanes-Oxley Act have been standard practice for years. Caterpillar's Code of Worldwide Business Conduct was first published in 1974 and the Act's requirements for Board Committee governance have been in place at Caterpillar since 1993. Processes to ensure CFSC management accountability include:

• The BEC reviews all internal audit results. CFSC's President personally reports to the Caterpillar Board Audit Committee

annually. Any CFSC operation earning a "3" rating on internal audits must be reviewed with these external Directors.

- The Sarbanes-Oxley Act requires the President and CFO to certify both the accuracy of our financial reports and that we have adequate controls in place. CFSC exceeds this regulation by requiring all BEC members to certify compliance as well.
- CFSC reports financial and organizational information required by the SEC (10K/10Q) regulations separately from Caterpillar, giving investors and stakeholders complete disclosure of our business.
- CFSC leaders actively engage in two-way communication with employees *(Figure 1-2)*. The President takes unfiltered questions during employee meetings and provides immediate, candid, and unscripted answers. "I can believe what Executive Management says" is assessed via the employee surveys with results included in the Leadership Index.

As a multi-billion dollar financial services company, CFSC uses an array of processes to ensure fiscal accountability. In addition to the strict financial reporting required by the SEC and other regulations, CFSC has established strong internal financial control mechanisms. Segregation of duties and authorities are in place to prevent abuse, and systems are audited internally and externally. Financial authorities are clearly articulated for all levels including executives. Monthly BEC Portfolio Health reviews monitor portfolio quality. Also, as an issuer of debt (commercial paper, notes) CFSC financial and portfolio practices and results are evaluated and made public by external rating agencies and analysts such as Sanford-Bernstein, Moody's, and Standard & Poor's.

PricewaterhouseCoopers annually audits CFSC financial statements and records. Internal auditors ensure proactive control and compliance systems are established, minimizing the need for a separate compliance organization. The process systematically assesses risk and determines audit frequency. CFSC participates in sales and property tax audits conducted by state and local tax jurisdictions when our leased equipment assets are involved. These practices meet several external standards including Statement of Auditing Standards and Independence Standards Board.

The Caterpillar Executive Office and Audit Committee of the Board of Directors provide oversight to CFSC. The Board is highly independent. The Chairman is the sole Caterpillar employee and does not serve on any Board Committees. A financial expert heads the Audit Committee and its members must meet financial literacy guidelines.

To further protect shareholders, independent Board Members must approve any proposal in the unlikely event of a takeover. Although not required by law, Caterpillar established share ownership requirements for recipients of stock option grants over a decade ago, and shareholders approve all equity programs. There are no "golden parachutes" for company officers.

A recent independent study of corporate governance practices by Institutional Shareholder Services (ISS) placed Caterpillar in the 89th percentile of firms in the S&P 500. When compared to other firms in the capital goods industry, Caterpillar placed in the 93rd percentile *(Figure 7.6-6)*.

c: Organizational Performance Review

1.1c1 *Figure 1-4* outlines the integrated process CFSC leaders use to review company performance on a weekly, monthly, quarterly, and annual basis. The CSFs provide consistent alignment between all company strategies, action plans, reviews, and communications.

The centerpiece of the CFSC review structure is the monthly Business Excellence Council (BEC) meeting. Most cross-functional issues are presented to the BEC in this forum, minimizing time spent in other meetings. Holding these comprehensive reviews each month ensures that both operational decisions and strategies are responsive to a rapidly changing environment.

On day one of each meeting, the BEC focuses on *Managing the Business* and reviews organizational performance compared to plan. On the second day, the BEC shifts its focus to *Managing the Strategy*. Here, projects approved through the annual Strategic Planning Process and Division/Department strategic updates are reviewed. Recent project examples include Financ*Express*, CFSC's e-business initiative, and direct lending options. Other reviews are summarized in *Figure 1-4*.

The *Weekly Report* is consolidated from each area of the organization and distributed to the BEC and Department Managers by noon each Monday morning. This report provides high-level indicators of organizational performance, outlines significant customer and competitive activity, and updates progress on departmental initiatives. It represents a key method of sharing information at the leadership level and across the organization.

1.1c2 The BEC reviews combine data analysis and qualitative information to facilitate performance review and decision-making. On day one, Managing the Business, the BEC reviews Top Tier Measures and Health indicators that are aligned to each CSF *(Figure 4-1)*. Significant

FIGURE 1-5 Leaders use review findings to develop actionable plans for improvement.			
Analysis Finding	**Source**	**Action Plan**	**Result**
Baldrige/TQA opportunities for improvement	Baldrige Examiners	Baldrige Steering Committee established with Category Owners reporting progress to BEC	Improved results on Baldrige self-assessment
Employees score career development low	Employee Survey	Improve Career Management System and charter Sigma 6 team to assess training	Improved training and development, and increased employee satisfaction Index
Opportunities to leverage diversity	HR analysis	Mentoring and Living Our Shared Values programs developed	Completed pilot with 17 mentors/employees and established ongoing program in 2003
More detailed "trend" reporting	BEC	BEC structure included in Business Excellence review team	Manage the Business "Health" and Manage the Strategy BEC Reviews
Inequity in Vacation Policy	LOSV program feedback	HR to review and provide recommendation to BEC	BEC approved policy eliminating difference between exempt and non-exempt time-off earned

qualitative and competitive intelligence is reviewed according to a predefined schedule. For example, CFSC representatives to the Caterpillar Industry Councils summarize their targeted industry on a rotating basis. On day two, Managing the Strategy, Black Belts present storyboards and results for process innovations using 6 Sigma projects. Senior Managers responsible for the Baldrige assessment also present an overview of their progress. Key performance review findings are summarized in *Figure 1-5*.

In addition to the competitive intelligence examined in the monthly Health reviews, leaders receive daily electronic industry updates from *Monitor* and weekly updates from the ELA on significant market and competitor activity. Caterpillar's Business Intelligence Group provides quarterly economic forecasts, including leading edge indicators such as housing starts.

1.1c3 CFSC uses two processes to modify the annual strategic and business plans based on findings from the BEC reviews. The 6 Sigma Project Selection Process is refreshed quarterly, and the IT Resource Reallocation Process is initiated as priorities emerge. Also, the Strategic Planning process allows not only for continuing bedrock projects (that carry over from year to year), but also discretionary projects that create a queue for upcoming projects.

Each CFSC Health is assigned to a senior management facilitator who is responsible for leading the BEC discussions, documenting BEC concerns and decisions, and updating the metrics. These facilitators also lead the relevant Baldrige Category Teams, ensuring complete linkage of management, measures, and improvement activities. The BEC members themselves, however, are responsible for cascading feedback to their functional managers and ensuring that required changes are initiated. BEC members accomplish this through a scheduled staff meeting occurring after the monthly BEC.

The Quarterly Strategy Update meeting is the primary vehicle used to update the organization on recent strategic activities. Other communication and deployment mechanisms are employed depending on the message and its audience. For example, when a new officer is named, all employees receive an immediate e-mail instead of waiting for the Quarterly Update. *Figure 1-2* describes the mechanisms used to communicate review findings to employees.

1.1c4 Leadership, like other CSFs, is evaluated and improved by the BEC. A Leadership Index is calculated based on results from eight dimensions of the Employee Satisfaction Survey: Ethics, Values, Employee Involvement, Training, Quality Emphasis, Direction, Information/Knowledge, and Overall Satisfaction. Leaders analyze this employee feedback to assess the leadership system and their individual performance. Since 1993, CFSC's leadership system has been evaluated through seven Baldrige-based assessments. Improvements to the Leadership system over the past few years include:

- IT Health added in 2000 reflecting technology's strategic importance
- BEC governance structure and CFSC Health measurement architecture revised in 2000
- 6 Sigma aggressively deployed in 2001
- Business Excellence Model evaluated and improved in 2001
- Internal audit control scoring system revised in 2002

Leaders annually review their personal PDP improvement goals with CFSC's President. Jim Beard reviews his performance with the Caterpillar Group President Doug Oberhelman. Based on 2002 Baldrige feedback, CFSC now requires the top 45 leaders to use a 360-degree feedback assessment tool to improve their individual leadership skills. BEC members are evaluated in the Caterpillar-wide succession planning process.

A significant portion of the Strategic Retreat and Annual Leadership Conference is devoted to educating CFSC leaders. As a group, the BEC traveled to Accenture's Financial Ideas Exchange, visited several Baldrige-winners, and attended Quest for Excellence. Leaders also participate in periodic Caterpillar management programs providing exposure to peers and challenges facing other CatBUs.

FIGURE 1-6 CFSC carefully manages its impact on society and public concerns.		
	Key Practices	Measures/Targets
Regulatory • ECOA • FCRA • FDCA • State/County Statutes	• In-house Legal and Tax experts • Due Diligence checklist • Legal and tax reviews incorporated into CFSC transactional processes (i.e., contracts) and new process design (i.e., 6 Sigma) • Legal experts conduct training seminars at Dealer/User meetings • ELA (Equipment Leasing Association) and TAB (Tennessee Association of Business) update and lobby pending legislation and FTC regulations	• Full compliance reviewed quarterly with vice president • Timely response to audit comments • Compliance Research > 8 hrs monthly
Legal • Foreign Corrupt Practices Act • Securities and Exchange Commission • GAAP • External Investors • Sarbanes-Oxley	• Caterpillar FCPA Manual • Quarterly/Annual Press Releases & SEC Reporting (10K/10Q) • Worldwide Code of Conduct • Prospectus provided for Cat Money Market, Power Note investments • Annual certification of all Managers • CFSC Managers certify SEC quarterly reports • 6 Sigma project to streamline compliance reporting	• Full compliance with FCPA reporting requirements • SEC reports on time and accurate
Product, Services, and Operational Risks • Bad Debts • Business Disruption	• Defined authority levels • Industry-specific credit scoring guidelines • User concentration limits. • External & internal auditors • Disaster recovery plan • Business Risk assessment conducted on each 6 Sigma project	• Portfolio Health • Performance in-line with externally reported estimates • Credit losses in-line with budgeted risks • Acceptable audits

The capability to manage in an international environment is increasingly important at CFSC. Two-thirds of CFSC leaders have lived abroad. Rotational assignments are also an integral component of a Leader's development. For example, the vice president responsible for Europe recently assumed responsibilities for Corporate Support, while a former General Counsel now manages the Power Division. Finally, CFSC leaders are expected to serve on local charitable boards to broaden their skills *(Figure 1-8)*.

Since effective communication is crucial to CFSC's leadership system, it is systematically evaluated and improved. Employee satisfaction with information accessibility is measured through annual employee surveys *(Figure 7.5-11)*. Employee communication methods are also evaluated annually through a special communications survey sent to all employees. The data are used to improve both individual publications and the processes by which they are created. For example, employee feedback led directly to the formation of a centralized Employee Communications Department and the Quarterly Update Videos. Key communications, such as Annual Strategy Launch Meeting materials, are individually evaluated as well.

Board: The Caterpillar Board of Directors conducts an annual self-evaluation and is externally reviewed by ISS. The structure of compensation packages for all Caterpillar officers, including the CFSC President, are communicated to all shareholders with the Annual Report, as is the Chairman's Annual Performance Review. These are externally benchmarked and managed by a Committee of independent directors. CFSC participated in an Alta Group industry benchmarking study in 2002 that validated our governance structure to several captive financing subsidiaries.

1.2 SOCIAL RESPONSIBILITY

a: Responsibilities to the Public

1.2a1 *Figure 1-6* summarizes CFSC's approaches to social and public concerns. Given the nature of our operations and size of our portfolio, financial stewardship is a key public responsibility. CFSC carefully manages investment risk to meet the CSF of Reliable Returns and to uphold our fiduciary responsibilities to our investors. The BEC carefully reviews established loss-exposure levels monthly as part of Portfolio Health, as does the Caterpillar Board of Directors (annually). Risk and loss exposure is segmented by country, industry, business, and User type. The Corporate Top Retail User process requires that exposures over $25 million must be personally visited by two CFSC senior leaders bi-annually. The annual Risk Evaluation Process evaluates all CFSC operations against eight risk elements and assigns a five-level score that determines the schedule and interval of internal audits.

Although less regulated than consumer lending or manufacturing industries, CFSC must meet the requirements of the SEC, as well as local, national, and international regulations. CFSC adheres to stringent legal and ethical guidelines and has never received any legal sanctions. The CFSC Legal Department ensures appropriate due diligence review and regularly updates employees and Dealers on relevant regulatory issues.

Environmental leadership is also important. CFSC's headquarters showcases state-of-the-art energy and water conservation technology. Related practices (such as recycling) reinforce CFSC's commitment to the environment. In both 2002 and 2003, Caterpillar was included in the Dow Jones Sustainability World Index, an elite environmental and

FIGURE 1-7 CFSC's closed-loop ethics system

ETHICS STANDARDS
- Caterpillar Worldwide Code of Business Ethics
- CFSC Shared Values

ETHICS DEPLOYMENT AND REINFORCEMENT
- Ethics questions in Targeted Selection new-hire process
- New Employee orientation
- All employee training as standards are updated
- Worldwide Code web sites
- Office of Business Practices confidential hotline

MEASUREMENT
- Annual employee surveys
- Annual manager questionnaire and certification

IMPROVEMENT
- Code revised 2000
- Shared Values created in 1995, reviewed in 2002

societal designation recognizing the top 10% of 2,500 eligible organizations worldwide.

1.2a2 To identify public concerns at the national level, CFSC is active in the Washington-based Equipment Leasing Association, which provides weekly updates on pending legal, legislative, regulatory, and educational issues. CFSC's President is the Chairman-elect of ELA, which proactively maintains regulatory relationships by sponsoring a Capitol Hill Day for legislators. CFSC's President and General Counsel participate in this annual event. The non-profit ELA Educational Foundation annually underwrites several research studies, documenting public demands from the industry. Membership in the Tennessee Association of Business provides similar services at the state level. CFSC captures community needs by serving on United Way Community Boards and the Nashville Chamber of Commerce.

External information is incorporated in CFSC's Strategic Planning Process and is used to develop action plans. Every 6 Sigma project assesses 12 risk elements and ensures mitigation activities are included where necessary. Examples of proactive practices are summarized in *Figure 1-6*.

b: Ethical Behavior

1.2b CFSC has a closed-loop approach for ensuring ethical practices in all transactions. The system begins with Shared Values, "We are people of integrity who care about others in our workplace and our world," and continues with full deployment of the Caterpillar Worldwide Code of Business Conduct. As described in 1.1a, these are reinforced daily and CFSC leaders lead by example. CFSC's senior leaders actively participated in the 2000 revision of the Code. This is especially pertinent as CFSC is one of the few CatBUs that contracts directly with Users

FIGURE 1-8	Examples of CFSC Leadership as a Corporate Citizen
Level	**Involvement**
Leaders	CFSC executives serve in leadership roles for: United Way, Junior Achievement, Tennessee Center for Performance Excellence, Metro Nashville School's Pencil Program, Tennessee Association of Business, Project Reflect Education Programs, Exchange Club, Union Rescue Mission, Big Brothers, Cheekwood Gardens, Nashville Symphony, Meals on Wheel, Ronald McDonald House, Adventure Science Museum, and Juvenile Diabetes.
Employees	Employees volunteer for day-long charitable events sponsored by CFSC (e.g. Special Olympics, Second Harvest Food Bank, Nashville Mission, Salvation Army). They receive paid time-off to participate and support charities of their choice.
Organization	**Participation**
United Way	Employee giving has increased every year, matched by CFSC. Giving exceeds $300,000 annually. Earned IRIS Award, United Way's highest honor for financial and program support in 1998 and 2001. Recognized Ingram Award in 2002 for outstanding campaign organization and success, volunteer commitment, communication efforts and employee involvement.
Junior Achievement of Middle Tennessee	Largest financial, volunteer and leadership supporter of Junior Achievement in Nashville. In 2002-3, volunteers taught over 77 sessions to 1,795 students and 40 employee teams participated in a Bowl-A-Thon. Contributions exceed $70,000. Founding sponsor of "Exchange City," an experiential learning center dedicated to teaching children about business and free-enterprise. CFSC's President received JA's highest local recognition in 2003; an Executive Vice President was one of ten recipients of JA's top national Award in 2002.
"Tommy" Golf Tournament	Annual tournament and auction organized by CFSC employees. CFSC matches money raised at the event. Contributes over $20,000 per year benefiting YW Shelter, Bridges of Williamson County, Nolensville Drug Abuse Center, Lions Club, Red Cross and Young Life.
Red Cross	Four drives per year. Assisted more than 4,000 patients since 1993.
Salvation Army	Provides over 150 Christmas gifts annually for children and senior citizens through the Angel Tree program.
Wharton Elementary	11 year adopted school relationship where employees tutor students in reading and math and assist special-needs children. Recognized by Nashville's Mayor as one of the top 3 PENCIL Foundation school partners. In recognition of its partnership with Wharton, Cat Financial received the 2002 Brotherhood/Sisterhood Award from the National Conference for Community and Justice.
Cat Financial Student Writers Showcase	Creative writing competition and workshops for over 1,300 Nashville students in grades 3-12, with 200 recognized honored.
Juvenile Diabetes	67 employees participated in the "Walk To Cure Diabetes" raising a total of $17,626. CFSC is the title sponsor of the fundraising event in 2003. Received Gold Award for outstanding fundraising.
American Heart Assoc.	Raised $2,604 through the sale of 217 vases of tulips. The "Hearts In Bloom" program helps fight heart disease.
"School to Work"	CFSC sponsors high school internships.

(usually Cat products are contracted via the independent Dealers). The Code describes Caterpillar principles in 24 areas including standards of Business Ethics; Employee, Customer, Dealer, Investor/Supplier Relationships, Business Practices; and Social Responsibility. The Code is reviewed during New Employee Orientation, and significant revisions are distributed to all employees. All senior managers certify compliance with the Code annually, and, in 2003, this requirement has been extended to all management levels. A confidential help line, fax number, and Web site are available for all employees, suppliers, and Dealers to ask questions or voice concerns about Code of Conduct issues, such as business ethics or competitive conduct. Significant issues are assigned personally to the CFSC President for immediate follow-up. The

ethics/values system, described in F*igure 1-7*, is measured by the annual employee surveys *(Figure 7.6-3)*.

c: Support Of Key Communities

1.2c *"Caterpillar Financial represents the role model corporate citizen we want to recruit to our city" - Nashville Mayor Bill Purcell to Nashville Chamber of Commerce, October 11, 2001.*

Although the Shared Value *Caring for Others* is very much a part of the company culture, CFSC also uses formal approaches to encourage both financial support and employee involvement in the community. The Contributions Committee, which includes the CFSC President, meets quarterly to determine priorities and direct CFSC giving policies. These are reviewed and approved as a component of the BEC Leadership

Health Review. CFSC's priorities are at-risk children, education, family-oriented civic organizations, and the arts. Supporting the Employee Satisfaction CSF, additional consideration is given to causes championed by CFSC employees. The company also goes beyond financial contributions by encouraging community organizations to use company facilities like the conference center/auditorium.

CFSC encourages employee giving by matching employee contributions to both charities and educational institutions. Almost 90% of CFSC employees in Nashville give to the United Way with more than 70% qualifying as Leadership Givers. Total CFSC contributions exceeded $425,000 in 2002.

Perhaps more significant than these financial contributions, CFSC actively encourages employees to volunteer time to local charities by giving them paid time off. Examples include more than 40 Junior Achievement instructors, 80 employees volunteering for other Nashville organizations during United Way's Day of Caring, and 22 math and reading tutors at CFSC's adopted elementary school. "The Tommy" golf tournament and charity auction, entirely supported by CFSC employees, raises over $20,000 annually. A full-time Employee Events Coordinator, whose responsibilities include CFSC's community outreach programs, was added in 2002.

BEC members and managers also encourage community involvement by example. BEC members serve on the boards of many community organizations. Managers teach as guest instructors at local educational institutions including Vanderbilt University and Middle Tennessee State University. The Top 45 managers worldwide worked on a Habitat for Humanity House during an Annual Leadership Conference, and various departments perform volunteer activities as a group during the year. Leadership and employee involvement are outlined in *Figure 1-8*.

CFSC considers Nashville to be its key community because over 90% of U.S. employees are located there. However, CFSC exports "Caring for Others" to all its locations. One example includes the donation of a highly specialized demolition excavator from lease inventory (worth over $500,000) to the World Trade Center rescue effort only hours after 9/11. Also, Global Division employees in Chile spend time working at a kindergarten for underprivileged children.

CFSC tracks financial, qualitative, and employee perception measures of community support *(Figures 7.6-8* and *7.6-9)*. In the spirit of the Shared Value *Freedom,* CFSC does not audit employee time donated to the community. CFSC community support processes are assessed annually through the Employee Survey. Changes are determined by the Contributions Committee and approved by the BEC. CFSC has also received numerous citations for community stewardship, including the Iris Award (the United Way's top honor).

2.1 STRATEGY DEVELOPMENT

a: Strategy Development Process

2.1a1 CFSC's Mission, Vision, and Shared Values provide the context for strategic planning, and the resulting plan is CFSC's roadmap for achieving Business Excellence. By linking all strategies, action plans, and individual goals to a specific CSF, CFSC ensures that key stakeholder needs are deployed through every level of the organization.

CFSCs six-step planning process *(Figure 2-1)* results in a four-year strategic plan and a more tactical one-year plan. These dual time horizons ensure that both strategic and tactical issues are addressed, and align CFSC's planning process with our parent's (Caterpillar).

The six steps in the planning process are:

1. Annual Strategic Retreat: This three-day meeting kicks off CFSC's strategic planning process each January. The BEC examines a key strategic issue in depth, determines what actions CFSC will take in response to that issue, and updates CFSC's overall strategic direction accordingly. This year, the BEC systematically assessed opportunities for growth in 13 new market segments, while in prior years they focused on refining the Business Excellence Model and more effective use of technology. The BEC also considers changes in structure to support organizational efficiency and effectiveness (e.g., consolidation of support operations) during the Retreat. Managers from Strategic Planning, Accounting, IT, HR, and selected other departments participate in the Retreat to provide input to the BEC and develop a better understanding of the resulting changes in CFSC's longer-term strategic direction.

2. Strategy Development: Over the next four months, Strategic Planning, Accounting, Marketing, and HR analyze the inputs *(see Item 2.1a2)* the BEC uses to further refine the strategic direction and update CFSC's longer-term strategies (strategic objectives). Inputs include Caterpillar's overall strategy, equipment and engine sales forecasts, an assessment of economic conditions, competitive issues, internal capabilities, and Cat policy directives (e.g., benefits changes). In this step, the BEC also identifies key human resource priorities and approves Division slope charts. The slope charts include both four-year financial goals and one-year "stepping stones" to achieve them. They ensure CFSC's short- and longer-term growth goals are incorporated into Division plans. (Divisions and Departments establish non-financial goals based on the CSFs, CFSC strategies, Top Tier and Health measures, and the needs of their specific customers and employees.)

Division and Department-level planning begins in this step of the process. In preparation for the Annual Leadership Conference (ALC) managers in each Division and Corporate Support Department update their SWOT analysis and assess progress relative to the current year's plan. The Divisions also analyze sales forecasts for the CatBUs they serve and their slope charts to determine gaps and potential strategies to close them.

3. Annual Leadership Conference: In June, the top 45 leaders and managers come together for the ALC, a week-long session in which CFSC's overall strategies are translated into preliminary Division and Support Department strategies, and 6 Sigma projects. The ALC includes:

- Strategy updates on Caterpillar corporate strategy, as well as on CFSC's progress in Managing the Strategy and Managing the Business
- A "data download" to ensure participants have a common understanding of CFSC's current position as they begin Division-level planning. This includes market forecasts, economic conditions, Top Tier and Health measures, slope charts, customer satisfaction, and employee satisfaction.
- An external speaker provides insight on key business and/or economic issues

- Technology demonstrations so participants are aware of available and emerging technology solutions.
- Division Planning Workshops, in which Division managers identify preliminary strategies to support CFSC's strategies and goals. Members of CFSC's Corporate Support Departments assist in identifying HR, IT, and other support requirements. (Corporate Support Departments develop their strategies shortly after the ALC to enable them to incorporate specific Division requirements, as well as the broader CFSC requirements.)

Black Belts facilitate the Division and Department Planning Workshops. They help participants to identify specific strategies and/or projects suited to 6 Sigma DMAIC or DMEDI methodologies, and to classify all strategies and projects in terms of impact and financial requirements as:

- Bedrock – mandatory to continue the business or required to meet an existing or upcoming regulation.
- Discretionary – beneficial, but not essential, to primary business operations.
- Prioritized Project List (PPLs) – large capital investments and projects exceeding specified limits will proceed through an additional Caterpillar-level approval process.

4. Action Planning: In the three months following the ALC, Division and Department managers develop specific action plans to accomplish their short-and longer-term strategies, and Black Belts develop project plans for those strategies identified as 6 Sigma projects. Human Resources develops preliminary staffing and training plans, IT revises project schedules, and Accounting begins to consolidate preliminary budgets into the Base Operating Plan (BOP) for the upcoming year.

5. Plan Review and Resource Allocation: In October, the BEC reviews CFSC's annual plan and resolves financial, staffing, IT, and other resource allocation issues. (Since the majority of action plans require IT resources, the BEC also reprioritizes IT resources throughout the year as new priorities are identified.) Based on their decisions, Divisions and Departments adjust their strategies and action plans, and PPLs are forwarded to Caterpillar for approval. Accounting finalizes the BOP and updates the Rolling Business Model (RBM), CFSC's eighteen month budgeting and forecasting system, to reflect the annual plan.

6. Plan Deployment: Once the Annual Plan is finalized, plan deployment begins. In this step, described in detail in *Item 2.2a*, the CFSC President communicates the CFSC plan to all employees, and leaders and managers work with their employees to translate Division and Department strategies and action plans into unit plans and individual goals through the Performance and Development Process (PDP). As a result, every employee's individual goals are directly linked to unit and Division/Department strategies and action plans, and aligned with CFSC's strategies and CSFs. Throughout the plan year, the BEC monitors deployment through its monthly review meetings *(Figure 1-4)*.

2.1a2 CFSC considers a broad range of factors in planning, driven by data and information drawn from the following internal and external sources:

Customer and market needs: User, Dealer, and CatBU needs and expectations are captured through the listening approaches summarized in *Figure 3-1*. This information, along with KCP performance data, is a key input to Division SWOTs and Planning Workshops at the ALC. Marketing forecasts, based on CatBU forecasts of engine and equipment sales, are a key input for the development of strategies to help the CatBUs achieve their goals (e.g., Merchandising Programs). Caterpillar Industry Councils are a key source for market intelligence. Other sources include the Weekly Reports, ELA, and trade publications.

Competitive environment: Surveys capture customer assessments of competitors *(Figure 3-3)*. Field employees report competitive intelligence

FIGURE 2-1 CFSC Strategic Planning Process

	Inputs	Steps	Outputs (Inputs to Subsequent Steps)	Participants
Jan	✓ External Expertise ✓ Issue Specific Data/Analyses	**Step 1** Annual Strategic Retreat (Jan)	✓ Revised Strategic Direction	✓ BEC ✓ Strategic Planning, HR, Accounting, IT Managers ✓ Selected Other Managers
Feb				
Mar	✓ BIG Economic Forecast ✓ Market Forecasts ✓ CAT Inc. Strategy ✓ Employee Satisfaction Data	**Step 2** Strategy Development (Feb - June)	✓ CFSC Strategies ✓ Financial Goals and Division Slope Charts ✓ Human Resource Priorities	✓ BEC ✓ Strategic Planning, HR, Accounting ✓ Division and Department Managers
Apr				
May	Organizational Level: ✓ Strategy Updates ✓ Top Tier and Health Results ✓ Market Forecasts ✓ Technology Demos Division and Support Dept.: ✓ SWOT Analysis	**Step 3** Annual Leadership Conference (June)	✓ Preliminary Division Strategies ✓ 6 Sigma Project List ✓ Support Dept. Plan Requirements	✓ Top 45 Leaders and Managers ✓ Business Excellence Dept
Jun				
Jul	✓ Status of Current Plans ✓ Gap Analysis (Divisions) ✓ Customer Satisfaction Data ✓ Employee Satisfaction Data ✓ Training Needs	**Step 4** Action Planning (July - Oct)	Proposed: ✓ Division Action Plans/Goals ✓ Support Dept. Action Plans/Goals ✓ 6 Sigma Project Plans/Goals	✓ Division and Department Managers ✓ Business Excellence Dept
Aug				
Sep				
Oct	Resource Constraints: ✓ Financial ✓ Staff ✓ IT	**Step 5** Plan Review and Resource Allocation (Oct - Nov)	Approved: ✓ Division Action Plans/Goals ✓ Support Dept. Action Plans /Goals ✓ 6 Sigma Project Plans /Goals ✓ BOP and RBM	✓ BEC ✓ Division and Department Managers
Nov				
Dec	✓ CFSC Strategies ✓ Division/Department Strategies and Action Plans ✓ KCP Results	**Step 6** Plan Deployment (Dec - Jan)	✓ Unit Action Plans/Goals ✓ Individual PDPs	✓ BEC ✓ Division and Department Managers and Employees

(Left margin vertical label: Evaluation and Improvement)

through the Weekly Report, and industry sources, including ELA, Monitor and SNL Data Source, track broader competitive and industry developments. A full-time Business Intelligence Coordinator analyzes these data throughout the year to assess competitor capabilities and competitive trends. This information is presented quarterly as part of Customer Health at BEC reviews and is communicated at the ALC.

Technological change: Advanced information technology is critical to the successful implementation of CFSC's strategies. Learnings from the Caterpillar Technology Councils, technology scans, and technology benchmarking are reviewed by the BEC in their quarterly Technology Health reviews. These reviews are presented at the ALC, along with technology demonstrations and an update of progress on current IT projects.

Strengths and weaknesses: In preparation for the ALC, each Division and Department analyzes its strengths, weaknesses, opportunities, and threats (SWOTs) using customer, market, and employee data, operational performance results (e.g., KCP/Support Process performance), and Baldrige feedback.

Human Resources analyzes organizational capabilities and needs based on employee competency evaluations, succession plans, training

needs assessments, and employee survey results (described in Category 5). Additionally, the 6 Sigma Project Selection Process considers human resource capacity to manage projects. For example, the process prevents two 6 Sigma projects at the same time in a small Department where few Green Belts are available to work on the projects.

Accounting translates Caterpillar, Inc. requirements into financial goals and slope charts, which Divisions compare with Marketing sales forecasts to identify financial shortfalls

Opportunities to redirect resources: During the Strategic Retreat, the BEC makes strategic decisions that may result in overall redirection of resources. In later steps, the classification of projects as "bedrock" and "discretionary," 6 Sigma project selection, the IT prioritization process, and the October BEC plan review result in further prioritization of potential strategies and projects. After the plans are deployed, they may be reprioritized through monthly BEC strategy reviews, quarterly 6 Sigma project selection, or IT prioritization processes.

Potential risks: The risk management processes described in *Item 1.2* provide necessary assessments on regulatory changes, interest rate fluctuations, GAAP compliance, employment law changes, and ethical risks. When

identified, improvements are incorporated into plans as "bedrock" projects.

Changes in national/global economy: Caterpillar's Business Intelligence Group issues quarterly and annual economic forecasts based on governmental funding in infrastructure, housing starts, energy consumption, etc. ELA reports supplement this general economic outlook with information specific to the equipment leasing industry.

Unique factors: As a subsidiary and captive finance company, how much and how fast CFSC grows is directly related to Caterpillar's overall growth strategy, and the equipment and engine sales forecasts of other CatBUs. To ensure appropriate alignment, CFSC's President sits on Caterpillar's Strategy Review Council. Strategic Planning and Accounting thoroughly analyze Caterpillar strategies and goals during the Strategy Development step of the planning process.

Banks and brokerages that provide funding and IT suppliers are critical to CFSC's success. Treasury and IT conduct frequent meetings with these entities to understand their capabilities, motivation, and capacity. For example, through annual bank reviews, Treasury systematically scores each bank's capability in serving our needs *(Item 6.2)* and incorporates this information into their plans. Similarly, CFSC involves ThoughtWorks in decisions regarding the expansion of Financ*Express*.

b: Strategic Objectives

2.1b1 Examples of CFSC's strategic objectives, aligned by CSF, are summarized in *Figure 2-2*.

2.1b2 CFSC's Strategic Planning Process requires disciplined assessments of both the external environment and internal capabilities. CFSC perpetuates success amid fast growth and product expansion because of intimate market knowledge, careful prioritization of resources, and effective implementation of well-defined plans.

Planning begins by building strength on strength—refining the responsiveness and reliability of processes serving current Users, Dealers and CatBU's. Leveraging CFSC's experience by expanding these services to the broader range of Cat products, such as Marine and Power industries, helps CFSC address the challenge of achieving growth inherent in a mature industry with high market share.

A highly disciplined approach to applying technology serves several CSFs. Technology drives the efficiency improvements mandatory for expansion into lower-margin lending such as compact construction equipment, while also meeting the increasingly demanding needs of Users and Dealers for faster turnaround times and involvement in the lending process.

Aggressive process improvement through 6 Sigma enables CFSC to manage increasingly complicated and diverse services. Suppliers are increasingly integrated into processes and improvement strategies.

Employees are key to maintaining CFSC's leadership position. CFSC strategies include actions to enhance skills, knowledge, and motivation. CFSC continues to refine employee processes, such as recruitment, to guarantee top talent chooses CFSC, while ensuring existing employees remain highly satisfied with their careers.

As described in *Figure 1-4*, both the strategies and performance of the organization in each CSF are reviewed monthly by the BEC. This integrated review process was expanded in January 2001 to ensure the BEC had sufficient time to balance key stakeholder needs and consider the short- and longer-term challenges facing the organization.

The Strategic Planning Process is owned by the Business Excellence Review Team (composed of three BEC members and the Business Excellence Department Manager), and facilitated by the Strategic Planning staff. They work together to improve the process each year, using a survey of ALC participants, as well as TQA/Baldrige feedback to assess the effectiveness of the process and identify improvements. Numerous refinements have resulted, including better alignment of CFSC's planning process with Caterpillar's and identification of employee training and development needs in ALC planning workshops.

2.2 STRATEGY DEPLOYMENT

a: Action Plan Development and Deployment

2.2a1 CFSC achieves the CSFs and CFSC strategies through a unique and focused deployment process that integrates and aligns strategies and action plans through all levels of the organization.

The CFSC President introduces CFSC strategies at the Annual All-Employee Meetings, and each Division and Department Manager then meets with employees to discuss the CFSC strategies in more detail and their Division or Department plan. These meetings deliver a consistent message of overall company priorities, while fostering employee understanding and buy-in. The strategies are reinforced by announcements in the company communications media listed in *Figure 1-2*. A dedicated website includes past year results, CFSC plan, and the new plans for each Division. Employees also receive a pocket card that serves as a quick reference guide to Business Excellence and CFSC strategies. These cards, adopted from a Ford Credit best practice, are customized for each Division and Corporate Support.

Once the CFSC strategies, and Division and Department plans, have been communicated, Managers work with employees to develop supporting Unit action plans. Through the PDP process *(Figure 5-2)*, they set individual goals. Managers have a goal discussion with employees. Then employees enter four to six individual SMART (Specific, Measurable, Action Oriented, Realistic and Timely) Goals on their PDP form. Each goal is linked to the specific CSFs and strategies they impact to ensure alignment at all levels. Employees receive feedback on goal achievement through a semi-annual review process.

Goal achievement occurs from the bottom up. Accomplishment of individual goals and Unit action plans results in the achievement of the Departmental plans, which results ultimately in the success of CFSC's overall strategies and CSFs. CFSC Incentive Compensation and 6 Sigma Rewards directly reinforce accomplishment of the strategic plan, with payouts for both corporate success and Unit goal achievement.

As described in *Item 2.1a1*, resource requirements are identified when strategies and action plans are developed, and major resource constraints are addressed in the Plan Review and Resource Allocation step of the process. As a result, resources are aligned with strategies, and optimized across Divisions and Departments to achieve the highest impact. For example, 26 employees have been reassigned from various Departments to support 6 Sigma projects and were not replaced. These Black Belts were then deployed to cross-functional projects offering the highest return to CFSC. CFSC processes include interim change procedures for reallocating resources to respond to changing needs during the year.

CFSC ensures that planned changes can be sustained in three key ways:
- Effective project planning and appropriate allocation of resources needed for successful action plan implementation
- Replication of proven approaches (e.g., for KCP measurement) across Divisions, Departments and Units.
- 6 Sigma disciplines which include the DMAIC Control step (implements ongoing measures to maintain project gains) and the Project Commissioning process (six-month post-implementation reviews).

2.2a2 *Figure 2-2* illustrates some key Action Plans and their alignment with the CSFs and CFSC strategies.

2.2a3 *Figure 2-2* also illustrates how Human Resources and IT plans are

FIGURE 2-2 CFSC action plans are aligned with CSFs and Strategies, as illustrated by these examples.

CSF/Strategic Objectives	Goals/Timeline	Action Plan* (ST-Short Term; LT-Long Term)	HR Action Plan	IT Action Plan
Customer Satisfaction				
Strengthen customer relationships by improving CFSC responsiveness	Customer Satisfaction Index by YE 2006	Implement CRM/ Customer*Express* (LT) Implement CRM/ Customer*Express* for the CBC and TMs (ST)	Implement procedures, policies, and training program for CRM/ Customer*Express*	Utilize PGM to support the timely, cost-efficient delivery of CRM/Customer*Express* projects
Employee Satisfaction				
Encourage employee development and career planning in an environment that leverages workforce diversity	Employee Satisfaction Index by YE 2006	Expand CMS capabilities in CFSC (LT)	Develop, implement, and deliver training for on-line CMS	Coordinate with vendor to ensure system compatibility to PeopleSoft 8
	Training Theme on Employee Survey > Financial Services industry	Deploy 2003 Mentor Program in CFSC (ST)	Continue to provide training and resources for the CFSC Mentoring Program	Develop a process to acquire and enhance future Project Leader candidates
Growth				
Pursue new and expand market opportunities	Increase Profit Before Tax and Managed Assets by 2006 through non-traditional growth	Explore acquisitions and 3rd party vendor supplier business (LT)	Actively participate on growth initiative teams to determine potential HR requirements	Provide information and systems support for growth strategy initiatives
		Develop and facilitate the CFSC growth strategy process (ST)	Develop a hiring plan for non-traditional growth initiatives	Ensure architectural standards, support processes, PGM and project management services enable and support growth strategy
Leadership				
Deploy Business Excellence throughout the organization	Improve and assess deployment of Business Excellence, as measured by MBNQA Criteria	Implement MBNQA opportunities for improvement (ST) Develop application for MBNQA (ST)	Improve training approaches and measures	Improve knowledge management infrastructure
Live our values by actively demonstrating care for others	Leadership Index by YE 2006	Encourage active participation in CFSC sponsored charities (LT)	Continue support and participation in charitable events and activities	N/A
Reliable Returns				
Leverage CFSC investment in technology	Operating costs as a % of Managed Assets by YE 2006	Support the Core Systems initiative (LT)	Define staffing requirements and recruit staff required for Core Systems project	Achieve the project plan for the Core Systems project
		Expand usage of FinancExpress (LT)	Provide training program for expanded use of Financ*Express*	Conduct performance, capacity, and risk analysis to optimize availability and reliability
World Class Core Processes				
Enhance processes through 6 Sigma to make them more cost effective and integrated from the customers' perspective	Achieve 6 Sigma Value Proposition in 2003 and assigned Cat 1st and 2nd Tier Metrics	Institutionalize 6 Sigma throughout CFSC (LT) Implement process certification throughout CFSC (ST)	Continue to support 6 Sigma through redevelopment of Green Belt Training (DMAIC)	Where possible, utilize 6 Sigma and PGM methodologies to increase the cost/value relationship of all systems and processes

*Related Division Strategies are not included in this table due to space limitations.

FIGURE 2-3 CFSC Performance Projections					
CSF/Indicator	**2003 Plan**	**2004 Plan**	**2005 Plan**	**2006 Plan**	**Competition Projection**
Customer Satisfaction					
End User Satisfaction Index					
Dealer Satisfaction Index					
Caterpillar Business Unit Satisfaction Index					
Employee Satisfaction					
Employee Satisfaction Index					
Employee Retention					
Growth					
Managed Assets ($ Bln)					
PODD					
Leadership			PROPRIETARY DATA		
Leadership Index					
Reliable Returns					
ROA					
ROE					
Accountable Profit ($ Mln)					
World Class Core Processes					
Operating Exp as a % of Avg. Mgd. Assets					

aligned with action plans, as well with the CSFs and CFSC strategies. CFSC's Strategic Planning Process considers human resource and IT requirements when developing strategies and action plans, and in resource allocation decisions, ensuring that adequate human resources and IT capabilities are available to drive business results. HR plans also consider development required for existing employees to meet new challenges, and improvements to address employee feedback. For example, employees requested better career management tools, which led to development of the Career Management System.

2.2a4 CFSC uses a highly integrated measurement architecture consisting of Top Tier Measures and related Health indicators *(Figure 4-1)* to track CFSC's overall progress. These measures are aligned with the CSFs and strategies, and are a central feature of monthly reviews by the BEC *(Figure 1-4)*. At the Division, Department, and Unit levels, Managers and employees use their KCP metrics *(Figure 6-2)*, Support Process measures *(Figures 6-3)*, and other department-specific measures to review their progress on accomplishing their goals.

Results from CFSC's measurement systems are also used to keep employees apprised of CFSC's progress throughout the year. Each Division and Department Manager conducts Quarterly Strategy Update meetings, which include:

- a Strategy Update video that incorporates the Top Tier measure results
- a presentation on Caterpillar's overall progress and performance results
- a review of progress on local action plans and measures

Top Tier measures are also communicated via the intranet and *UpFront* video monitors.

b: Performance Projection

2.2b The Accounting Budgets and Forecasting staff is responsible for projecting CFSCs Top Tier measures *(Figure 2-3)*. While not all projections are communicated externally, annual financial forecasts are shared publicly with analysts and rating agencies, and must meet strict SEC parameters, requiring a robust process. Input includes both economic research and sales projections from Caterpillar as well as financial services industry intelligence and CFSC data trends.

CFSC's performance projections incorporate both increased involvement in the markets we currently serve and newly-initiated revenue streams to support Caterpillar's aggressive growth goals. For example, Caterpillar has introduced compact construction equipment to allow expansion into new industries such as landscaping. CFSC's performance projections also include funding Dealer rental fleets (that industry's standard financing mechanism) rather than merely relying on increased market share to fund growth.

Due to the competitive landscape explained in P2a1, Top Tier measures are benchmarked against the industry and best-in-class providers. Although the short-term economic outlook is weak and sales projections flat, CFSC performance is projected to exceed historical levels.

3.1 CUSTOMER AND MARKET KNOWLEDGE

3.1a1 CFSC serves three primary customer groups: CatBUs, Dealers, and Users. Information from all three groups is segmented and analyzed to determine what is purchased, how it is used, and by whom. The Marketing Department, Merchandising Consultants, and Divisions use segmentation data to develop new services and refine marketing programs, coverage strategies, and operating structures.

CFSC customers are segmented according to the following criteria:

- **Industry:** In 1998, Caterpillar exhaustively researched its distribution network, as well as Users and industries where Cat products are used, and defined 13 industry segments within the two primary markets Caterpillar serves. They identified Mining, General Construction, Heavy Construction, Industrial, Waste, Quarry and Aggregates, Forestry, and Agriculture as key segments in the Equipment market. In the Engine market, they identified Industrial Engines, Marine, Oil and Gas, Electric Power, and OEM Truck Engines. In 2003, the Industry Councils reviewed the Equipment segments and formed a new Council for Paving and exited the Agricultural market. CFSC financing operations are organized to reflect the unique needs of these segments. For example, CFSC Marine, Global, and Power Divisions operate independently, reflecting market requirements different from the Equipment Division.
- **Application:** An Application Survey is part of the lease-quote process, since CFSC pricing models reflect different uses and operating environments. For example, lease pricing is different for a wheel loader used in mining than for one used in a steel mill.
- **Customer Demographics:** The CFSC credit approval process considers that an owner/operator of one machine may not be able to provide audited financial statements, whereas a fleet operator's financial statements are audited and typically listed in Dun & Bradstreet.
- **Transaction size:** Smaller equipment contracts are automatically credit scored while larger amounts are manually approved.

CFSC works closely with Caterpillar to identify new markets and better understand requirements of current customers through:

- **Industry Councils:** These multi-function teams meet monthly, quarterly, or semi-annually to determine the market opportunity, customer needs, and industry-specific success factors. Members include representatives from all relevant CatBUs such as Marketing, CFSC, and where appropriate, Dealer representatives. The team relies on industry data such as commodity prices, competitive benchmarking, market research, and customer focus groups to jointly determine User needs and new market opportunities. The BEC receives semi-annual updates on council activities and future plans as part of Customer Health.
- **Caterpillar Market Research:** CFSC works with CatBUs to determine new business opportunities as well as existing customer requirements resulting in differentiated financial services for new product introductions. For example, financial merchandising was considered early in the development of Caterpillar's entry into the compact construction equipment market.
- **Competitor Research:** CFSC considers the needs of competitive and potential Users through the Industry Councils and the Competitive Survey *(Item 3.2b3)*. Additionally, since Users and Dealers use competitive financing sources in some transactions, CFSC captures the voice of the competition through other Customer Listening methods *(Figure 3-1)*.

3.1a2 CFSC's comprehensive customer listening approaches yield both quantitative and qualitative information, which is used to determine key User and Dealer requirements and their relative importance in making purchase decisions. Information gained from these approaches is used in 6 Sigma new process design and process improvement methods, as well as the Strategic Planning Process and marketing.

User/Dealer Focus Groups and Surveys: As part of the Key Core Process (KCP) initiative *(Item 6.1a2)*, focus groups were held to identify User and Dealer needs. RDA Group, which manages all CFSC customer survey projects, facilitated these sessions and ranked the drivers of satisfaction both overall and for the KCPs. RDA then incorporated these drivers into opinion surveys *(Figure 3-3)*, enabling CFSC to measure its performance against customer requirements and identify changing expectations on an ongoing basis. RDA conducts regression analyses each year to validate the drivers, and provides reports to ensure CFSC fully captures the requirements of Users and Dealers.

The Competitive Survey provides information regarding how competitive products and services influence customer expectations and purchase decisions. The process includes both CFSC customers and those of competitors.

Termination Process Surveys assist in understanding Users who have ceased, or might not continue, doing business with CFSC. The results of all surveys are analyzed to identify differences based on geographic location, market, industry, dealers, culture, and business practices.

Industry Activities: CFSC is active in industry trade shows, professional associations, and industry seminars. This ensures full understanding of emerging needs from current, competitive, and potential customers.

User/Dealer Interactions: The close daily working relationship between CFSC and Users and Dealers provides real-time input and feedback. Territory Managers (TMs) report key trends and issues from their daily interactions with Dealers and Users in the Weekly Report. BEC members visit all customers with large, significant exposures. The process-based organization structure in the CBC also facilitates customer listening. Because CFSC customer-contact employees have in-depth knowledge of their customers and the processes in which they work, they act quickly to address the needs of individual Users and Dealers. They also identify changing requirements and/or operational issues, which are addressed in weekly Corporate Support Manager meetings. For example, they identified the need for online account access that led to the introduction of Account*Express*.

The customer relationship management processes described in Item 3.2a1 also provide a wealth of customer and market data that are used at all levels of the organization for operational and strategic decision-making. These include:

- **The Customer Relationship Review Process:** Results from this systematic review of the top Users in each territory are summarized weekly.
- **Dealer and User Visits:** These include visits both to and from CFSC. When Users and Dealers visit Nashville, a defined agenda helps to ensure dialogue on a range of important topics.
- **Customer*Express:*** This CRM system captures a 360-degree view of customer activity and obtains real-time process measurements tied to KCPs.

Customer and Market data: Other User and Dealer information used in day-to-day decision-making includes the in-depth information provided by Users in credit applications, independent credit bureau or S&P reports, complaint data, and competitive and market data from the Weekly Report, Industry Councils, and Caterpillar's Business Intelligence Group.

As a captive finance company, it is critical that CFSC is attuned to the requirements and expectations of the 26 CatBUs it serves. Mechanisms in place to capture and understand their needs include:

- Merchandising Consultants (MCs): Located with the CatBUs they serve, MCs develop in-depth understanding of requirements based on the products the particular CatBU sells and the marketing strategies it employs. Working closely with CatBU management, MCs design unique merchandising programs to meet those needs. The Global and Power Divisions similarly have Account Managers located with their CatBU customers.
- Industry Councils: Described in Item 3.1a1, these Councils provide an opportunity for collaborative problem solving and discussion of the changing requirements of the CatBUs, and the Users and Dealers they serve.
- CatBU Survey: Also administered by RDA, the CatBU survey *(Figure 3-3)* reflects the unique requirements and expectations of this customer. It augments the data gathered on an ongoing basis and provides an objective assessment of CFSC's performance against those requirements.

3.1a3 Results from CFSC's Customer listening and learning approaches are reported during the BEC Customer Health Review. The Marketing Support Manager, who also owns these processes, facilitates the discussion of results and improvements in listening approaches.

CFSC's overall approach to customer listening is reviewed through our TQA/Baldrige self-assessment process. Team analysis and Examiner feedback have driven substantial change. For example, the team identified the Customer Relationship Review process as a best practice and drove its deployment throughout the U.S.

Because we use the surveys to capture customer opinion on a variety of issues and performance, as well as satisfaction, CFSC's partnership with RDA is critical to keeping customer listening processes current. Integrating all satisfaction research with RDA allows higher-level analysis and cross interpretation of survey results.

3.2 CUSTOMER RELATIONSHIPS AND SATISFACTION

3.2a1 CFSC builds lasting relationships with customers on a daily basis by:

- Consistently meeting or exceeding customers' service expectations
- Being flexible in lending requirements, enabling CFSC to approve all but a small percentage of customer loan requests
- Providing customers frequent opportunities to discuss expectations, requirements, actual performance, and areas for improvement

Customer contact employees play a key role in day-to-day relationship building. Using Territory Managers to serve our dealers, CFSC is able to build and maintain strong relationships. In fact, most of CFSC's TMs maintain offices in the Dealer facility and are exclusively dedicated to that Dealer's customers. TM responsibilities include providing expertise on complicated transactions, gathering User and Dealer voice-of-the-customer, and training Dealer personnel in financial skills and CFSC processes. This focus builds loyalty and repeat business (*Figures 7.1-9 and 10*). Strong relationships are not limited to TMs in the field. Dealers regularly visit headquarters, enabling the Nashville staff to build relationships with them as well. For many KCPs, the CBC staff is assigned to certain Dealer territories to better understand marketplace idiosyncrasies and Dealer preferences. CFSC also offers periodic incentive trips specifically designed to enhance Dealer relationships and is an active participant in meetings of independent Dealer Associations.

Users are contacted both directly and in collaboration with Dealer Sales Reps. TMs and their Regional Managers use a Customer Relationship Review process targeting their top Users. During face-to-face meetings, TMs and Users discuss current relationships, products,

FIGURE 3-1 CFSC uses a combination of approaches to listen to and learn from our customers.
Uses: 1. Process Improvement, 2. Planning, 3. Customer Satisfaction, Loyalty & Relationship Building, 4. Product Development, 5. 6 Sigma, 6. Competitive Analysis

Listening Approach	Customer Group	Frequency	Method	Uses
Surveys	Users, Dealers, CatBUs, Competitors	Varies	Written and phone surveys	1 2 3 4 5 6
Focus Groups	Users, Dealers	As needed	RDA Consultant	1 2 3 4 5 6
Complaint Resolution	Users, Dealers, CatBUs	Daily/Weekly	Daily input and survey comments	1 3 5
TMs and MCs	Users, Dealers, CatBUs	Daily	Individual interaction	1 2 3 4 5 6
Daily Operations Data	Users, Dealers, CatBUs	Daily	Information Systems, User and Dealer contact, credit applications, etc.	1 3 4 5
Dealer Association Meetings	Dealers	Ongoing	Face-to-face	1 2 3
Nashville Visits	CatBUs, Dealers, Users,	Ongoing	Face-to-face	1 2 3 4 5 6
Cat Industry Councils	Users, Dealers, CatBUs	Monthly/Quarterly	CFSC Representative	2 3 4
User, Dealer, CatBU Visits by CFSC Leaders	Users, Dealers, CatBUs	Ongoing	Face-to-face presentations	1 2 3 4
Customer*Express*	Users	Real Time	Phone, Electronic	1 3 5 6
Benchmarking	Users	Ongoing	Face-to-face, Phone, Surveys	1 3 4 5
Customer Relationship Review	Users	Annual	Face-to-face	3

FIGURE 3-2 Users may contact CFSC in a variety of ways.			
	Users	Dealers	CatBUs
Face-to-face			
Sales calls	✓	✓	✓
Meetings	✓	✓	✓
Trade shows	✓	✓	
Industry Councils	✓	✓	✓
Telecom / Mail			
Mobile phone/pager	✓	✓	✓
Voice mail	✓	✓	✓
Toll-free (800) number	✓	✓	
IVR phone system	✓	✓	✓
Mail	✓	✓	✓
Electronic			
E-mail	✓	✓	✓
Account*Express* on-line	✓	✓	
Financ*Express* on-line		✓	✓
Dealer Extranet	✓	✓	
CatFinancial.com	✓	✓	✓
Wire funds transfer	✓	✓	
Fax	✓	✓	✓

services, future needs, and update User contact and financial information. The results of these meetings are summarized in the Weekly Report with follow-ups sent to CBC Managers as needed. Leveraging our NASCAR car sponsorship, CFSC hosted thousands of Users and potential Users at NASCAR races. Other loyalty and relationship-building activities include sporting events, golf outings, and customer appreciation events. CFSC participation in trade shows provides opportunities to meet face-to-face with customers in a relaxed, yet business-focused, environment. User and Dealer training programs are held regularly to address training needs and to build positive relationships and customer loyalty.

CFSC's other customer group includes the CatBUs. As explained in Item 6.1a1, CFSC's ability to customize merchandising programs for a particular Dealer or Caterpillar product sets us apart in the marketplace. CFSC Merchandising Consultants are located at the CatBU to encourage the use of financial merchandising and provide training. CFSC TMs maintain a rapport with Caterpillar machine and engine field reps. These relationships lead to excellent referrals, e.g. Caterpillar representative working on a large fleet sale may invite CFSC into the negotiations.

The Global, Marine, and Power Divisions maintain small sales staffs, who are experienced and specialized in their industry, and provide similar services as TMs and Merchandising Consultants.

3.2a2 *Figure 3-2* illustrates the comprehensive methods available for CFSC Users, Dealers, and CatBUs to seek information, conduct business, or make complaints. Toll-free phone numbers and Web addresses are printed on all invoices. All correspondence includes an employee name and phone number. An interactive voice-response phone system and online systems (Account*Express* and Financ*Express*) provide Users with secure access to quoting, credit scoring, documentation requests, and account status 24/7. During

regular business hours, Users may use the system to connect to a service representative .

Because these systems are user-friendly, relatively few customers request 'live' customer service. Usage of these various contact options is monitored on an ongoing basis and analyzed to prioritize improvements and enhancements. The various surveys contain questions to verify these contact mechanisms meet user needs.

CFSC has evolved beyond typical measurement techniques, integrating the customer contact and process requirements determined through the listening and learning approaches described in *Figure 3.1*. For example, focus groups specifically ask Users about contact expectations by KCP. The competitive survey measures both contact performance and satisfaction with that performance, providing an excellent map of User expectations. These instruments also encourage qualitative User comments on how we can better serve their needs. Results are segmented on the Dealer level so TMs can customize their contact to local preferences.

The Process Owners have defined contact requirements and measures for each of the KCPs described in *Figure 6.1*. The contact requirements, measures, and results are communicated through departmental training, meetings, daily-tracking logs, and Customer*Express*. Requirements are differentiated as needed and validated through the listening methods described in *Figure 3-1*.

3.2a3 CFSC minimizes customer dissatisfaction and complaints by proactively managing KCP performance and responding to customer requests quickly and effectively at every access point. However, CFSC uses its survey processes and Complaint Resolution to identify and address customer concerns when needed.

CFSC considers any survey response with a negative comment and/or key question rating of five or less on a ten-point scale to be a concern. When one is received at RDA, it is immediately transmitted to the Marketing Support Department, where details are recorded in a database by KCP. It is then forwarded electronically to the appropriate area for follow-up. Regional and Department Managers contact the customer to resolve the issue and report the outcome within 15 days. Marketing uses this information to identify common issues and initiate corrective action. When a verbal complaint is received, front-line employees are empowered to quickly resolve the problem to the customer's satisfaction. If the problem cannot be resolved at the point of contact, the employee escalates the issue to the appropriate manager. CFSC recently improved complaint resolution by integrating issue tracking with other customer information in the new Customer*Express* system (currently being deployed in the Equipment Division). Marine, Global, and Power use a PC database. Process data are reviewed in the Customer Health BEC Reviews.

3.2a4 Division Managers are accountable for implementing improvements to their customer relationship systems. Relationship processes and access mechanisms are kept current with both customer requirements and CFSC's business directions through data analysis and CFSC's customer listening methods. The BEC Review Process requires annual updates on each CSF, including Customer Satisfaction, by each Division Manager.

For Dealers, CFSC must accommodate differing User relationship strategies, as some Dealers prefer to control all aspects of the equipment sales/financing cycle, while others give CFSC TMs total autonomy. CFSC's daily contact with Dealers, Dealer Association meetings, and TM Meetings provide the forum to capture suggestions and communicate enhancements to the process.

Survey	Performance area/process	Performance factors measured	Use
FIGURE 3-3 Survey questions target KCPs and staff performance as well as overall satisfaction, future intentions, loyalty and competitive information. Use: E = Equipment, M = Marine, G = Global, P = Power			
User Survey – Origination	Quotation, Credit Approval, Funding, and Documentation Processes Contact with CFSC	Overall Satisfaction, Convenience, Best Option Presented, Flexibility, Competitiveness, Timeliness, Accuracy, Clarity, Simplicity, Completeness, Consistency of Information, Accessibility, Professionalism, Empowerment, Knowledge of User's Business, Loyalty and Future Intentions.	E M G P
User Survey – Termination	Account Payments, Contract Modification and Payoff Processes, Contact with CFSC	Overall Satisfaction, Method, Timeliness, Clarity, and Accuracy. Ease of Use, Simplicity and Release of Lien, Consistency, Accessibility, Professionalism, Empowerment, Understanding of User's Business, Loyalty and Future Intentions.	E P
Use Survey – Modification	Account Payment, Billing, Contract Modification Processes, Contact CFSC	Overall Satisfaction, Resolution of Issue, Flexibility, Timeliness, Accuracy, Ease of Use, Consistency of Information, Accessibility, Empowerment, Professional Treatment, Loyalty and Future Intentions.	E M G P
Dealer Survey	Overall Relationship Sales Support Quote, Credit, Document, and Funding Processes CBC Staff, TM's	Products, Services, Merchandising Programs, Understanding Dealer and User Businesses, CBC Processes, Timeliness, Simplicity, Accuracy, Financ*Express,* Relationship with TM, Responsiveness, Professionalism, Empowerment, Industry Knowledge, Accessibility, Training provided, Frequency of Visits to Dealership, Overall Satisfaction, Level of Service, Future Needs, Partnership, Alignment and Areas of Suggested Improvement.	E M P
CatBU Survey	Finance Programs Credit & Risk perceptions TMs CFSC Support	Meet BU Goals, Aligned, Simplicity, Flexibility, Suitability to Dealers, Users, and Business Units Needs, Level of Credit, Residual Risk, Competition Knowledge, Consistency, and Timeliness, Role, Effectiveness, Sharing of Data and Areas of Suggested Improvement.	E P
Competitive Survey	Cat User satisfaction with competitive lenders	Origination and Termination KCPs, Overall Satisfaction, Loyalty and Future Intentions	E P

The Caterpillar field office serving southern US Dealers is located in CFSC's Nashville headquarters and provides immediate linkage to current Dealer and User needs. The needs of CatBUs are also captured through daily on-site communications with their CFSC Merchandising Consultant and regularly scheduled meetings (which vary by CatBU).

The Strategic Planning Process prioritized significant investments in CFSC's customer relationship management technology to enhance customer service and fully embrace our e-commerce initiatives and growth goals. Branded Customer*Express*, implementation began in 2003. It provides 'intelligent' customer information across all KCPs and is available through a variety of media.

3.2b1 CFSC surveys are multi-purpose customer listening tools as well as satisfaction measurement instruments. The survey process compliments real-time KCP measurements to validate key requirements and performance. Surveys are customized by Division (according to customer type) and include User, Dealer, CatBU, and Competitive Surveys *(Figure 3-3)*. CFSC has twice raised the bar for reporting satisfaction results. Previously, the top four boxes on a ten-point scale were considered "very satisfied." Beginning with 2003 results, only the top two boxes will be used.

The life cycle of financing usually extends several years, so CFSC also uses a series of surveys to ensure results translate to actionable data. The User Origination Survey focuses on the first four KCPs: Quotation, Credit, Funding, and Documentation, while Billing/Payment, Account Modification, Customer Service, Paid-in-Full Documents, and Buyouts are assessed through the Termination and Modification Surveys.

These surveys ask Users to:
- Rate each process based on their actual experience, as well as on their expectations.
- Rank the relative importance of each element.
- Provide qualitative feedback.

They also measure loyalty and future business intent for both CFSC and Cat products, with results summarized in a multi-attribute Loyalty Index introduced in 4Q 2002. Since Users typically have relationships with numerous financial institutions, this process also provides industry comparison data.

Results are aggregated into the Customer Satisfaction Index (CSI), a multi-attribute index used to evaluate satisfaction levels. Factor analysis determines satisfaction with core processes. Multiple regression analysis determines the significance each factor contributes to overall customer satisfaction. Results are segmented and analyzed by market segment and process. Process Owners and 6 Sigma teams use the data to improve daily execution and process design. Quarterly Executive Summaries, with detailed analyses by segment, are published on the intranet for employees and are reviewed in the BEC Customer Health Review.

The bi-annual Dealer Satisfaction Survey, closely follows the process structure of the User surveys. Surveys are sent to Dealer management to track CFSC's impact on the overall business relationship, expectations, future needs, and alignment. An expanded version of the Survey is sent to Dealer Sales Representatives to assess the ease of conducting business with CFSC and to document the positive impact CFSC has on

sales *(Figure 7.5-15)*. The Dealer Satisfaction Index (DSI) is calculated and reviewed as a component of Customer Health.

CFSC also surveys CatBU satisfaction. This survey was redesigned in 2003 using CatBU focus groups to ensure it is segmented and structured to correctly gather their current and future needs in addition to obtaining quantitative satisfaction levels.

3.2b2 The survey process and direct contact are the key approaches for follow-up with Users, Dealers, and CatBUs.

Unlike many industries, CFSC maintains contact with customers throughout the life of the contract. Follow-up is built into the sequential steps of the KCPs. For example, first-payment problems are tracked as an indicator of the loan origination process. Throughout the contract, all Users with payment issues are called, providing immediate feedback if a CFSC process problem is the root cause (e.g., billing problems). TMs have specific customer follow-up guidelines for their largest and most frequent Users through the Customer Relationship Review process.

Organizing customer contact employees by process produces real-time quality feedback on each process step *(Figure 6-2)*. For example, the KCP process measurements and daily contact with Dealers uncovered a defect in funding processes long before surveys reported it. This information enabled a more timely resolution on this critical driver of Dealer satisfaction.

TMs and CFSC management regularly consult with Dealers on performance levels and customer expectations. Follow-up with CatBUs is accomplished through CFSC Merchandising Consultants, Regional and CBC staff and management, in addition to the BEC.

The survey process also ensures prompt feedback. Most Users receive surveys. Origination Surveys are mailed to the User within ten days of closing, and Termination and Modifications Surveys are mailed with paid-in-full documents or after a modification. Surveyed customers may request a personal follow-up.

3.2b3 CFSC performance relative to competitors is measured at the User, Dealer, and industry level. Listening methods *(Figure 3-1)*, from trade shows to face-to-face visits, provide an opportunity to discern competitive activity. Comparative information is included in the BEC Customer Health Review. It is used to refine merchandising programs and pricing, and to improve daily processes.

The Competitive Survey, conducted and analyzed by RDA, identifies the attributes of competitive lenders and manufacturers. Primary comparisons focus on national non-captive lenders. Information is gathered on the captive lenders of Caterpillar's competitors. Although merchandising philosophy, distribution channels, contract size, and markets vary widely; this provides a general benchmark for competitive positioning.

The User Origination Survey includes questions to determine why the User had previously considered a competitor company for financing. Termination Surveys target the User's selection criteria when choosing a financing source.

Dealer Surveys evaluate CFSC performance relative to competitors. These surveys provide a clear indication of our relative performance.

3.2b4 Approaches for determining customer satisfaction are kept current through reviews between RDA and CFSC. RDA leverages experience from CFSC stakeholders to improve survey processes. RDA updates CFSC on advances in survey technology and makes specific improvement suggestions during weekly conference calls and quarterly meetings. CFSC regularly updates the surveys and survey processes to reflect changes in business practices and technology. In 2002, a shorter version of the User survey instrument was piloted and implemented, increasing response rates. The Contract Modification Process Survey was added in 2001.

RDA annually validates the surveys as indicators of customer satisfaction. RDA statisticians rated the 2002 validation results as 'excellent.'

The Marketing Support Manager owns overall customer survey processes to assure customer satisfaction is continuously monitored and enhanced across all Divisions. Management and field input is also welcome at RDA-supplier reviews to provide business needs and direction. For example, Equipment Division TMs have asked for further breakdown of User survey results to focus on individual Dealers.

CFSC is currently participating in a multi-company benchmarking project aimed at Complaint Handling and Service Recovery, further refining these best practices. CFSC also participates in periodic web seminars on current industry listening, learning, and complaint-handling practices.

4.1 MEASUREMENT AND ANALYSIS OF ORGANIZATIONAL PERFORMANCE

a: Performance Measurement

4.1a1 The CFSC measurement architecture represents a balanced scorecard across the CSFs (Figure 4-1). It gives "line-of-sight" accountability to every employee, allows full review of CFSC performance, and facilitates root cause analysis. CFSC's measurement architecture consists of four levels:

- Eleven Top Tier Measures and 39 detailed CFSC Health indicators (aligned by CSFs) summarize overall CFSC performance.
- KCP, Business, and Support Process measures provide performance data at the process level, enabling Process Owners to track performance against customer and operational requirements and goals *(Figures 6-2* and *6-3).*
- The Rolling Business Model (RBM) budget and profit center accounting data provide financial performance data and forecasts.
- Department specific reports (e.g. activity) are also produced for daily management (not shown).

As shown in *Figure 1-4*, the BEC uses this information to review company success and make decisions. The 6 Sigma Project Selection Process also relies on these data to drive innovation throughout CFSC.

Each Division and Department Manager selects daily operational measures based on input from customers, employees, and process owners. Once individual goals are determined via the PDP Process, employees use these metrics to track individual progress.

Employees use data gathered by systems listed in *Figure 4-3* to conduct daily operations and manage resources. The Financial Information System (FIS) consolidates and integrates crucial financial data into a one-stop resource. FIS provides managers with timely and graphical presentation of data in detail, and includes a red-alert identifier for measures not meeting plan.

CFSC is instituting advanced systems to provide virtually unlimited integration of data and information. The Data Shopping Network catalogs large amounts of customer and transactional data from disparate systems and seamlessly allows employees to access integrated reports on either a routine or as needed basis. In effect, each report meets the needs of an individual user, and can be printed or distributed electronically. Five data warehouses are currently in use (PODD, TM Volume, Portfolio & Inventory, Remarketing, and Cost Management) with three additional warehouses scheduled to be online by 2004.

The functional systems that support daily operations provide flexible reporting to meet the information needs of individual data users. For example, an Accounts Payable clerk has all the information needed within the software system to perform their daily duties.

4.1a2 Key comparative data and information are selected based on company direction, validated customer requirements, and third party input including best practices, competitive rates, pricing, and performance. Competitive and comparative data *(Figure 4-2)* are incorporated in the Top Tier Measures and CFSC Health indicators, and are used to assess progress toward Top Tier goals and desired market position.

Process-level benchmarking across industries provides another source of comparative data. In 2002, CFSC studied an automotive finance company's benchmarking process and implemented a streamlined procedure and database facilitated by the Business Excellence Department. Because our industry shares few process-level comparisons, CFSC goes directly to Users and Dealers for comparative data. The Competitive Customer Satisfaction Survey asks about competitor performance on KCPs, as well as satisfaction. CFSC subscribes to several multi-industry process-level data sources.

CFSC uses external consultants to leverage comparative expertise. For example, in 2001, a consulting group analyzed the capabilities of CFSC's entire CRM system. In 2002, another consulting company provided guidance on direct lending. The 2000 Strategy Retreat featured in-depth comparisons to automotive financing captives as we prepared to initiate financing for a lower-cost line of equipment. CFSC also studies Baldrige-based organizations. CFSC has participated in every Quest for Excellence since 1993, and visited six winners.

Suppliers are a resource for comparative data in the financial and technology industries – significant because 70% of CFSC's expenses are in Treasury and IT. CFSC operates both Reuters and Bloomberg monitors. Commercial banks and brokerages provide comparative data and ratios.

4.1a3 CFSC's measurement system is responsive to changing business needs. The Business Excellence Review Team is responsible for the overall architecture. The measurement architecture and review processes were improved in 2001 when Business Excellence was revised. This team made few changes to the Top Tier Measures, but greatly expanded the Health indicators.

On an ongoing basis, each Health review has a senior management facilitator who is responsible for leading the BEC discussions, documenting BEC concerns and decisions, and updating the metrics. The facilitator also leads the related Baldrige Category Team, ensuring complete linkage of management, measures, and improvement activities. Process Owners are responsible for improving the metrics they report at the Weekly Corporate Support Process Reviews. Department Managers are responsible for establishing any measures needed to track daily performance.

Measures and indicators are also updated during strategic planning. As action plans and goals are deployed through the PDP process *(Figure 5-2),* measures are refined and aligned at each level. Recently, a 6 Sigma project streamlined data required by the Strategic Planning Process and Caterpillar Inc. The FIS system was enhanced in 2003 based on customer input.

b: Performance Analysis

4.1b1 CFSC's information architecture promotes consistent and aligned analysis. Top Tier and CFSC Health measures *(Figure 4-1)* are analyzed monthly for actual performance, trends, and variance to plan. These analyses are incorporated into monthly BEC Reviews to facilitate performance review and decision-making (e.g., 6 Sigma Project Selection). Because of CFSC's flat organizational structure, Division and Department Managers and Process Owners often use the same analyses to improve performance in their own areas. For example:

- Correlation analyses enable CFSC to leverage scoring and credit decision models. These analyses compare the payment performance of the portfolio to the predicted profitability. Credit policy and portfolio return analysis directly impact decisions made by the Credit Committee and are programmed into the underwriting standards in CFSC's credit scoring models.
- Trend analyses determine if performance is improving. For example, a multi-faceted analysis is prepared weekly by Merchandising to establish loan rates.

	CSF	Top Tier Measures	Health Indicators (Result Figure #)	Key Core Process Measures (Figure 6-2)	Business and Support Process Measures (Figures 6-3)	Rolling Business Model	Budget	Departmental Data
			ORGANIZATIONAL	**OPERATIONAL**				
				Process Measures		**Departmental Measures**		

FIGURE 4-1 A comprehensive system of measures and indicators drives achievement of CFSC's Mission.

Shared Values / Vision / Mission				

FIGURE 4-1 A comprehensive system of measures and indicators drives achievement of CFSC's Mission.

Left spine labels (bottom to top): Mission, Vision, Shared Values

CSF	Top Tier Measures	Health Indicators (Result Figure #)
Customer Satisfaction	Satisfaction Index User (7.1-1, 4) Dealer (7.1-5) CatBU (7.1a1)	**Customer Health** Volume (7.3-1) PODD (7.3-9) Merchandising Results (7.5-4) Competitive Updates (many) Customer Listening (7.1-1 thru 9) Dissatisfaction (7.1-7) Industry Council Updates
Employee Satisfaction	Employee Satisfaction Index (7.4-1)	**Employee Health** Retention (7.4-6) Compensation Competitiveness (5.b) Succession Planning (5.c) Diversity (7.3-13) Development (7.4-11)
Growth	PODD (7.3-9) Managed Assets (7.3-1)	**Financial Health** Margin Spread (7.2-9) Rolling Business Model (na) Monthly Results (7.3-1 thru 9) Divisional Profit (7.3-1)
Leadership	Leadership Index (7.6-4)	**Leadership Health** Strategic Retreat ALC Shared Values (7.6-2 thru 4 and 7 thru 9) Community Support (7.6-7 thru 9)
Reliable Returns	ROA/ROE (7.2-2) Profit (7.2-1)	**Portfolio Health** Product / Services Expansions (7.3-5) Top 20 Users (na) Past Due Results (7.5-13) Inactive Accounts (7.5-13) Restructures (na) Repossessions (7.5-13) Potential Losses > $500k (na) Defaults (7.3-6) Allowance for Credit Losses (7.4-13)
World Class Processes	Operating Expense Ratio (7.3-4)	**Process Health** Baldrige Assessments (7.5-16) Process Improvements (6.1a) 6 Sigma • Accretive benefit (7.3-7) • Project Reporting (7.5-1) • Black/Green/Yellow Belts (7.5-1)
		Technology Health Corporate Reporting Metrics (7.5-5 thru 6) Caterpillar Technology Strategy Committee update (na) Resource Planning (na) IT Spending (7.4-7) Technology Benchmarking (4.2)

ORGANIZATIONAL columns: CSF | Top Tier Measures | Health Indicators (Result Figure #)

OPERATIONAL columns:
- Process Measures: Key Core Process Measures (Figure 6-2) | Business and Support Process Measures (Figures 6-3)
- Departmental Measures: Rolling Business Model | Budget | Departmental Data

Key Sources of Comparative Data (Category 7 Results)	CSF	CFSC Contract	Competitors	Equipment Leasing Ind.	Financial Services	Service Industry	National	Best Practice	Planning	Improvement	Competitive/ Market Assessment	Operational Decisions	Uses
CFSC Competitive Satisfaction Survey (7.1)	1		✓						✓	✓	✓		BEC Marketing/RMs
American Customer Satisfaction Index (7.1)	1				✓	✓	✓						CBC/Divisions
Monitor 100 Survey (7.5)	3,5		✓	✓	✓				✓	✓	✓		BEC
Fitch Industry Rating Service (7.3 / 7.5)	3,5		✓	✓	✓					✓	✓		Accounting
Other external analysts (7.3 / 7.6)													Treasury
Equipment Leasing Association (7.0)	3,5		✓	✓					✓	✓	✓		Departments
6 Sigma projects and process benchmarking (7.0)	6							✓		✓		✓	Process Owners
													6 Sigma Teams,
													Champions, and
													Black Belts

FIGURE 4-2 Sources and uses of comparative data.

- Segment analyses compare satisfaction of origination processes versus termination processes, success in meeting varying requirements of differing industries, or describing employee salary ranges by job category.
- Variance analyses compare bi-monthly performance in operations to CFSC's Rolling Business Model (RBM).

In addition to these examples, some unique analyses are performed as inputs to strategic planning. For example, in the Strategy Development step, the Caterpillar Strategic Plan and CatBU sales forecasts are analyzed to develop slope charts and sales forecasts for each CFSC Division, and all Divisions and Departments prepare a SWOT analysis. The Caterpillar Business Intelligence Group (BIG) provides projections based on construction industry economic drivers such as housing starts and bids let. ELA provides industry and regulatory analyses.

Since CFSC growth will likely come from new markets, comparative research is crucial as CFSC plans future strategies. In 2002, CFSC conducted a third-party review of our organizational strengths and opportunities relative to the vendor financing market. As the result of decisions made in the 2003 Strategic Retreat, teams evaluated four specific potential markets. These 'deep-dives' include several sub-analyses including fit to Cat goals, financial, risk, people, and infrastructure.

Concurrent with the BEC reviews, Departments and employees review progress against their PDP goals and Action Plans. PDP links all employees to the strategic goals and action plans through the CSFs. The measurement architecture explains how reporting and analysis support this alignment and drive performance improvement. These combine top-down and bottom-up deployment and communications that ensure resources are focused on the daily health of the organization and implementing the strategy. These are the same metrics projected over the next several years as part of the strategic planning process (Figure 2-3).

4.1b2 The functional level Departments accountable for performance against a metric typically produce and present analyses to the BEC, therefore, the same results are often used for both organization-level and work group decision-making. For example, the facilitator of the Portfolio Health discussions during BEC meetings is the Risk Management and Marketing Manager whose daily responsibilities include administration of credit policy and facilitating the Credit Committee. When appropriate, functional managers present the results of strategic initiatives. For example, 6 Sigma Black Belts present updates on the projects, savings, and resources.

The Corporate Support Department Managers meet weekly to review performance of their processes (Item 6.2a4), with the week following the BEC meeting reserved to cascade relevant BEC comments. Managers also communicate to executives and each other via the Weekly Report.

The communication processes, outlined in Figure 1-2, deploy information to all employees. Process metrics are published on both the intranet and TV monitors. Senior leaders provide strategic updates and answer employee questions about CFSC's progress at Quarterly Strategy Update Meetings.

4.2 INFORMATION AND KNOWLEDGE MANAGEMENT

a: Data and Information Availability

4.2a1 The effective use of information allows CFSC to add value to a generic commodity such as money. Figure 4-3 summarizes the comprehensive systems CFSC uses to provide needed information to employees, Users, Dealers, and CatBUs.

CFSC information availability approaches center on electronic information. Information is usually transferred and processed without paper, and where paper documents are originated, they are imaged into electronic files at the earliest acceptable stage in the life cycle. System-generated reports are directly printed to laser discs. Printed output, when required, is deferred to the farthest point possible. Loan documents are collated electronically and printed at remote locations. This increases the speed and accuracy of information, while minimizing costs and environmental impact. Internally, any user can print to any network printer. Employees can send and receive faxes and manage voicemail from their desktops.

Systems are networked to deliver needed information to any point. Most conference rooms have a network computer, projector, and electronic whiteboard providing employees complete portability of information. Traveling or telecommuting employees have full access to networks through dial-up or broadband connections. Employees can access e-mail worldwide via the Internet.

Accessibility to data is liberal but carefully controlled. Full-time security coordinators manage the processes for granting access and quickly removing rights no longer required.

Financ*Express* provides Users, Dealers, and employees with varying access to the same system. This architecture facilitates delivery of ever-increasing transaction processing capabilities to Users and Dealers. Potential Users and Dealers may initiate their own quote, credit approval, and documentation. Current Users have the option of electronically maintaining account records and paying invoices. This proprietary system uses standard PC Internet browser technology, dramatically simplifying installation. This also creates a virtual office from which TMs or Dealer Representatives can conduct business, even in the remote sites where Caterpillar equipment typically operates.

Financ*Express* is integrated into our vendor's systems. For example, information from credit sources is automatically queried when a credit request is made. Similarly, CFSC's Treasury systems are linked to commercial bank and brokerage partners.

Global, Marine, and Power Divisions rely on a highly customized installation of commercially available software. This software provides a robust legacy system that is integrated with Finance*Express* and supports CFSC's back-office functions.

4.2a2 CFSC's IT expertise lies in seamlessly integrating disparate systems to serve the needs of the organization. CFSC either purchases proven systems or hires development experts to meet CFSC programming needs. Eighty-three percent of the IT budget is devoted to maintaining and expanding existing systems and networks.

CFSC reliability approaches include:
- Systems Maintenance is facilitated by the Change Control Management system that documents system dependencies of all IT hardware and software. Performance measures are tracked and post-maintenance weekend meetings review success and opportunities for improvement.
- Automated monitoring tools constantly query key systems status and alert administrators of problems. System uptime and network traffic measures are reported weekly.

FIGURE 4-3 CFSC systems fully support our KCPs and provide access to Users, Dealers, employees, and suppliers.

Process Supported ✓ Current *Planned	FinancExpress	CustomerExpress	AccountExpress	Accounting	Collections	Exchange/Email	Excel	DSN	CQS	KCP Tracking	Imaging	JD Edwards	MS Project	IT Cost/Management	Intranet	Internet	PeopleSoft	CMS	Employees	Dealers	Users	Cat Business Units	Suppliers
Quote	✓	*							✓	✓									✓	✓			
Indicative Proposal							✓	*	✓	✓									✓				
Credit	✓	*		✓	✓	✓	✓		✓	✓						✓			✓	✓	✓		
Commitment Letter		*					✓		✓										✓				
Document Preparation	✓	*		✓					✓										✓	✓	*		
Document Processing/Funding	✓	*		✓					✓	✓									✓	*	*		
Wire Transfers			✓	✓	✓	✓			✓	✓									✓	✓			
Project Financing				✓					✓										✓				
Invoicing	✓	*	✓	✓	✓				✓										✓	✓	✓		
Cash Application		*	✓	✓	✓	✓	✓		✓				*			✓			✓	✓	✓		
Collections		*		✓	✓	✓			✓										✓				
Covenant Compliance							✓	*	✓										✓				
Modifications	✓	*	✓	✓	✓	✓	✓		✓	✓									✓	*	*		
Buyouts	✓	*	✓	✓	✓	✓	✓		✓	✓									✓	✓	✓		
Repossession/Remarketing		*	✓	✓	✓	✓	✓	*				✓				✓			✓	✓	✓		
Customer Service	✓	*	✓	✓	✓	✓	✓		✓	✓									✓	✓	✓		
Tax Receipt Withholding			✓	✓															✓	✓			
Purchasing												✓							✓				
Budget								*						✓					✓				
Project Management							✓	*				✓	✓	✓					✓				
Shared Values															✓				✓	✓	✓	✓	✓
Communication Process		*				✓									✓	✓			✓	✓	✓	✓	✓
Compensation																	✓	✓	✓				
PDP																	✓	✓	✓				

- System Redundancy and Recovery Processes ensure enterprise backup and minimum downtime.
- Problem Resolution includes extended supplier support contracts guaranteeing priority response to problems.
- IT hardware is replaced according to a two or three year replacement cycle (more frequently on critical production systems).

Support requests and timeliness metrics monitor hardware and software availability. System ease-of-use and effectiveness is assessed through annual IT Department surveys, user group meetings, and review of Help Center calls. In response to employee survey comments regarding technology needed to do their jobs, revised software, updated training, and job aids are provided.

CFSC protects its data assets through both physical and logical methods. CFSC maintains server rooms at two locations for redundancy. The rooms are physically secured with controlled access, have UPS and generator power, and dual network feeds. Logical methods include routine backups and active virus scans. The success of these approaches is reflected in high uptime *(Figure 7.5-6)*.

FIGURE 4-4 CFSC uses several mechanisms to share knowledge and best practices.

Approach	Purpose			Audience			
	Collects	Transfers	Best Practices	Employees	Users	Dealers	Suppliers
EMPLOYEES							
CIL (enterprise portal)	✓	✓	✓	✓	✓	✓	✓
Email		✓		✓	✓	✓	✓
Intranet/Shared Drives/Public Folders	✓	✓		✓			
UpFront communications	✓	✓		✓			
6 Sigma eTracker	✓	✓	✓		✓		
PGM	✓	✓	✓	✓			
Customer*Express* (CRM)	✓	✓		✓	✓	✓	
Employee-delivered training		✓		✓			
External Training registration database	✓	✓		✓			
Cross-functional training/Rotational jobs		✓		✓			
IT Learning Central	✓	✓		✓			
CUSTOMERS/SUPPLIERS/PARTNERS							
Internet	✓	✓		✓	✓	✓	✓
Financ*Express*/Account*Express*	✓	✓		✓	✓	✓	
Customer*Express* (CRM)	✓	✓		✓	✓		
Surveys (Qualitative inputs)	✓	✓	✓	✓	✓	✓	
Focus Groups	✓	✓		✓			
BEST PRACTICES							
Baldrige Quest/TQA conferences	✓		✓	✓			
6 Sigma	✓	✓	✓	✓		✓	✓
I.T. Industry Sources		✓	✓	✓			
Peer Learning	✓		✓	✓			
Benchmarking Database	✓	✓	✓	✓			
Annual Leadership Conference		✓	✓	✓			
Weekly Report	✓	✓		✓			
Departmental Meetings		✓		✓			

4.2a3 Technology planning, IT Architects, 6 Sigma, and close relationships with internal customers ensure CFSC information mechanisms stay current with business needs. Seventeen percent of the IT budget is dedicated to new application development, and Technology Health is reviewed by the BEC to ensure technology investments align with company priorities.

As described in Item 2.1a, technology planning is an integral part of the Strategic Planning Process, and an interim change process reallocates IT resources throughout the year, if needed. As a result, system development is linked to strategies, action plans, and ultimately, the CSFs. For example, the ongoing expansion of Financ*Express* facilitates accomplishment of Customer Satisfaction, Growth, and Reliable Return goals.

A 6 Sigma DMEDI design project is currently underway to fully articulate our long-range business system needs based on the requirements of all customers and stakeholders, as well as advances in enterprise-wide software technologies.

CFSC employs six full-time Information Architects who play a key role in keeping data and information availability mechanisms current with business needs. Their responsibilities include:
- Researching new IT technologies and business practices applicable to CFSC.
- Providing guidance to CFSC Departments, Divisions, and 6 Sigma teams regarding the use of emerging and existing technology.
- Nurturing and promoting the advancement of technology.
- Consulting with application developers and infrastructure analysts regarding the integration of systems.
- Ensuring IT infrastructure matches corporate standards and providing input to setting Caterpillar corporate IT standards.
- Monitoring critical systems to ensure performance.

An IT Architect reviews each 6 Sigma project, PGM project, and IT Project Request. As a result of our Baldrige feedback, Architect responsibilities were expanded to include research of leading-edge technologies and more formal involvement in 6 Sigma projects.

IT is staffed with business and technical professionals who help efficiently translate business needs into systems. The reverse is true as well. For example, a Business Relationship manager has been assigned to the largest IT customer, the CBC. IT Managers are responsible for maintaining relationships with other key customers. For example, independent requests from various KCP teams to improve the loan origination process, change the quote software, and create credit-scoring systems led to the development of one integrated system (Financ*Express*). Similarly, several requests for improved customer relationship systems have been integrated into Customer*Express*.

CFSC employees are active in technology user groups and participate on nine enterprise architecture teams. Semi-annual conferences help the 6 Sigma Black Belts, Project Leaders, IT Architects, and specialists better understand the needs of the process improvement projects and the capabilities of the IT Department.

CFSC encourages certification and reimburses training and fees for IT specialists (e.g., MCSE). IT staff attend conferences and trade shows to learn about emerging technology. IT teams conduct on-site benchmarking and best-practice visits to other companies, including Baldrige-winners Dana Commercial Credit and Solar Turbines, as well as using industry sources to stay abreast of best practices.

b: Organizational Knowledge

4.2b1 CFSC has a long history of collecting and sharing knowledge *(Figure 4-4)*. CFSC's knowledge management philosophy is to provide global access and reference to existing information — a subway system connecting existing data locations.

Employee Knowledge: CFSC maintains unique and comprehensive databases for 6 Sigma, PGM IT projects, and employee training. Project expertise is maintained through eTracker for 6 Sigma projects and PGM for IT projects. eTracker is a searchable database that includes information on over 1,000 Caterpillar-wide projects.

E-mail, the Intranet, shared network drives, and Public Folders are the primary methods for archiving and accessing knowledge throughout CFSC. E-mail and communication tools distribute company information across business units. Public Folders store knowledge by subject, department, and other customized formats for rapid access by any employee. The Intranet adds advanced information referrals through taxonomies, hyperlinks, and a uniformed structure. Every intranet page and Public Folder has an easily identifiable owner who can answer additional questions. Employee utilization of these mechanisms is strong and growing exponentially. CFSC's employees usage of e-mail and intranet page views was up 56% from 2002. Less specific methods of sharing knowledge include broad employee involvement on cross-functional 6 Sigma teams and the job rotation processes.

Customer, Supplier, Partner Information: Customers share information with CFSC employees through the Extranet, Financ*Express*, Account, e-mail, surveys, focus groups, and the Internet. Vendor communications are primarily exchanged through e-mail or electronic documentation.

Best Practices: Best practices are identified through CFSC Baldrige efforts such as annual Tennessee Quality Conferences and Quest for Excellence. One-third of Peer Learning Network meetings focus on Best Practices among members and one-third focus on world-class practices. CFSC participants meet after each session to identify practices transferable to CFSC. Managers and employees learn from the Weekly Report, weekly Corporate Support meetings, monthly Departmental meetings, and the Annual Leadership Conference. In addition to the best practices captured in 6 Sigma eTracker, a centralized Benchmarking Database provides a quick summary of benchmarking activities and contacts.

CFSC also participates in several cross-Caterpillar and external knowledge management and sharing activities as well, including the Global IT Strategy Teams and 6 Sigma Champions' meetings.

A 6 Sigma DMEDI Team is currently improving the methods employees use to share information by streamlining the communication channels, and potentially providing a network for linking suppliers, partners, customers, and employees together.

4.2b2 CFSC continuously manages and improves the quality, timeliness, reliability, and security of its data, information, and organizational knowledge.

Information Integrity and Accuracy: Electronic systems are designed to promote data integrity. Field checkers and help systems for Financ*Express*, and other systems ensure reliable and accurate information at the source of input. Automated programs cleanse information moving into DSN data warehouses. Three IT Department employees review existing and newly developed systems and software components for quality assurance.

Timeliness: Most CFSC systems are available 24/7. The "one-stop" user support Help Center is available 24/5 (and for emergencies). Help Center calls are documented in the call management System, which proactively communicates with users on the status of their issues. Incidents are prioritized on a four-tier urgency, with targeted turnaround times of one, two, and four hours, as well as five days for non-urgent calls. Monthly Maintenance Weekends are scheduled up to a year in advance, and employees receive several reminders. The Project Governance Model process prioritizes, schedules, and tracks system development projects to ensure accurate estimation and timely deployment. Performance metrics have been defined and performance is reviewed quarterly in IT and Corporate Support meetings and during employee PDP discussions.

Data Reliability: Scheduled data back-up, offsite storage, and redundant systems ensure reliable data. A disaster recovery infrastructure ensures CFSC critical data assets are protected. Virus scanning and an anti-virus emergency procedure protect electronic data. Fire protection systems and restricted access protect central systems and key paper records.

Security and Confidentiality: All company data are covered under Caterpillar Information Protection and Records Retention guidelines. Protection guidelines define company information as public or in one of three levels of confidentiality, and outlines procedures for distributing information both internally and externally. Records retention guidelines are also published. Employees receive training on information protection during New Employee Orientation and must complete ongoing certification to ensure continued adherence to company policies. Reference materials and job aids are posted and available online. Departmental Coordinators audit physical and electronic records for compliance.

CFSC has sophisticated filtering software to protect company data systems and employees from unwanted, dangerous, or offensive e-mail spam. These filters evaluate each incoming file against 16 algorithms and eliminate thousands of e-mails per month, which also enhances employee productivity. Since CFSC has greater external contact than other CatBUs, we lead the company in this expertise and share our knowledge via the Corporate Technology Councils.

5.1 WORK SYSTEMS

a: Organization and Management of Work

5.1a1 The CFSC organization is designed to foster both customer focus and high performance. Each Division serves specific customer segments and is organized by KCP to deliver value-added services to Users, Dealers, and CatBUs. Support Departments are structured around staff expertise and the internal customers served. Understanding processes, customers, expected outcomes, and feedback mechanisms all contribute to high performing work systems. This structure places rapid decision-making and agility at the points of greatest impact for customers and business needs.

Shared Values encourage cooperation, evidenced daily by cross-functional teams. The CSFs, Strategic Planning Process, and PDP/CMS align cross-company efforts. Incentive compensation, merit-based performance appraisals, and educational reimbursements reward initiative *(Figure 5-1)*. 6 Sigma links accountability for process improvement directly to employees most involved in the process. 6 Sigma Rewards and Eye-on-Quality recognition encourage innovation. CFSC policies foster local decision-making, such as the use of flex-time.

5.1a2 CFSC recruitment and mentoring programs target a diverse workforce, and as a result, CFSC's population mirrors our community demographics. Although CFSC makes a great effort to remove distinctions in its employee benefits and services for all employees, employee data and satisfaction measurement systems provide segmented diagnostic detail for many employee demographics. Living Our Shared Values, a program inaugurated in 2002 and attended by every employee, reinforces the value of diverse thinking and a positive work environment. Sessions include facilitated dialogue among employees about diversity issues. The CFSC president also serves on Caterpillar's Diversity Committee, ensuring the needs of CFSC's population are considered in corporate-level decisions.

As part of the global Caterpillar organization, CFSC values employees of other cultures who bring expertise and understanding of diverse markets. CFSC currently employs foreign service employees, and approximately half of the BEC and department heads have served overseas. 6 Sigma and IT teams include international employees when projects have global impact (e.g., Core Operating Systems). Company communications include vignettes of non-US locations.

5.1a3 CFSC's physical environment promotes sharing and collaboration through clustered workstations, conference rooms on each floor, and a ten-room conference center. Informal 'enclaves' with lounge chairs are located throughout the building for impromptu meetings and brainstorming.

Skills are shared through progression/rotational jobs and cross-functional teamwork. Progression jobs allow an employee to be promoted to higher levels of their job based on expertise. Rotation jobs occur within departments where employees are moved to another position to gain expertise within the area. Over 200 CFSC employees have participated on cross-functional 6 Sigma teams, leveraging skills to improve processes.

The communications and knowledge management processes in *Figure 1-2* and *Figure 4-4* are used to communicate and share knowledge across work units, jobs, and locations.

b: Employee Performance Management System

5.1b PDP/CMS is CFSC's integrated approach to deploying the Strategic Plan to individual employees, monitoring their performance against goals, facilitating development discussions between managers and employees, and identifying training and development needs. It gives line-of-sight linkage to the CSFs and the Strategic Plan. Through this alignment, accomplishment at the individual level drives accomplishment of overall company plans *(Figure 5-2)*.

Daily performance management is enhanced by process metrics at the unit and individual level. For example, Document Modification employees know the expected time frame for task completion and track their performance according to standards. This approach allows immediate feedback.

CFSC's market-based compensation plays a key role in attracting, retaining, and motivating employees *(Figure 5 -1)*. CFSC has a common benefits and bonus structure for all employees. For example, TMs are not paid a deal-by-deal commission; rather, they participate in the same incentive compensation plan as other employees, ensuring congruent goals. In 2003, CFSC further refined policies to eliminate differences in time-off accrual between exempt and non-exempt employees.

CFSC recognition programs reinforce Business Excellence:
- **Eye-on-Quality Awards** are used by employees and managers to recognize employee actions that support Shared Values. Outstanding achievement in customer service, process improvements, and community involvement are recognized with financial rewards. While overall program expenses are tracked, there is little bureaucracy as managers and VPs are empowered to authorize $150 and $1,500 awards, respectively.
- **Cat Bucks** allow any employee to instantly recognize other employees. Employees are given 20 Cat Bucks twice annually to use at their discretion. Each Buck reinforces both the recipient's behavior and the Shared Value being recognized, and can be redeemed for food

FIGURE 5-1 CFSC's comprehensive compensation and benefits package motivates employees and shares company success.	
Eligibility / Impact	
Salary	Ranges for each job are analyzed annually or bi-annually using Watson-Wyatt and other salary financial services industry benchmarks. CFSC targets the top quartile of industry and location salaries.
Benefits	CFSC provides a world-class benefits package
Merit Increase	Increases to base salary are merit-based. Managers are provided an annual pool and are empowered to allocate increases based on accomplishment of individual goals and qualitative performance.
Incentive Compensation (IC)	Every employee has performance-based compensation. Percentage of salary "at-risk" varies from 6.5-45%, depending on job responsibility. Employees can earn 0- 200% of their IC targets by under/overachieving quantitative goals. IC is paid on a quarterly basis.
6 Sigma Rewards	Employees participating as Green Belts, Black Belts, Master Black Belts or Project Sponsors earn financial rewards based on their project's audited success. Additionally, a portion of 2003 IC relates to division 6 Sigma performance.

service or Cat merchandise. This low-maintenance program has served as a model for several outside organizations.

- **The Shared Values Award** recognizes four employees per year who epitomize Shared Values over an extended time. Recipients, nominated by their department manager, receive a financial reward and are profiled in UpFront communications.
- **Team Recognition** celebrates process improvements utilizing the communication methods described in *Figure 1-2*. One CFSC project is submitted to Caterpillar's Annual Quality Improvement competition and may be recognized by the Chairman.
- **Service Awards** recognize company loyalty beginning at five years. Employees are recognized in UpFront and with commemorative Cat jewelry.

HR process owners evaluate compensation and recognition processes according to the BEC Employee Health review schedule, using data from the annual employee surveys, the HR Department Survey, and the process statistics in PeopleSoft. 6 Sigma teams improve the processes.

c. Hiring and Career Progression

5.1c1 CFSC's Position Analysis Process identifies skills and characteristics needed from potential employees. When new jobs are created, the hiring manager completes a Position Analysis Questionnaire to define duties, competencies, and experience requirements. Job characteristics and skills are then documented in a written job description.

5.1c2 CFSC's on-campus recruiting program, employee referrals, targeted Internet and ad campaigns, and participation in Job Fairs, enable CFSC to acquire the talent needed to meet strategic goals. Over 150 managers and staff are certified in Targeted Selection, CFSC's external interview process. Interview guides, customized and validated for relevance to CFSC jobs, target needed skills, characteristics, and behaviors. A minimum of two interviewers determines a consensus rating on each characteristic for each candidate.

Multi-semester internships identify top talent from local universities and, through structured assignments and executive reviews, groom them for full-time positions upon graduation. All eligible interns offered a position have joined CFSC upon graduation.

Consistent with Shared Values, the annual Affirmative Action process identifies diversity segments on which CFSC may need to focus recruiting attention. Actions include recruiting at predominantly minority colleges, the intern program, and targeted job fairs.

CFSC's recruitment processes were improved in 2002 through a 6 Sigma project and external benchmarking.

5.1c3 The CFSC Succession Management Process encompasses all exempt employees. BEC members and department managers identify high

potential employees and rate each as:

- H) High potential as department leader
- P) Potential to be promoted
- L) Lateral move for development
- W) Watch for potential – too soon to know

In 2003, succession planning reviews were changed from an annual to a quarterly process to give high-performing employees more cross-functional visibility and improve timing of suggested moves. The BEC can nominate high potential candidates for University Executive Development Programs.

The BEC also utilizes a structured process to select high-potential employees to become 6 Sigma Black Belts. After two-year assignments, Black Belts typically return to higher level positions within CFSC operations and are included in the succession management process.

CFSC leaders participate in periodic cross-Caterpillar councils, leveraging talent in finance, accounting, and marketing disciplines across the CatBUs. This expands the talent pool, facilitates job rotation and knowledge sharing, and increases career options for CFSC employees.

All open positions below manager (including non-exempt) are first announced internally via the Job Posting Process. Qualified employees can self-nominate, regardless of time in their current position, without their current manager's approval.

5.2 EMPLOYEE LEARNING AND MOTIVATION

a: Employee Education, Training, and Development

5.2a1 PDP/CMS is CFSC's primary approach for strategy deployment, performance management, career planning, and personal development. Individual training and development needs are determined when employees set individual PDP goals. Employees/managers also have the flexibility to take advantage of additional training opportunities throughout the year as needs change. A catalog, continuously updated on the intranet, lists the available courses. On the registration form, employees must identify the CSF the training supports, as well as explain how the requested training will improve their knowledge/skills and contribute to individual and group goals.

Responding to economic conditions and the Strategic Plan, CFSC has focused the majority of training resources on launching the CBC, implementing Financ*Express* and e-commerce, and deploying 6 Sigma. *(Figure 7.4-8 and 7.4-9)*

Performance Measurement and Improvement: All employees are trained as 6 Sigma Yellow Belts and many earn Green Belt certification through additional training and team involvement. Black Belts are further

FIGURE 5-2 PDP/CMS represents CFSC's integrated approach to performance and career management.

Goal Planning – PDP	Competency Evaluation	Training & Development Planning
1. CSFs	1. Manager's Review	1. Development Planning* (Short-term)
2. CFSC Strategy	2. Employee Self-Evaluation*	2. Career Planning (Long-Term)*
3. Division Strategy	3. 360° Assessment*	
3. Division/Unit Goals		
5. Individual PDP Goals		*Optional
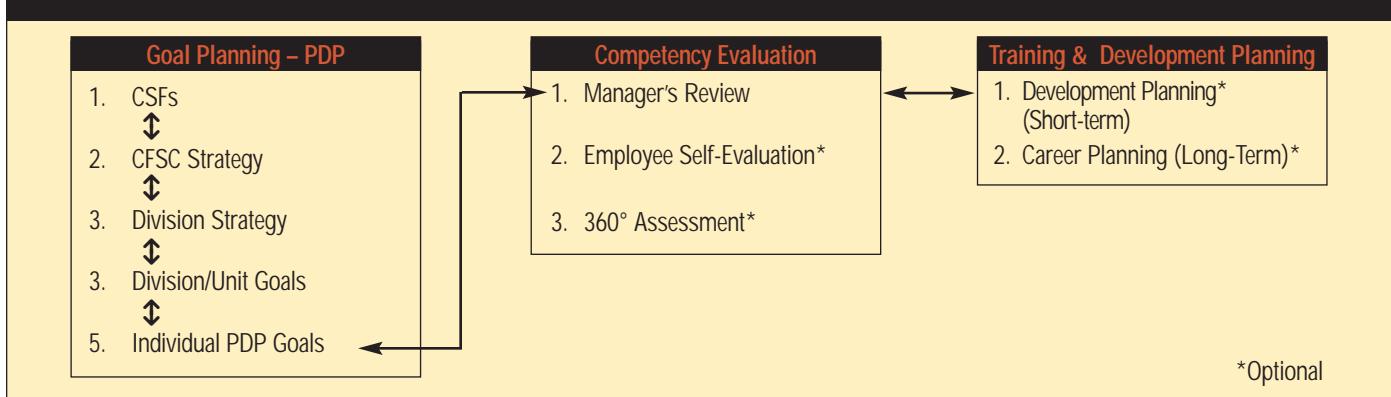
trained in advanced analysis, project management and developing effective measurement systems. Prior to 2000, employees were trained in quality tools such as the SolvePDCA problem solving method. CFSC's Baldrige journey is included in New Employee Orientation, Quarterly Strategic Updates, and All-Employee Meetings, although the criteria are not taught in depth. Thirty-nine employees have invested over 100 hours each as Tennessee Quality Award Examiners.

Technological Change: Leveraging the rapidly accelerating use of technology in financial services is a CFSC priority. Training to support CFSC technology initiatives began with Internet training targeting all employees as early as 1998. As new systems (e.g., Financ*Express,* Cognos/Data Shopping Network, and CMS) are integrated into the organization, training is provided to all affected employees. On a continuing basis, applications training (e.g., MS Office, Access, and Visio) includes vendor-supplied software support and skill reinforcement aids.

5.2a2 CFSC's comprehensive training approaches address key organizational needs, including new employee orientation, diversity, ethics, management development, and safety. Each is described below.

New Employee Orientation: In 1998, CFSC moved from a single course to a modular, just-in-time orientation program. New employees receive a basic introduction and benefits orientation the day they begin work. Monthly classroom sessions include an introduction/welcome from a BEC member, and modules on Business Excellence, Shared Values, Code of Conduct, CFSC's history, Information Protection Guidelines, 6 Sigma, Key Core Processes, and Continuous Improvement. New employees also participate in the monthly New Employee/Birthday Breakfast with the BEC. Self-paced multi-media training provides a standardized explanation of CFSC business products and operations. Territory Managers participate in a customized weeklong orientation because they interface with many different departments in Nashville.

Diversity: Shared Values training is included in New Employee Orientation. Living our Shared Values, a four-hour workshop required of every US employee, focuses on diversity, compliance, and a positive workplace.

Ethics: Each employee receives introductory training on the Worldwide Code of Business Conduct (Item 1.2b) during Orientation. Ongoing reinforcement includes printed materials for every employee.

Management Development: Support for the Leadership CSF is ongoing and extensive. The Leadership Development Series includes both mandatory and elective classes. CFSC offers the full catalog of American Management Association courses as well. Managers attend 6 Sigma Sponsor training to learn how to fully leverage the methodologies and Green Belt/Black Belt resources.

Managers and senior staff present their projects and processes at BEC meetings and Corporate Support reviews, developing boardroom presentation skills. Many managers are included in the leadership development activities discussed in Item1.1c4.

CFSC maintains an ongoing partnership with Belmont University and many of their continuing education seminars (e.g., Negotiating Skills for Women) are presented from CFSC facilities. Managers also participate in the local Peer Learning Network, lectures, and external seminars. Previous Baldrige winners have given on-site presentations to over 400 CFSC employees. Currently, 59 employees are enrolled in CFSC-reimbursed MBA or graduate programs.

Safety: Employees receive fire/tornado/bomb threat education. First aid/CPR/AED classes are offered on company time to ensure a high number of first responders are ready. Safety Wardens on each floor and

FIGURE 5-3 CFSC Training and Delivery Methods	
Delivery Method	**Sample Topics/Course Title**
Facilitator-led training	• 6 Sigma (Green Belt, Project Sponsor) • New Employee Orientation • Targeted Selection • Financ*Express* • Essential Manager Series • Career Management System • Social Styles • CBC Workflow
Facilitator-led videoconferencing	• Internet/Exchange • Global Travel Reporting
Self-paced CD/Internet	• Career Management System • Introduction to InfoLease • CFSC Financial Products • 6 Sigma Yellow Belt Training • Governmental PODD
Vendor-based training	• Time Management • Negotiation • Fundamentals of Finance • Various software computer classes
Job Aids, On-the-job reference materials	• CBC Workflow • Information Protection Guidelines • Glossary
Seminars	• Leadership Speakers • Quest for Excellence • Tax Issues
Mentoring & Coaching	• Management Development • Diversity
Library	• Leadership • Languages • Customer Service • Sales • Communication Skills
Professional Associations & Conferences	• Training/Performance Improvement Methods • Accounting Practices • Toastmasters International

employees with specific job risks receive additional training, as required. Effectiveness of this training has been put to the test, as employee illness, building evacuation drills, and an anthrax scare all proceeded without panic.

5.2a3 Managers identify organizational training needs through the annual CFSC Corporate Needs Assessment, while individual employee needs are identified through PDP/CMS. These formal processes are supplemented by informal feedback from the employee-listening methods described in Item 5.3b. Short- and longer-term HR plans are integrated into CFSC's Strategic Plan, and corresponding training plans are developed to support them. When a new course is needed, a training consultant works with CFSC subject matter experts to capture organizational knowledge. They design content and delivery methods, and when appropriate, conduct a pilot course.

5.2a4 Training delivery methods vary according to the type of training, audience, cost-effectiveness, expertise required, and logistics. *Figure 5-3* summarizes CFSC's training and varied delivery methods. When practical, CFSC subject matter experts (instead of HR staff) teach internal classes (e.g., Black Belts lead Green Belt training). If additional expertise is

desired, instruction is outsourced. Often these methods are combined. For example, Living our Shared Values and the Leadership Development Series integrate CFSC experts with external specialists.

CFSC uses three methods to enhance training deployment and reinforce skills:

- **JIT:** Just-in-time delivery methods provide for minimum lapse between training and on-the-job application (e.g., Black Belts and PGM users receive project management training at the onset of a project).
- **Cascade:** When leadership or infrastructure support is a prerequisite for success, training is deployed sequentially (e.g., Executives and managers participated in the first wave for 6 Sigma, followed by supervisors, employees, suppliers, dealers, and so on).
- **Accelerated timelines:** Accelerated deployment is used to quickly accomplish critical mass (e.g., most employees completed Living our Shared Values in the first quarter of 2002).

On-the-job and job-specific training is developed and delivered by each department to help new employees learn day-to-day duties, responsibilities, and systems. Over 30 modules were created in 2000 to support the new process-based positions in the CBC. These modules were updated in 2003 to reflect recent process changes.

5.2a5 CFSC uses job aids, easily accessible references, and active support to reinforce the use of new knowledge and skills. The intranet is rapidly replacing the traditional three-ring binder as the primary reference source. While many courses still offer hard-copy job aids (e.g., Information Protection Guidelines and CBC training), many courses include on-line refresher modules and self-help reference materials. The Glossary on the CFSC intranet explains hundreds of abbreviations learned in the classroom and used on the job. Learning Central reinforces IT training with tutorials, FAQs, troubleshooting information, and online documentation.

Certain courses incorporate specific post-course action planning (e.g., participants in the Social Styles course define specific next steps targeted to their individual needs). A unique coach-on-call service is offered to Leadership Development Series alumni to reinforce the manager's new skills in motivating and directing employees. At their request, managers may confidentially discuss problems or issues one-on-one with a professional management coach.

5.2a6 CFSC gauges training effectiveness by measuring its impact on organizational performance, as well as course effectiveness (explained below). Organizational results are reported via the BEC Health Reviews. For example, 6 Sigma training has returned benefits to CFSC *(Figures 7.4-8* and *7.4-9)*. A special BEC-sponsored 6 Sigma project, led by a Master Black Belt, was recently chartered to evaluate and improve the effectiveness of cross-company training approaches.

CFSC recently standardized individual course evaluation processes and now uses a three-tier approach to assess effectiveness:

- **Reaction:** How well did the interaction meet the needs and expectations of the participant?
- **Transfer:** Did the knowledge/skills transfer to the job?
- **Impact:** What was the impact (positive or negative) of the knowledge/skill transfer?

Reaction is measured through electronic evaluations sent to all participants. Transfer and Impact are measured through electronic evaluations sent to participants and their managers 60-days after the course.

Course content and utility are reviewed for both internal and externally delivered classes. For example, a focus group recently evaluated several of the management classes to reflect key organizational change such as growth, centralization, technology, and 6 Sigma.

b: Motivation and Career Development

5.2b CFSC developed the Career Management System in 2001 to help employees achieve their personal and career objectives. Its two main components, Competency Evaluation and Development Planning, were recently expanded, automated, and integrated with the PDP process (as illustrated in *Figure 5-2)*.

CMS is competency and proficiency based. Employees can complete a competency self-assessment, receive their manager's assessment of their skills, and request a 360-degree multi-rating from peers, customers/suppliers, and staff to provide lateral and upward feedback. Ratings are entered online using a confidential network.

Employees can also review the required competencies for current and prospective jobs, compare their proficiency to job requirements, and review related training. (Each job, depending on its grade level, has between nine and 12 competencies associated with it.)

Reflecting the CFSC culture of self-management, only the annual Individual Goal Setting and Manager's Competency Review are mandatory. Self-evaluation and Development Planning are voluntary. Self-assessments are electronically inventoried, but are available only to the employee to protect privacy and encourage employees to expand their horizons by looking at non-linear career choices.

Gantz-Wiley research indicates employees are highly motivated by performing interesting work with a promising future, making career advancement an important factor. CFSC approaches include job rotation and in-position, knowledge-based promotion opportunities (e.g., Associate Collection Representatives can progress to Collection Representatives as their skills increase). Employees receiving a degree or certification are recognized at the All-Employee meeting (Item 1.1a2). CFSC's tuition reimbursement policy pays 90% of employee out-of-pocket costs up to $5,250 per year. Currently 143 employees are receiving tuition assistance, including 59 earning Masters degrees.

CFSC's Mentoring Program also helps employees accomplish their goals. One focus of the program is to accelerate advancement of minority and female candidates, thereby encouraging them to continue their careers while broadening CFSC's diversity perspectives.

Managers are trained to coach within this highly empowered system through the Leadership Development Series taught by BEC members and employee development experts. Success in motivating and managing employee development and goals is measured by employee retention *(Figure 7.4-6)*, the 'Engagement Index' in the annual employee survey, usage statistics of the various programs, and managed assets per employee *(Figure 7.5-14)*.

5.3 EMPLOYEE WELL-BEING AND SATISFACTION

a: Work Environment

5.3a1 CFSC maintains a safe and healthy work environment and has never been cited for a safety or health violation. CFSC health, safety, and security practices and measures are summarized in *Figure 5-4*.

Employee Health: The Healthy Balance Program provides reduced medical insurance premiums for employees participating in quarterly healthy lifestyle assessments and educational programs. Healthy Balance not only links to the Employee Satisfaction CSF, but also to Reliable Returns, as Caterpillar is self-insured. Employees over age 35 are offered free comprehensive physicals. Free flu shots are offered and extended to family members. CFSC has a fully-staffed, subsidized fitness center and wellness room on site. All company facilities (including company cars) are non-smoking.

FIGURE 5-4 Health/Safety/Ergonomics		
Issue	Key Practices	Measure/Target
Health	• Healthy Balance Program • Fitness Center Advisory Council • YMCA Promotion of Physical Fitness	• Metro Health Inspection Reports • Customer Satisfaction Survey • Fitness Center Membership/Usage • SteriTech Health Inspection Reports
Safety/Security	• Business Continuation Plan • Security Incident Reporting/Daily Log Review • Bi-Annual Corporate Security Audit • Daily Review of Security Logs/Reports • Daily Building Safety/Security Tours • Workplace Accidents & Safety Reporting • Floor Warden Training	• Testing/Maintenance of Plan (year end) • Immediate follow-up on Security Reports (12 hrs) • Safety Survey (> 90%) • Zero Defects Award • Workers' Compensation Claims filed
Comfort & Well Being	• Quarterly Ergonomic Training for Employees • State-of-the-Art Workstations • Dining Center Advisory Committee	• Physical Work Environment Survey • Response Time to Reconfigure Workstations • Workstation Utilization Rate (> 90%)

Employee Safety: CFSC has on-site security 24/7. All locations require card key entry and have conveniently located emergency call buttons. CFSC completes bi-annual corporate security and OSHA compliance audits. Proactive measures are taken to reduce or eliminate potential safety risks. For example, traditional coffee makers have been replaced with automatic fresh brew machines eliminating a high fire risk. An Automatic External Defibrillator is available.

Job-specific safety is assured through equipment features such as the automatic shut-off on all shredders. Mailroom personnel wear protective gloves and masks and are trained to deal with potential hazards and in heavy lifting techniques. In recognition of its healthy workplace systems, CFSC received a Zero Defect Certification from our property insurer.

Travel safety is also ensured. Employees visiting 'high risk' countries are provided immunizations, a customized medicine kit, and access to an informational Web site. Through U.S. Assist, medical services are provided 24/7 to employees and their families traveling or living abroad.

Employee Comfort and Well-Being: Caterpillar Financial Center represents the state of the art in ergonomics. Workstations are larger than industry standards and have high walls for privacy with a locking closet for personal effects. Movable worktops can be combined with those of other employees to create flexible workspaces as needed. All wiring is under raised flooring and all office walls are demountable, providing maximum flexibility to changing job requirements and company expansion.

Carpal tunnel is the most common injury in service environments so CFSC proactively installs fully adjustable keyboard trays at every PC. Every employee uses a top-of-the-line chair for prevention of back stress. Employees who frequently use telephones are issued headsets. Ergonomics training is offered on a quarterly basis. Reflective and task lighting can be adjusted to meet individual needs and to protect employees from eyestrain. Sound deadening panels and white noise foster productivity and ensure customer contact areas are conducive to listening.

CFSC offers a subsidized cafeteria, and free coffee, tea, hot chocolate, filtered water, and ice on each floor. The facility is equipped with break rooms, refrigerators, and microwaves for employee use. Approaches for employee well-being extend beyond traditional services (e.g., CFSC offered employee counseling at the onset of the Iraq war).

Employees comprise Dining and Fitness Center Advisory Committees responsible for monitoring and improving these resources. Managers are empowered to make adjustments to the employee work climate within their departments, including work-from-home, flex time, improved office machines, office layout, etc. There is little variation in work environments and related metrics between employee groups at CFSC.

5.3a2 CFSC's Facilities Manager ensures workplace preparedness for disaster and emergencies through proactive planning, audits, and rehearsals. All facilities undergo annual fire safety inspection and evacuation drills. Every floor has trained safety wardens. Evacuation chairs are provided for disabled employees. CFSC has documented business continuation plans and maintains equipped space in the off-site data center for business continuation, such as customer service and loan processing, in the event of emergency. Technology is crucial to our business and IT business continuation approaches are described in Item 4.2.

b: Employee Support and Satisfaction

5.3b1 Employee needs are determined through both quantitative and qualitative employee listening methods. Employee focus groups identified drivers of employee satisfaction and annual statistical analysis confirms correlation of these drivers to overall employee satisfaction. Survey results are segmented by gender, tenure, age, job position, and work location to identify unique segment needs.

In addition to formal surveys, CFSC identifies employee needs related to well-being, satisfaction, and motivation informally through:
- CFSC's Open-Door Policy, which empowers all employees to bring concerns to senior leaders.
- The PDP/CMS process that facilitates employee and manager discussions on goals, skills, and career development.
- The New Employee/Birthday breakfasts, attended by new and experienced employees and the BEC.
- All-employee meetings that include Q&A.
- HR Employee Relations processes, which provide a confidential environment to discuss difficult issues.
- Employee committees, which are used to lead many initiatives (such as the United Way campaign).

5.3b2 CFSC's extensive employee benefit package *(Figure 5-5)* is recognized by *Money* magazine as world-class. Benefits offered are designed with many options to address diverse employee needs. The CFSC culture is to treat all employee groups equally; so most benefit options are available to all employees. One exception is employee contributions to health care premiums, which are reduced for lower-wage employees.

Employees can tailor many benefit options to their individual needs.

Innovative practices include company match of employee 401-k, company-paid pension program, free flu shots and physicals, tuition assistance, HMO or fee-for-service healthcare options, and dental, orthodontic and vision care. In addition to the on-site fitness center and classes, massages are available, and a nursing room is available for mothers. A convenience store, dry-cleaning service, and travel service are located on-site. The Dining Center offers carry out food in the evenings, and the mailroom offers express mail services at company cost.

5.3b3 CFSC has administered Employee Surveys since 1991, although the format and questions are continually updated to reflect current organizational needs. CFSC currently conducts two separate employee surveys annually.

Both surveys use 5-point Likert scales and encourage qualitative comments from employees, which are transcribed for confidentiality.

The Prospect Survey, developed for CFSC by Gantz-Wiley Research in 1999, is administered every spring prior to the Annual Leadership Conference. This survey assesses much more than employee satisfaction. It captures employee opinions on 51 questions, categorized into 12 themes: Involvement, Quality Emphasis, Customer Orientation, Training, Overall Satisfaction, Retention, Information/Knowledge, Teamwork, Manager Relations, CFSC Values, and Career Development. Two multi-attribute indexes (Leadership and Employee Satisfaction) measure CSFs.

A third (the Performance Index) links employee opinions to financial and business success. Because employees understand that CFSC leaders value their feedback, employee participation in these optional surveys is more than 85%, exceeding typical response rates. CFSC results are compared to Gantz-Wiley's annual WorkTrends national database, which represents norms and best practices in all industries nationwide. WorkTrends not only compares scores on individual questions, but also compares CFSC to a composite of organizations with proven success. Best Practices represents approximately the top 10% of companies nationwide. CFSC outperforms the financial services industry overall and in 60% of the measured individual practices.

The second survey provides proprietary comparisons to other Caterpillar Divisions. This 79-item assessment survey measures 10 dimensions and is randomly sent to over 400 CFSC employees. Results are compared to national norms. CFSC exceeds parent company averages in every category and was recognized as superior in nine dimensions.

Other indicators of employee satisfaction, well-being, and motivation (e.g., retention rates, compensation competitiveness, and internal turnover) are included in Employee Health (4-1). CFSC's PeopleSoft system enables detailed analysis of employee data. Less quantitative methods for gauging employee satisfaction are the regular manager-employee communication channels described in 5.3b1.

Employee well-being and satisfaction measurement processes are themselves measured via the surveys ("I believe Management will respond to information in this survey"), as well as employee participation rates.

5.3b4 The BEC reviews survey results as part of Employee Health. This includes an analysis of the linkage between Leadership Practices, Employee Results, Customer Results, and Business Performance. The process includes an on-site discussion with Gantz-Wiley organizational psychologists to fully understand the broader implications behind the data. As a result of their most recent analysis, the BEC formed two priority 6 Sigma teams, each sponsored by a BEC member and led by a Master Black Belt, to improve company-wide issues identified by employees.

Results from the Customer Satisfaction surveys described in *Figure 3-3* and Employee Satisfaction data have been cross-tabulated, validating the positive linkage between satisfied employees and satisfied Users. Detailed results are communicated to all employees by a summary e-mail from Jim Beard linked to a "Summary of Employee Opinion Survey" published on the intranet. Other metrics, including the Caterpillar employee survey, are also reviewed as part of Employee Health. Survey data are segmented along departmental, gender, tenure, and job-position demographics to identify issues within specific employee segments. Managers analyze their individual unit results and develop improvement strategies under the guidance of their vice presidents. These data are reviewed at the ALC and incorporated into the Strategic Planning Process and/or 6 Sigma Project Selection Process.

Surveys are reviewed annually and questions updated to reflect changing employee needs and emerging issues. An average of seven to ten questions are modified, deleted, or added per year. In 2003, a series of focus groups were held verifying CFSCs employee satisfaction measurement systems.

Benefit Type	Examples of Programs Offered
FIGURE 5-5 CFSC offers a comprehensive menu of employee benefits and company services.	
Employee Health	• Choice of 80/20 or HMO health insurance plans, no pre-existing condition exclusions • Discount prescription drug plan, dental and orthodontic coverage, vision plan, hearing plan • Long-term care insurance, disability insurance • Smoke-free office environment and cessation classes • Paid sick/maternity leave • Weight Watchers subsidized program
Financial Planning	• Pension plan; investment plan, portable life insurance options • Flexible Spending Accounts – Child/Elder Care and Medical • Money market savings plan, bank-at-work facilities, credit union • 529 Plan (added in 2003) • Stock ownership plan • 401K
Employee Well-Being Work Environment	• Drug & alcohol assistance programs • Employee Assistance Program • On-site fitness center • Telecommuting, flex-time options
Employee Satisfaction, Morale, and Motivation	• Company sponsored sports teams in community leagues • Business casual dress code • Handwritten birthday card from CFSC President, • Monthly New Employee/Birthday Breakfasts • Employee recognition programs • Paid holidays and vacation leave, holiday party, success celebrations
Community Involvement	• United Way Campaign (Day of Caring, Success Celebration, Leadership Giving Dinner) • CFSC sponsorship in charitable events • Paid time off for participation in volunteer activities
Personal & Career Development	• Incentive Compensation, Career Management System • Tuition reimbursement, degree bonus and recognition, reimbursement of professional certifications • Job Posting Process, self-nomination without tenure requirement

6.1 VALUE CREATION PROCESSES

a: Value Creation Processes

6.1a1 CFSC defines and prioritizes two types of value creation processes: Key Core Processes (KCPs) and Business Processes. They are directly linked to the CSF of World-Class Core Processes.

KCPs are the product and service processes that directly impact Users and Dealers. They represent the life cycle of a loan or lease. KCPs vary between the Divisions, and are flexible to the needs of their particular customers, markets, and distribution channels.

Business Processes are processes that are most critical to business efficiency, growth, and success of our shareholders. Although they are centralized and serve all Divisions, these processes are managed with the same rigor as the KCPs. They are:

- **6 Sigma:** Represents CFSC's suite of integrated process evaluation, design, and improvement methodologies *(Figure P-7)*.
- **Treasury:** CFSC acquires billions of dollars annually to fund loans and leases extended to Users and Dealers. Sourcing these funds in a highly efficient and effective manner is critical to CFSC's long-term business growth and success because interest expense represents a significant portion of the company's total annual expenses.
- **Merchandising:** CFSC's Merchandising Process develops value-added financing programs to assist CatBUs and Dealers in selling Caterpillar products, and to finance that business through CFSC. By steadily increasing the number and variety of programs offered to Dealers and Users, CFSC has significantly increased the Percentage of Dealer Deliveries *(Figure 7.3-9)*.

Figure 6-1 lists the KCPs for each Division and describes the linkage between the KCPs, Business, and Support Processes (Item 6.2). In most cases, CFSC approaches for managing processes are similar; however, key differences are noted throughout this text.

6.1a2 *Figure 6-2* lists the KCPs, customer requirements, and measures for the Equipment Division and for each Business Process. (KCPs are defined for Marine, Power, and Global with similar measurement, reporting, and improvement mechanisms, but are not shown due to space limitations.)

In the mid-90s, CFSC adopted Business Excellence, including World Class Core Processes as a CSF. A cross-functional team identified our Core Processes. In 1997, CFSC executives prioritized the processes that directly impact external customers as 'Key' Core Processes and chartered nine teams to identify customer requirements and improvements to each. The teams conducted customer interviews and surveys, and followed the SolvePDCA process (predecessor problem-solving methodology to 6 Sigma) to gather needs and prioritize improvements. Over the next 5 years, CFSC evolved from a geographical and functional orientation into a process-focused organization. Initially targeted to Equipment financing, the KCP refinements have been expanded to all Divisions and supporting processes.

CFSC's approaches for managing and improving processes have evolved substantially since 1997, but customer listening approaches *(Figure 3-1)* continue to be the key source of requirements for KCPs. In particular, the alignment of User and Dealer surveys with the KCPs enables CFSC to identify changing customer requirements and incorporate them into the appropriate process. Customer input is also used to define Business Process requirements. For example, Merchandising Consultants use input from TMs and CatBUs to define requirements for new merchandising programs.

In addition to customer requirements, Business Processes also reflect the financial and operational needs of the company. These are defined by Process Owners based on the CSFs and Strategic Plan. For example, Treasury must manage financial risks to CFSC while funding operations at competitive rates to assist in meeting customer requirements.

6.1a3 Prior to 2001, CFSC applied an internally developed project planning and new service implementation process (NSI) to 19 geographic expansions and new products. In 2001, the initial 6 Sigma DMEDI toolkit was improved by integrating NSI practices, and it became CFSC's methodology for designing all significant new processes, products, and services.

DMEDI is requested by Process Owners and is approved by the BEC as part of the 6 Sigma Project Selection Process.

The steps of the DMEDI creation process are:

1. **Define Opportunities:** Understand the purpose of the process to be developed by goal statements, generation plans, and resource identification.
2. **Measure Customer Needs:** Understand the outputs required of the new process by examining customer needs and competitive analysis.
3. **Explore Design Concepts:** Use creative techniques to develop alternative concepts and evaluate those ideas by validating customer requirements.
4. **Develop Detailed Design:** Turn the concept into reality by the use of process and product designs, pilot programs, and testing.
5. **Implement Detailed Design:** Fully deploy the new process and assess its value against the desired outcome.

Cross-functional teams, led by specially-trained Black Belts, define needs based on the CSFs and CFSC strategies. The methodology first quantifies project benefits, ensuring high impact processes have adequate development resources. The Business Risk Management assessment is conducted, evaluating potential conflict areas including: Strategic Risks, Organization/Cultural Risks, Business Operational Risks, Process Risks, and Compliance Risks.

Customer and market requirements play a key role in the DMEDI *Define* and *Measurement* phases. A project must document direct impact to a User or Dealer requirement before it is approved. The teams utilize the listening and learning approaches described in *Figure 3-1* to provide direction and focus to the introduction of new and modified services. Customer cycle time, cost, and other efficiency/effectiveness improvements are carefully audited.

CFSC includes suppliers and Dealers on 6 Sigma teams, capturing not only their needs, but their diverse experiences as well. Customer-contact employees directly involved in the delivery of a new process serve as Green Belts and actually design the new products or services.

CFSC's organizational knowledge also encourages development of customer-driven services. Cross-functional membership on teams ensures the needs of internal stakeholders are met by the new design. Black Belts are coordinated centrally, facilitating the transfer of learning from one team to another. Best practices from one department are often replicated in another.

The *DMEDI Explore* phase requires teams to use both internal and external resources, identified in Item 4.2a3, to introduce state-of-the-art information technology into new products/services to better meet customer demands. To identify advancing technology requirements, the DMEDI process requires IT Architect review, and teams often include representatives from IT as Green Belts. External consultants are also used.

The *Develop Detailed Design* stage requires the new process to meet certain operational performance requirements. Tools such as flowcharts

and activity diagrams are used to document tasks, sequences, and interactions. Early and continuous involvement by internal and external suppliers is key to ensuring integrated testing, delivery capability, trouble-free introduction, and rapid time to market. Test-marketing and/or pilot implementation prior to full-scale introduction, are the methods most commonly employed.

The final phase of all 6 Sigma projects, including those using DMEDI, requires verification that the key process requirements, customer requirements, training needs, supplier capacities, internal capabilities, marketing, administration, and ongoing control are fully addressed. The Commissioning Meeting, a best practice developed at CFSC and being expanded throughout Caterpillar, formally completes this step. Included is a specific training plan that links improvements to CFSC's ongoing employee development activities.

6 Sigma DMEDI projects are rigorously managed, measured, and reviewed, including turnaround time of the projects. 6 Sigma Reward payouts are not authorized for six months, motivating the team to complete final details and verify that designs are effective. If the desired results are not being achieved, the team can take remedial action. 6 Sigma projects are extensively documented in the eTracker System, providing Caterpillar teams worldwide access to previous experience.

6.1a4 Customer-oriented KCP measures track each individual process and, sequentially, the entire life cycle of a loan *(Figure 6-2)*. These measures identify problems early and allow CFSC to take corrective action. The KCP standards reflect User and Dealer expectations, not CFSC internal activity. For example, credit analyst performance was previously measured in business hours from the time a credit analyst received a fully documented loan package until they made a decision. Incomplete applications were not included, nor was the time required to communicate the decision back to the customer. Today, Credit process performance is calculated from the time the customer first submits an application until the time they are notified of our decision, as measured on a 24-hour clock. If CFSC needs additional information from the customer or credit references, the time is included in this more realistic cycle-time calculation. Turnaround times and other performance standards are adjusted by industry need. For example, high-volume transactions are measured in hours, while Marine approvals may take much longer. KCP measurement systems track in-process performance at each critical point for each customer. The system provides immediate performance feedback to the employee and enables root cause analysis for process improvement activities. Reports are sorted as needed by Dealer, User, or Territory Manager.

CFSC's surveys are organized around KCPs and measure how well delivery processes meet User and Dealer requirements *(Figure 3-3)*. External benchmarking (or industry reports) validates world-class goals.

When formerly functional activities were consolidated into the Nashville CBC, they were operationally structured around the KCPs. Employees (formerly housed in the Regional Offices, Marketing, Accounting, Treasury, Customer Service, and IT) involved in process delivery are now consolidated under common process owners with end-to-end accountability. This dramatically reduces interdepartmental handoffs and enables improved measurement systems.

Centralizing KCPs enables significant customer input and automation not practical in the previous structure. For example, CFSC pioneered the use of totally automated credit approval for commercial transactions by established limits by building proprietary simulation models into Financ*Express*. With each partner in the CFSC-Dealer-User supply chain accessing the same system, Users and Dealers are free to handle elements of the process with which they are most comfortable, but can rely on CFSC if they choose. In either case, errors due to system differences are eliminated.

A typical contract is a complex legal document, and CFSC's auto-packaging technology (patent pending) electronically prepares the document packages for the most common transactions customized to local legal jurisdiction. This greatly reduces the opportunity for errors from using incorrect legal documents, facilitating the transaction on the customer's timetable. Currently, documents are prepared electronically for the majority of transactions, reducing errors and improving responsiveness while improving efficiency.

When appropriate, KCPs are segmented by industry and Dealer. For example, in the Credit KCP, the needs of fleet-oriented mining customers differ significantly from those of a one-machine landscaper; therefore, specialized analysts are assigned to better understand the needs of these Users. Employees in the Quote, Document Preparation, and Funding KCPs are assigned certain geographic Dealers to facilitate communications, maintain relationships, and build market intelligence. The KCP structure and employee specialization ensures the unique needs of our Users and Dealers are met. Global, Power, and Marine Divisions also operate in a centralized, process-oriented structure, but with fewer employees and customized transactions, and lower contract volumes.

CFSC reinforces the use of customer-based performance standards for all processes through training, departmental goals, PDP, and Incentive Compensation. The Divisions review survey data and feedback from User and Dealer visits to verify performance and validate measures.

Like KCP measures, in-process and end-of-process metrics are used to assess Business Process performance against key customer and operational requirements *(Figure 6-2)*. Treasury and Merchandising measures are tracked on an ongoing basis, while 6 Sigma measures are more project-oriented *(Figures 7.5-1* through *7.5-4)*. Surveys and other customer listening data help identify changing customer requirements and incorporate them into the appropriate process. When appropriate, supplier-oriented measures are identified and tracked. For example, the "Bank Support System" enables Treasury to monitor and manage bank relationships in a world-class manner, ensuring CFSC's access to lowest cost-funding options. All are used by Process Owners to identify opportunities for improvement and are reviewed in Corporate Support meetings as described in Item 6.2a4.

6.1a5 Prevention mechanisms are built into CFSC processes and systems, minimizing the need for inspection, tests, and performance audits. As a financial service organization, CFSC is heavily dependent on information systems for service delivery. Financ*Express,* InfoLease and other systems provide controls to ensure accurate data are entered. Financ*Express* training is available online, and the system includes help functionality (Item 4.2b2).

KCP teams are logically grouped into Origination and Back-end processes to improve coordination and prevent errors and rework. For example, preventing Document Preparation Process errors avoids delays in funding the Dealers. Inter-process reviews at monthly Manager Meetings ensure this network of processes is operating with no self-induced bottlenecks. Operational results and customer satisfaction survey reports are summarized along the same front-end/back-end lines to enable accurate diagnosis and process improvement. Dealers, Users, and CatBUs often visit CFSC to provide performance input.

Finally, in the higher volume CBC, cost per transaction and productivity are tracked for each KCP, enabling Process Owners to diagnose inefficiencies. Since 1999, productivity improvements for specific processes have been significant.

Prevention and cost-reduction mechanisms are also incorporated into Business Processes. For example, errors in processing Merchandising

CFSC Users and Dealers

KCPs

	Equipment	Marine	Global	Power		Equipment	Marine	Global	Power
Quote	✓	✓	✓	✓	Invoicing	✓			
Indicative Proposal		✓		✓	Cash Application	✓			
Credit	✓	✓	✓	✓	Collections	✓	✓	✓	✓
Commitment Letter		✓			Covenant Compliance		✓		
Document Preparation	✓	✓	✓	✓	Modifications	✓	✓	✓	✓
Document Processing/ Funding	✓	✓	✓	✓	Buyouts	✓	✓	✓	✓
Wire Transfers				✓	Repossession/ Remarketing		✓		
Project Financing				✓	Customer Service	✓	✓	✓	✓
					Tax Receipt Withholding		✓		

Business Processes

Merchandising
- Program Development
- Program Administration

6 Sigma
- Project Selection Process
- Project Management

Treasury
- Cash Management
- Risk Management
- Funding

Support Processes

Accounting
- External Reporting
- Securitization
- Accounts Payable
- Tax Planning and Compliance
- Consolidation
- Audit
- Management and Internal Reporting
- Budgets and Forecasting

Human Resources
- Employment
- Employee Relations
- Career Management
- Employee Development
- Performance Management
- Compensation
- Recognition
- ISE Administration
- Facilities Management

Information Technology
- IT Budget Process/ Asset Management
- Project Governance
- Application Development
- Application Support
- Application Integration
- Applications Testing
- User Support
- Global IT Support
- Network Services
- Messaging Services
- Personalized Computing Services
- Architecture

Remarketing
- Ag/Sales Residuals
- Forward Purchase Contracts
- Establish Residual Values
- Returned Asset liquidation
- Machine Inventory and Portfolio

Corporate Marketing
- FinancExpress Processes
- Business Intelligence
- Communications
- Electronic Communications
- Customer Listening
- Marketing Data
- Cat Quote System

Risk Management
- Portfolio Risk Management
- Records Management
- Auto Decisioning
- Credit Scoring
- Credit Administration

Legal
- Transaction Support
- Litigation Management
- Compliance
- Corporate Governance

Business Excellence
- Strategy Development
- Strategy Deployment
- Strategy Monitoring
- Organizational Assessment
- Improving Processes

FIGURE 6-2 Customer Requirements, Measurements and Standards have been defined for each KCP and Business Process.

Process (6.1a1)	Requirements Determination (6.1a2)	Customer Requirements (6.1a2)	Measurement/Standards (6.1a4) *(Results Figure #)*
KCPs (Equipment)			
Quote	• User and Dealer Surveys • Customer Listening • CSFs	Timely, accurate and complete quote	• Response time *(7.2-1)* • CSI, DSI Surveys *(7.1-2, 7.1-6)*
Credit		Timely and complete credit decision	• 3 hrs avg. turnaround for auto decision, 48 hrs for deals not credit scored *(7.2-2)* • CSI, DSI Surveys *(7.1-2, 7.1-6)*
Document Preparation		Timely, accurate, and complete document package	• Documents sent • CSI, DSI Surveys
Document Processing / Funding		• Dealers: Accurate and timely funding • Users: Accurate and timely executed documents	• 85% Dealer funding next day • CSI, DSI Surveys *(7.1-2, 7.1-6)*
Invoicing		Timely, accurate and easy to understand invoices	• % scannable invoices & coupons • CSI Surveys *(7.1-2)*
Cash Application		Cash posted accurately and timely	• % Controllable accounting reversals • % Electronic Payments > 10%
Collections		Representative is friendly and offers effective solutions	• 30+ days delinquency • Net charge off to average loans • CSI, DSI Surveys *(7.1-2)*
Modifications		Timely and complete paperwork	• Customer requests responded to • CSI, DSI Surveys *(7.1-2)*
Buyouts and Terminations		Accurate and timely quotes and documents	• Manual buyouts quoted, Tax lease buyouts • PIF documents mailed • CSI, DSI Surveys
Customer Service		Timely and complete response to requests	• Call resolved on 1st call • CSI, DSI Surveys *(7.1-2)* • Call Monitoring
Business Processes			
6 Sigma • DMEDI • DMAIC	• Project Selection Process • CSFs and Strategic Plan • Project Sponsor	• Customized to project	• # Projects 1.5-3 per BB *(7.5-1)* • $ Benefit > $15.5m *(7.3-7)* • % Trained employees *(7.4-8)* • Employees on improvement teams *(7.5-1)* • BEC Monthly reviews
Treasury • Cash Management • Currency Risk • Borrowing	• CSFs and Strategic Plan • Financial market conditions	• Fund growth • Keep rates competitive • Minimize impact of currency fluctuations • Maintain liquidity	• Basis points under LIBOR *(7.5-2)* • MTN < A2 Spreads *(7.5-3)* • Foreign exchange gain/loss • Successful 364 day in 5 year backup credit facility renewal
Merchandising • Program Development • Program Administration	• Customer Listening • CSFs and Strategic Plan • MCs • TMs	• Achieve specific CatBU objectives • Competitive programs • Simple program administration • Effective CatBU/Dealer support	• % Subsidized *(7.5-4)* • Grief claims • CatBU survey results *(71a1)*

claims are measured to evaluate training effectiveness and improve administration of subsequent programs. Three 6 Sigma Master Black Belts were appointed to manage Black Belts and perform process/performance audits previously outsourced to external consultants.

6.1a6 Process improvements use the 6 Sigma DMAIC improvement methodology. The Project Selection Process requires process owners to link improvement projects to company goals and documented customer needs, and ensures they receive adequate priority and cross-functional resources.

DMAIC steps include:

1. **Define:** Validate improvement opportunity, charter team, identify customer requirements, map processes, and respond to quick-wins.
2. **Measure:** Identify input, process, and output indicators, design measurement plan, and determine baseline performance.
3. **Analyze:** Stratify data and identify specific problem and root causes.
4. **Improve:** Generate ideas, evaluate alternatives and technology, and determine best solution; develop process map and implementation plan.
5. **Control:** Execute and verify solution; standardize implementation and replicate learning.

DMAIC *Define, Measure, and Analyze* steps require that Voice-of-the-Customer information be fully articulated for each process. 6 Sigma Black Belts ensure data are analyzed using the appropriate statistical tools (e.g., Minitab) to reduce the variability in processes. The *Control* step installs ongoing measures to perpetuate the gains made. To ensure external options and best practices are considered, benchmarking is conducted during the *Improve* step using the guidelines described in Item 4.1a2.

Systems in place to share knowledge and continually improve the 6 Sigma process include eTracker and local sharing of project files via Public Folders. The post-project Commissioning Process (attended by the Project Sponsor and the Master Black Belts) ensures that internal customer requirements are documented and best practices are leveraged across all Black Belts. 6 Sigma Champions across Caterpillar hold weekly conference calls to share best practices.

One of the most significant improvements resulting from employee surveys and other feedback mechanisms was to create a version of 6 Sigma to cost-effectively address smaller projects. Piloted in 2002 and deployed in mid-2003, 6 Sigma *Tapestry* leverages CFSC's growing pool of experienced Green Belts to lead several smaller interrelated projects under the guidance of a Black Belt.

Other sharing mechanisms include:

- Meetings and conferences, during which relevant process improvements are presented (e.g., departmental meetings, Industry Councils, Caterpillar Worldwide Finance Managers meetings, TM meetings, and 6 Sigma Corporate Office meetings).
- Publication of Equipment Division KCP workflows, measures, and results on the intranet communicates expectations, shares learning, and facilitates replication of successes across Divisions.
- Knowledge management processes listed in *Figure 4-4* and company-wide communication processes listed in *Figure 1-2*.

6.2 SUPPORT PROCESSES

a: Support Processes

6.2a1 CFSC defines its Support Processes as those processes that enable the Divisions to meet the needs of Users, Dealers, and CatBUs, and to provide the infrastructure necessary to accomplish Business Excellence. Department Managers and Process Owners initially defined these processes in 2001 and updated the list in the second quarter of 2003. They have identified 55 support processes, which are managed with the same rigor as KCPs and business processes (*Figure 6-1*).

6.2a2 Each support process has a Process Owner responsible for determining key process requirements and ensuring the process meets those ongoing requirements. As described in Item 2.1a1, Corporate Support Departments define requirements and align their plans with those of the Divisions and other Departments annually through the Strategic Planning process. They also use internal customer feedback obtained through meetings and other interactions, employee satisfaction surveys, and external customer requirements obtained through the listening methods described in *Figure 3-1*. Departments with the most varied customers (i.e., Human Resources, Legal, IT, Remarketing, and Corporate Communications) further define customer needs and establish performance expectations by conducting annual Department Surveys. Requirements are gathered from suppliers/partners when significantly involved in our processes. These requirements are documented and used to establish appropriate procedures and training, as well as performance metrics. Five examples of Support Processes and their related requirements and metrics are provided in *Figure 6-3*.

6.2a3 New Support Processes are dictated by emerging external or internal customer requirements, changing technology, or new regulatory requirements. When a proposed Support Process meets the requirements of the 6 Sigma Project Selection Process, it is developed using the DMEDI methodology and resources. For example, one of CFSC's initial DMEDI projects was loan syndication process development. This discipline ensures best practices, cost efficiency, and effectiveness factors are incorporated into new processes. Often new Support Processes are required to accomplish a larger process. 6 Sigma ensures that all the necessary supporting processes are in place and operational when the larger process is launched. Any project, from 6 Sigma Tapestry to a simple departmental process improvement, may initiate a new supporting process.

Suppliers are involved with new support process design and often participate in these efforts. For example, one supplier provided the software and expertise necessary to create a new, automated shipping process. New processes precipitated by regulatory changes (such as the new EU Privacy Directive) may involve the ELA or other outside advisors. CFSC processes for incorporating improved technology and organizational knowledge sharing described in Item 4.2b and Item 6.1a6 apply to Support Processes.

6.2a4 Performance metrics similar to those illustrated in *Figure 6-3* are established for all support processes. These metrics are based on the unique customer and operational requirements of each process and used by owners and participants to control and improve process performance. Support Processes (and Business Processes) are reviewed systematically during weekly meetings of all Corporate Support Department Managers. Every process is reviewed at least twice annually, with the more critical ones reviewed quarterly. Presentations are given by the Process Owners and may include information on supplier/partner performance. This review structure ensures all interdependent

FIGURE 6-3 Examples of the more than 50 support processes monitored by CFSC.

Support Process	Customer Requirements	Business Metric
Accounting	Books closed timely and accurately	Accounting Service Quality Measure Number of Reconciling items
Facilities: Furniture installation/relocation	Customer Satisfaction with furniture relocation, high utilization	Workstation utilization rate Customer satisfaction
Audit	Audit value, quality, communications Teamwork	AutoAudit 30-item scorecard Audit customer satisfaction
Legal recoveries	Awareness and changing regulations	Compliance research
IT Help Desk	First call resolution	Level 3 calls resolved < 4 hrs. Level 4 calls resolved < 5 days

Departments are aware of the performance of each process and provides an opportunity for joint problem solving and synergy. Process results are displayed in each Department and on the *UpFront* video monitors. Each week's presentations are published in Shared Folders for other Process Owners to reference.

A brief Corporate Support Survey, initiated in the spring of 2002, assesses customer-supplier relationships with the Divisions and between all Corporate Support and Legal Departments.

6.2a5 Support process reporting concentrates on the most critical two or three measures for each process. When possible, performance metrics are automated within the functional systems supporting that process. For example, the IT support system produces call timeliness statistics. A small (but increasing) number of partnership vendors include performance tracking in their service (e.g., office supply order completion, dining services, express mail, and furniture installation) that minimizes CFSC data collection costs. Other data are kept in simple logs or spreadsheets. Carefully defining and monitoring process performance ensures support processes are delivered defect-free from the start. Processes improved using 6 Sigma also include specific ongoing control plans.

6.2a6 Process Owners establish annual goals to drive continuous improvement and keep processes current with changing business needs. 6 Sigma is the primary vehicle for improving support processes to reduce variability and achieve better performance. However, with over 200 employees trained as Green Belts, the same tools are used for smaller, less formal improvements.

Improvements are shared within CFSC in several ways, including Corporate Support Review meetings, Shared Folders, and the communication and knowledge management processes described in *Figures 1-2* and *4-4*.

7.1 CUSTOMER-FOCUSED RESULTS

7.1a1 End User, Dealer, and CatBU Satisfaction are Top Tier measures for the Customer Satisfaction CSF. CFSC results show substantial advantage over non-captive competitors and benchmarks based on competitive comparisons from the CFSC Competitive Satisfaction Survey (CSS) and the Customer Satisfaction index benchmark. CFSC benchmarks both the financial and insurance industries and world-class performance. 'Highly Satisfied' is defined as the top three boxes on a ten-point scale.

The User Satisfaction Survey is aligned with the process-based organization structure, and segmented by industry to drive focused improvement. *Figure 7.1-1* demonstrates the Equipment Division's sustained high levels of overall User satisfaction. Results for each KCP *(Figure 7.1-2)* illustrate that CFSC maintained high User satisfaction during the transition to the CBC and continues to refine process performance. Industry-segmented data in *Figure 7.1-3* verify CFSC outperforms the benchmark in all processes and industries, except waste (where results reflect the price-sensitivity of buyers for large national operators and municipal landfills).

Figure 7.1-1 User Satisfaction - Equipment Division
(Top Tier Measure)
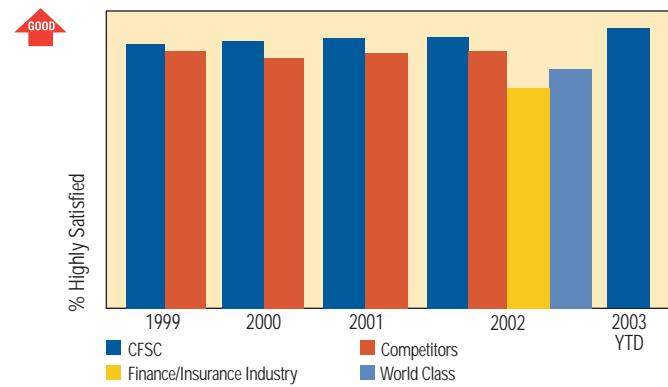
Figure 7.1-2 User Satisfaction by Key Core Process
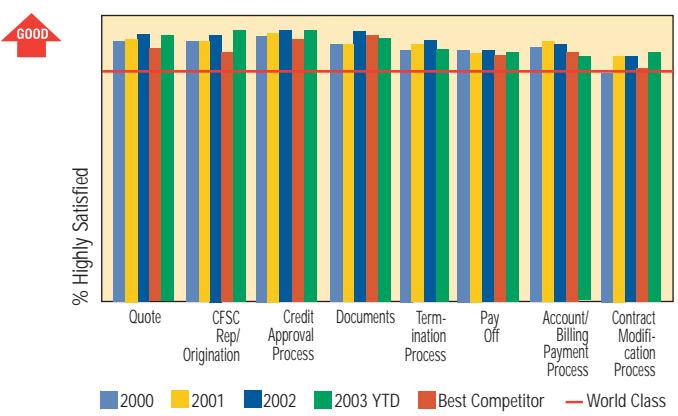
Figure 7.1-3 User Satisfaction by Industry
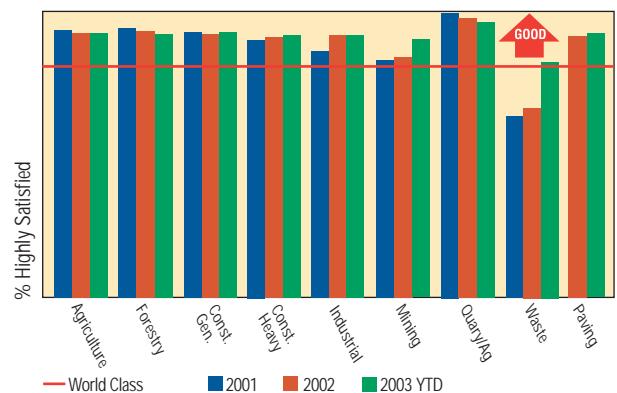
The Marine Division has achieved sustained high User Satisfaction ratings since 1999 *(Figure 7.1-4)*. Surveys were expanded in 2001 to obtain feedback from both shipyards and established Users (those who have experienced CFSC processes beyond loan origination). Dealers are also surveyed. The new Power Division conducted its first satisfaction survey in 2002 with similarly high results. Comparisons for the Marine and Power industries are not available; however, User satisfaction exceeds results for both the benchmark and financial service industry competitors presented in *Figure 7.1-1*.

Figure 7.1-4 User Satisfaction – Marine/Power Divisions
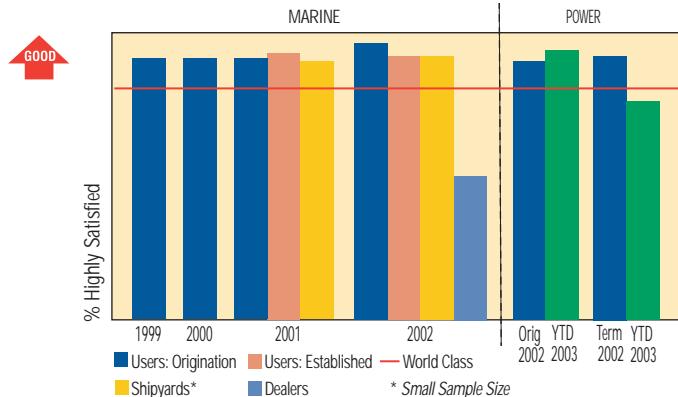
Because few of CFSC's non-captive competitors sell through Dealers, competitive comparisons are not applicable for Dealer satisfaction *(Figure 7.1-5)*. Therefore, CFSC benchmarks Automotive Dealer Principal Satisfaction with Finance Companies. CFSC results are presented for the top five boxes on a ten-point scale (rather than the top three) to ensure consistency with the comparative data available for this bi-annual survey. The comparisons indicate CFSC Dealers are consistently very satisfied, outperforming much larger automotive captive lenders. CFSC also measures Dealer satisfaction (top three boxes) with the most important Dealer-related KCPs *(Figure 7.1-6)*. Significant improvement has been realized across all of these indicators, largely due to the creation of the CBC.

Figure 7.1-5 Dealer Principal Satisfaction

% Satisfied

1997 1999 2001 2003

■ % Satisfied ■ Benchmark
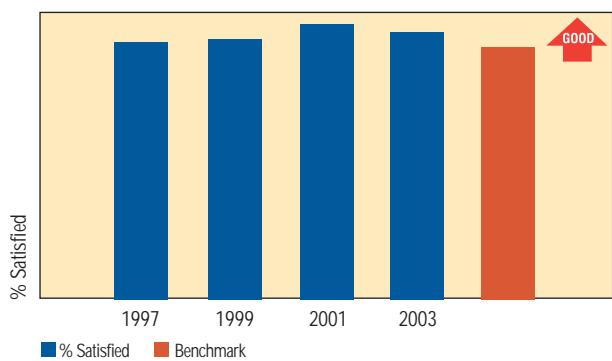
Figure 7.1-6 Dealer Satisfaction Overall and by KCP (Top Tier Measure)

% Highly Satisfied

Quote Credit Documents Overall Dealer Satisfaction

■ 1999 ■ 2001 ■ 2003
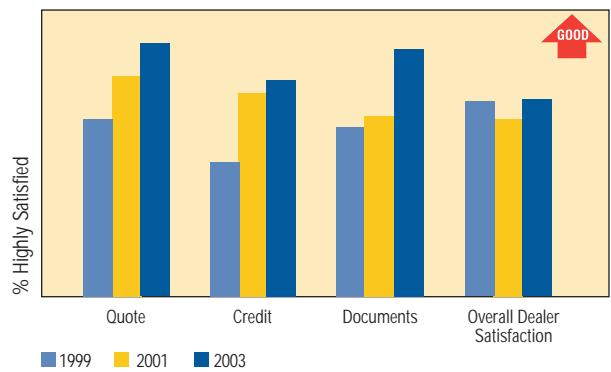
CFSC surveyed CatBUs in 1998 and 2003 to obtain objective feedback on our success in partnering with them to serve Dealers and Users. The majority of CatBUs reported high satisfaction.

7.1a2 CFSC "delights" Users by not only satisfying their needs, but by exceeding their expectations more often than the competition *(Figure 7.1-7)*.

Figure 7.1-7 User Delight and Dissatisfaction

%

2000 2001 2002

■ CFSC-% Exceeding Expectations ■ Competitors-% Exceeding Expectations ■ CFSC-% Dissatisfied
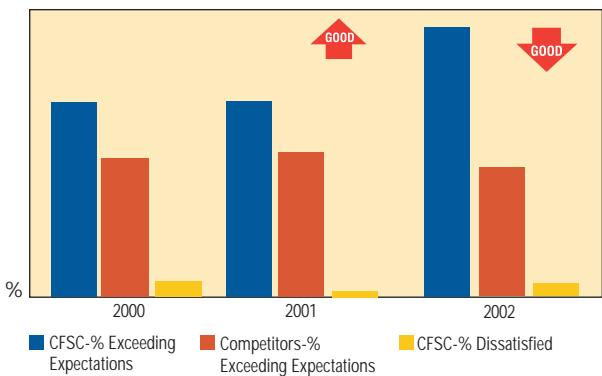
High levels of satisfaction increase the likelihood of Dealers offering a positive referral. Dealers are highly likely to recommend CFSC to their Users as their first choice for financing *(Figure 7.1-8)*.

Figure 7.1-8 Dealer Likelihood to Recommend CFSC

% Highly Satisfied

1999 2001 2003
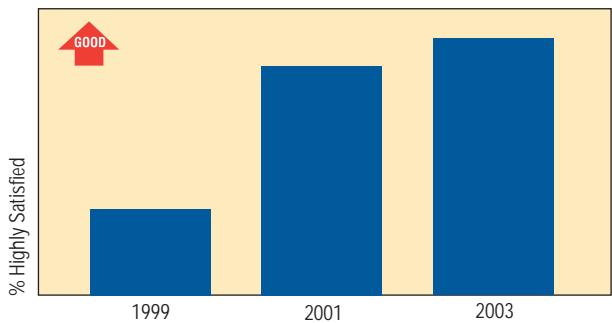
Partnerships with CatBUs and Dealers have enabled CFSC to achieve high levels of User loyalty for many years.

Figure 7.1-9 User Loyalty: Likelihood to Finance Again

PROPRIETARY DATA

%

Very Likely Somewhat Likely Uncertain

2000 2001 2002 2003 YTD Competitors
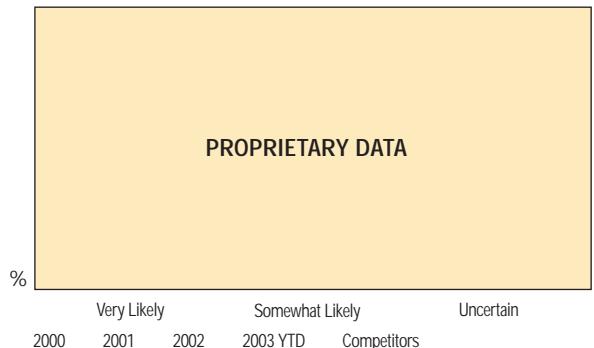
Figure 7.1-10 Repeat Business

PROPRIETARY DATA PROPRIETARY DATA

2002 Results 2003 Results

1 Time 2 Times 3 Times 4 Times or More Time 2 Times 3 Times 4 Times or More
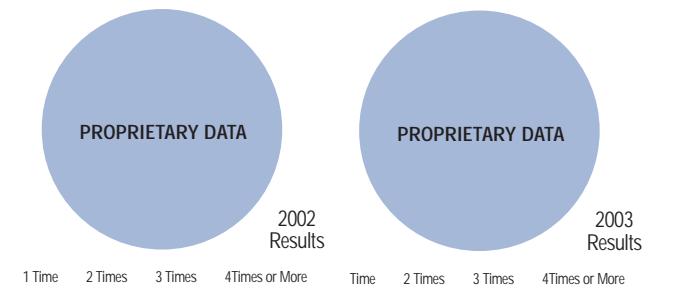
7.2 PRODUCT AND SERVICE RESULTS

7.2a As illustrated in Figure 6-2, CFSC's KCPs are managed with customer-focused performance standards and measures. Together with process-level customer satisfaction results *(Figure 7.1-2),* direct measures of product and service quality provide a comprehensive picture of CFSC's service performance.

CFSC collects comparative data on key origination processes directly from Users through the Competitive Satisfaction Survey (CSS) and through industry reports. As explained in the *Profile (P2a3),* availability of other process-level comparison data are limited.

All KCPs demonstrate excellent improvement trends and/or sustained high performance versus User and Dealer expectations/ requirements. Due to space limitations, the results presented below include only a sample of KCP measures.

The formation of the CBC has driven significant improvements in Equipment KCPs, overall and at the segment level. *(Figure 7.2-1)* Credit KCP has improved by more than 50% *(Figure 7.2-2).* Dealers increasingly use Financ*Express* to provide instantaneous Quotes and Credit requests *(Figure 5.9 and 7.5-10);* however, these transactions (which would further reduce CFSC's turnaround time averages shown) are excluded from the results reported here.

Figure 7.2-1 Quote

* 80% of competitive users surveyed report turnaround time greater than 1 hour.
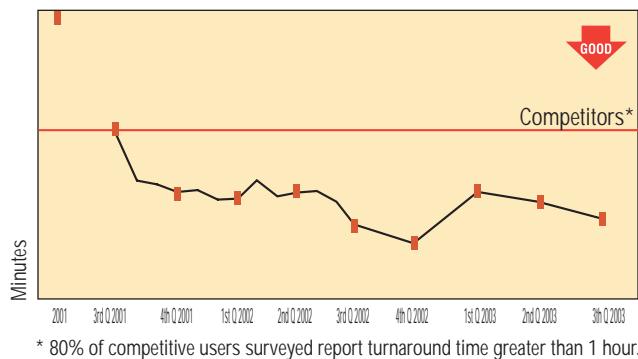
Figure 7.2-2 Credit KCP – Timeliness by User Segment

* 50% of competitive users surveyed report turnaround time greater than 1 day.
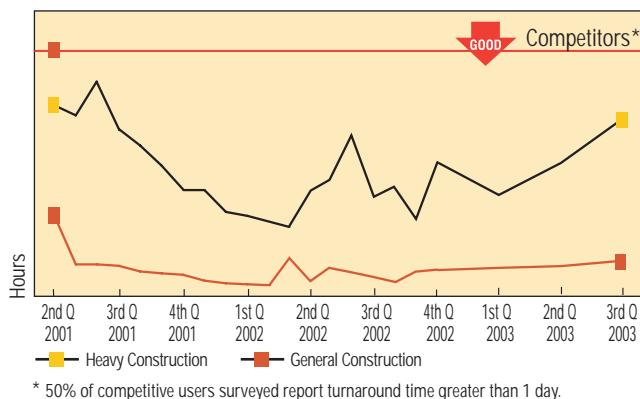
A 6 Sigma team was chartered in 2001 to improve document processing, which resulted in the issuance of funds to the Dealer. The team achieved impressive results, increasing the number of transactions funded by the next morning *(Figure 7.1-2).*

Figure 7.2-3 Document Processing KCP – Funding Timeliness
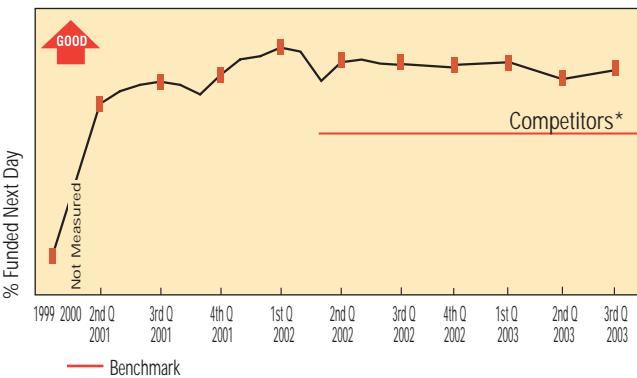
Performance for the Modification KCP benefited most significantly from the CBC consolidation. *(Figure 7.2-4).* Because this is a unique process, comparative data are not available.

Figure 7.2-4 Modifications KCP – Turnaround Time
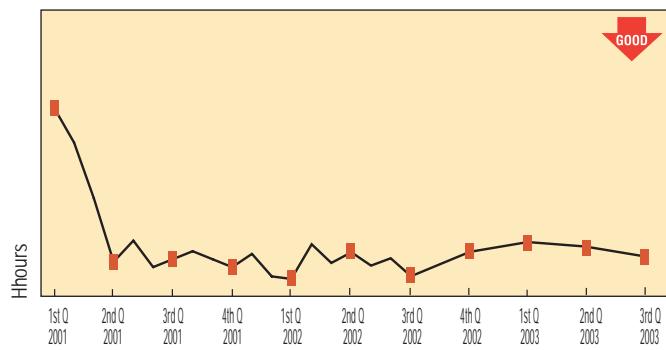
Accuracy is a User requirement for several KCPs and is measured by asking Users and Dealers directly. For internal processing, such as imaging, accuracy is measured by samples and audits (not shown). CFSC results show both high satisfaction across the board and performance equal to or exceeding our best competitors *(Figure 7.2-5).*

Figure 7.2-5 KCP Accuracy – Users
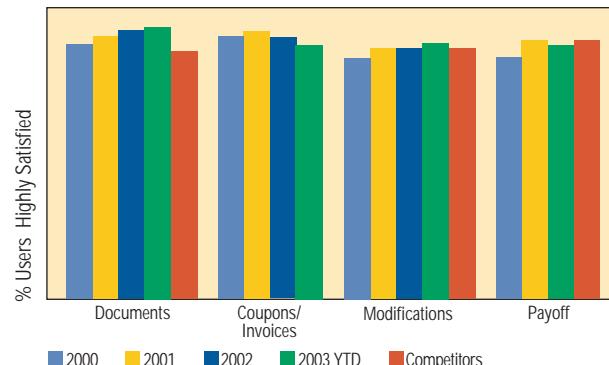
Global Division's (developing countries) processes are managed to deliver consistent and timely service despite varying customer requirements *(Figure 7.2-6)*. The Marine Division segments performance data based on size (and complexity) *(Figure 7.2-7)*.

Figure 7.2-6 Global Division Credit KCP – Turnaround Time
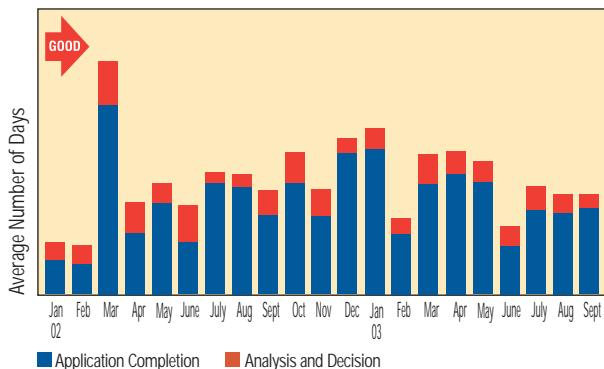
Figure 7.2-7 Marine Credit KCP – Turnaround Time
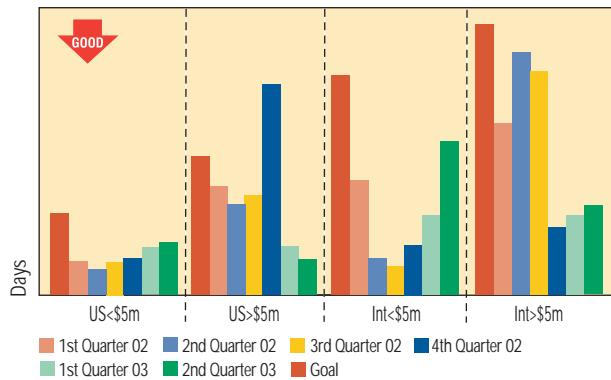
TMs act as a critical link between CFSC and Dealers. Most Dealers report that they interact with their TMs on a daily or weekly basis and are highly satisfied with the services provided *(Figure 7.2-8)*

Figure 7.2-8 Frequency of TM Visits/Satisfaction
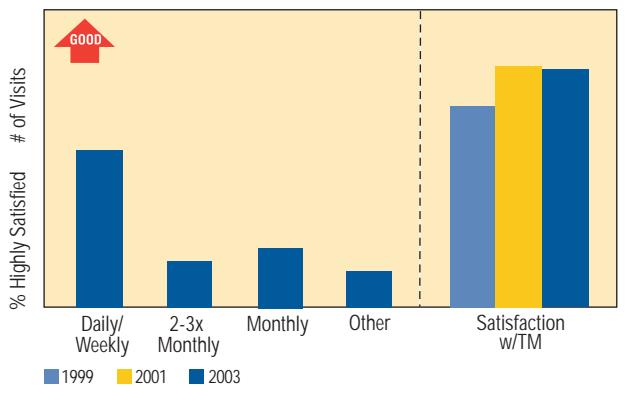
7.3 FINANCIAL AND MARKET RESULTS

Key CFSC financial and market results, indicators for the Growth, Reliable Returns, and World-Class Core Processes CSFs, are included in this Item. Several financial industry rating and data services are referenced as the sources for comparative data. (These may include non-US data.) CFSC has earned long-term credit ratings equal to the top 10% of all financial service companies nationwide.

7.3a1 CFSC has achieved sustained growth in Accountable Profit and Managed Assets (the total value of the loan and lease portfolio), two Top Tier measures supporting the Reliable Returns CSF *(Figure 7.3-1)*. CFSC is the second largest captive equipment lender. Since 1998, CFSC has increased assets 34% and profit 54%, while industry performance declined 21% and 35%, respectively. CFSC ranks in the 90th percentile of 47 captive and non-captive commercial lenders reported.

In the financial services industry, absolute rates of Return on Assets (ROA) and Equity (ROE) reflect the risk characteristics of each individual lender's portfolio (e.g., high-risk lenders must earn higher returns). CFSC's primary goal is not to achieve the highest ROA and ROE, but to optimize Reliable Returns to Caterpillar. As a result, CFSC's performance on these Top Tier measures has been more stable than other lenders' through the recent economic downturn. *(Figure 7.3-2)*.

Caterpillar stock price has outperformed the S&P500 (+ 3% versus –21%) since the beginning of the recession in March 2001, partially due to the solidifying impact of CFSC on Caterpillar earnings. CFSC's contribution to Caterpillar's total earnings increased from 5.6% in 1998 to over 17% in 2002 *(Figure 7.3-3)*, adding value to our shareholders. (CFSC 2001 results reflect a non-recurring gain of $67 million.)*

Figure 7.3-1 Managed Assets / Accountable Profit
(Top Tier Measure)
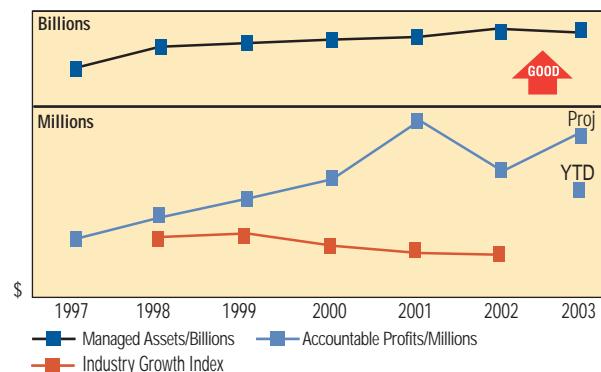
Figure 7.3-2 ROA/ROE (Top Tier Measure)
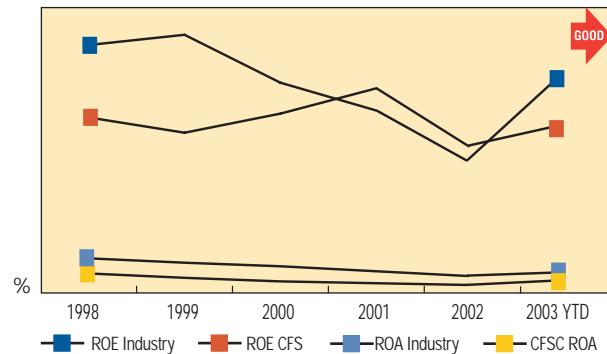
Figure 7.3-3 Reliable Returns to Caterpillar, Inc.
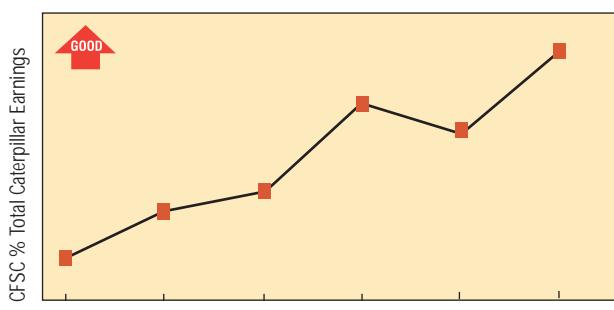
As the Top Tier measure for the World-Class Core Processes CSF, Non-Interest Expense as a Percent of Assets *(Figure 7.3-4)* is CFSC's key measure of organizational efficiency. CFSC's highly efficient processes have resulted in operating costs in the top quartile of the commercial lending industry. More recently, deployment of 6 Sigma has contributed to cost control, enabling CFSC to widen the gap. The small increase in operating cost for 2001 and 2002 reflects investments in e-business technology *(Figure 7.5-7)*.

Figure 7.3-4 Non-Interest Expense as a Percent of Assets
(Top Tier Measure)
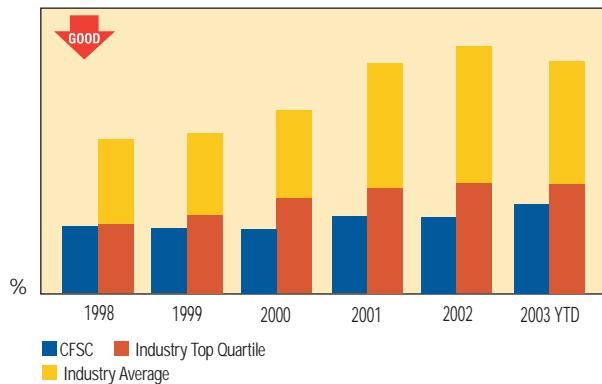
CFSC has systematically expanded into markets beyond US equipment financing, including developing countries, marine vessels, and power generation.

Figure 7.3-5 New Business Contribution from New Markets
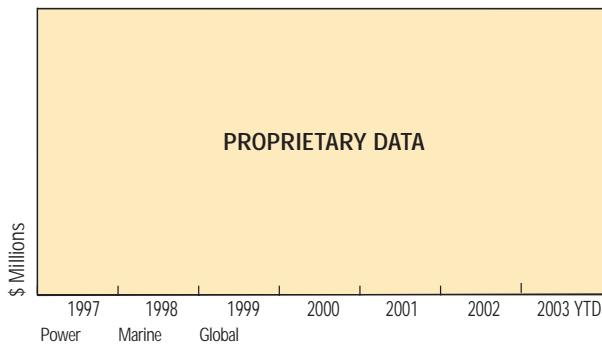
Figure 7.3-6 Writeoffs – Percent of Retail Portfolio
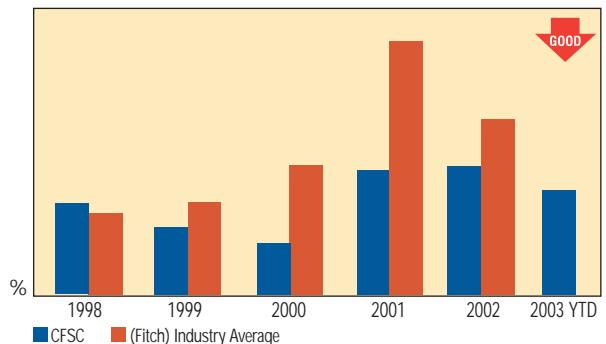
CFSC was able to fully recoup all 6 Sigma start-up costs in 2001, the first year of deployment, *(Figure 7.5-1)*, and is yielding significant benefits, with 2002 after-tax savings exceeding $9 million *(Figure 7.3-7)*.

Figure 7.3-7 6 Sigma Results
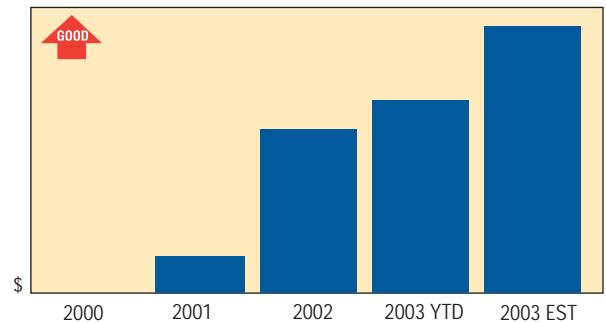
Figure 7.3-8 compares CFSC cost of funds and the rates we charge our Users and Dealers with other members of the Equipment Leasing Association.

Figure 7.3-8 Cost of Funds & Pre-Tax Spread
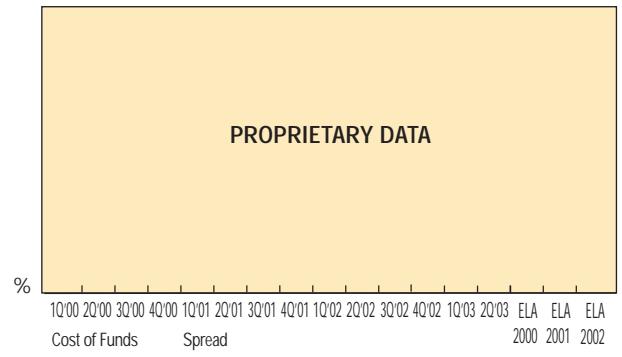
7.3a2 Percent of Dealer Deliveries (PODD), CFSC's indicator of market share, is a Top Tier measure for the Growth CSF. It measures the percentage of all deliveries of new Cat equipment (in units) that are financed by CFSC. CFSC has increased PODD steadily since 1997 by partnering with CatBUs and Dealers, and by developing effective merchandising programs.

Figure 7.3-9 Overall PODD (Market Share)
(Top Tier Measure)
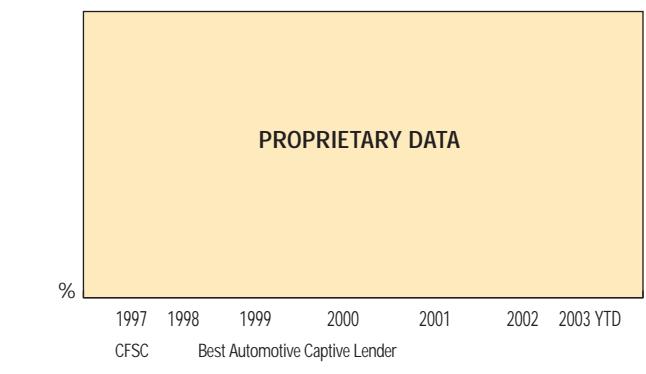
Figure 7.3-10 UCC Filings/New & Used
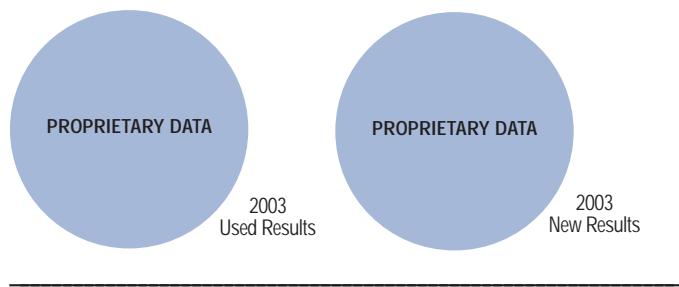
7.4 HUMAN RESOURCES RESULTS

Employee Satisfaction is a CSF. In particular, CFSC employees have a direct impact on customer satisfaction, a fact that has been documented through statistical correlation analysis of employee and customer satisfaction results.

CFSC uses two annual surveys to measure employee satisfaction, *(Item 5.3b3)*. Results are reported as the top two boxes on a five-point scale. Comparisons to Financial Services Industry Norms and Best Practices, are described which represents the top 10% of organizations across all industries.

The Employee Satisfaction Index *(Figure 7.4-1)*, a Top Tier measure, is a weighted mean of ten factors contributing to overall employee satisfaction. (Although employee survey vendors changed in 2000, the methodology for calculating the index is similar.) Overall trends have been positive since 1995, with more rapid improvement since 2000. At current levels, CFSC's performance ranks among the best in the U.S.

Figure 7.4-1 Employee Satisfaction Index
(Top Tier Measure)
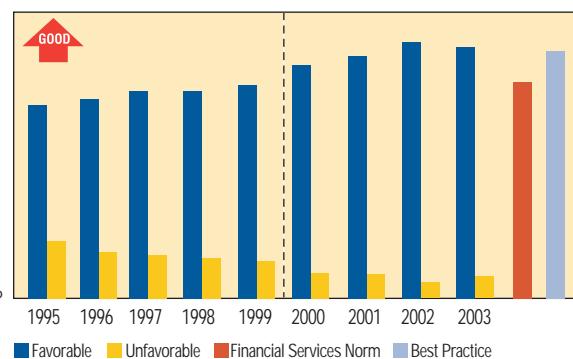
7.4a1 *Figure 7.4-2* summarizes the overall performance of CFSC work systems as evidenced by achievement rates on Incentive Compensation measures. The data indicate that CFSC consistently exceeds target against increasingly challenging internal goals.

The number of measures used to calculate Incentive Compensation was reduced from 269 for 2001 to 189 for 2002, and to 133 for 2003. These refinements ensure that Incentive Compensation focuses on key areas of performance and simplify system administration.

Figure 7.4-2 Work System Performance
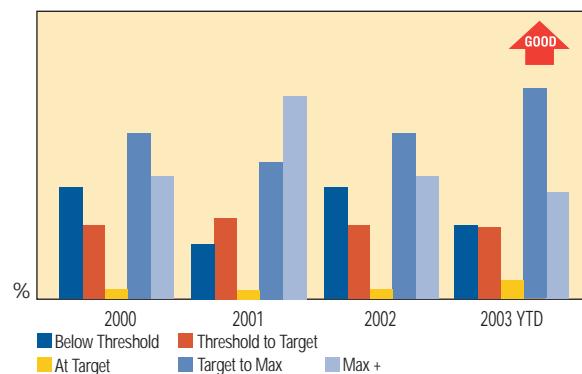
Results presented in *Figure 7.4-3* indicate that employees are highly satisfied with their current jobs, a reflection of the effectiveness of CFSC's work systems. Results for Workgroup Performance Standards and Teamwork, two work systems components, are also rated more favorably than related industry and best practice norms.

As described in *Item 5.2b*, CFSC uses job rotation and job progression as employee development tools.

Figure 7.4-3 Employee Satisfaction with Job, Performance Standards, and Teamwork
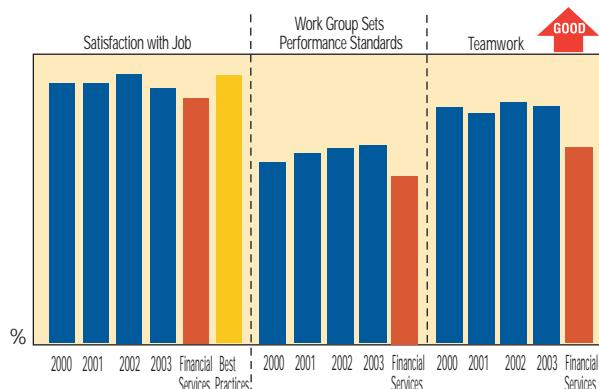
CFSC's investment in employee recognition programs *(Item 5.1)* continues to grow in both focus and total dollars. As a result of 6 Sigma Rewards, most recognition is clearly linked to employee involvement and accomplishment of process improvements. Rewards are paid six months after a project's completion, when its success can be validated. Eye-on-Quality and Cat Bucks continue to reward employees for extraordinary customer service and employee-to-employee teamwork *(Figure 7.4-4)*.

Figure 7.4-4 Investment in Employee Recognition
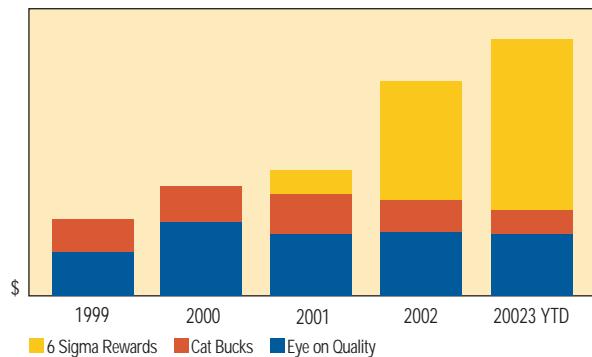
Just as with customer satisfaction, employee loyalty is a strong indicator of CFSC's overall success in meeting the needs of our employees. CFSC employees are far more likely to recommend CFSC as a good place to work than national norms *(Figure 7.4-5)*.

Although all Region Office employees were offered positions and relocation assistance in the CBC transition, some were not able to relocate. As a result, employee retention declined in 2000 *(Figure 7.4-6)*. However, retention rates rebounded after the consolidation and are now at levels within the top quartile of organizations nationwide,. Involuntary turnover ratio remains consistently low.

**7.4-5** Employee Loyalty – Recommend CFSC as a Good Place to Work
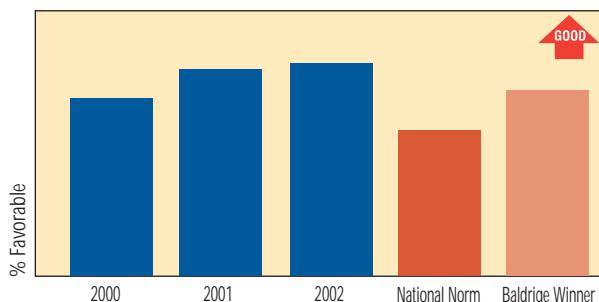
7.4-6 Employee Retention
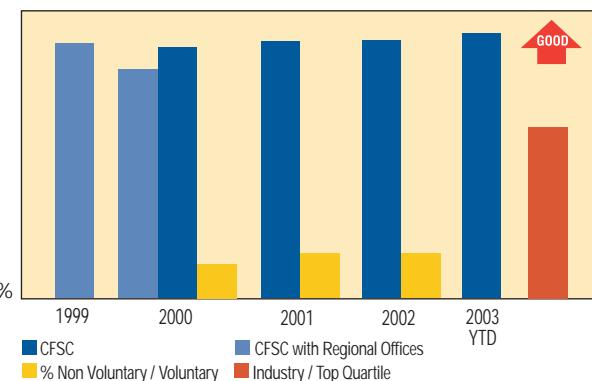
The formation of the CBC has led to significant improvements in KCP performance *(Figures 7.2-1 through 7.2-5)*. This innovative approach to work and job design has also led to dramatic cost reductions, as shown in *Figure 7.4-7*. Per transaction operating costs have dropped as much as 75%, supporting the CSFs of Reliable Returns and World-Class Core Processes and related cost-reduction strategies.

**Figure 7.4-7** Cost Reduction by CBC Process
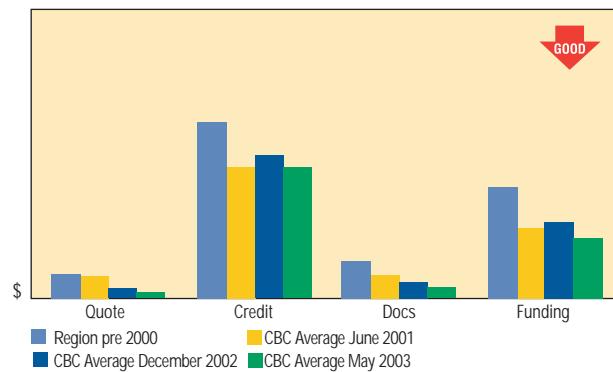
7.4a2 6 Sigma represents a key thrust of CFSC organizational training, *(Figure 7.4-8)*. From this investment, CFSC has realized after-tax benefits of more than $9 million.

Over 97% of employees are trained as Yellow Belts *(Figure 7.5-1)*, a ratio kept current with even the newest employees. In addition, over 28% of CFSC employees have completed Green Belt training and certification *(Figure 7.4-9)*.

Black Belts and Master Black Belts receive extensive training to ensure effectiveness as project leaders and in designing proactive measurement systems. These leadership resources allow CFSC to increase the number of projects undertaken, and to achieve impressive project results, more than double the benchmark *(Figure 7.4-9)*.

Figure 7.4-8 6 Sigma Training

6 Sigma
Training
Hours

- Yellow Belt
- Master Black Belt
- Sponsor & Executive
- Black Belt
- Green Belt
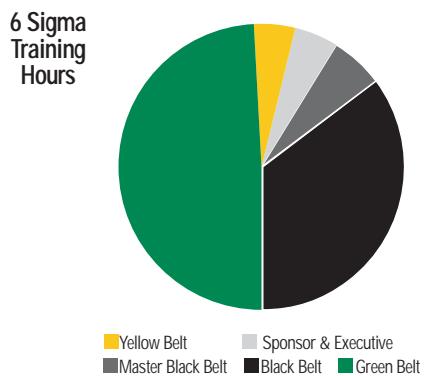
Figure 7.4-9 6 Sigma Results Per Employee

Benefits Per Black Belt | Benefits Per Employee

$

| April 2003 CFSC | 2003 YTD CFSC | Baldrige Winner | April 2003 CFSC | 2003 YTD CFSC | Baldrige Winner |
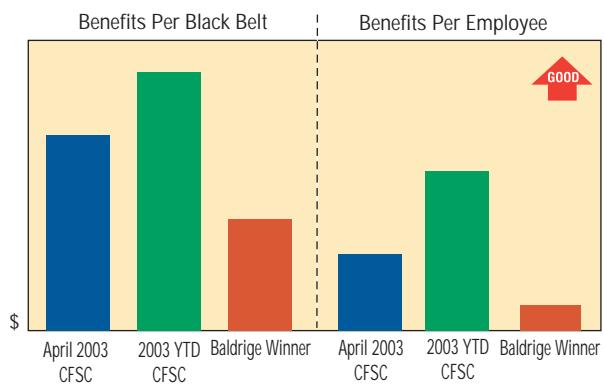
As verified through employee surveys, CFSC's performance improvement approaches *(Profile P2c)* foster a culture of employee involvement and innovation. Employees are engaged in the business and confident their inputs will be used *(Figure 7.4-10)*.

Figure 7.4-10 Employee Innovation

Employee Involvment | Employee Innovation

%

2001 2002 2003 Financial Services Best Practices | 2001 2002 2003 Financial Services Best Practices

- Employees encouraged to innovate
- Management uses employees ideas
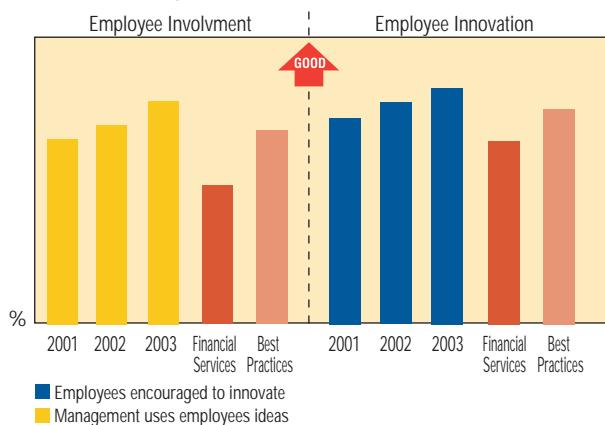
CFSC invests in employee development through an extensive catalog of internally/externally delivered courses and tuition/certification reimbursement policies. These policies contribute to CFSC's highly educated workforce and variety of specialized skills. Investment per employee, not including 6 Sigma training, exceeds benchmarks for the Finance, Insurance, and Real Estate industry *(Figure 7.4-11)*.

Figure 7.4-11 Training Investment
(Not including on-the-job and 6 Sigma)

$ /Employee

| 2001 | 2002 | 2003 YTD | 2003 Projected | FIRE Benchmark | National AVG |
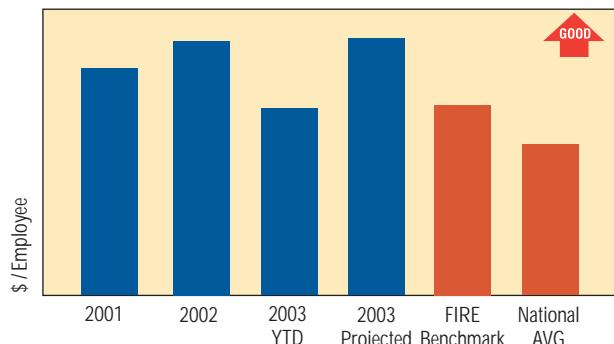
7.4a3 CFSC's strong overall employee satisfaction performance *(Figure7.4-1)* is further illustrated by segmenting 2003 results by employee category *(Figure 7.4-12)*. While there is some variation across the segments, all results are better than the overall industry norm with the exception of non-exempt employees, and compare favorably to best practices nationwide. Results segmented by tenure and ethnicity reflect similar strength, but are not presented due to space limitations.

Figure 7.4-12 Employee Satisfaction Index by Segment

% Satisfied

External Customers / Serve Internal Customers / Non Exempt Employees / Exempt Employees / Managers / Leaders / Male / Female

— Best Practices
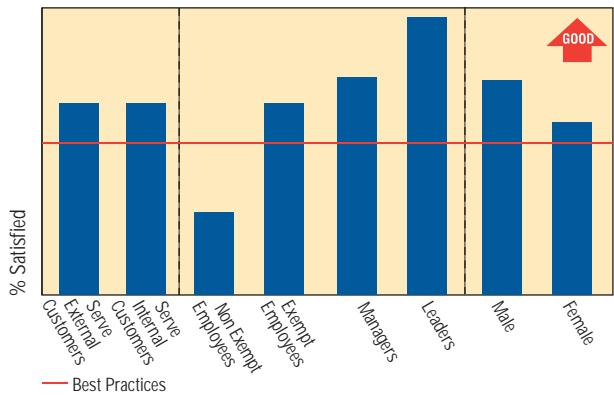
Individual questions from the survey help CFSC assess employee satisfaction with specific aspects of the work environment. Results for key environmental factors, including physical work environment and safety, are at very high levels relative to national norms reflecting CFSC's systematic focus on work-place aesthetics and comfort, as well as safety and ergonomics. Similarly, CFSC employees are much more satisfied with their ability to achieve work/life balance and CFSC's flexible work arrangements than national norms *(Figure 7.4-13)*.

Figure 7.4-13 Employee Satisfaction with Work Environment
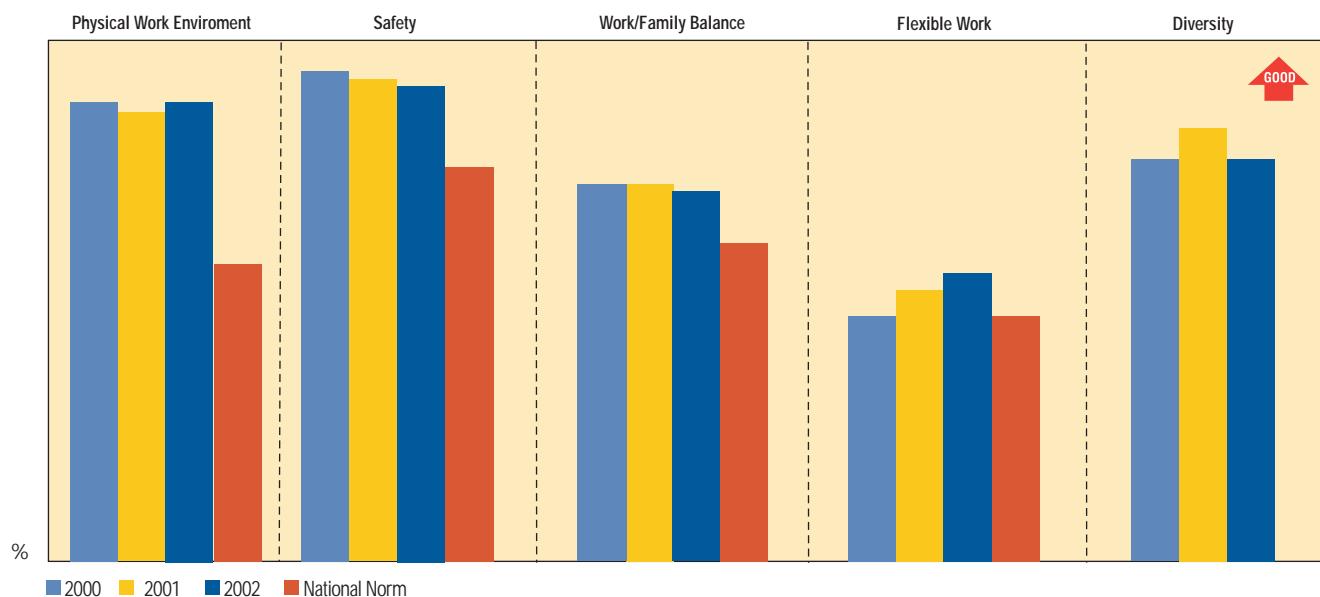
Ninety-three percent of CFSC employees participate in the Healthy Balance program, which earned national awards in 1999 and 2002. Sixty percent of CFSC's Nashville employees utilize the on-site fitness center, a rate more than double the national average *(Figure 7.4-14)*. Illustrating its success, CFSC was recognized by the Nashville Corporate Fitness Challenge in both 2001 and 2002.

Figure 7.4-14 Fitness Center Participation
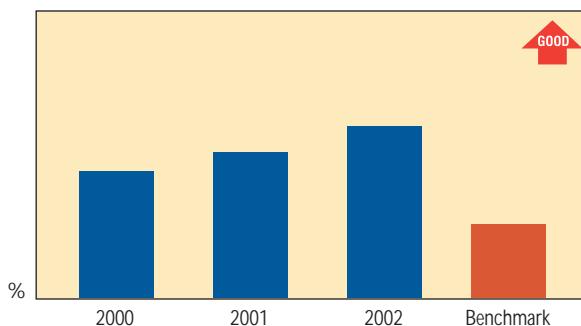
Reflecting CFSC's safe environment, Workers Compensation claims and time lost due to employee injury are extremely low. Total medical expense for these claims has remained below $10,000 per year for the past four years.

7.5 ORGANIZATIONAL EFFECTIVENESS RESULTS

7.5a1 World-Class Core Processes is a CSF, making process management and improvement a way of life at CFSC. As illustrated in *Figure 6-1*, CFSC systematically manages 79 processes across all Divisions and Corporate Support Departments. In addition to the improvements in KPC performance presented in *Figures 7.2-1* through *7.2-7*, business and support process results are presented below. (Results are available for all processes, but only key examples are included due to space limitations.) Reflecting CFSC's continued innovation, seven processes have patents pending.

Business Processes: CFSC's three key business processes are 6 Sigma, Treasury, and Merchandising. These processes are described in detail in *Item 6.1*.

6 Sigma: In 2001, CFSC adopted 6 Sigma as a business process to accelerate process improvement. Since then, 69 projects have been chartered, with more than $9 million in savings realized *(Figure 7.3-7)*. A key factor in achieving this benefit is the systematic deployment of 6 Sigma throughout the enterprise with clarity, consistency and commitment *(Figure 7.5-1)*.

Figure 7.5-1 6 Sigma Deployment (US)
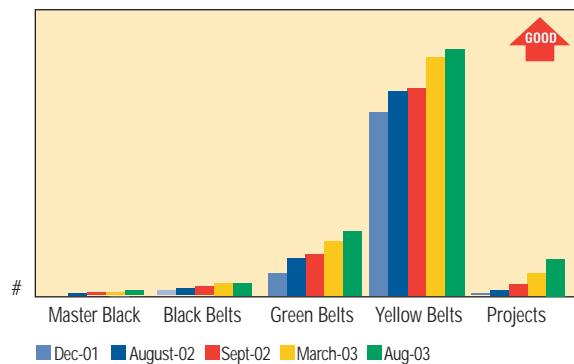
Treasury: Funding cost has a significant impact on CFSC's overall profitability and market effectiveness. The interest rate paid by CFSC reflects ratings determined by external agencies as well as the investor community sentiment. CFSC maintains strong credit ratings.

The industry standard measure of effectiveness in acquiring commercial paper funding compares the cost of funds for similarly rated companies to the London Interbank Offered Rates (LIBOR), with the difference

measured in basis points (1/100 of a percent). CFSC borrows money in the commercial paper markets at a more favorable rate than the composite A2/H15 Index for AA rated companies. This measure of the effectiveness of Treasury funding processes is critically important, as every basis point reduction in CFSC's combined funding cost equates to over $1 million in gross profit annually.

The benchmark measure for Medium-Term Notes (i.e., debt issued for more than 9 months) is the interest rate spread over comparable maturity U.S. Treasury Notes. CFSC is increasing its basis point advantage to peer-rated A2 Finance Companies, which illustrates investor confidence in CFSC's long-term prospects.

CFSC's banks are also measured with a scorecard that awards points based on the credit support they provide CFSC and Caterpillar (e.g., lines of credit or trade finance) and measures fees paid to the 21 banks relative to the points earned. This Caterpillar-proprietary system earned national awards in 1997, 1998, and 2002.

### 7.5-2 Commercial Paper Spread below 30 Day LIBOR

PROPRIETARY DATA

Basis Points

1999　　2000　　2001　　2002　　2003 YTD

CFSC Spread　　H15 AA Non-Financial Index
—— LIBOR (London International Borrowing Rate)
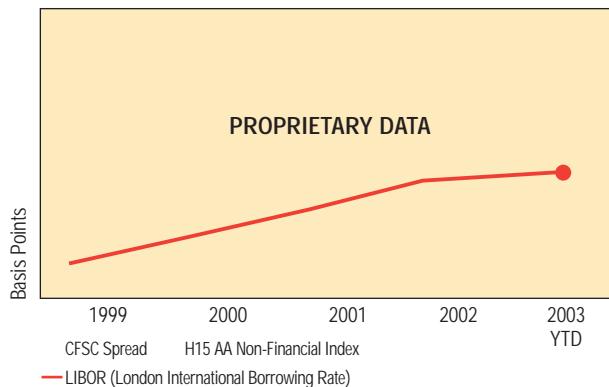
7.5-3 Average Premium over US Treasuries v. A2 Finance Companies

PROPRIETARY DATA

Basis Point Advantage vs. Benchmark

2000　　2001　　2002　　2003 YTD

—— Weighted Average Versus Fixed Rate Spread Over US Treasury Benchmark
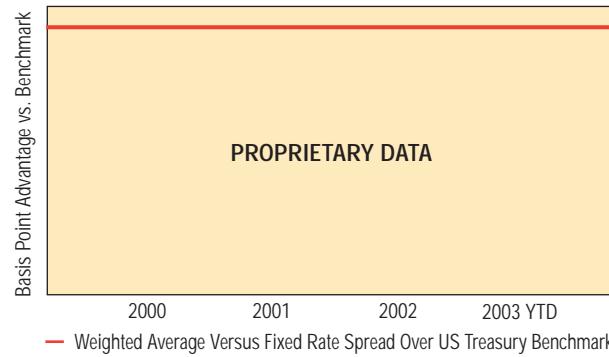
Merchandising: The proportion of contracts utilizing financial merchandising programs reflects CFSC's ability to simultaneously serve the needs of CatBUs who fund such programs and the Dealers and Users who benefit from them. CFSC has made dramatic improvements in performance for this key business process (due to the uniqueness of this measure, comparison data are not available.)

### 7.5-4 Effectiveness of Merchandising Programs

PROPRIETARY DATA

% of Contracts Using Programs

1996　1997　1998　1999　2000　2001　2002　2003 YTD
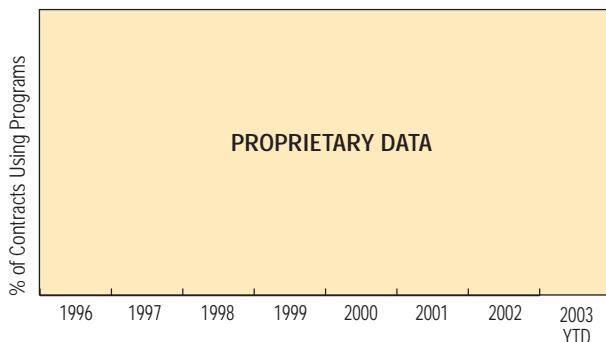
7.5a2 Support Processes: CFSC has identified more than 55 support processes across eight major support functions and applies the same rigor to managing and measuring their performance as with KCPs and Business Processes (*Figure 6-1* and *Item 6.2*). Examples of the results achieved with comparisons to appropriate benchmarks are presented here.

IT: IT Help Center Resolution Time (previously Response Time) and Systems Uptime are CFSC's key performance measures for this critically important support process. The significant improvements achieved in IT processes ensure that all employees and customers have timely and consistent access to all data systems in this information-intensive business (*Figures 7.5-5* and *7.5-6*).

Technology expenses consume a large proportion of the financial resources of every financial services company. CFSC investments in technology, such as Financ*Express*, are carefully managed for maximum financial return. IT expenses are lower than industry averages (*Figure 7.5-7)*, but CFSC still achieves high levels of IT performance. CFSC performance exceeds benchmarks.

IT Suppliers have improved their performance as well. Financ*Express* supplier measures include timeliness (e.g., most recent releases delivered within one week of projections) and software bugs.

### 7.5-5 IT Help Center Response Time

GOOD

Response Time　　Resolution Time

% of Standard

1999　2000　1st Q 2001　2nd Q 2001　3rd Q 2001　4th Q 2001　1st Q 2002　2nd Q 2002　3rd Q 2002　4th Q 2002　1st Q 2003　2nd Q 2003　3rd Q 2003

—— * Benchmark

7.5-6 Systems Uptime

Receivables System, Finance Express, e-mail, Remote Docs, Imaging, CQS, Acct Express

■ 2000 ■ 2001 ■ 2002 ■ 2003 YTD — Baldrige Winner

GOOD

7.5-7 IT Expenses

% of Revenues

2000 2001 2002 2003 YTD

■ CFSC ■ Industry Average

GOOD
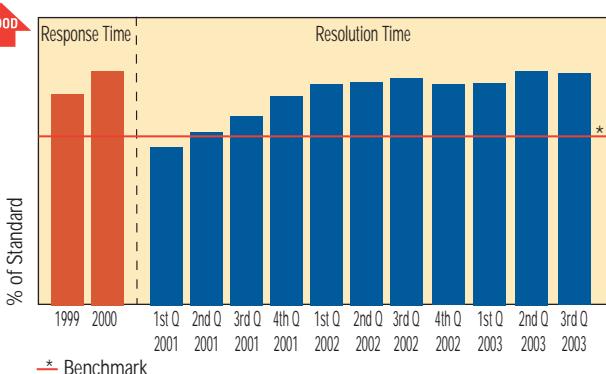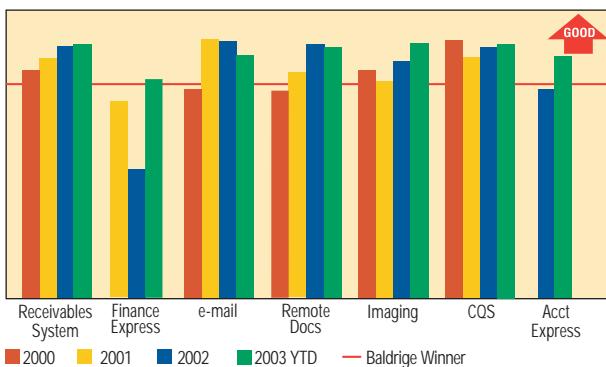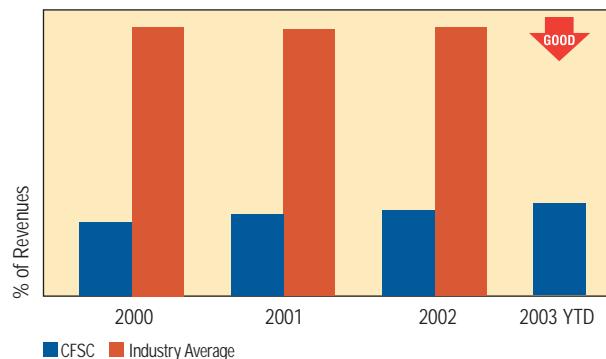
Accounting: Accounting process measures include the reconciliation of items required to close accounting books, cycle time to prepare the annual budget (BOP), and Accounts Payable. The number of items requiring reconciliation has been improved dramatically over the last 18 closing cycles as a result of a work systems improvement that pairs senior and less experienced accountants *(Figure 7.5-8)*. Accounts Payable has also improved invoice payment process accuracy since early 2001.

7.5-8 Accounting – Reconciling Items

Number of Items

June/Aug Sept Oct Nov Dec Jan Feb Mar Apr May June July Aug Sept Oct Nov Dec Jan Feb Mar Apr May June July Aug
01   02   03   03

GOOD
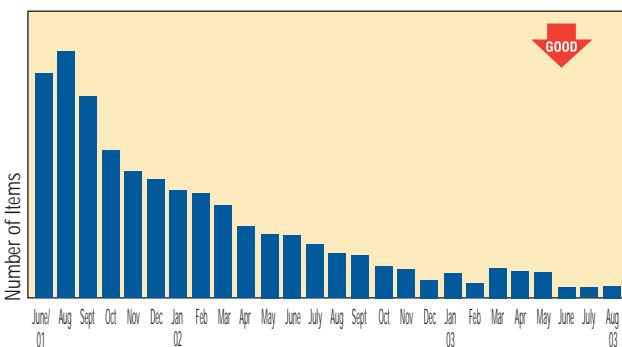
Marketing: Financ*Express* is CFSC's e-business solution. *Figure 7.5-9* illustrates dramatically increasing use by Dealers, which translates into improved User and Dealer Satisfaction, as well as improved efficiency and lower costs for CFSC. *(Figure 7.5-10)*.

Marketing continues to deliver effective employee communications *(Figure 1-2)* as measured by the Communications Effectiveness Index *(Figure 7.5-11)*.

7.5-9 FinancExpress Usage

# of Transactions

July/00   Aug 03 YTD

■ Credit App's ■ Quotes ■ Externally Generated Docs
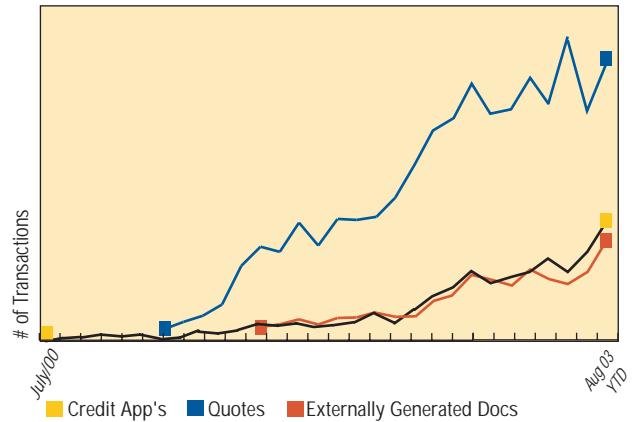
7.5-10 FinancExpress Deployment

% Eligible Transactions

2001 1st Q 2002 2nd Q 2002 3rd Q 2002 4th Q 2002 1st Q 2003 2nd Q 2003 3rd Q 2003 Benchmark

GOOD

7.5-11 Communications Effectiveness

% Highly Satisfied

2000 2001 2002

GOOD
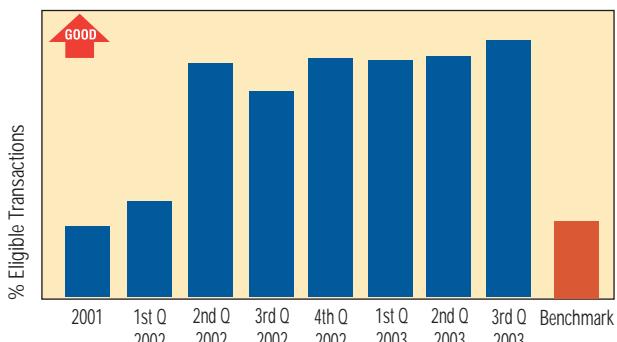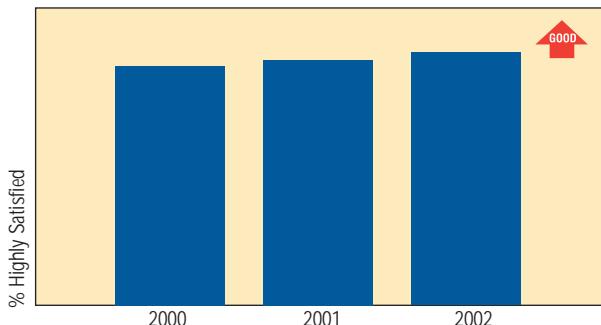
Risk Management: Although deliberately increasing allowances for credit loss to reflect the current economic downturn and a maturing portfolio, CFSC continues to out-perform commercial lending industry averages *(Figure 7.5-12)*.

Indicators of the overall health of CFSC's portfolio are reviewed monthly by the BEC. CFSC continues to achieve targets for Reliable Returns and Growth through careful asset management, prudent cost control, aggressive process improvements, and diligent collection efforts. *(Figure 7.5-13)*.

7.5-12 Allowances for Credit Loss

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 YTD |

■ CFSC ■ Industry Average

7.5-13 Portfolio Factors

% Past Dues   % Inactives   Repo Units   % Allowance

■ 2000 ■ 2001 ■ 2002 ■ 2003 YTD ■ Industry Benchmark
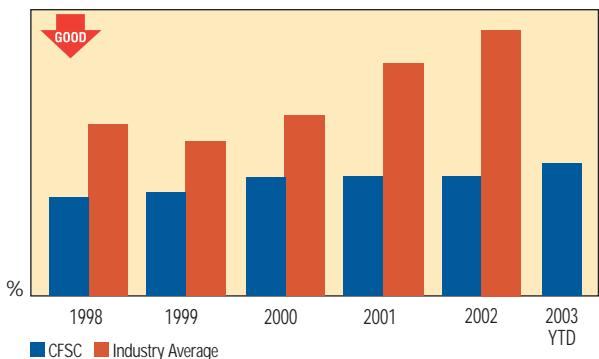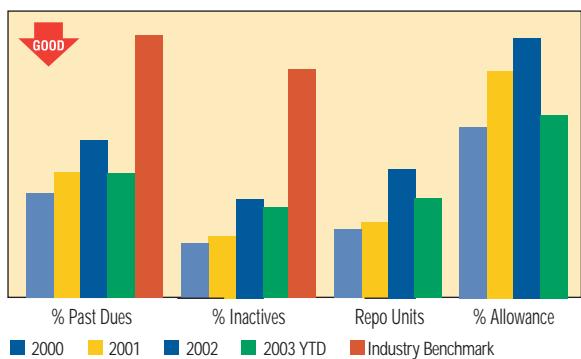
7.5a3 CFSC has increased Managed Assets per Employee *(Figure 7.5-14)*, significantly outperforming the industry's Top 100 average as well as other captive equipment lenders. This indicator, as well as Non-Interest Expense as a Percent of Average Managed Assets *(Figure 7.3-4)*, demonstrates the combined impact of process management, 6 Sigma, and technology management on CFSC's overall productivity and efficiency.

7.5-14 Managed Assets per Employee

$ (000) / Employee

| 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 YTD |

■ CFSC ■ Captives Average ■ Top 100 ■ Best Captive
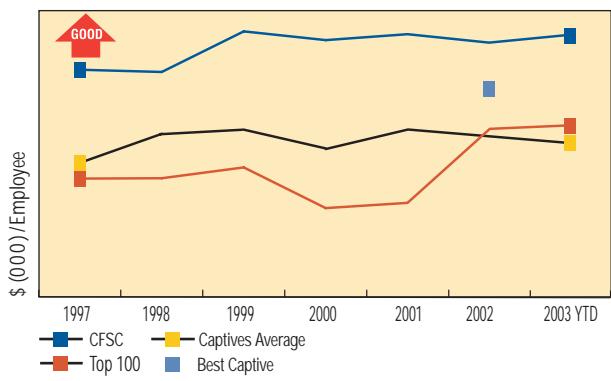
In addition to the Top Tier measures and results presented throughout Category 7, there are several other indicators used by the BEC to monitor the effectiveness of CFSC's strategies toward the achievement of the CSFs.

The overall goal of any captive finance company is to facilitate product sales. Users report that CFSC influenced their decision to purchase Caterpillar equipment, *(Figure 7.5-15)*.

7.5-15 CFSC Impact on Equipment Sales

Extremely Important   Somewhat Important   Neither   Somewhat Unimportant   Not at all

■ 2000 ■ 2001 ■ 2002 ■ 2003 YTD
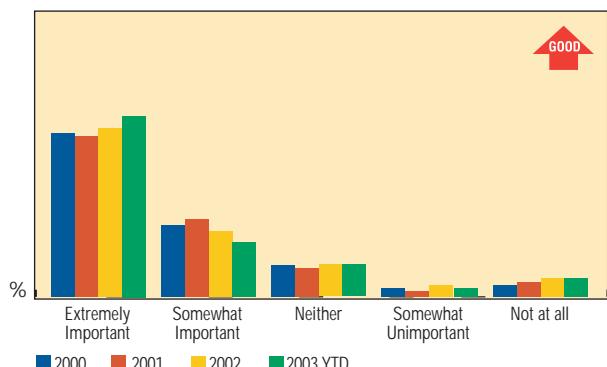
CFSC has regularly participated in the Tennessee Quality Award and Baldrige process to obtain an objective assessment of its performance management systems and overall organizational effectiveness. With the exception of 1996, when the scoring bands changed, CFSC progressed continuously, and won the Tennessee Quality Excellence Award in 1999 *(Figure 7.5-16)*.

Figure 7.5-16 Baldrige-Based Assessments

Year	Scoring Band
1993	251-400
1994	401-600
1996	351-450
1998	351-450
1999	551-650 Winner: Tennessee Quality Excellence Award
2001	Self - assessment
2002	Baldrige Site Visit

Individually, or as a part of Caterpillar, CFSC has been recognized for superior results and effectiveness by many external organizations including:
• *Training magazine* – 2002 and 2003 Top 100 Training Organizations nationwide.
• *Middle Tennessee Human Resource Excellence Award* – 2002, Inaugural recipient.
• *CompuWorld magazine* – Best Places to work in IT (Caterpillar – multi-year winner).
• *Money magazine* – 2002 Best Benefits in America (Caterpillar #17 overall).
• *Working Woman magazine* – Supplier Diversity Award (Caterpillar).
• *The Black Collegian* – Top 100 employer for new College Graduates (Caterpillar).
• *International Association of Business Communicators* – CFSC communications won four Awards in 2002 and 2003.

7.6 GOVERNANCE AND SOCIAL RESPONSIBILITY RESULTS

7.6a1 CFSC upholds the highest standards of fiscal responsibility. It reports extensive financial information through the SEC 10K/10Q annual and quarterly statements. Additionally, CFSC's financial and operational capabilities are thoroughly scrutinized by external rating agencies and securities analysts.

CFSC uses extensive internal control mechanisms at both the overall and project level *(Figure 1-6)*. The annual Risk Evaluation Process determines the schedule and locations of internal audits. In 2002, no areas received 'unacceptable' ratings *(Figure 7.6-1)*.

Figure 7.6-1 Audit Ratings by Year

PROPRIETARY DATA

Millions

| 2000 | 2001 | 2002 | 2003 YTD |

Not Rated   Acceptable with Qualification
Satisfactory   Unacceptable
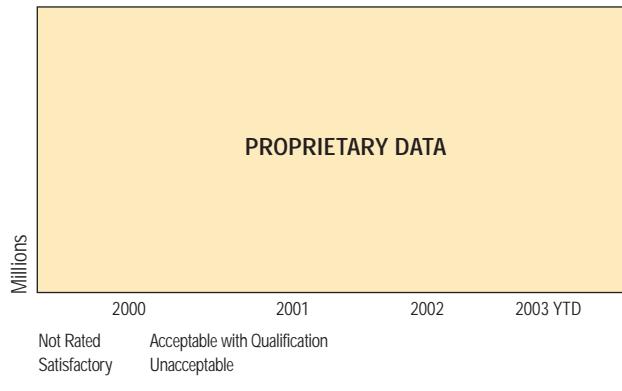
CFSC's accounting practices are reviewed annually by a major accounting firm.

Figure 7.6-2 Quality of Accounting Principles

| FIGURE 7.6-2 Quality of Accounting Principles (Price Waterhouse)					
Accounting Principles	(Quality Achievement Levels)				**Best Practices**
	Quadrant				
	1	**2**	**3**	**4**	
Estimates/Accruals and Allowances					
2002					
2003					
Investments					
2002 (Not Assessed)					
2003					
Derivatives & Foreign Currency		PROPRIETARY DATA			
2002					
2003					
External Reporting					
2002					
2003					
Revenue & Receivables					
2002					
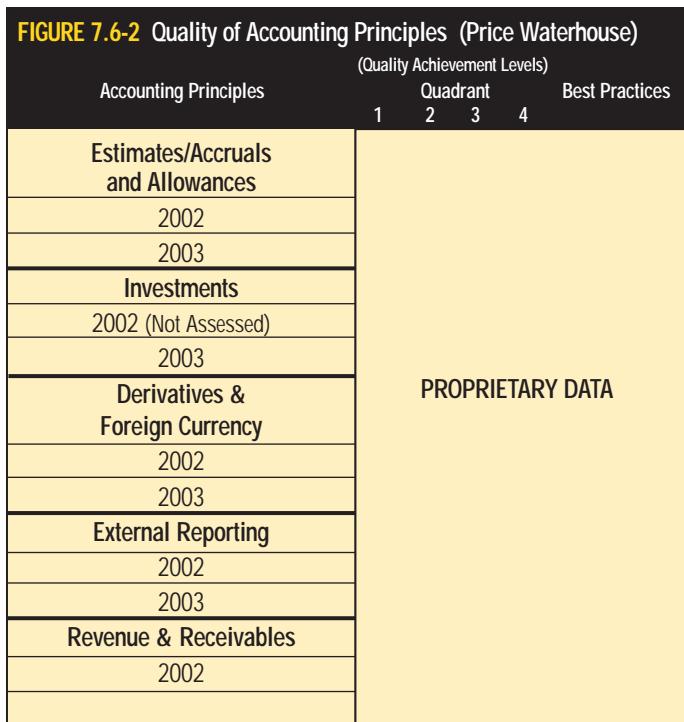
7.6a2 As indicated *Figure 7.6-3*; employees give CFSC ethics processes and commitment to business ethics high marks exceeding national benchmarks.

7.6-3 CFSC Ethics

% Favorable

| 2000 | 2001 | 2002 | 2003 | Benchmark |
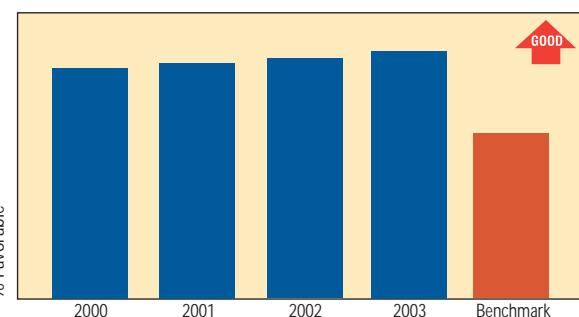
The Leadership Index *(Figure 7.6-4)*, a Top Tier measure for the Leadership CSF, is used by the BEC to monitor and improve leadership effectiveness. The significant improvement in the index over the past several years is driven by consistent improvement across the individual questions on which the index is based, including employees' perception of leadership, leaders' clarity in providing direction, and reliability/truthfulness of their communications *(Figure 7.6-5)*. These results demonstrate the success of the Business Excellence model, as well as the BEC's effectiveness in leading the organization.

7.6-4 Leadership Index
(Top Tier Measure)

% Leadership Assesment

| 2000 | 2001 | 2002 | 2003 | Financial Services | Best Practices |

7.6-5 Leadership Factors

%

| 00 01 02 03 | 00 01 02 03 | 00 01 02 03 |
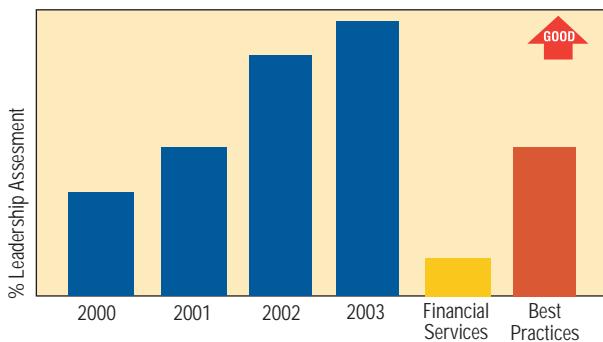
- Employee Perception of Management Leadership
- Leadership Direction
- Financial Services
- Leadership: Truth/Reliable
- Best Practices
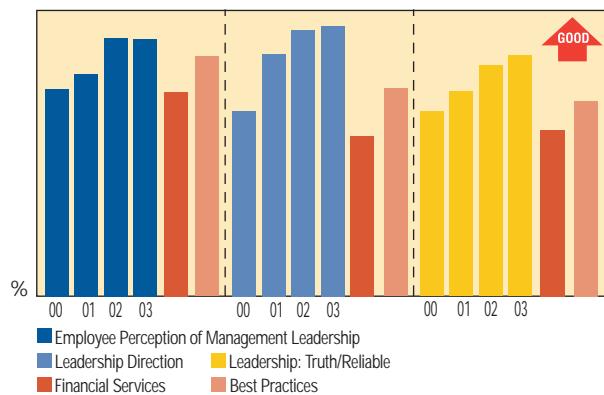
An independent service rates the Caterpillar Board in the top 11% nationwide for overall Corporate Governance. Within the industry, the Board scores in the top 7%. The Board exceeds national benchmarks for independence. Attendance at Cat Board meetings and Committee meetings was 97% in 2002.

Figure 7.6-6 Board Independence

| FIGURE 7.6-6 Governance Principles*	Caterpillar	Benchmark Score, All Industries	Benchmark Industry
Board Composition		PROPRIETARY DATA	
Audit Committee			
Compensation Committee			
Nominating Committee			
Board Self Evaluation			
ISS Governance Score	All	Capital Goods Industry	
Caterpillar			
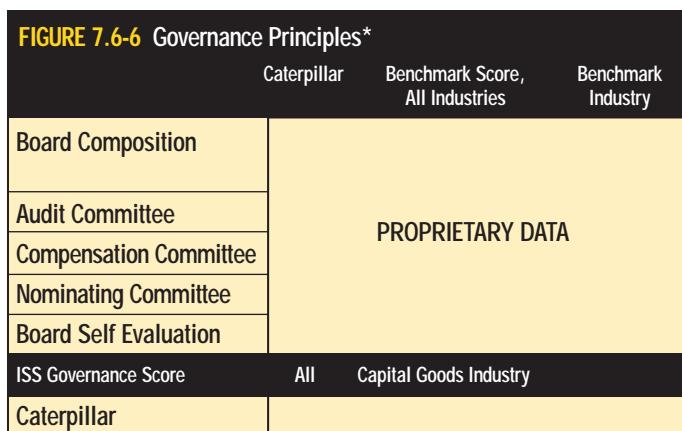
*NACD Survey at 5000 Corporations

7.6a3. CFSC's Legal Department is also proactive in researching regulatory requirements and providing compliance training to employees. *(Figure 7.6-7)*. The legal and regulatory requirements described in *Figure 1-6* are primarily compliance-oriented and represent reporting dates that must be met. Therefore, the timing of SEC filings is tracked. CFSC fully meets the requirements of the appropriate regulations and has never received any sanctions.

Figure 7.6-7 Compliance Research and Training
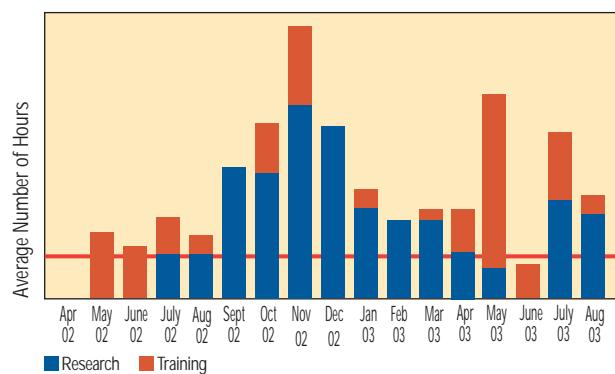
7.6a4 CFSC contributes substantially to the community, giving more than $425,000 in 2003, up from $202,000 in 1999. CFSC giving per employee averages $467, exceeding the United Way national average of $208. CFSC employees contribute more to the local United Way, surpassing similar sized companies in Leadership Giving by more than 20% *(Figure 7.6-8)*. CFSC is the largest financial, volunteer, and leadership supporter of Junior Achievement in Nashville and is recognized as one of the top supporters of Nashville Metro School's PENCIL Foundation. Additional recognition CFSC has received for community support is included in *(Figure 1-8)*.

7.6-8 United Way Leadership Giving
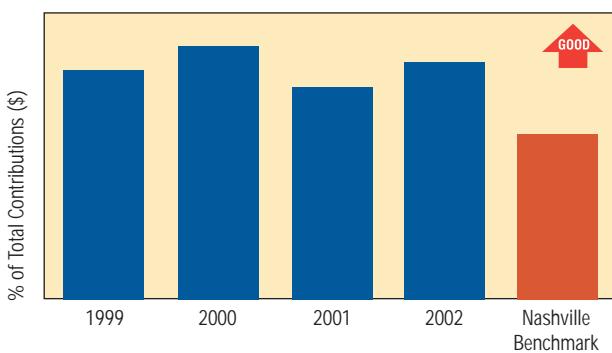
Employees are highly satisfied with CFSC's community support, with results dramatically exceeding national norms and past Baldrige winner, Solar *(Figure 7.6-9)*.

7.6-9 Community Support
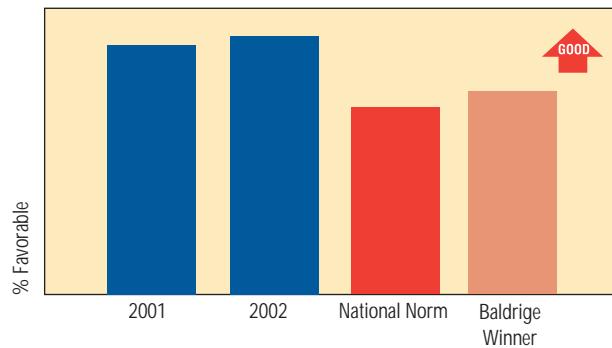
CFSC employees feel the company is committed to protecting the environment. Caterpillar was named to the elite Dow Jones Sustainability Index—recognition for environmental responsibility only given to the top 10% of organizations worldwide.

GLOSSARY OF CFSC ACRONYMS & TERMS

This glossary provides the full name for all acronyms used in the application. Brief definitions are also provided for all technical terms, and in those cases in which a more detailed description is included in the application, the glossary lists the page where it may be found.

360° Feedback – a process providing an employee feedback from his/her supervisor, peers, internal customers and subordinates if a manager

6 Sigma – a level of process performance equivalent to producing only 3.4 defects for every one million opportunities or operations; also used to describe a Process Improvement methodology using data driven process measures to strive for 6 sigma level performance

Account*Express* – a web-based service capability available 24/7 to provide customers with information regarding their account

ACSI – see American Customer Satisfaction Index

ALC – see Annual Leadership Conference

American Customer Satisfaction Index – a customer satisfaction survey from the University of Michigan/ASQ that is widely used in the service industry and considered the national indicator of the quality of goods and services available to U.S. residents

Annual Leadership Conference – meeting of the top 45 managers worldwide to update current initiatives, discuss company direction, and set goals for the next five years; an integral part of the Strategic Planning Process Base Operating Plan – annual operating budget developed during the Strategic Planning Process and adjusted monthly by the RBM process BEC – see Business Excellence Council

BEC Review – monthly organizational review meeting in which the BEC reviews the health of the organization and makes integrated management decisions

BERT – see Business Excellence Review Team

BIG – see Caterpillar Business Intelligence Group

Black Belt – a full-time employee expert in the 6 Sigma process and team facilitation, responsible for guiding an improvement project to completion and training Green Belts

BOP – see Base Operating Plan

Business Excellence – a management model which incorporates CFSC's Vision, Mission, CSFs, and Shared Values, and provides the context for decision-making and alignment of all organizational activities

Business Excellence Council – an integrated management and shared decision-making body, which includes all CFSC senior leaders (i.e., vice presidents) and vice presidents responsible for Europe, Asia, and Caterpillar Insurance Services Corporation

Business Excellence Department – one of CFSC's Corporate Support Departments; includes Strategic Planning, 6 Sigma, and Continuous Improvement

Business Excellence Review Team – composed of three BEC members and the Business Excellence Department Manager, and facilitated by the Strategic Planning staff, this team is responsible for evaluation and improvement of Business Excellence and the Strategic Planning Process

Captive Finance Company/Equipment Lender – a financing company or lender owned by the manufacturer of the product being financed

Career Management System – see Performance and Development Process/Career Management System

Cat – Caterpillar Incorporated

Cat Buck – recognition given by employees to recognize shared value behavior

CatBUs – see Caterpillar Business Units

Caterpillar Business Intelligence Group – a department of Caterpillar Inc. that provides economic trends, marketing research, competitive analysis, key business information, and industry analysis

Caterpillar Business Units – the 26 other units of Caterpillar Inc. that sell equipment to Caterpillar Dealers and are customers of CFSC

Caterpillar Financial Products Division – CFSC, Cat Power Ventures Corp., Caterpillar Insurance Corp., and Caterpillar Redistribution Services, Inc. (see Eligibility Certification Form)

Caterpillar Financial Services Corporation – a wholly owned subsidiary of Caterpillar Inc. and the organization applying for the Baldrige Award

CBC – see Customer Business Center

CCE – Compact Construction Equipment

CFSC – see Caterpillar Financial Services Corporation

CIT Inc. – a CFSC competitor

CitiGroup – a CFSC competitor, which includes The Associates, a formerly independent competitor CMS – see Performance and Development Process/Career Management System

Commercial Paper – short-term, unsecured, discounted debt instrument usually sold to meet immediate cash needs

Competitive Survey – competitive research used to measure User satisfaction and understand business practices of CFSC's competitors

Contract Modification Survey – research tool used to assess Users' satisfaction with CFSC processes for modifying their contracts

Corporate Communications – CFSC group created to foster integrated communications throughout the organization

CP – see Commercial Paper

Credit Committee – responsible for monitoring and reporting credit risk

Critical Success Factors – CFSC's six areas of strategic focus (i.e., Customer Satisfaction, Employee Satisfaction, Growth, Leadership, Reliable Returns, and World-class Core Processes) to which all strategies, action plans, and performance measures are aligned

CRM – see Customer Relationship Management

CSF – see Critical Success Factors

CSI – see Customer Satisfaction Index

Customers – Users, Dealers, and Cat Business Units

Customer Business Center – process-based customer service department for CFSC Users and Dealers located in Nashville, TN

Customer*Express* – a customer relationship management system being developed to aid CFSC in serving Users and Dealers and improving customer listening/relationship management

Customer Relationship Management – a system being developed to aid CFSC in serving Users and Dealers and improving customer listening/relationship management; also called CustomerExpress

Customer Relationship Reviews – annual reviews with the Top Users in each region to build relationships and assess future business opportunities

Customer Satisfaction Index – a Top Tier measure that is calculated for each customer group (i.e., Users, Dealers, and CatBUs) based on the results of satisfaction surveys and used by the BEC to monitor CFSC performance in meeting customer expectations

Data Shopping Network – technology used to gather and consolidate information from various database programs for reporting purposes

Dealer – an independent distributor of Caterpillar products

Departments – CFSC's seven Corporate Support Departments and Legal

Deployment Champion – full-time leadership position reporting to the CFSC President, responsible for implementing 6 Sigma throughout CFSC

Divisions – CFSC's four revenue-producing units, i.e., Equipment, Marine, Global, and Power

DMAIC – 6 Sigma improvement process whose five steps are Define, Measure, Analyze, Improve, and Control

DMEDI – 6 Sigma new product/service creation process, whose five steps are Define, Measure, Explore, Develop, and Implement

DSN – see Data Shopping Network

Dun & Bradstreet – provider of business and credit reports, country risk services, market listings, and other information

EAP – see Employee Assistance Program

ECOA – Equal Credit Opportunity Act

ELA – see Equipment Leasing Association

EOR – Caterpillar Executive Office Review Equipment Leasing Association – an industry association that provides updates on industry developments and trends, and monitors legislative activity that may affect the industry

eTracker – knowledge-sharing system for 6 Sigma projects, providing Caterpillar-wide access to information

Eye on Quality Award – employee recognition certificate up to $150 in value and redeemable for gift certificates and cash

FCRA – Federal Credit Reporting Act

FDCA – Fair Debt Collection Act

Financial Information System – Excel system, which consolidates and integrates crucial financial information, provides managers timely and graphical presentation of data, and includes a red alert identifier for measures not meeting plan

Financ*Express* – Internet based financing tool for employees, Users, and Dealers

FIS – see Financial Information System

FPD – see Caterpillar Financial Products Division

GAAP – Generally Accepted Accounting Principles

Global Division – CFSC division, which provides financing solutions in those locations where CFSC does not have subsidiaries or funds in local currency, includes several countries in Central and Latin America, Africa, and Asia

Green Belt – subject matter experts who are trained in 6 Sigma methodologies and work part-time on 6 Sigma projects

Healths – a system of measures and indicators, aligned with the CSFs and Top Tier measures, and used by the Business Excellence Council to monitor organizational performance in key areas

IC – incentive compensation

Inactive Accounts – Accounts that are past due for 120 days, or have filed Bankruptcy, or those accounts where the debtors ability to repay the debt is in doubt.

Industry Council – any of twelve cross-Caterpillar councils focusing on the needs of Cat Users by industry

InfoLease – software used to enter, analyze, and monitor transactions and modifications pertaining to the contracts negotiated by CFSC

Institutional Shareholder Services – an independent organization with expertise in corporate governance

ISS – see Institutional Shareholder Services

IVR – interactive voice response system

KCP – see Key Core Processes

Key Core Processes – CFSC processes, which impact Users and Dealers

LIBOR – London Inter Bank Offer Rate

Living Our Shared Values – a training program deployed in 2002 and focused on diversity, compliance, and a positive workplace

LOSV – see Living our Shared Values

Marine Division – a CFSC division, which provides financing for new vessels, repowering existing vessels and pleasure craft floor plans

Master Black Belt – full-time position, dedicated to the long-range technical vision of 6 Sigma, and training Black Belts

MC – see Merchandising Consultant

Medium Term Notes (MTN) – debt instruments of duration of one to five years

Merchandising Consultant – CFSC employee who works with CatBUs to develop financial merchandising programs that promote the sale of CAT equipment

Monitor 100 – an annual ranking of the 100 largest, equipment finance/leasing companies in the U.S.

MSCE – Microsoft Certified Systems Engineer

New Service Introduction Process – new product design process used prior to launch of 6 Sigma

Nexus/Lexis – provider of business and credit reports and other information

NSI – see New Service Introduction Process

Origination Survey – research tool used to assess Users' satisfaction with CFSC processes for establishing a loan/lease with CFSC

PDP/CMS – see Performance and Development Process/Career Management System

Percentage of Dealer Deliveries – the percentage of all deliveries of new CAT equipment (in dollars) that are financed by CFSC

Performance and Development Process/Career Management System – process used to deploy CFSC strategy to all employees, set individual goals, and monitor progress, as well as identifies skills required for goal achievement and career development

PGM – see Project Governance Model

PLN – Peer Learning Network

PODD – see Percentage of Dealer Deliveries

Power Division – CFSC division, which provides financial support for engine sales and large electric generation projects worldwide

PPL - see Prioritized Project List

Prioritized Project List – Process for gaining Caterpillar approval for projects requiring investments exceeding $5 million

Project Governance Model – a project management tool used by the IT department to plan, monitor, and control resources needed to efficiently manage IT projects

RBM – see Rolling Business Model

RDA – research & consulting group for User, Dealer, and CatBU satisfaction surveys

ROA – Return on Assets

ROE – Return on Equity

Regression Analysis – testing on survey data to determine statistical reliability

RM – Regional Manager

Rolling Business Model – monthly update of CFSC's Base Operating Plan, which is an 18-month roll-up, used for internal decision making and available to external investors

Sarbanes-Oxley Act – 2002 federal legislation addressing corporate governance, periodic disclosure, regulation of auditors, nonaudit services, SEC enforcement, securities litigation, research analysts, and benefits for directors and executive officers

Shared Values – fundamental principles that inspire CFSC to consistent and purposeful behavior

SNL – a data service providing industry data and competitive comparisons

SOLVE-PDCA – a Plan, Do, Check, Act process improvement model used from 1992-1999

SRC – Caterpillar Strategic Review Council

Strategy Review Council – Corporate council that coordinates strategy across Caterpillar business units

SWOT Analysis – a systematic analysis of strengths, weaknesses, opportunities, and threats

TCPE – see Tennessee Center For Performance Excellence. Formerly Tennessee Quality Award.

TM – see Territory Manager

TQA – Tennessee Quality Award

Tapestry – a 6 Sigma methodology piloted in 2002 and deployed in mid-2003 that leverages CFSC's growing pool of experienced Green Belts to lead several smaller interrelated projects under the guidance of a Black Belt, using many of the DMAIC process improvement tools

Targeted Selection – CFSC's structured interviewing process

Tennessee Center For Performance Excellence – the state agency that administers the Tennessee Quality Award

Territory Manager – field employee responsible for serving specific Dealers and Users, and often located on Dealer premises

Termination Survey – research tool used to assess Users' satisfaction with CFSC processes for closing their contracts

ThoughtWorks – developer partner/consultant for Financ*Express*

Top Tier Measures – key indicators for each CSF that are reviewed monthly at BEC Meetings

UpFront – brand name for employee communications delivered via the Intranet, video broadcasting network, emails, and newsletter

User – customer who owns/leases CAT equipment and may have a loan/lease with CFSC

Yellow Belt – Employee trained in basics of 6 Sigma methodologies who may serve on a 6 Sigma team on a part-time basis