

TAPPING THE UNREALIZED PERFORMANCE POTENTIAL OF EMPLOYEE ENGAGEMENT

At its lowest point in two decades, a new approach helps managers effectively boost employee engagement

Management Issue

For Current Members of Hackett Executive Advisory Programs

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EXECUTIVE SUMMARY

As the effects of the “Great Recession” linger in the workplace, employee engagement has emerged as a major concern. Although nervous about their ability to retain talent once economic conditions improve, managers continue to push workers for performance improvements. The business case for engaging employees is compelling: higher engagement leads to lower turnover and better business performance. But with knowledge workers now dominating the Western workforce, new approaches for measuring and improving engagement are needed. Managers must focus individually on employees as the key to improving engagement throughout the enterprise. By leveraging universal motivators – autonomy, mastery and purpose – to make mutually rewarding progress, each manager can readily create natural win/win outcomes. The Hackett Group, with its partner Vision21, has developed a comprehensive approach and toolkit that can be used by people managers and other key contributors to the employee engagement process.

SITUATION BACKGROUND

Employee engagement (EE) is perhaps the most elusive ingredient in corporate success. Many companies have a hard time understanding it, measuring it or knowing how to improve it. Traditional measurement approaches are often too high-level and don't identify root causes of problems or specific improvement actions. Nor do they suggest how first-line managers, senior company leadership and HR should play their essential roles.

Yet, employee engagement has become a major concern in the era of economic volatility in which businesses globally are now operating. Managers continue to push workers for performance improvements, but at the same time they worry that overworked, unhappy employees will not hesitate to leave for better opportunities once economic conditions improve.

Established measurement techniques and consulting approaches provide some insights into engagement levels and drivers, but offer few specific actions that can be taken to improve them. The key leverage point – the manager-employee connection – represents the greatest opportunity for gains, yet is often ignored.

THE BUSINESS CASE FOR EMPLOYEE ENGAGEMENT

The business case for engaging employees is compelling: higher engagement leads to lower turnover and better business performance. With knowledge workers now dominating the Western workforce, new approaches for measuring and improving engagement are needed. Unfortunately, many executives view EE as a luxury rather than a necessity or a key element of corporate performance.

There are two urgent reasons for corporate and HR leaders to make engaging employees a top priority. First, EE is essential as organizations struggle with volatile business conditions and the residual effects of workforce reductions and spending cutbacks made in recent years.

While many of these cost-reduction actions were necessary, there is no denying their negative impact on employee morale. Engagement levels arguably are at their lowest point in two decades. In the face of sustained pressure to keep costs down and productivity up, managers must build engagement broadly among their capacity-stretched workforces. Despite the favorable local and global labor supply in some skills areas and professions, companies are not immune from turnover, especially of top performers, who have options even in recessions and who are likely to leave if not fully engaged.

Second, over the long run employee engagement is an important responsibility of leadership and essential driver of top performance. According to management expert Peter Drucker, “The most important, and indeed the truly unique, contribution of management in the 20th century was the fifty-fold increase in the productivity of the manual worker in manufacturing. The most important contribution management needs to make in the 21st century is similarly to increase the productivity of knowledge work and the knowledge worker.”¹

What would it mean to “similarly increase the productivity of knowledge work and the knowledge worker”? In the simplest terms, knowledge workers in 2099 would create fifty times more value per unit time than their Y2K counterparts. That corresponds to a compound annual growth rate (CAGR) of 4%. Meanwhile, businesses that increase knowledge-worker productivity with a CAGR of 5% would deliver 21st-century productivity gains of 131 times. This level of abstraction helps to frame the challenge facing management as the enabler of those essential productivity gains: to achieve 4% to 5% CAGR in the productivity of knowledge work and knowledge workers.

In this context, neither the approach to nor the promise of EE sound all that new or radical. EE is the result of, and the reward for, leading and managing well, making the most of the strengths and knowledge of workers, and enabling them to perform to their best ability. Companies that have built highly engaged work forces conclusively demonstrate not only the magnitude of the rewards for doing so, but also the relative ease with which a well-informed and determined organization can capture those rewards.

About employee engagement

Employee engagement (EE) constitutes the biggest talent productivity and retention lever available to business today.

EE is the result of, and the reward for, leading and managing well.

The continuing ascendancy of knowledge work and knowledge workers has made high levels of employee engagement absolutely essential to enterprise health and survival in the 21st century.

Well-conceived and well-executed employee engagement initiatives earn huge returns, reduce risks/exposure and properly focus leadership and management efforts.

EE thought leaders now know what to do and how to do it; any enterprise can raise employee engagement to unprecedented levels and reap all the rewards.

¹ Drucker, P. F., *Management Challenges for the 21st Century*, Harper Business, 1999.

By studying successes and failures, thought-leaders have become much smarter about what really counts in EE. In particular, there is a substantial body of work documenting the relationship between employee engagement and different measures of performance (Fig. 1).

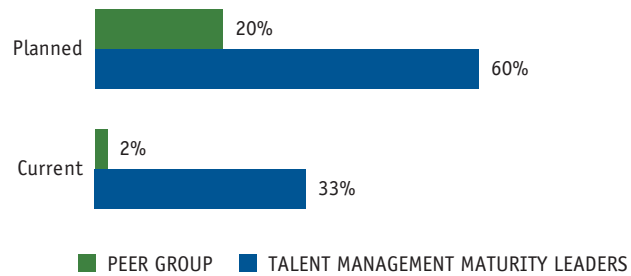
FIG. 1 Evidence of the financial impact of employee engagement on measures of business performance

Multi-company studies		Single-company examples
Companies implementing high-performance practices had on average seven percent less turnover, and higher per-employee sales (by \$27,044), market value (by \$18,641), and profits (by \$3,814). (Huselid, M., "The Impact of HR Management Practices on Turnover, Productivity, and Corporate Financial Performance," <i>Academy of Management Journal</i> , 38:647, 1995).	One standard deviation of improvement in the use of high-performance HR practices was associated with an increase in shareholder wealth of \$41,000 per employee, or about a 14 percent market value premium. (Huselid, M. and Becker, B., "The Impact of High Performance Work Systems, Implementation Effectiveness, and Alignment with Strategy on Shareholder Wealth," unpublished paper, Rutgers University, New Brunswick, NJ, 1997).	Sears was able to demonstrate that a five-point increase in measures of employee attitudes led to a 1.3-point increase in customer satisfaction, which in turn led to 0.5-percent revenue growth -- several hundred million dollars. (Rucci, Kirn and Quinn, "The Employee-Customer-Profit Chain at Sears," <i>Harvard Business Review</i> , January-February, 1998).
Over a three-year period, low-engagement companies saw a drop both in operating margins (-2.1%) and net profit margins (-1.38%). High-engagement companies saw a rise in operating margins (+3.75%) and net profit margins (+2.06%) (ISR, 2004).	High-engagement firms experienced an earnings-per-share (EPS) growth rate of 28%, compared with an 11.2% decline for low-engagement firms. (Towers Perrin survey, July 2008).	Best Buy Stores where employee engagement increases by a 0.1 (on a five-point scale) experience a \$100,000 increase in annual sales. ("Measuring Up," <i>CFO</i> magazine, June 26, 2007).
Every "engaged" employee is worth about \$5,000 each year in additional profit (Hewitt Associates).	Public organizations in the top quartile of employee engagement had EPS growth more 2½ times greater than below average firms. (<i>Gallup Management Journal</i> survey, January 12, 2006).	Stores with top engagement scores generate roughly 10% more in sales per square foot and 36% more operating income than similar-sized stores in lowest quartile. (JC Penney 8-K SEC filing, April 17, 2007).
Highly engaged employees outperform their disengaged colleagues by 20-28% (The Conference Board, 2006; summary of 12 authoritative independent studies).	Share prices of organizations with highly engaged employees rose by an average of 16% compared with an industry average of 6% (Sirota, D., "The Enthusiastic Employee: How Companies Profit by Giving Workers What They Want," 2005).	By strengthening engagement, MolsonCoors saved more than \$1.7 million in one year (SHRM, "Employee Engagement and Commitment," 2006).

Source: The Hackett Group

The Hackett Group’s Talent Management Maturity Study found that organizations with the most-mature talent management capabilities and best performance results have built more EE measurement processes that identify and track its impact on business performance (Fig. 2).

FIG. 2 Percent of companies that link employee engagement to business impact



Source: The Hackett Group Talent Management Maturity Performance Study, 2009

Moreover, academic research has recently made some very important contributions to our understandings of human behaviors, motivations and feelings. The findings and observations provide further impetus for change and important insights to guide proper actions by business leaders and managers. For example, Daniel H. Pink, who has written several bestselling books about the changing world of work, argues that “autonomy,” “mastery” and “purpose” constitute universal human motivations. Says Pink: “We know that human beings are not merely smaller, slower, better-smelling horses galloping after that day’s carrot. We know – if we’ve spent time with young children or remember ourselves at our best – that we are not destined to be passive and compliant, but designed to be active and engaged. And we know that the richest experiences in our lives aren’t when we’re clamoring for validation from others, but when we’re listening to our own voice – doing something that matters, doing it well, and doing it in the service of a cause greater than ourselves.”²

Harvard Business School Professor Teresa Amabile, in her cutting-edge research, found that progress is its own reward: “Making progress in one’s work – even incremental progress – is more frequently associated with positive emotions and high motivation than any other workday event.”³ Indeed, “making progress” was linked to 76% of employees’ reported “best days.” Taken together, these recent additions to our understanding of the rich fabric of EE dramatically enhance managers’ abilities to pull on the EE levers that work and to studiously avoid the ones that don’t.

² Pink, D.H., *Drive – The Surprising Truth About What Motivates Us*, Riverhead Books, 2009

³ Amabile, T.M., and Kramer, S. J., “What Really Motivates Workers: Understanding the Power of Progress,” *Harvard Business Review*, January-February, 2010

The strong desire of employees for “mastery” and “progress” should be welcome news to performance-driven managers. Drucker has already made the operational case for granting knowledge workers “autonomy” and this recent research buttresses his recommendations. And the importance of “purpose” for both employees and the enterprise certainly suggests the prospect of making “line-of-sight” connections, whereby employees see how their work contributes to achieving enterprise objectives and how their personal purpose(s) aligns with the enterprise purpose. It also suggests that top executives take employee motivations and goals into consideration as they push for clarity in defining and communicating enterprise purpose.

OVERCOMING THE WEAKNESSES OF TRADITIONAL APPROACHES TO EMPLOYEE ENGAGEMENT

Employee engagement came onto the business management scene more than a decade ago, although its roots go back several decades more. EE remains somewhat hard to define because employee engagement scores necessarily aggregate individual employees’ states of mind, which in turn reflect personal perspectives, thinking processes and choices. In this sense, EE scores provide very high-level summaries of far more complex circumstances.

The most broadly accepted EE definitions refer to “employee connections” that lead to “discretionary efforts.” That’s fair, as far as it goes. Without considerably more guidance, however, business leaders and managers will find that definition difficult to act upon. They want the discretionary efforts, but they do not know how to go about developing and maintaining the necessary employee connections. Most of the impetus for EE initiatives has come from firms that offer surveys and follow-up consulting. In pursuit of the large upside potential, many companies have conducted EE surveys and tried to use the results to improve their game. In reality, few achieve the results that they hoped for.

To address the weaknesses of traditional approaches, The Hackett Group partnered with Vision21 (a consultancy specializing in employee engagement, job matching, and developing creative and innovative organizational cultures) to develop an Employee Engagement Action Toolkit that pulls all the essentials together and enables highly profitable implementation by almost any company.

The toolkit includes the use of online assessments to provide the actionable information that line managers need in order to systematically raise engagement levels among their direct reports. It provides a methodology and tool set that can be used to embed EE-enhancing practices and techniques into the everyday actions of managers. It specifically addresses the failings of the typical “EE survey, with consulting follow-up” approach.

The Employee Engagement Action Toolkit value proposition

The Employee Engagement Action Toolkit (**Fig. A**), created by The Hackett Group in partnership with Vision21, favors a knowledge- and information-based approach over an observation- and consultation-based approach. It puts insights and guidance on actions into the hands of managers, who are in the position of being able to influence engagement levels. Most of what EE experts know exists in the public domain. Indeed, the most accomplished practitioners have published volumes on the subject. As previously mentioned, the points of maximum leverage exist with line managers who already have the responsibility and accountability for their direct reports' individual and collective performance. It therefore only makes sense to give those managers the knowledge, information and support that is both necessary and sufficient to do their job. That's what the Employee Engagement Action Toolkit assures. It codifies universally applicable concepts to make them operational in the hands of employees, including leaders and managers, at any enterprise.

FIG. A Employee Engagement Action Toolkit highlights

Component	Description	Benefits
Comprehensive documentation, checklists and reading lists	Tool box of assessments, covering job match, managerial fit, motivational intensity, team-building, and more; each Profiles ⁴ assessment and survey product has an abundance of documentation (users guides, technical manuals, brochures, specification sheets, sample reports, etc.). Also: reference guides and checklists for leaders, upper-middle managers, front-line managers, HR professionals and all employees; books and papers discussing influential thinking and concepts that underpin and reinforce key messages and best practices.	Shows leaders and managers how to acquire and apply the actionable information necessary to manage employee engagement, superbly. Provides leaders, upper-middle managers, front line managers, HR professionals and other employees with references that will help them play their part in building employee engagement within their enterprise. Leaders and managers will benefit from having quick reference guides and checklists that they can refer to on a regular basis.
Complete EE business case for the CEO and CFO	Presents the operational and financial upside in a clear and balanced fashion, including defensible ROI calculations and timing expectations. Interactive Excel financial model provides the CFO with a financial model that conducts an in-depth analysis of all of the elements of deleterious employee-related expenses (e.g., turnover, absenteeism, workplace accidents) as well as the upside opportunities of productivity gains, innovation, and customer loyalty.	Puts the imperative of 21st-century knowledge worker productivity growth with EE into the broader strategic business context. Allows the CFO and his/her staff to provide enterprise-specific inputs and to conduct what-if analyses to clearly establish the range of opportunity and assist the organization in setting specific goals and timetables, accordingly.
Draft organizational communication plan and checklist	Templates identify the communication bases that need to be covered and examine the audience, message and response issues associated with each communication.	Employees throughout the organization will want to know what to expect. Those expectations include everything from the clear statement of enterprise purpose to "How do the results of an assessment benefit me, my manager and my company?"
EE program implementation planning template	Template allows all of the organizational constituents to understand their primary roles and responsibilities, as well as the tools available to them, in advance of developing all the details.	Ensures that the elements of an effective EE program design are well understood.
Comprehensive baseline-setting and tracking surveys for measuring employee engagement	Workforce Analysis Profile™ (WAP) distinguishes itself from the short, 12-question EE surveys by collecting actionable information – e.g., employee segmentation, importance of and satisfaction with 34 elements of the employment deal, for about \$30 per employee. A key feature of the WAP survey is that it provides reporting by client-identified groups and tabulates four client provided questions. The Workplace Engagement Survey™ (WES) mirrors a key subset of the WAP measurements.	WAP results establish the current reality (including engagement score) and provide a roadmap for making changes for the better. WES results enable periodic, low-cost tracking of progress on the employee engagement front.
HR facilitation program	Aids facilitation of the EE initiative by helping people managers use assessment tools capably; by helping upper middle managers set the agenda for developing their subject matter expertise; and by analyzing the WAP results related to the employment deal and recommending improvements.	Provides tools and guidance to HR for more effective execution of its role in implementing the ongoing employee engagement effort.
Strategy and tactic tree (S&TT)	Provides overall direction and detailed documentation including the means to formulate, validate, document and communicate all of the necessary and sufficient steps of the ongoing EE campaign and to track progress toward well defined, fully aligned enterprise objectives.	All the steps are clearly identified and rigorously validated to assure that the enterprise achieves all the desired results. Leaders can effectively monitor progress with each step. Managers can conduct spot surveys to identify opportunities and monitor progress with their direct reports.
System of metrics	Metrics track operational and financial improvement opportunities on a quasi-real-time basis so that the organization can always show the compounding values being derived from its EE initiatives.	Connects the strategic execution of employee engagement initiatives directly to gains in enterprise health and value.

Source: The Hackett Group/Vision21

⁴Profiles International, Inc.

Workforce Analysis Profile and Workplace Engagement Survey are Trademarks of Profiles International, Inc.

Employee Engagement Action Toolkit, cont'd.

In the typical “EE survey with consulting follow-up” approach, EE survey providers practically give away the surveys in order to capture the resulting consulting work. Our Employee Engagement Action Toolkit turns that model on its head, in effect giving away the mission-critical knowledge package as part of the delivery of high-performance surveys and assessments. The toolkit, together with the made-for-managing information available from the toolkit’s survey and assessment solutions, puts most enterprises in the position to perform very capably and confidently on their own.

The assessments and surveys included in the Action Toolkit typically generate tenfold short-term returns and pay substantial dividends for years thereafter, e.g., over the entire employee life cycle.

A key component of the Hackett/Vision21 approach is a framework identifying six distinct employee segments by the role of work in their lives and the expectations they have in return for their job contributions.

When it comes to EE, the approach must be customized to the audience. Consumer goods manufacturers have used market and customer segmentation to great advantage for decades. People managers can now use employee segmentation to improve their understanding of and make better decisions about employee engagement drivers.

Successful EE initiatives are more like a series of triathlons than a forty-yard dash; they are ongoing, broad-gauge, long-term improvement programs, not top-down, annual events. Successful EE initiatives require profound knowledge and actionable information at the points of maximum leverage. Short, annual EE surveys cannot possibly accomplish that. Moreover, at the rates EE experts charge, companies do not want to pay to have consultants facilitate EE campaigns until they become successful and self sustaining.

A NEW APPROACH TO STRENGTHENING THE MANAGER-EMPLOYEE RELATIONSHIP

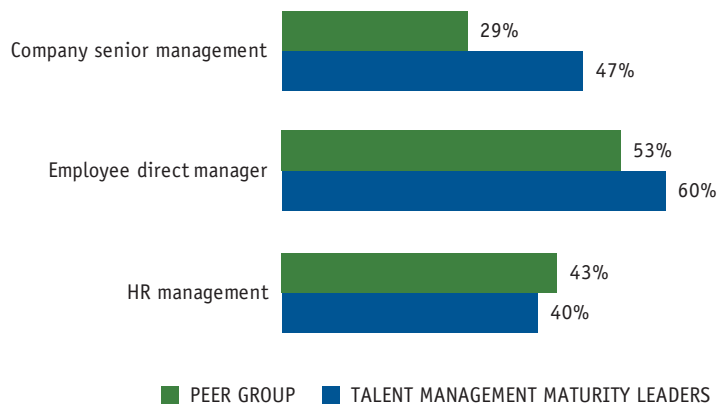
Numerous articles have explored the “drivers” of employee engagement, which may number from five to 300 depending upon who compiled the list. The EE Action Toolkit recognizes that employee engagement “happens” at the level of individual employees – if, when and to the extent that the right conditions exist.

In this context, leaders and managers must create conditions that are conducive to individual employees’ engagement, rather than try to “drive” EE. Individual interactions, particularly between managers and their direct reports, become the primary points of leverage, and for good reason: this is precisely the place where the responsibility and accountability for employee performance already resides.

EE requires a team effort among senior executives and middle managers, first-line managers and HR, with each making essential contributions. Companies with the most mature talent management capabilities studied by The Hackett Group have embraced this joint approach to a greater extent (Fig. 3).

People managers need EE-related knowledge and information to do their job well. Fortunately, the requisite knowledge is well codified and the essential, employee-specific information is readily accessible. Meanwhile, enterprise leaders must create conditions that underwrite their people managers’ success. Those conditions include clarity of enterprise purpose, organizational health, trust in employees, authentic leadership and deep caring for employees’ well-being. Other attributes may help, but these remain paramount.

FIG. 3 Responsibility for employee engagement



Source: The Hackett Group Talent Management Maturity Performance Study, 2009

Upper-middle managers (UMMs) have a special role within the EE Action Toolkit. They become the in-house subject matter experts. Generally representing about 3% of the organization, they report to senior executives, who in turn report to C-suite executives. In short order, through reading, conferring with HR and tapping outside sources of expertise, UMMs can collectively gain rich knowledge about how to foster and support EE.

As the enterprise's subject matter experts, UMMs serve two mission-critical functions within the EE Action Toolkit: (i) observing and advising executive leadership and (ii) observing and mentoring people managers. In essence, UMMs become the real-time, expert mechanism for monitoring and controlling an enterprise's EE initiatives.

HR has the very important responsibility of embedding EE disciplines into leadership competency models. HR must also harmonize recruiting strategies, training, learning and development, and succession planning with fostering EE. Finally, HR professionals must make sure that leaders and managers have the skills, tools and information necessary to measure and manage employee engagement well.

Individual assessments hold the key to providing people managers with an understanding of their direct reports. For example, three decades ago, large-scale studies documented the power of job-matching in predicting job performance and enhancing talent retention. In recent years, the combination of advanced psychometrics, Internet delivery and expert systems have made job-matching more powerful and profitable than ever before. The same assessment can perform a job analysis to determine what it takes to perform well in a job and then assess individuals to determine the extent to which they have what it takes.

Other assessments and reports help people managers build high-performance teams and better understand their individual employees. HR should facilitate assessment usage by providing managers with the necessary training and administrative support.

STRATEGIC IMPLICATIONS

Referring to what it takes to succeed as a manager, Peter Drucker has written, "What you have to do and the way you have to do it is incredibly simple. Whether you are willing to do it, that's another matter."

This quotation applies quite well to EE. For more than a decade, serious and purposeful companies have tried to boost EE through surveys with relatively little success. Now, with fresh perspectives and tools, companies have the means at their disposal to use knowledge, information, insights and direction to systematically raise EE and reap all the rewards.

The imperative for companies today is to act, but differently than they have in the past. Managers must focus on employees, individually, as the key to improving EE throughout the enterprise. By leveraging universal motivators – autonomy, mastery and purpose – to make mutually rewarding progress, each manager can readily create natural win/win outcomes.

Equipping every people manager at the point of maximum leverage with the information that advanced assessments produce is a powerful way to jump-start an EE initiative. Online assessments provide the actionable information that managers need to rapidly develop much better understanding of their direct reports. From there, they can deepen their knowledge through observation, active listening and individual strengths-based coaching. With their newfound insights, they can capably and confidently create the conditions under which each direct report increasingly operates, not as a “job holder” but as a more highly engaged “progress maker.” Information from online assessments also helps managers with communications, team dynamics, career planning, skill building, innovation management and more. To do their best, managers need: leaders to set the stage and lead by example; HR to facilitate the ongoing process; and finally, upper middle managers to become subject matter experts, who competently advise leaders and mentor managers on an ongoing basis. The rewards are huge and, in the context of absolutely essential 21st-century knowledge-worker productivity gains, the time to act is now. The Employee Engagement Action Toolkit includes everything organizations need to increase employee engagement.

RELATED HACKETT RESEARCH

[“What’s on the HR VP’s Mind: Key HR Issues in 2010,” January 2010](#)

[“The Triple Performance Payoff of Talent Management,” October 2009](#)

[“Employee Engagement Triggers Motivation, Performance and Profits at Top-Performing Companies,” December 2006](#)

ABOUT THE HACKETT GROUP

The Hackett Group, a global strategic advisory firm, is a leader in best practice implementation, advisory, benchmarking, and transformation consulting services, including shared services, offshoring and outsourcing advice. Utilizing best practices and implementation insights from more than 5,000 benchmarking engagements, executives use Hackett's empirically based approach to quickly define and prioritize initiatives to enable world-class performance. Through its REL brand, Hackett offers working capital solutions focused on delivering significant cash flow improvements. Through its Hackett Technology Solutions group, Hackett offers business application consulting services that helps maximize returns on IT investments. Hackett has worked with 2,700 major corporations and government agencies, including 97% of the Dow Jones Industrials, 73% of the Fortune 100, 73% of the DAX 30 and 45% of the FTSE 100.

Founded in 1991, The Hackett Group was acquired by Answerthink, which was renamed The Hackett Group in 2008. The Hackett Group has global offices in the United States, Europe, Australia and India and is publicly traded on the NASDAQ as HCKT.

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