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Malcolm Baldrige National Quality Award 1990 Recipient Federal Express Corporation

Seventeen years ago Federal Express Corporation launched the air-express industry. By constantly adhering to a management philosophy emphasizing people, service, and profit, in that order, the company achieved high levels of customer satisfaction and experienced rapid sales growth. Annual revenues topped \$1 billion within 10 years of the company's founding, an exceptional achievement.



But past accomplishments do not ensure future success. That's why the management of Federal Express is setting ever higher goals for quality performance and customer satisfaction, enhancing and expanding service, investing heavily in advanced technology, and building on its reputation as an excellent employer. Company leaders are increasingly stressing management by fact, analysis, and improvement.

Through a quality improvement process focusing on 12 Service Quality Indicators (SQIs), all tied to customer expectations and articulated at all levels of its international business, the Memphis-based firm continues to set higher standards for service and customer satisfaction. Measuring themselves against a 100-percent service standard, managers and employees strive to improve all aspects of the way Federal Express does business.

FEDERAL EXPRESS: A SNAPSHOT

Conceived by Chairman and Chief Executive Officer Frederick W. Smith, Federal Express began operations in 1973. At that time a fleet of eight small aircraft was sufficient to handle demand. Five years later, the company employed 10,000 people, who handled a daily volume of 35,000 shipments. Today, approximately 90,000 Federal Express employees, at more than 1,650 sites process 1.5 million shipments daily, all of which must be tracked in a central information system, sorted in a short time at facilities in Memphis, Indianapolis, Newark, Oakland, Los Angeles, Anchorage, and Brussels, and delivered by a highly decentralized distribution network. The firm's air cargo fleet is now the world's largest.

Federal Express revenues totaled \$7 billion in fiscal year 1990. Domestic overnight and second-day deliveries accounted for nearly three-fourths of the total, with the remainder being international deliveries. The company's share of the domestic market in 1989 was 43 percent, compared with 26 percent for its nearest competitor.

PEOPLE-SERVICE-PROFIT

Federal Express's "People-Service-Profit" philosophy guides management policies and actions. The company has a well-developed and thoroughly deployed management evaluation system called SFA (Survey/Feedback/Action), which involves a survey of employees, analysis of each work group's results by the work group's manager, and a discussion between the manager and the work group to develop written action plans for the manager to improve and become more effective. Data from the SFA process are aggregated at all levels of the organization for use in policymaking.

Training of front-line personnel is a responsibility of managers and "recurrency training" is a widely used instrument for



improvement. Teams regularly assess training needs and a worldwide staff of training professionals devise programs to address those needs. To aid these efforts, Federal Express has developed an interactive video system for employee instruction. An internal television network, accessible throughout the company, also serves as an important avenue for employee education.

Consistently included in listings of the best U.S. companies to work for, Federal Express has a "no lay-off" philosophy, and its "guaranteed fair treatment procedure" for handling employee grievances is used as a model by firms in many industries. Employees can participate in a program to qualify front-line workers for management positions. In addition, Federal Express has a well-developed recognition program for team and individual contributions to company performance. Over the last five years, at least 91 percent of employees responded that they were "proud to work for Federal Express."

SERVICE QUALITY INDICATORS

To spur progress toward its ultimate target of 100-percent customer satisfaction, Federal Express recently replaced its old measure of quality performance -- percent of on-time deliveries -- with a 12-component index that comprehensively describes how its performance is viewed by customers. Each item in the Service Quality Indicator (SQI) is weighted to reflect how significantly it affects overall customer satisfaction.

Performance data are gathered with the company's advanced computer and tracking systems, including the SuperTracker, a hand-held computer

used for scanning a shipment's bar code every time a package changes hands between pick-up and delivery. Rapid analysis of data from the firm's far-flung operations yields daily SQI reports transmitted to workers at all Federal Express sites. Management meets daily to discuss the previous day's performance and tracks weekly, monthly, and annual trends. Analysis of data contained in the company's more than 30 major databases assists quality action teams (QATs) in locating the root causes of problems that surface in SQI reviews. Extensive customer and internal data are used by cross-functional teams involved in the company's new product introduction process.

To reach its aggressive quality goals, the company has set up one cross-functional team for each service component in the SQI. A senior executive heads each team and assures the involvement of front-line employees, support personnel, and managers from all parts of the corporation when needed. Two of these corporatewide teams have a network of over 1,000 employees working on improvements.

The Service Quality Indicator measurements are directly linked to the corporate planning process, which begins with the CEO and COO and an executive planning committee. SQIs form the basis on which corporate executives are evaluated. Individual performance objectives are established and monitored. Executive bonuses rest upon the performance of the whole corporation in meeting performance improvement goals. And, in the annual employee survey, if employees do not rate management leadership at least as high as they rated them the year before, no executive receives a year-end bonus.

Employees are encouraged to be innovative and to make decisions that advance quality goals. Federal Express provides employees with the information and technology they need to continuously improve their performance. An example is the Digitally Assisted Dispatch System (DADS), which communicates to some 30,000 couriers through screens in their vans. The system enables quick response to pick-up and delivery dispatches and allows couriers to manage their time and routes with high efficiency.

Since 1987, overall customer satisfaction with Federal Express's domestic service has averaged better than 95 percent, and its international service has rated a satisfaction score of about 94 percent. In an independently conducted survey of air-express industry customers, 53 percent gave Federal Express a perfect score, as compared with 39 percent for the next-best competitor. The company has received 195 awards over the last 13 years, and representatives of nearly 600 businesses and organizations have visited its facilities.

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